

Meeting of the Federal Open Market Committee

November 1, 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, November 1, 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. LaWare  
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, Deputy General Counsel  
Mr. Prell, Economist  
Mr. Truman, Economist

Messrs. Broaddus, J. Davis, R. Davis,  
Siegman, Simpson, 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

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  
Ms. Zickler, Assistant Director, Division of Research  
and Statistics, Board of Governors  
Mr. Porter,<sup>1</sup> Assistant Director, Division of Monetary  
Affairs, Board of Governors  
Messrs. Hallman<sup>1</sup> and Small,<sup>1</sup> Economists, Division of  
Monetary Affairs  
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. Gillum, Economist, Open Market Secretariat, 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, Ms. Munnell,  
Messrs. Rolnick, Rosenblum, and Scheld, Senior Vice  
Presidents, Federal Reserve Banks of St. Louis,  
Kansas City, Philadelphia, Boston, Minneapolis,  
Dallas, and Chicago, respectively

Mr. Judd, Vice President, Federal Reserve Bank of  
San Francisco

Ms. Meulendyke, Manager, Open Market Operations,  
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 September 20, 1988, were  
approved.

By unanimous vote, the Committee amended Section 2(b) of its  
"Rules of Organization", to advance from March 1 to January 1 of each year  
the start of the annual terms of newly elected members and alternate  
members representing Federal Reserve Banks. This change will take effect  
January 1, 1990.

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1. Attended portion of the meeting relating to long-run relationship  
between money and prices.

By unanimous vote, System open market transactions in foreign currencies during the period September 20, 1988 through October 31, 1988, were ratified.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period September 20, 1988 through October 31, 1988, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise from \$6 billion to \$10 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 14, 1988.

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.	12/02/88
National Bank of Belgium	1,000.0	"	12/16/88
Bank of Canada	2,000.0	"	12/28/88
National Bank of Denmark	250.0	"	12/29/88
Bank of England	3,000.0	"	12/02/88
Bank of France	2,000.0	"	12/28/88
German Federal Bank	6,000.0	"	12/28/88
Bank of Italy	3,000.0	"	12/28/88
Bank of Japan	5,000.0	"	12/02/88
Bank of Mexico	700.0	"	12/02/88
Netherlands Bank	500.0	"	12/28/88
Bank of Norway	250.0	"	12/02/88
Bank of Sweden	300.0	"	12/02/88
Swiss National Bank	4,000.0	"	12/02/88
Bank for International Settlements--			
Swiss francs	600.0	"	12/02/88
Other authorized European currencies	1,250.0	"	12/02/88

With Ms. Seger 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:

The information reviewed at this meeting indicates that the expansion in economic activity has moderated from the vigorous pace earlier in the year. Total nonfarm payroll employment grew considerably in the third quarter but the gains were less than those registered in the first half of the year and employment in manufacturing declined in August and September. The civilian unemployment rate fell to 5.4 percent in September, remaining in the narrow range that has prevailed since early spring. Industrial production advanced only slightly on balance in August and September after a sharp increase in July, while housing construction has been flat in recent months. Consumer spending increased substantially on average in the third quarter but apparently slowed in recent months. Indicators of business capital spending suggest considerably slower expansion in the third quarter, following very rapid growth in the first half of the year. Preliminary data for the nominal U.S. merchandise trade deficit in August showed a greater deficit than in July, but the average for July-August was slightly less than the second-quarter rate. The latest information on prices and wages suggests little if any change from recent trends.

Interest rates in long-term debt markets have declined a little further since the Committee meeting on September 20, while rates in short-term markets have edged higher. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies declined appreciably over the intermeeting period from the high level of last summer.

Expansion of M2 has slowed considerably in recent months; growth of M3 moderated in August and September but appears to have strengthened somewhat in October. Thus far this year, M2 has grown at a rate somewhat below, and M3 at a rate somewhat above, the midpoint of the ranges established by the Committee for 1988. M1 has increased only slightly on balance in recent months after registering relatively strong growth in June and July. Expansion of total domestic nonfinancial debt for the year thus far appears to be at a pace somewhat below 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 late June reaffirmed 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 of total domestic nonfinancial debt was also maintained at 7 to 11 percent for the year.

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 of 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 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.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, 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 of M2 and M3 over the period from September through December at annual rates of about 2-1/2 and 6 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 6 to 10 percent.

It was agreed that the next meeting of the Committee would be held on  
Wednesday, December 14, 1988.

The meeting adjourned.

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Secretary