

FEDERAL RESERVE press release



For Use at 4:30 p.m.

August 23, 1991

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on July 2-3, 1991.

The record for each meeting of the Committee is made available a few days after the next regularly scheduled meeting and subsequently is published in the Federal Reserve Bulletin and the Board's Annual Report. The summary description of economic and financial conditions contained in each record is based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE

Meeting Held on July 2-3, 1991

Domestic policy directive

The information reviewed at this meeting suggested that an upturn in economic activity had begun in recent months. Sizable gains in consumer spending and small increases in expenditures on residential construction appeared to be fueling a moderate rise in domestic final demand. Although inventories were still being liquidated, data for industrial production and labor markets indicated that output was being stepped up to meet that demand. Excluding food and energy items, increases in consumer prices had been small in recent months.

Total nonfarm payroll employment edged up in May, following nearly a year of uninterrupted declines, and the average workweek posted a sizable gain. The turnaround in employment in May was fairly broad-based. In manufacturing, recalls of workers in the motor vehicles industry more than accounted for the overall increase, but most other manufacturing industries registered either small job gains or greatly moderated job losses. Employment also turned up in the construction sector and in private service-producing industries. The unemployment rate rose to 6.9 percent in May but, averaged over April and May, the unemployment rate was little changed from its March level.

Industrial production rose in April and May, after declining sharply earlier in the year; the limited product data available for June pointed toward another gain. Perhaps reflecting the pickup in housing starts in recent months, production of construction supplies turned up in April and May. Further advances in assemblies of motor vehicles

contributed to a slight rise in manufacturing output over the two months; in spite of the overall increase in activity, though, the operating rate in manufacturing edged lower in May and remained well below its level of a year earlier.

Real personal consumption expenditures rebounded in May from an April decline; over the March-to-May period, the rise in outlays outpaced gains in personal income. In May, a sizable increase in spending for durable goods reflected stronger outlays for motor vehicles and higher expenditures for most major categories of nondurable goods. Excluding outlays for electricity associated with unusually warm weather, spending for services increased only modestly in May. Continuing a pattern of gradual recovery recorded in earlier months, housing starts rose over April and May. In these two months, single-family starts strengthened further but, with apartment vacancy rates continuing high, multifamily construction remained quite weak.

After declining in the first quarter of the year, shipments of nondefense capital goods increased in both April and May. The turnaround resulted mostly from larger shipments of aircraft; shipments of other types of business equipment increased slightly over the two months. Recent data on orders pointed to some firming in the demand for business equipment. Near-record vacancy rates for office buildings and above-average vacancy rates for industrial buildings suggested continuing weakness in nonresidential construction, although a small increase was recorded in April. The pace of liquidation of manufacturing and trade inventories slowed in April from the very rapid March rate, largely reflecting a slower rate of reduction in stocks at auto dealers.

In May, manufacturing inventories fell appreciably further, with draw-downs occurring in most durable and nondurable categories. For most industries, the sharp inventory corrections of recent months along with a pickup in sales have reduced inventory-to-sales ratios substantially.

In April, the preliminary nominal U.S. merchandise trade deficit widened slightly from the revised March level; however, the April deficit was somewhat smaller than the average for the first quarter, which itself had registered a sizable decrease. The value of both exports and imports rose in April. For exports, the increase occurred primarily in capital goods and automotive products, but gains also were indicated for a broad range of industrial supplies. Increases in the value of imports were spread among capital and consumer goods and non-oil industrial supplies. Recent indicators of economic activity in the major foreign industrial countries had been mixed; on balance, growth seemed to have been sluggish in the second quarter, while inflation in most of these countries appeared to be stable or declining.

Nonfood, non-energy consumer prices increased over the March through May period at a substantially slower pace than over the first two months of the year. Part of the slowdown in recent months reflected an unwinding of large price increases that had occurred in certain components of the index early in the year. In May, producer prices of finished goods firmed somewhat, largely reflecting an upturn in energy prices. Although average hourly earnings of production or nonsupervisory workers rose at a faster rate in April and May than in the first quarter of the year, the increase in earnings over the twelve months ending in May slowed somewhat. For the twelve months ending in March,

growth in total employer costs for compensation of private industry workers had slowed from the comparable year-earlier period.

