

Meeting of the Federal Open Market Committee

November 3, 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, November 3, 1987, at 9:30 a.m.

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

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

Messrs. Guffey, Melzer and Morris, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Cleveland, 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. Fousek, Lang, Lindsey, Prell, 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. Promisel, Senior Associate Director, 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, Division of
Monetary Affairs, Board of Governors

Messrs. Balbach, Beebe, Broaddus, J. Davis, T. Davis,
Mmes. Munnell and Tshinkel, Senior Vice Presidents
Federal Reserve Banks of St. Louis, San Francisco,
Richmond, Cleveland, Kansas City, Boston, and
Atlanta, respectively

Ms. Lovett, Vice President, Federal Reserve Bank of
New York

Mr. Weber, Assistant Vice President, Federal Reserve
Bank of Minneapolis

Secretary's Note: Prior to this meeting, notice
had been received of the election of W. Lee Hoskins
as an alternate member of the Federal Open Market
Committee for the period October 9, 1987 through
February 29, 1988, and Mr. Hoskins had executed
his Oath of Office.

By unanimous vote, the minutes of actions taken at the meeting
of the Federal Open Market Committee held on September 22 1987, were approved.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period September 22, 1987,
through November 2, 1987, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic
Open Market Operations was amended to raise from \$6 billion to \$9 billion
the dollar limit on intermeeting changes in System Account holdings of U.S.
government and federal agency securities for the intermeeting period ending
December 16, 1987.

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By unanimous vote, System open market transactions in foreign currencies during the period September 22, 1987, through November 2, 1987 were ratified.

By unanimous vote, the Committee authorized the renewal for further periods of one year of the System's reciprocal currency ("swap") arrangements having the amounts and maturity dates indicated below:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of \$ equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 mos.	12/03/87
National Bank of Belgium	1,000.0	"	12/17/87
Bank of Canada	2,000.0	"	12/28/87
National Bank of Denmark	250.0	"	12/29/87
Bank of England	3,000.0	"	12/03/87
Bank of France	2,000.0	"	12/28/87
German Federal Bank	6,000.0	"	12/28/87
Bank of Italy	3,000.0	"	12/28/87
Bank of Japan	5,000.0	"	12/03/87
Bank of Mexico	700.0	"	12/03/87
Netherlands Bank	500.0	"	12/28/87
Bank of Norway	250.0	"	12/03/87
Bank of Sweden	300.0	"	12/03/87
Swiss National Bank	4,000.0	"	12/03/87
Bank for International Settlements--			
Swiss francs	600.0	"	12/03/87
Other authorized European currencies	1,250.0	"	12/03/87

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:

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The economic information available at this meeting was reviewed against the backdrop of extraordinary developments in financial markets in the period since the previous Committee meeting on September 22. Share prices in the stock market were down sharply. Following a particularly large decline of stock prices in mid-October, interest rates fell steeply and increases that had occurred during the first part of the intermeeting period subsequently were more than reversed on most types of debt obligations. Foreign exchange markets were relatively calm over most of the intermeeting period, but the dollar came under significant downward pressure late in the period.

In the third quarter economic activity had expanded at a fairly brisk pace. Total nonfarm payroll employment rose further in September, with the manufacturing sector continuing to record relatively sizable gains. The civilian unemployment rate edged down to 5.9 percent. Industrial production increased somewhat further in September following large gains in other recent months. Retail sales declined somewhat in September, but consumer spending, bolstered by a rise in auto sales, posted a large increase over the third quarter. Business capital spending was strong in the third quarter and forward indicators pointed to continuing gains. Housing starts were up in September but were little changed in the third quarter from their second-quarter average. The nominal U.S. merchandise trade deficit narrowed in August, but the July-August average remained above the second-quarter rate. The rise in consumer and producer prices was relatively moderate in recent months following more rapid increases earlier in the year.

Growth of the monetary aggregates appeared to have strengthened in October, with some of the strength reflecting heightened demands for transaction balances and other liquid assets in the latter part of the month. Even so, for 1987 through October, expansion of M2 evidently moved closer to, but remained below, the lower end of the range established by the Committee for the year, while growth of M3 was around the lower end of its range. Expansion in total domestic non-financial debt has remained on a more moderate trend in recent months.

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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

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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 days. The Committee recognizes that the volatile conditions in financial markets and uncertainties in the economic outlook may continue to call for a special degree of flexibility in open market operations, depending, in particular, on demands for liquidity growing out of recent or prospective developments in financial markets. Apart from such considerations, somewhat lesser reserve restraint would, or slightly greater reserve restraint might, be acceptable depending on the strength of the business expansion, indications of inflationary pressures, developments in foreign exchange markets, as well as the behavior of the monetary aggregates. While the outlook for monetary growth over the months ahead is subject to unusual uncertainty, the contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from September through December at annual rates of about 6 to 7 percent, but more rapid growth is possible should preferences for liquidity be particularly strong. Over the same period, growth in M1 is expected to be well above its average pace in the previous several months. 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 4 to 8 percent.

It was agreed that the next meeting of the Committee would be held on December 15-16, 1987.

The meeting adjourned.

Secretary