FEDERAL RESERVE press release

For Use at 4:30 p.m. August 21, 1992

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 June 30-July 1, 1992.

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 June 30-July 1, 1992

The information reviewed at this meeting suggested that economic activity was expanding at a moderate pace. Employment and industrial output had continued to rise, but a sizable increase in the labor force had lifted the unemployment rate to a cyclical high. Increased sales and production of motor vehicles were providing a boost to the economy, as was higher spending for capital equipment, especially computers. However, non-auto retail sales and homebuying had slowed since earlier in the year, and the latest data indicated some widening of the merchandise trade deficit. Incoming data on retail prices and labor costs suggested that inflation was slowing.

Total nonfarm payroll employment increased for a fourth straight month in May, and aggregate hours worked by production or nonsupervisory workers exceeded the average for the first quarter. The services industry recorded further sizable job gains in May, while employment in retail trade fell considerably and had changed little on balance thus far this year. Hiring was off slightly in manufacturing, but further increases in overtime hours elevated the factory workweek to a little above its average level for the first half of 1990. The civilian unemployment rate rose sharply in May, to 7.5 percent, reflecting a surge in the number of job seekers. Substantial increases in the labor force since late last year had returned the labor-force participation rate to its average level for the first half of 1990.

Industrial production rose appreciably further in May, partly reflecting continued recovery in motor vehicle assemblies. Also contributing to the rise were large increases in the production of other consumer durables, notably household appliances and furniture, and of business equipment. The recent gains in production had raised the utilization of total industrial capacity considerably, but the average operating rate remained well below its July 1990 peak.

After a surge early in the year, growth in real personal consumption expenditures had slowed despite a strengthening in the demand for motor vehicles. In April and May, spending for goods other than motor vehicles was slightly below the average level for the first quarter, and outlays for services increased only a little. Purchases of new single-family homes declined in May for a fourth straight month. Starts of single-family housing units rebounded in May to a level close to the first-quarter pace, while multifamily housing starts remained depressed in reflection of historically high vacancy rates for such housing.

Shipments of nondefense capital goods other than aircraft over April and May were somewhat above the first-quarter level, boosted mainly by further increases for office and computing equipment. Business purchases of motor vehicles also were stronger. Recent data on orders pointed to a further pickup in business outlays for durable equipment over coming months. Outlays for nonresidential structures continued to trend lower in May, but incoming information on contracts for new construction suggested that nonresidential building activity would decline more slowly in the months ahead. Although construction of office buildings continued to plummet in response to the substantial overhang of vacant office space, spending for other nonresidential structures had firmed since the fourth quarter.

Business inventories rose slightly further in April. Stocks increased relatively sharply at the retail level, but about half the buildup was at automobile dealerships, where the rise in inventories appeared to be about in line with a recent pickup in sales of new vehicles. In manufacturing, inventories continued to decline; with factory shipments rising, the ratio of stocks to shipments was at its lowest level in more than a decade. At wholesale establishments, inventories were trimmed substantially further in April. However, inventory-sales ratios remained near the high end of the range that had prevailed over the past several years.

The nominal U.S. merchandise trade deficit widened in April and was substantially above its average rate for the first quarter. The value of exports declined, largely because of a decline in exports of aircraft. The value of imports increased further in April; a rise in imports of capital goods more than offset a small decline in imports of consumer goods. The available data on economic activity in the major foreign industrial countries in the second quarter were mixed. In Germany and Japan, growth during the first quarter had been boosted by transitory influences that appeared to be unwinding in the second quarter. By contrast, a moderate recovery in economic activity was continuing in Canada, and there were some indications that economic recovery was getting under way in the United Kingdom.

Producer prices of finished goods rose more rapidly in May; sizable increases in the prices of energy and other goods outweighed a further decline in food prices. Apart from anomalous jumps in the prices of a few items, however, increases in prices of nonfood, non-energy finished goods generally remained modest. Consumer prices posted a small advance in May, despite a relatively large rise in energy costs. Excluding food and energy items, consumer prices increased more slowly in the first five months of this year than in 1991. Average hourly earnings for production or nonsupervisory workers were little changed over April and May and also had risen more slowly thus far this year than in 1991.

At its meeting on May 19, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include a presumption about the likely direction of any adjustments to policy during the intermeeting period. Accordingly, the directive indicated that in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater or slightly lesser reserve restraint might be acceptable during the intermeeting period. The reserve conditions contemplated under this directive were expected to be consistent with growth of M2 and M3 at annual rates of about 2-1/2 and 1-1/2 percent respectively over the two-month period from April through June.