At its meeting on May 14, 1991, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not contain any presumption about the likely direction of possible intermeeting adjustments. Accordingly, the directive indicated that somewhat more or somewhat less pressure on reserve positions might be appropriate during the intermeeting period depending on progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The contemplated reserve conditions were expected to be consistent with growth of M2 and M3 at annual rates of around 4 and 2 percent respectively over the three-month period from March through June.

Open market operations during the intermeeting period were directed toward maintaining the existing degree of pressure on reserve positions. The federal funds rate remained near 5-3/4 percent, while adjustment plus seasonal borrowing tended to average a little above assumed levels because of somewhat greater usage of adjustment credit. Several technical changes were made to assumed levels of borrowing to reflect expected increases in the demand for seasonal credit during the spring crop planting season. Against a backdrop of accumulating evidence that the economy was beginning to recover and related expectations that no further easing of monetary policy was likely in the near term, many interest rates rose slightly during the intermeeting period, while most major stock price indexes edged higher on balance.

The trade-weighted value of the dollar in terms of the other G-10 currencies increased substantially on net over the intermeeting period, partly in response to news suggesting that the U.S. economy was turning upward. The dollar rose strongly against the mark and other European currencies, which also were affected by political developments in Europe.

Growth of M2 rebounded in May from its tax-related weakness in April but slowed again in June. Over the three months ending with June, the expansion of M2 fell somewhat short of Committee expectations. Inflows to the liquid retail deposit components of M2 were strong in the latest two months, but small time deposits declined at an accelerating rate; depositors evidently responded to less attractive offering rates on these deposits by shifting some funds not only into liquid money stock components but also into bond and stock mutual funds and other capital market investments not included in this aggregate. M3 fell slightly in June and had grown little since February, reflecting continued shrinkage of the thrift industry and the weakness in bank loan demand and therefore in overall funding needs. For the year thus far, expansion of M2 and M3 had been in the middle portion of the Committee's ranges.

The staff projection prepared for this meeting suggested that economic activity was beginning to recover from the recession and that moderate growth in final demand accompanied by a shift in business inventories from substantial liquidation to modest accumulation would lead to considerable growth over the second half of the year. The stimulus from the inventory swing was projected to diminish next year and the

expansion to slow gradually to a pace consistent with continuing moderate growth in final demand. On balance, the early and subsequent phases of the recovery were projected to be relatively slow by past cyclical standards, reflecting the limited impetus that could be expected from some key sectors of the economy, such as nonresidential construction where activity would be depressed by high vacancy rates. In addition, fiscal policy, including the budgetary stance of state and local governments, was projected to remain fairly restrictive. Against the background of continuing, albeit decreasing, slack in labor and product markets, the core rate of inflation was expected to decline considerably over the period through the end of 1992.

In the Committee's review of current and prospective economic developments, the members generally agreed that a recovery very likely was under way, that final demand would grow moderately for some time, and that an end to inventory reductions would provide an impetus to production over coming quarters. A number of factors were expected to damp the expansion, notably the budget policies of governments at all levels and continuing weakness in nonresidential construction. There also were puzzling aspects to the current situation and attendant risks to the outlook: commodity prices had failed to firm in their usual pattern in the early stages of a recovery; on the financial side, money and credit growth had remained modest, and conditions were still fragile in many respects. However, sources of strength in an economic expansion often have been difficult to anticipate near a cycle trough. Moreover, while the expansion was expected to be slower than the average in post-war business cycles, the recession had been relatively shallow, and a

moderate expansion was more likely to be sustained for a considerable period ahead, in large measure because it would be consistent with containing inflation pressures.

The members projected that the underlying rate of inflation would decline in coming quarters--despite quite limited progress thus far this year--in light of some continuing slack in demands on production resources and efforts by businesses to contain costs. A number stressed that the moderate monetary growth over recent years suggested that monetary policy had been positioned to foster a reduction in inflation, and they anticipated that the beneficial effects of this policy would show through over the projection period.

