

Meeting of the Federal Open Market Committee

June 29-30, 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 Wednesday, June 29, 1988, at 3:00 p.m. and continuing on Thursday, June 30, 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. Patrikis, 1/ Assistant General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Broadus, J. Davis, R. Davis, Lindsey, Siegman, Simpson, Slifman, and Ms. Tschinkel, Associate Economists

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

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

1/ Attended Thursday's session only.

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
Messrs. Rea 1/ and Whitesell, Economists, Division of
Monetary Affairs, Board of Governors
Mr. Oliner, 1/ Economist, Division of Research and Statistics,
Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Mr. Thomson, Executive Vice President, Federal Reserve
Bank of San Francisco

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

Messrs. McNees and Meyer, Vice Presidents, Federal Reserve
Banks of Boston and Philadelphia, respectively

Ms. Krieger, Section Chief, Open Market Function, 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 May 17, 1988, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period May 17, 1988, through June 28, 1988 were
ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period May 17, 1988,
through June 28, 1988, were ratified.

1/ Attended portion of meeting related to consideration of the Committee's
longer-run objectives for monetary and debt aggregates.

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By unanimous vote, the following ranges for growth in the broader aggregates and nonfinancial debt for 1988 and the role of M1 were approved by the Committee:

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 reaffirmed at this meeting the ranges it had established in February for growth 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 also maintained at 7 to 11 percent for the year.

With respect to M1, the Committee reaffirmed its decision in February not to establish a specific target for 1988 and also decided not to set a tentative range for 1989. The behavior of this aggregate will continue to be evaluated in the light of movements in its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

With Ms. Seger dissenting, the following longer-run policy for 1989 was approved by the Committee:

For 1989, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1988 to the fourth quarter of 1989, of 3 to 7 percent for M2 and 3-1/2 to 7-1/2 percent for M3. The Committee set the associated monitoring range for growth in total domestic nonfinancial debt at 6-1/2 to 10-1/2 percent. It was understood that all these ranges were provisional and that they would be reviewed in early 1989 in the light of intervening developments.

With Messrs. Angell and Kelley and Ms. Seger dissenting from the operational paragraph on policy implementation in the period immediately ahead, 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 that economic activity has continued to expand at a fairly vigorous pace. Growth in total nonfarm payroll employment moderated somewhat in April and May. The civilian unemployment rate rose to 5.6 percent in May, a level just below its average in the first quarter. Industrial production advanced considerably in April and May. Retail sales were little changed on balance over the two months after rising appreciably in the first quarter. Available data indicate that business capital spending has remained at the high level reached in the first quarter. Housing starts fell sharply in May, but other indicators suggested little change in the pace of recent housing activity. The nominal U.S. merchandise trade deficit declined substantially in April, as imports dropped sharply and exports were essentially unchanged. Most measures indicate that prices and wages have risen somewhat more rapidly in recent months. Prices of a broad range of commodities, particularly agricultural goods, have increased sharply in the past few weeks.

Short-term interest rates have risen since the Committee's meeting on May 17, while bond yields have moved lower. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies appreciated considerably over the intermeeting period.

Expansion of M2 and M3 slowed considerably in May and M1 was about unchanged, but data available for June suggested some pickup in monetary growth. From a fourth-quarter base, M2 and M3 have grown at rates in the upper portion of the ranges established by the Committee for 1988. Expansion in total domestic nonfinancial debt for the year thus far appears to be at a pace somewhat below that in 1987.

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In the implementation of policy for the immediate future, the Committee seeks to increase slightly the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, developments in foreign exchange and domestic financial markets, and the behavior of the monetary aggregates, somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from June through September at annual rates of about 5-1/2 and 7 percent, respectively. 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 Tuesday, August 16, 1988.

The meeting adjourned.

Secretary