

Meeting of the Federal Open Market Committee

May 14, 1991

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, May 14, 1991, at 2:00 p.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Mullins
Mr. Parry

Messrs. Guffey, Hoskins, Melzer, and Syron, Alternate Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

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

Messrs. Broaddus, R. Davis, Lindsey, Scheld, Siegman, Simpson, Slifman, and Ms. Tschinkel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Stockton, Associate Director, Division of Research and Statistics, Board of Governors
Mr. Hooper, Assistant Director, Division of International Finance, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Balbach, J. Davis, T. Davis, Ms. Greene, Mr. Lang, Ms. Munnell, Messrs. Rolnick, and Rosenblum, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Cleveland, Kansas City, New York, Philadelphia, Boston, Minneapolis, and Dallas, respectively

Mr. Judd, Vice President, Federal Reserve Bank of San Francisco

Ms. 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 March 26, 1991, were approved.

The Report of Examination of the System Open Market Account, made by the Board's Division of Reserve Bank Operations and Payment Systems as of the close of business on October 31, 1990, was accepted.

By unanimous vote, amendments to the Committee's Rules Regarding Availability of Information were approved.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period March 26, 1991, through May 13, 1991, were ratified.

By unanimous vote, 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 provides mixed signals regarding the course of economic activity, which had weakened appreciably further earlier in the year. Following sharp decreases in previous months, total nonfarm payroll employment fell

somewhat further in April; the civilian unemployment rate edged down to 6.6 percent. Industrial output changed little in April after declining markedly in earlier months. Retail sales were about unchanged in April and are now indicated to have risen somewhat in March. Advance indicators continue to point to weakness in business fixed investment in coming months. Housing starts were down in March, partly offsetting a sizable advance in February, but sales of new and existing homes continued to rise. The nominal U.S. merchandise trade deficit declined in February and its January-February rate was considerably below the average rate in the fourth quarter. Producer and consumer prices were little changed over March and April, partly reflecting further reductions in energy prices.

Short-term interest rates have declined since the Committee meeting on March 26, while bond yields have changed little. The Board of Governors approved a reduction in the discount rate from 6 to 5-1/2 percent on April 30. The trade-weighted value of the dollar in terms of the other G-10 currencies showed little change on balance over the intermeeting period.

Growth of M2 and M3 weakened in April; for the year thus far, expansion of M2 has been at the midpoint of the Committee's range, while growth of M3 has been in the upper half of its range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote a resumption of sustainable growth in output, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in February established ranges for growth of M2 and M3 of 2-1/2 to 6-1/2 percent and 1 to 5 percent, respectively, measured from the fourth quarter of 1990 to the fourth quarter of 1991. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress its growth relative to spending and total credit. 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. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint or somewhat 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 March through June at annual rates of about 4 and 2 percent, respectively.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, July 2-3, 1991.

The meeting adjourned.

Secretary