In keeping with the practice at meetings when the Committee considers its long-run ranges for the money and debt aggregates, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members provided specific projections of the growth in real and nominal GNP, the rate of unemployment, and the rate of inflation for 1991 and 1992. These projections took account of the monetary growth ranges that the Committee reaffirmed for 1991 and established on a tentative basis for 1992 at this meeting; these ranges are expected to be consistent with the Committee's goal of promoting a sustained expansion in the economy, fostered by further progress toward price stability. Forecasts of nominal GNP converged on growth rates of 4-1/2 to 5-1/4 percent for 1991 and 5-1/2 to 6-1/2 percent for 1992. With regard to the rate of expansion in real GNP, the projections had a central tendency of 3/4 to 1 percent for 1991 as a whole, implying a sizable rebound over the balance of the year; for the year 1992, the

central tendency of the projections was 2-1/4 to 3 percent. While the civilian unemployment rate was not projected to fall much over the balance of the year, the expansion was expected to result in a decline to a somewhat lower range of 6-1/4 to 6-1/2 percent by the fourth quarter of 1992. With regard to the rate of inflation as measured by the consumer price index, the projections had a central tendency of 3-1/4 to 3-3/4 percent for 1991 and 3 to 4 percent for 1992; because declines in energy prices had damped the rise of consumer prices substantially thus far in 1991, the similarity of the ranges for the two years masked expectations of a pronounced decline in the core rate of inflation.

In the course of the Committee's discussion, members reported that business conditions remained uneven, depending on the mix of local industries, but overall economic activity now appeared to be expanding at a modest pace in a number of regions and to have stabilized following earlier declines in several other parts of the nation. However, in some areas, notably portions of the Northeast, business activity appeared to be weakening further. Business sentiment remained cautious on the whole, but many business contacts were expressing greater confidence in the outlook for the economy and their own industries, at least looking ahead to 1992. Agriculture was a source of strength in many parts of the country, but drought conditions in some areas and excessive rains in others had given rise to some concerns.

As has tended to occur in the early stages of previous cyclical recoveries, the swing in business inventories from substantial liquidation toward accumulation was likely to play a leading role in bolstering

the expansion during the next two or three quarters. The members acknowledged that inventory developments were difficult to project, and views differed to some extent regarding the strength of the impetus that might be forthcoming from this source over the next few quarters. In any event, the available data tended to confirm reports from business contacts regarding the absence of excessive stocks in most sectors of the economy and parts of the country. In these circumstances, the firming in final sales that appeared to be under way was likely to result in a cessation of inventory liquidation over the nearer term and to induce an actual buildup at some point later. It was suggested that this process already had begun and might indeed be somewhat ahead of earlier expectations.

While the swing in inventories was likely to provide a substantial boost to economic activity over the next few quarters, some members questioned the potential strength of ongoing factors promoting expansion once the adjustment in inventories had largely run its course. Growth in consumer spending might well remain relatively restrained. The saving rate already was low, and the willingness or ability of many consumers to incur debt to finance increased spending would tend to be inhibited by existing debt burdens and perhaps also by the loss of tax deductibility on consumer loan interest. In addition, widespread publicity about the fragility of some financial institutions and continuing concerns about employment prospects might damp consumer sentiment, and the absence of a strong rebound in residential construction would tend to moderate the growth in spending on consumer durables. On the positive side, the favorable effects on disposable income of the earlier

decline in oil prices was being supplemented by a resumption of appreciable growth in personal income as final sales and production improved.

With regard to the outlook for business fixed investment, contacts around the nation suggested that business executives remained cautious about making capital spending commitments. Nonetheless, the recent pickup in new orders for business equipment and a more mixed pattern in nonresidential building contract awards and permits were promising developments that tended to reduce earlier concerns about a possible cumulative weakening in business investment. Among the components of this key sector of the economy, nonresidential construction activity was expected to remain depressed, probably for an extended period in many localities, because of the substantial overhang of vacant office space and other commercial facilities. Some members noted, however, that nonresidential construction was improving in some areas, in part as a result of public works projects. Despite the likelihood of persisting weakness in nonresidential construction, overall business fixed investment was expected to strengthen to a limited extent once the recovery in economic activity was more firmly established.

