

Meeting of the Federal Open Market Committee

August 22, 1989

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, August 22, 1989, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Guffey  
Mr. Johnson  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. Melzer  
Ms. Seger  
Mr. Syron

Messrs. Boehne, Boykin, Hoskins, and Stern, Alternate Members of the Federal Open Market Committee

Messrs. Forrestal and Parry, Presidents of the Federal Reserve Banks of Atlanta and San Francisco, respectively

Mr. Kohn, Secretary and Economist  
Mr. Bernard, Assistant Secretary  
Mr. Gillum, Deputy Assistant Secretary  
Mr. Mattingly, General Counsel  
Mr. Patrikis, Deputy General Counsel  
Mr. Prell, Economist  
Mr. Truman, Economist

Messrs. Balbach, R. Davis, T. Davis, Lindsey, Scheld, 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

Mr. Coyne, Assistant to the Board, Board of Governors  
Mr. Ettin, Deputy Director, Division of Research and  
Statistics, Board of Governors  
Mr. Keleher, Assistant to Governor Johnson, Office of  
Board Members, Board of Governors  
Mr. Smith,<sup>1</sup> Assistant Director, Division of  
International Finance, Board of Governors  
Ms. Low, Open Market Secretariat Assistant, Division of  
Monetary Affairs, Board of Governors

Messrs. Hendricks and Monhollon, First Vice Presidents,  
Federal Reserve Banks of Cleveland and Richmond,  
respectively

Messrs. Beebe, Broaddus, Rolnick, Rosenblum, and  
Ms. Tschinkel, Senior Vice Presidents, Federal  
Reserve Banks of San Francisco, Richmond,  
Minneapolis, Dallas, and Atlanta, respectively

Ms. Lovett and Messrs. McNees and Meyer, Vice Presidents,  
Federal Reserve Banks of New York, Boston, and  
Philadelphia, respectively

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on July 5-6, 1989, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period July 6, 1989, through August 21, 1989, were  
ratified.

By unanimous vote, the Committee approved, as part of a multi-  
lateral bridge financing for Mexico, a special reciprocal currency  
arrangement of \$125 million with the Bank of Mexico. This facility  
supplements the regular \$700 million arrangement with the Bank of Mexico  
specified in paragraph 2 of the Authorization for Foreign Currency  
Operations. The Committee delegated to Chairman Greenspan authority to  
give final clearance for actual drawings on these facilities, subject to  
his determination that the appropriate terms and conditions had been met.

By unanimous vote, System open market transactions in government  
securities and federal agency obligations during the period July 6, 1989,  
through August 21, 1989, were ratified.

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1. Left meeting after action to approve special reciprocal currency  
arrangement with the Bank of Mexico.

With Mr. Guffey 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 economic activity has continued to expand at a moderate pace in recent months. In July, total nonfarm payroll employment rose appreciably further after a large advance in June, and the civilian unemployment rate, at 5.2 percent, remained close to its average level in earlier months of the year. Industrial production edged higher in July, continuing the slower growth observed since the beginning of the year. Retail sales have grown at a moderate pace in recent months. Housing starts rose slightly further in July following a large gain in June. Recent indicators of business capital spending suggest slower growth after the substantial increase in the first half of the year. The nominal U.S. merchandise trade deficit narrowed considerably in June and for the second quarter as a whole was about unchanged from a substantially reduced average value in the first quarter. Partly reflecting reductions in energy prices, increases in consumer prices moderated in June and July. The latest wage data suggest no change in prevailing trends.

Interest rates show mixed changes on balance since the Committee meeting on July 5-6. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies has risen on balance over the intermeeting period.

M2 and M3 grew markedly in July, lifting expansion of M2 thus far this year to around the lower end of the Committee's annual range, and keeping M3 somewhat above the lower bound of the Committee's range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, 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 July reaffirmed the ranges it had established in February for growth of M2 and M3 of 3 to 7 percent and 3-1/2 to 7-1/2 percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. The

monitoring range for growth of total domestic non-financial debt also was maintained at 6-1/2 to 10-1/2 percent for the year. For 1990, on a tentative basis, the Committee agreed in July to use the same ranges as in 1989 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

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 progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or slightly lesser reserve restraint would be acceptable in the inter-meeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 9 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 7 to 11 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, October 3, 1989.

The meeting adjourned.

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Secretary

**SECRETARY'S NOTES:**

Effective September 19, 1989, the Committee approved an increase from \$5 billion to \$10 billion in the amount of eligible foreign currencies that the Federal Reserve would be prepared to warehouse for the U.S. Treasury or

the Exchange Stabilization Fund for periods of up to 12 months. All the members voted to approve this action except for Mr. Johnson who abstained.

With Messrs. Angell and Johnson dissenting, the Committee approved, effective September 25, 1989, an increase from \$18 billion to \$20 billion in the limit on the System's overall open position in all foreign currencies specified in paragraph 1D of the Authorization for Foreign Currency Operations.