

Meeting of the Federal Open Market Committee

December 13-14, 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, December 13, 1988, at 2:30 p.m. and continuing on Wednesday, December 14, 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, and Melzer, 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,<sup>1</sup> Economist

Messrs. Beebe, Broaddus, J. Davis, R. Davis,  
Lindsey, 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

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1. Attended Wednesday 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. Stockton, Assistant Director, Division of Research  
and Statistics, Board of Governors  
Messrs. Feinman and Rea,<sup>2</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  
  
Mr. Eisenmenger, First Vice President, Federal Reserve Bank  
of Boston  
Messrs. Balbach, T. Davis, Lang, Rosenblum,  
and Scheld, Senior Vice Presidents, Federal Reserve  
Banks of St. Louis, Kansas City, Philadelphia,  
Dallas, and Chicago, respectively  
  
Ms. Lovett, Messrs. McNees and Miller, Vice Presidents,  
Federal Reserve Banks of New York, Boston, and  
Minneapolis, respectively

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on November 1, 1988, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period November 1, 1988, through December 13, 1988,  
were ratified.

By unanimous vote, System open market transactions in government  
securities and federal agency obligations during the period November 1,  
1988, through December 13, 1988, were ratified.

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2. Attended portion of Tuesday's meeting relating to review of recent  
experience with borrowing and the federal funds rate and the  
implementation of open market operations.

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 suggests that, apart from the direct effects of the drought, economic activity has continued to expand at a vigorous pace. Total nonfarm payroll employment rose sharply in October and November, with sizable increases indicated in manufacturing after declines in late summer. The civilian unemployment rate, at 5.4 percent in November, remained in the lower part of the range that has prevailed since early spring. Industrial production advanced considerably in October and November. Housing starts turned up in October after changing little on balance over the previous several months. Growth in consumer spending has been somewhat more moderate in recent months, and indicators of business capital spending suggest a substantially slower rate of expansion than earlier in the year. The nominal U.S. merchandise trade deficit narrowed further in the third quarter. Preliminary data for October indicate a small decline from the revised deficit for September. The latest information on prices and wages suggest little if any change from recent trends.

Interest rates have risen since the Committee meeting on November 1, with appreciable increases occurring in short-term markets. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined significantly further on balance over the intermeeting period.

Expansion of M2 and M3 strengthened in November from relatively slow rates of growth in previous months, especially in the case of M2. Thus far this year, M2 has grown at a rate a little below, and M3 at a rate a little above, the midpoint of the ranges established by the Committee for 1988. M1 has increased only slightly on balance over the past several months, bringing growth so far this year to 4 percent. Expansion of total domestic nonfinancial debt for the year thus far appears to be at a pace somewhat below that in 1987 and around the midpoint of the Committee's monitoring range for 1988.

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 increase somewhat 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 November through March at annual rates of about 3 and 6-1/2 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 7 to 11 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, February 7-8, 1989.

The meeting adjourned.

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Secretary