The outlook for residential construction was viewed as somewhat more promising. Home sales appeared to be on a distinct uptrend, notwithstanding the temporary reversal in new home sales in May, and residential construction was picking up in many areas as housing backlogs were worked lower. Members commented, however, that the upswing in such construction might be relatively subdued by past cyclical standards, reflecting fairly high vacancy rates and the failure of mortgage rates

to decline as much as they had in previous recession periods. Continuing constraints on the availability of loans for land acquisition and construction might also be a factor tending to inhibit construction activity, at least currently.

With regard to the financial setting of the economy more generally, members noted that the distress being experienced by some financial intermediaries was a key source of concern and downside risk for the economy. One could not rule out a major deterioration in confidence in one or more types of lenders, which could seriously disrupt their ability or willingness to supply credit. However, that risk was likely to lessen over time. The rebuilding of balance sheets, including those of commercial banks, was a promising development, and the strength of the stock market along with lower risk premia on debt obligations pointed to an improving financial climate. Borrowers with direct access to capital markets were finding abundant credit at lower spreads. Many depository institutions apparently were continuing to pursue very cautious lending policies, though the shift toward even more stringent terms on loans seemed to have abated. Overall, debt growth appeared to be quite sluggish, with much of the weakness concentrated at depository institutions; this probably was contributing to the relatively damped expansion of the monetary aggregates around the cycle trough. The relationship between borrowing and spending seemed to be adjusting in ways that were not entirely understood, but the behavior of both debt and money were cautionary signs that needed to be monitored carefully.

A number of members commented that in comparison with prior cyclical experience the budget policies of all levels of government were

likely to be relatively restrictive over the projection horizon. At the federal level, despite burgeoning borrowing requirements in the near term, cutbacks in defense spending and other efforts to curb expenditures under the budget agreement of 1990 and to maintain that control under procedures put in place by the agreement, appeared to have helped put federal spending for goods and services on a downward path. At the state and local level, severe budgetary problems were being addressed in many areas by increased taxes and restraints on spending. These efforts to control governmental spending were likely to be an important factor contributing to a subdued expansion in nonresidential construction.

Turning to the outlook for inflation, the members remained optimistic that substantial progress could be made in reducing its underlying rate over the projection horizon. Some expressed disappointment that, while a number of special factors had been involved, the deceleration in consumer prices had been very limited this year, excluding the effects of a sharp drop in energy prices and slower increases in food prices. Nonetheless, the members generally believed that if the recovery tended to unfold as they were projecting, pressures on production resources would remain subdued and efforts to contain labor and other business costs would continue, especially in the context of very competitive markets for most products. Additionally, the appreciation of the dollar this year could be expected to exert a damping effect on inflation. As a trend toward lower inflation became more pronounced and widely perceived, the disinflationary forces in the economy would be reinforced by a moderation of inflationary expectations. An integral part of these developments, which several members emphasized,

was the role of restrained monetary expansion over an extended period in curbing underlying inflation pressures.

Against the background of the Committee's views regarding prospective economic developments and in keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act), the Committee at this meeting reviewed the ranges for growth in the monetary and debt aggregates that it had set in February for 1991, and it established on a tentative basis ranges for growth in those measures in 1992. The current ranges included growth of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3 for the period from the fourth quarter of 1990 to the fourth quarter of 1991. A monitoring range of 4-1/2 to 8-1/2 percent had been set for growth in total domestic nonfinancial debt in 1991.

