

Meeting of the Federal Open Market Committee

September 22, 1987

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, September 22, 1987, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Boehne  
Mr. Boykin  
Mr. Heller  
Mr. Johnson  
Mr. Keehn  
Mr. Kelley  
Ms. Seger  
Mr. Stern

Messrs. Black, Forrestal, and Parry, Alternate  
Members of the Federal Open Market Committee

Messrs. Guffey and Melzer, Presidents of the Federal  
Reserve Banks of Kansas City and St. Louis,  
respectively

Mr. Kohn, Secretary and Staff Adviser  
Mr. Bernard, Assistant Secretary  
Mrs. Loney, Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Truman, Economist (International)

Messrs. Lang, Lindsey, Prell, Rolnick, Rosenblum,  
Scheld, Siegman, and Simpson, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System  
Open Market Account

Mr. Cross, Manager for Foreign Operations, System  
Open Market Account

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Mr. Coyne, Assistant to the Board, Board of Governors  
Mr. Gemmill, Staff Adviser, Division of International  
Finance, Board of Governors

Mr. Slifman, Deputy Associate Director, Division of  
Research and Statistics, Board of Governors

Ms. Low, Open Market Secretariat Assistant, Office of  
Board Members, Board of Governors

Messrs. Eisenmenger and Hendricks, First Vice Presidents,  
Federal Reserve Banks of Boston and Cleveland,  
respectively

Messrs. Balbach, Broaddus, T. Davis, and Ms. Tshinkel,  
Senior Vice Presidents, Federal Reserve Banks  
of St. Louis, Richmond, Kansas City, and  
and Atlanta, respectively

Mr. R. Davis, Senior Economic Adviser, Federal Reserve  
Bank of New York

Messrs. Judd, McNees, and Sniderman, Vice Presidents,  
Federal Reserve Banks of San Francisco, Boston,  
and Cleveland, respectively

Ms. Ann-Marie Meulendyke, Manager, Federal Reserve  
Bank of New York

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on August 18, 1987, were approved.

By unanimous vote, System open market transactions in government  
securities and federal agency obligations during the period August 18, 1987,  
through September 21, 1987, were ratified.

By unanimous vote, System open market transactions in foreign  
currencies during the period August 18, 1987, through September 21, 1987,  
were ratified.

By unanimous vote, the Federal Reserve Bank of New York was  
authorized and directed, until otherwise directed by the Committee, to  
execute transactions in the System Account in accordance with the following  
domestic policy directive:

The information reviewed at this meeting suggests on balance that economic activity is expanding in the current quarter at a pace similar to that in the first half of the year. Total nonfarm payroll employment rose further in August after a large increase in July. The civilian unemployment rate remained at 6.0 percent, well below its level at the start of the year. Industrial production increased further in August following large gains in other recent months. Consumer spending, bolstered by a rise in auto sales, posted a large increase in August. Recent indicators of business capital spending point to some strength, particularly in equipment outlays. Housing starts fell in August to a level a little below their average in other recent months. Preliminary data suggest that the nominal U.S. merchandise trade deficit was unchanged in July from its June level but larger than the second-quarter average. The rise in consumer and producer prices has slowed in recent months, reflecting favorable price developments in food and energy.

Growth of the monetary aggregates strengthened in August, but for 1987 through August, expansion of both M2 and M3 remained below the lower ends of the ranges established by the Committee for the year; growth in M1 has been at a much reduced pace in 1987. Expansion in total domestic nonfinancial debt has moderated this year. Interest rates have risen considerably since the meeting on August 18. On September 4, the Federal Reserve Board approved an increase in the discount rate from 5-1/2 to 6 percent. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies has depreciated on balance since the latest meeting; some of the decline in the dollar early in the intermeeting period was later reversed.

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at its meeting in July to reaffirm the ranges established in February for growth of 5-1/2 to 8-1/2 percent for both M2 and M3 measured from the fourth quarter of 1986 to the fourth quarter of 1987. The Committee agreed that growth in these aggregates around the lower ends of their ranges may be appropriate in light of developments with respect to velocity and signs of the potential for some strengthening in underlying inflationary pressures,

provided that economic activity is expanding at an acceptable pace. The monitoring range for growth in total domestic nonfinancial debt set in February for the year was left unchanged at 8 to 11 percent.

For 1988, the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1987 to the fourth quarter of 1988, of 5 to 8 percent for both M2 and M3. The Committee provisionally set the associated range for growth in total domestic nonfinancial debt at 7-1/2 to 10-1/2 percent.

With respect to M1, the Committee recognized that, based on experience, the behavior of that aggregate must be judged in the light of other evidence relating to economic activity and prices; fluctuations in M1 have become much more sensitive in recent years to changes in interest rates, among other factors. Because of this sensitivity, which has been reflected in a sharp slowing of the decline in M1 velocity over the first half of the year, the Committee again decided at the July meeting not to establish a specific target for growth in M1 over the remainder of 1987 and no tentative range was set for 1988. The appropriateness of changes in M1 this year will continue to be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures. The Committee welcomes substantially slower growth of M1 in 1987 than in 1986 in the context of continuing economic expansion and some evidence of greater inflationary pressures. The Committee in reaching operational decisions over the balance of the year will take account of growth in M1 in the light of circumstances then prevailing. The issues involved with establishing a target for M1 will be carefully reappraised at the beginning of 1988.

In the implementation of policy for the immediate future, the Committee seeks to maintain the degree of pressure on reserve positions sought in recent weeks. Somewhat greater reserve restraint or somewhat lesser reserve restraint would be acceptable depending on indications of inflationary pressures, the strength of the business expansion, developments in foreign exchange markets, as well as the behavior of the aggregates. This approach is expected to be consistent with growth in M2 and M3 over the period from August through December at annual rates of around 4 percent and around 6 percent, respectively. M1 is expected to continue to grow

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relatively slowly. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 5 to 9 percent.

It was agreed that the next meeting of the Committee would be held on November 3, 1987.

The meeting adjourned.

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Secretary

Secretary's note: By unanimous vote, Mr. Ernest T. Patrikis was elected as Deputy General Counsel of the Federal Open Market Committee, effective October 28, 1987, to serve until the election of his successor at the first meeting of the Committee after February 29, 1988, with the understanding that in the event of discontinuance of his official connection with the Federal Reserve Bank of New York, he would cease to have any official connection with the Federal Open Market Committee.