Open market operations during the intermeeting period were directed toward maintaining the existing degree of pressure on reserve positions. During the period, several technical increases were made to expected levels of adjustment plus seasonal borrowing to reflect the rising demands for seasonal credit. Actual levels of borrowing averaged about $165 million over the three reserve maintenance periods completed during the intermeeting interval. The federal funds rate remained close to 3-3/4 percent.

Most other interest rates changed little on balance over the intermeeting period. Rates moved higher in the days following the May meeting as widespread market expectations of a monetary easing action were not realized. Later in the period, however, interest rates fell, especially at intermediate maturities, as markets interpreted incoming data on the economy and the monetary aggregates as indicating a sluggish recovery. Broad indexes of stock prices declined over the period in response to reductions in forecasts of corporate earnings.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period. The dollar rose initially in response to data pointing to a somewhat stronger economic recovery in the United States but subsequently more than retraced its gains as less positive economic data, including a larger-than-expected trade deficit, were reported.

M2 and M3 changed little in May and appeared to have contracted in June; both retail and large-denomination time deposits continued to run off rapidly. Depository institutions, facing weak loan demand and intent on further bolstering capital positions, had reduced rates on time deposits fairly aggressively earlier in the year, and as a result these components of M2 and M3 had become less attractive relative to alternative investments or debt repayment. In addition, M1 was unusually weak in June. Through June, expansion of the two broad aggregates was somewhat below the lower ends of the ranges established by the Committee for the year. Growth of nonfinancial debt was estimated to be at the lower end of the Committee's monitoring range. Borrowing had been concentrated in the capital markets, with beneficial effects in reducing debt and debt-servicing burdens.

The staff projection prepared for this meeting pointed to a modest pickup in economic growth over the second half of the year and to some further acceleration in 1993. The forecast took into account the lagged effects on aggregate demand of earlier declines in interest rates and the progress that had been made by households and businesses in strengthening their balance sheets. Nonetheless, financial strains were expected to continue to prompt the diversion of some cash flows from business and consumer spending, though the magnitude of such adjustments was projected to lessen over time. Partly as a consequence, moderate growth well below that experienced during typical cyclical upswings in the past was projected in consumer spending and in business investment in durable equipment. Economic expansion also would be restrained by further, though diminishing, declines in business spending on nonresidential structures before a projected upturn in such spending began to materialize in the second half of next year. Moreover, in the government sector, federal purchases of goods and services were forecast to decrease over the projection horizon, largely reflecting cutbacks in defense spending. At the state and local government levels, continuing budget problems were expected to result in a small decline in real purchases during the quarters immediately ahead and in only modest growth later. A persisting though decreasing margin of slack in resource utilization was expected to be associated with further slowing in wage and price inflation.

In the Committee's discussion of economic and financial developments and the outlook for the economy, the members agreed that a sustained expansion at a moderate pace remained the most reasonable expectation and that such an expansion was likely to be associated with further easing of inflation. They noted that considerable progress had been made in correcting major structural imbalances and financial problems in various sectors of the economy and that business and consumer confidence had improved appreciably since the turn of the year. However, the most recent information suggested some weakening in the expansion, and a number of members expressed concern about the apparent absence of cumulating or self-reinforcing improvement in overall economic activity. Sluggish growth of jobs and income, ongoing efforts to strengthen balance sheets, and in the view of a number of members the weakness in broad measures of money and credit suggested that the risks to the economy were more heavily weighted to the downside. Others felt that the expansion was now more firmly entrenched and that the risks were more evenly balanced; some of these members noted, however, that given the likely restrained pace of the expansion, a significant shortfall from their current projections could have more worrisome effects than the limited inflationary pressures that might be fostered by a somewhat stronger-than-projected economy. With regard to the outlook for inflation, the members were encouraged by indications of moderating price and labor cost pressures. Most believed that additional progress toward price stability was likely over the next several quarters in the context of some persisting slack in labor and other production resources and after an extended period of slow growth in key measures of money.

