

Meeting of the Federal Open Market Committee

May 17, 1988

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, May 17, 1988, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Heller
Mr. Hoskins
Mr. Johnson
Mr. Kelley
Mr. Parry
Ms. Seger

Messrs. Guffey, Keehn, Melzer, and Morris, Alternate
Members of the Federal Open Market Committee

Messrs. Boehne, Boykin, and Stern, Presidents of the
Federal Reserve Banks of Philadelphia, Dallas, and
Minneapolis, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Beebe, Broaddus, J. Davis, R. Davis, Lindsey,
Siegman, Simpson, and Slifman, 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. Ettin, Deputy Director, Division of Research and
Statistics, Board of Governors
Mr. Promisel, Senior Associate Director, Division of
International Finance, Board of Governors
Mr. Keleher, Assistant to Governor Johnson, Office of
Board Members, Board of Governors
Mr. Wajid, Assistant to Governor Heller, Office of
Board Members, Board of Governors
Mr. Whitesell, Economist, Division of Monetary Affairs,
Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Messrs. Balbach, T. Davis, Lang, Rolnick, Rosenblum,
and Scheld, Senior Vice Presidents, Federal Reserve
Banks of St. Louis, Kansas City, Philadelphia,
Minneapolis, Dallas, and Chicago, respectively

Mr. Fieleke and Ms. Lovett, Vice Presidents, Federal Reserve
Banks of Boston and New York, respectively

Ms. Rosenbaum, Research Officer, Federal Reserve Bank of
Atlanta

By unanimous vote, the minutes of actions taken at the meeting
of the Federal Open Market Committee held on March 29, 1988, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period March 29, 1988, through May 16, 1988, were
ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period March 29, 1988,
through May 16, 1988, were ratified.

With Messrs. Hoskins and Parry dissenting, 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 information reviewed at this meeting suggests continuing strong expansion in economic activity and rising levels of resource utilization. In April total nonfarm payroll employment rose further; the increase included sizable growth in the manufacturing sector. The civilian unemployment rate fell to 5.4 percent, down appreciably from its level at the start of the year. Growth in industrial production picked up considerably in April from a reduced pace earlier in the year. Retail sales fell appreciably last month but estimates of sales in February and March were revised substantially higher. Indicators of business capital spending point to substantial gains thus far this year, notably for equipment. The nominal U.S. merchandise trade deficit in the first quarter was substantially smaller than that for the fourth quarter. Consumer and producer prices have risen more rapidly recently following a period of relatively modest increases. Broad measures of labor costs indicate a substantial advance in the first quarter, in part because of a rise in payroll taxes.

Interest rates have risen somewhat since the Committee's meeting on March 29. The trade-weighted foreign exchange value of the dollar in terms of other G-10 currencies had increased slightly on balance over the intermeeting period prior to May 17 and jumped following release of the March trade data.

M1 and M2 grew rapidly in April, owing in part to a buildup in transaction balances associated with tax payments, while M3 expanded at a slower pace than in previous months. Through April, expansion of M2 and M3 was in the upper portion of the ranges established by the Committee for 1988. Expansion in total domestic nonfinancial debt appears to be continuing at a pace close to that in 1987.

The Federal Open Market Committee seeks monetary and financial conditions that will foster 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 at its meeting in February established growth ranges of 4 to 8 percent for both M2 and M3, measured from the fourth quarter of 1987 to the fourth quarter of 1988. The monitoring range for growth in total domestic nonfinancial debt was set at 7 to 11 percent for the year.

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With respect to M1, the Committee decided in February not to establish a specific target for 1988. The behavior of this aggregate in relation to economic activity and prices has become very sensitive to changes in interest rates, among other factors, as evidenced by sharp swings in its velocity in recent years. Consequently, 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.

In the initial implementation of policy, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of conditions in financial markets, the strength of the business expansion, indications of inflationary pressures, developments in foreign exchange markets, and the behavior of the monetary aggregates, the Committee expects that a slight increase in the degree of pressure on reserve positions would be appropriate in the weeks ahead. Depending on further developments in these factors, somewhat greater reserve restraint would, or slightly lesser reserve restraint might, also be acceptable later in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from March through June at annual rates of about 6 to 7 percent. 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 June 29-30, 1988.

The meeting adjourned.

Secretary