In the course of the Committee's deliberations, all of the members agreed that the ranges established for this year remained appropriate. The members noted that both M2 and M3 were in the middle portions of their ranges. With regard to developments affecting M2, growth of nominal income had weakened over the first half of the year, but demands for M2 balances had been bolstered by declines in market interest rates that had brought a narrowing of the opportunity costs associated with holding deposits. On balance, growth of this aggregate thus far in 1991 had fallen short of what might have been expected on the basis of historical relationships with nominal income and interest rates. The reasons for the shortfalls were not fully understood, but the continuing redirection of credit flows away from depository institu-

tions and toward market channels as well as apparent investor preferences for the higher yields offered by longer-term investments appeared to be contributing factors. The projected pickup in nominal GNP growth in the second half of the year would by itself tend to boost the growth of M2 somewhat, but increases in velocity also were quite possible. Any strengthening of M2 probably would be limited by some widening of opportunity costs associated with a further decline in offering rates on liquid deposits in lagged response to earlier declines in market rates. Moreover, the likely persistence of a steep yield curve could lead depositors to continue to place some maturing time deposits in long-term market instruments that had more attractive yields, such as bond mutual funds. Considerable uncertainty continued to surround the demand for money and the behavior of velocity. However, in the judgment of the Committee, it now seemed that growth within the current range would indicate that policy was positioned to foster a sustainable economic expansion, and that the four percentage-point range provided adequate leeway for any adjustments that might be needed in the event the economy or monetary velocity were to diverge substantially from their expected paths.

Through the remainder of 1991, M3 growth also could be expected to be boosted by the strengthening of the recovery, which was likely to stimulate some pickup in bank credit extensions. However, a faster pace of resolutions by the Resolution Trust Corporation (RTC) would tend to depress thrift credit--by placing more thrift assets under government control or in the hands of private nondepository institutions--and issuance of large time deposits by branches and agencies of foreign

banks could be expected to slow from the pace earlier in the year as more of the adjustment to the change in relative borrowing costs caused by the reduction in reserve requirements late last year was completed.

The members took note of a number of factors that had tended to depress the growth of domestic nonfinancial debt, which had been growing at the low end of the Committee's monitoring range. The latter included the slower pace of economic activity, more cautious attitudes on the part of borrowers toward taking on debt and lenders toward extending it, and a sharply lower pace of net equity retirements. Looking ahead, the members anticipated that, with the pickup in the economy, nonfinancial debt would expand more rapidly in the second half of the year. While slowing debt growth had a number of positive aspects for the long-run stability of the financial markets and the economy, a tendency for debt to drop below its current range might indicate that supply or demand conditions were inconsistent with a satisfactory economic expansion.

At the conclusion of this discussion, the Committee voted to approve the following broad policy statement and to reaffirm the 1991 ranges that it had established in February for growth of M2, M3, and nonfinancial debt:

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.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Black, Forrestal, Keehn, Kelley, LaWare, Mullins, and Parry.

Votes against this action: None.

In the Committee's discussion of the ranges for 1992, most of the members supported a proposal to extend the 1991 ranges provisionally to next year. Insofar as developments bearing on economic and financial conditions in 1992 could be anticipated at this point, these members believed that monetary growth within the current ranges would be consistent with sustainable economic expansion in the context of continuing progress toward price stability. The upper bounds of those ranges provided desirable leeway for policy to resist any tendency for the recovery to falter while the lower ends allowed ample room for policy to counter stronger-than-expected inflationary pressures.

Several members favored a reduction in the M2 range for next year. Such a move would continue the trend of moving the range downward until it was consistent with price stability. Recent developments suggested that conditions were favorable for making substantial progress toward lower inflation, and these members emphasized that it was important for the Committee not only to take advantage of this opportunity but to signal its determination in this regard. The resulting improvement in the credibility of the Committee's anti-inflationary policy and the related favorable effects on inflationary expectations would reduce the transitional costs of achieving price stability.

Those in favor of retaining the current range for M2 commented that the range had been reduced substantially in recent years and that its midpoint already was close to a rate consistent with price stability over time, presuming no unanticipated trend in the velocity of M2 and some upward bias in measured inflation. For 1992, some members were concerned that, absent a significant increase in the velocity of M2,

satisfactory nominal GNP growth--within the central tendency of the members' forecasts--already implied expansion of M2 in the upper part of a 2-1/2 to 6-1/2 percent range. A lower range might not provide sufficient flexibility to deal with an unanticipated shortfall in aggregate demand or disturbances to still-fragile financial markets. Uncertainties about the behavior of velocity at a time when an important restructuring of financial flows appeared to be in process, especially with regard to the role of depository institutions, also argued for simply carrying over the existing range. There would be an opportunity to review the range next February, when evidence would be in hand about velocity in the second half of the year and some of the uncertainties about the strength of the recovery would be diminished. At that time, careful consideration would need to be given to reducing the range, if conditions implied that such an action was appropriate in furthering and underscoring the System's goal of reducing inflation over time.

