

Meeting of the Federal Open Market Committee

December 18-19, 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 Monday, December 18, 1989, at 1:00 p.m. and continued on Tuesday, December 19, 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,¹ 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. Patrikis², Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

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

1. Entered meeting after action to approve minutes of November 14,
1989 meeting.
2. Attended Tuesday session only.

Messrs. Coyne and Winn,³ Assistants to the Board,
Board of Governors
Mr. Keleher, Assistant to Governor Johnson, Office of
Board Members, Board of Governors
Mr. Ettin,⁴ Deputy Director, Division of Research and
Statistics, Board of Governors
Mr. Stockton,⁵ Associate Director, Division of Research
and Statistics, Board of Governors
Mr. Hooper,³ Assistant Director, Division of International
Finance, Board of Governors,
Messrs. Brayton,³ Gagnon,³ Ms. Rehm,³ Messrs. Small,³ and
Tryon,³ Economists, Divisions of Research and Statistics,
International Finance, Research and Statistics,
Monetary Affairs, and International Finance,
respectively, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

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

Messrs. McNees and Miller, Vice Presidents, Federal Reserve
Banks of Boston and Minneapolis, respectively

Mr. Vangel, Assistant Vice President, 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 November 14, 1989, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period November 14, 1989, through December 18, 1989,
were ratified.

By unanimous vote, paragraph 1.D. of the Authorization for Foreign
Currency Operations was amended to raise from \$20 billion to \$21 billion
the dollar limit in System Account holdings of foreign currencies.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period November 14,
1989, through December 18, 1989, were ratified.

3. Attended Monday session only.

4. Attended Tuesday session covering discussion and action to adopt
domestic policy directive.

5. Left meeting before discussion and action to adopt the domestic
policy directive.

With Messrs. Angell and Melzer 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 is expanding slowly in the current quarter. Total nonfarm payroll employment has increased at a reduced pace on average over the past several months, with declines continuing in the manufacturing sector. The civilian unemployment rate edged up to 5.4 percent in November. Industrial production rose slightly in November after a decline in October resulting from strike activity and other disruptions. Nominal retail sales excluding motor vehicles strengthened in November, but continued weak sales of vehicles held total retail sales for the month to a level that was little changed from the third-quarter average. Housing starts fell in November but for the October-November period were up somewhat on average from their third-quarter level. Indicators of business capital spending suggest a weakening in expenditures after a substantial increase earlier in the year. The preliminary data indicate that the nominal U.S. merchandise trade deficit widened appreciably in October from an upward revised September rate. Broad measures of inflation suggest that prices have risen more slowly on balance since midyear, partly reflecting sharp reductions in energy prices, but the latest data on labor compensation suggest no significant change in prevailing trends.

Interest rates have changed little on balance since the Committee meeting on November 14. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined substantially over the intermeeting period, with a particularly pronounced depreciation against the German mark and related European currencies in the last week of the period.

M2 continued to grow fairly briskly in November, largely reflecting strength in its retail deposit components; M2 has expanded this year at a pace near the midpoint of the Committee's annual range. Growth of M3 picked up in November but has remained more restrained than that of M2, as assets of thrift institutions and their associated funding needs

apparently continued to contract; for the year to date, M3 has grown at a rate a little above 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 decrease slightly 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 or slightly lesser reserve restraint would 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 8-1/2 and 5-1/2 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 6 to 10 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, February 6-7, 1990.

The meeting adjourned.

Secretary