

Meeting of the Federal Open Market Committee

July 2-3, 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, July 2, 1991, at 2:30 p.m. and was continued on Wednesday, July 3, 1991, at 9:00 a.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. Prell, Economist  
Mr. Truman, Economist

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

Mr. Cross, Manager for Foreign Operations,  
System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors  
Ms. Danker<sup>1</sup> and Mr. Brady,<sup>1</sup> Section Chiefs, Division of Monetary Affairs, Board of Governors  
Mr. Oliner,<sup>1</sup> Senior Economist, Division of Research and Statistics, Board of Governors  
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. J. Davis, T. Davis, Ms. Lovett, Messrs. Lang, Rolnick, and Rosenblum, Senior Vice Presidents, Federal Reserve Banks of Cleveland, Kansas City, New York, Philadelphia, Minneapolis, and Dallas, respectively

Mr. McNees, Vice President, Federal Reserve Bank of Boston

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

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on May 14, 1991, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period May 14, 1991, through July 2, 1991, were ratified.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period May 14, 1991, through July 2, 1991, were ratified.

Secretary's Note: The following actions were taken on Wednesday, July 3, 1991.

By unanimous vote, the following broad policy statement and the ranges for growth of M2 and M3 and nonfinancial debt in 1991 were approved by the Committee:

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the

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1. Attended portion of meeting relating to the Committee's discussion of the economic outlook and its longer-run objectives for monetary and debt aggregates.

Committee reaffirmed at this meeting the ranges it had established in February 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 non-financial debt also was maintained at 4-1/2 to 8-1/2 percent for the year.

With Messrs. Angell and Black dissenting, the following tentative ranges for growth of M2 and M3 and nonfinancial debt in 1992 were approved by the Committee:

For 1992, on a tentative basis, the Committee agreed to use the same ranges as in 1991 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1991 to the fourth quarter of 1992. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress the growth of this aggregate 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.

By unanimous vote, except for the dissents by Messrs. Angell and Black from the decision relating to the monetary growth ranges for 1992, 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 begun to recover from the recent recession. The unemployment rate rose to 6.9 percent in May, but total nonfarm payroll employment edged up and the average workweek posted a sizable gain. Manufacturing output has risen in recent months, led by appreciable increases in assemblies of motor vehicles. Consumer spending has been bolstered in part by an upturn in personal income. An increase in orders points to a firming in demand for business equipment, but nonresidential construction remains weak. Housing

starts rose over April and May. The nominal U.S. merchandise trade deficit in April was somewhat below the average rate in the first quarter. Increases in consumer prices have been small in recent months.

Most interest rates have risen slightly since the Committee meeting on May 14. The trade-weighted value of the dollar in terms of the other G-10 currencies increased substantially on balance over the inter-meeting period.

M2 grew at a moderate pace over May and June, while M3 changed little. For the year thus far, expansion of M2 and M3 has been in the middle portion of the Committee's ranges.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee reaffirmed at this meeting the ranges it had established in February 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 also was maintained at 4-1/2 to 8-1/2 percent for the year. For 1992, on a tentative basis, the Committee agreed to use the same ranges as in 1991 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1991 to the fourth quarter of 1992. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress the growth of this aggregate 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 June through September at annual rates of about 5-1/2 and 3 percent, respectively.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 20, 1991.

The meeting adjourned.

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Secretary