At the conclusion of this discussion, with two members dissenting, the Committee approved provisional ranges for 1992 that were unchanged from those for 1991, and it voted to incorporate the following statement regarding the 1992 ranges in its domestic policy directive:

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.

Votes for this action: Messrs. Greenspan, Corrigan, Forrestal, Keehn, Kelley, LaWare, Mullins, and Parry.

Votes against this action: Messrs. Angell and Black.

Messrs. Angell and Black dissented because they preferred to reduce the M2 range for 1992 by 1/2 percentage point. They pointed out that the lower range would be centered on the average growth of M2 in recent years and would provide a timely signal of the Committee's continuing commitment to price stability, thereby reinforcing and extending the progress in curbing inflation anticipated over the next several quarters. They believed that the resulting decline in inflationary expectations would lower the transitional costs of achieving price stability and, by favorably affecting long-term interest rates, would help sustain the expansion in economic activity.

In the Committee's discussion of policy for the intermeeting period ahead, all of the members were in favor of maintaining an unchanged degree of pressure on reserve positions. They believed that at this juncture an unchanged policy course offered the greatest promise of reconciling the Committee's goals of sustaining the nascent business recovery while also fostering further progress against inflation. There were obvious areas of uncertainty and vulnerability in the current economic and financial situation, but developments were unlikely to require an immediate adjustment in reserve market conditions. For now, monetary policy appeared to be on an appropriate course.

The members devoted some attention during this discussion to the relatively sluggish growth of M2 and M3 in recent months. Some commented that the behavior of the broader aggregates might imply that

monetary policy had not been eased sufficiently in recent months and therefore might not provide adequate support to sustain the expansion. It was noted, however, that apart from the usual uncertainties about the relationship of M2 and M3 to growth and spending in the short run, the expansion of M1 and especially of reserves and the monetary base had been fairly robust since early spring. Moreover, many borrowers were meeting their financing needs through market sources. In this situation, the members generally concluded that the behavior of M2 and M3, which on a cumulative basis were still in the middle portions of the Committee's ranges for the year, did not call for any policy adjustments at this point. Nonetheless, continuing weak growth might require a review of this conclusion. A staff projection prepared for this meeting indicated that, with reserve market conditions unchanged, somewhat faster growth in the broader aggregates was likely to emerge in the months ahead, induced by greater money demands in the context of a strengthening economy.

With regard to possible adjustments to the degree of reserve pressure during the intermeeting period ahead, nearly all the members expressed a preference for a directive that did not bias prospective operations toward tightening or easing but made an intermeeting adjustment, if any, equally likely in either direction depending on economic and financial developments and the behavior of the monetary aggregates. One member preferred a directive that was tilted toward possible tightening; in this view, a prompt response to any tendency for inflationary conditions to re-emerge would have a favorable effect on inflationary expectations and long-term debt markets and might avert the need

for a more substantial policy adjustment later. Other members agreed on the desirability of a prompt adjustment to inflationary developments, but they did not see a special need to anticipate such an adjustment in the period ahead.

At the conclusion of the Committee's discussion, all of the members indicated that they favored a directive that called for maintaining the existing degree of pressure on reserve positions. The members also noted that they preferred or could accept a directive that did not include a presumption about the likely direction of any inter-meeting adjustments in policy. Accordingly, the Committee decided that somewhat greater reserve restraint or somewhat lesser reserve restraint might be acceptable during the period ahead depending on progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated at this meeting were expected to be consistent with some increase in the growth of M2 and M3 to annual rates of around 5-1/2 and 3 percent respectively over the three-month period from June through September.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

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 intermeeting 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.

Votes for the paragraph on short-run policy implementation: Messrs. Greenspan, Corrigan, Angell, Black, Forrestal, Keehn, Kelley, LaWare, Mullins and Parry.

Votes against this action: None.