

Meeting of the Federal Open Market Committee

October 3, 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, October 3, 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. Black, Forrestal and Parry, Presidents of the Federal Reserve Banks of Richmond, 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. R. Davis, T. Davis, Lindsey, Ms. Munnell, Messrs. Promisel, 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,¹ Deputy Director, Division of Research and
Statistics, Board of Governors
Mr. Keleher, Assistant to Governor Johnson, Office of
Board Members, Board of Governors
Mr. Stockton,² Associate Director, Division of
Research and Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Messrs. Beebe, Broadus, J. Davis, Lang, Rolnick,
Rosenblum, and Ms. Tschinkel, Senior Vice Presidents,
Federal Reserve Banks of San Francisco, Richmond,
Cleveland, Philadelphia, Minneapolis, Dallas, and
Atlanta, respectively

Messrs. Guentner and Thornton, Assistant Vice Presidents,
Federal Reserve Banks of New York and St. Louis,
respectively

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on August 22, 1989, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period August 22, 1989, through October 2, 1989,
were ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period August 22,
1989, through October 2, 1989, were ratified.

With Mr. Guffey and 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 economic activity continued to expand at a
moderate pace in the third quarter. In July and
August, total nonfarm payroll employment rose
appreciably despite the depressing effect of strike
activity. The civilian unemployment rate remained
around 5-1/4 percent. Industrial production picked up
in August, mainly because of a rebound in auto
assemblies and coal mining. Consumer spending has
registered larger gains in recent months, reflecting
in part a surge in auto sales. Housing starts in July

1. Entered meeting prior to discussion of current monetary policy.
2. Left meeting prior to discussion of current monetary policy.

and August were slightly above their second-quarter average. Indicators of business capital spending suggest somewhat slower growth in the third quarter after the substantial increase in the first half of the year. The nominal U.S. merchandise trade deficit recorded a further decline in July relative to June and to the average for the second quarter as a whole. Sharp reductions in energy prices over the summer months damped increases in consumer prices and contributed to declines in producer prices. The latest wage data suggest no change in prevailing trends.

Interest rates generally show small mixed changes on balance since the Committee meeting on August 22. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies fell after the release of the G-7 statement on September 23; on balance, the dollar depreciated somewhat over the intermeeting period.

M2 grew fairly briskly in August and evidently also in September, lifting its expansion thus far this year to somewhat above the lower end of the Committee's annual range. M3 grew at a substantially reduced pace in this period, as assets of thrift institutions and their associated funding needs apparently contracted further; for the year to date, M3 has grown at a rate around the lower bound of the Committee's annual 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 September through December at annual rates of about 6-1/2 and 4-1/2 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, November 14, 1989.

The meeting adjourned.

Secretary