

Meeting of the Federal Open Market Committee

October 2, 1990

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 2, 1990, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Hoskins
Mr. Kelley
Mr. LaWare
Mr. Mullins
Ms. Seger
Mr. Stern

Messrs. Black, Forrestal, Keehn, and Parry, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Melzer, and Syron, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Boston, 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. J. Davis, R. Davis, Lang, Lindsey, Promisel, Rosenblum, Siegman, Simpson, and Stockton, 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. Slifman, Associate Director, Division of Research
and Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Messrs. Broaddus, T. Davis, Scheld, and Ms. Tschinkel,
Senior Vice Presidents, Federal Reserve Banks of
Richmond, Kansas City, Chicago, and Atlanta,
respectively

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

Mr. Belongia, Assistant Vice President, Federal Reserve
Bank of St. Louis

Ms. Ann Marie 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 August 21, 1990, were approved.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period August 21,
1990, through October 1, 1990, were ratified.

With Messrs. Angell, Boykin, Hoskins, 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 expanded at a slow pace in the
third quarter. The recent large increase in oil
prices has boosted key measures of inflation and
eroded real personal income; however, data available
thus far provide only limited evidence of a retarding
effect on production and aggregate spending. Total
nonfarm payroll employment declined in July and
August, reflecting layoffs of temporary census
workers; employment in the private sector changed
little over the two months. The civilian unemployment
rate edged up to 5.6 percent in August. Consumer
spending appeared to be about unchanged in real terms

over July and August but was at a level significantly above the average for the second quarter. Advance indicators of business capital spending point to some softening in investment in coming months. Residential construction weakened further in August. The nominal U.S. merchandise trade deficit increased sharply in July from the low rate in June. Markedly higher oil prices contributed to substantial increases in consumer and producer prices in August; excluding energy and food items, consumer inflation has picked up from the second-quarter rate. Data on labor costs suggest no improvement in underlying trends.

In short-term debt markets, Treasury bill rates have fallen somewhat since the Committee meeting on August 21, while rates on private market instruments are little changed. In the bond markets, most rates have edged lower on balance over this period. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies has declined slightly further on balance from the low level reached at the time of the August meeting.

M2 and M3 expanded at appreciably faster rates in August; available data for September suggest continued strength in M2 and some slowing in the growth of M3. More rapid expansion of M1 and money market funds has contributed to the greater strength in the broad aggregates over the two months. Through September, expansion of M2 was estimated to be a little below the middle of the Committee's range for the year and growth of M3 in the lower portion of its range. Expansion of total domestic nonfinancial debt appears to have been near the midpoint of its monitoring 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 range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee in July also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee

decided in July to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic non-financial debt at 4-1/2 to 8-1/2 percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

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 somewhat 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 4 and 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 November 13, 1990.

The meeting adjourned.

Secretary