In keeping with the practice at meetings when the Committee sets 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 nominal and real GDP, the rate of unemployment, and the rate of inflation for the years 1992 and 1993. These projections took account of the monetary growth ranges that the Committee reaffirmed at this meeting for 1992 and established on a tentative basis for 1993; these ranges were expected to be consistent with the Committee's goals of promoting a sustained expansion in the economy and continued progress toward price stability. The projections generally portrayed an economy performing in line with these objectives--that is, with expansion at a moderate pace over the next 1-1/2 years and inflation slowing gradually further. Forecasts of nominal GDP converged on growth ranges of 5-1/4 to 6 percent for 1992 as a whole and 5-1/2 to 6-1/4 percent for 1993. With regard to the rate of expansion in real GDP, the projections had a central tendency of 2-1/4 to 2-3/4 percent for 1992 and of 2-3/4 to 3 percent for 1993, implying a gradual acceleration from the pace currently estimated for the first half of this year. The projected strengthening of the economy was associated with some decline in the rate of civilian unemployment to a consensus range of 6-1/2 to 7 percent by the fourth quarter of 1993. Given the moderate expansion of the economy and the still relatively elevated level of the unemployment rate, the rate of inflation, as measured by the consumer price index, was projected to move somewhat lower; the central tendency of the range expected for 1993 was 2-3/4 to 3-1/4 percent.

Members observed that developments relating to the financial condition of households and businesses were likely to continue to have an important influence on economic activity over the quarters ahead. Widespread efforts to strengthen balance sheets along with conservative lending policies at financial intermediaries had exerted a significantly retarding effect on economic activity by diverting cash flows from consumer and investment expenditures or limiting the availability of financing for current spending. However, while the process of adjusting balance sheets was still incomplete and was still restraining business and consumer spending, the combination of greatly reduced interest rates and strengthened balance sheets pointed to subsiding constraints on expenditures from financial factors. At the same time, lending institutions now appeared to be in a better position to accommodate borrowers. Indeed, anecdotal reports from several parts of the country indicated that many banking institutions were intensifying their efforts to make loans, though loan demand remained quite limited. Members also observed that corporate cash flows and profits were much improved.

In their review of economic conditions and business and consumer attitudes in different regions, members reported that gradual expansion characterized most parts of the nation, though they cited some significant exceptions and also noted that on the whole recent indicators pointed to less strength than early in the year. Business and consumer sentiment, while considerably improved since late last year, nonetheless remained quite cautious and seemed vulnerable to adverse developments. Consumers were still very concerned about employment opportunities, while business executives were reluctant to make investment commitments or to build inventories in the absence of firmer indications of a significant pickup in demand.

With regard to developments in major sectors of the economy, members generally viewed some pickup in consumer spending from its recently sluggish pace as a likely development that in turn would provide ongoing support to the expansion. An essential element in sustaining consumer expenditures, and thus the economy more generally, would be the growth in job opportunities and personal incomes. While heavy debt-service burdens and reduced interest incomes, among other factors, continued to curb the ability or willingness of many consumers to increase their spending, some tentative indications of a firming trend in such spending could be drawn from the signs of reviving consumer confidence and anecdotal reports suggesting that consumer spending was growing at least modestly in many areas. In particular, demands for motor vehicles had strengthened, and the related step-up in the production of automotive products had accounted for much of the growth in industrial production over recent months. With regard to the outlook for housing, residential construction had weakened in many parts of the country, though it was holding up well in some areas. The backup in mortgage rates earlier in the year had reinforced the more general cautionary factors that had tended to inhibit overall spending. However, mortgage rates had fallen substantially over the spring, and the members expected housing activity to pick up somewhat over the quarters ahead.

Despite still cautious business attitudes, moderate growth in overall business fixed investment was anticipated over the forecast period. Spending could be buoyed by demands for business equipment, much of which probably would be related to efforts to modernize production facilities for competitive reasons. Rising rates of capacity utilization also could be expected to spur investment demand as time went on. The outlook for nonresidential construction was more negative. Office construction appeared likely to remain severely depressed for an extended period as excess capacity was absorbed in many parts of the country. On the more positive side, anecdotal impressions from several cities suggested that prices and lease terms of office and other commercial structures were tending to stabilize, though the volume of actual transactions remained quite limited.

The government and foreign trade sectors also were not seen as likely to contribute significantly to the expansion. The widespread financial problems of state and local governments pointed to quite limited growth in spending, even though examples of sizable expenditure programs, such as for highway construction in some areas, could be cited. At the federal level, defense spending was on a clear downtrend, and the persistence of large federal deficits argued against sizable new initiatives for nondefense spending. With regard to the external sector, a number of members expressed the view that the outlook for net exports had worsened despite the weakening in the foreign exchange value of the dollar in recent months. The growth in exports appeared to be moderating, and it was uncertain at this point to what extent economic expansion abroad might strengthen and thereby produce increased demand for U. S. goods and services. At the same time, domestic expansion in line with the members' forecasts would add to the demand for imports.

Most members anticipated at least a limited decline in the core rate of inflation over the period through the end of next year. In support of this view, some members emphasized the lagged effects of the very restrained growth in money over a long period while others gave more weight to the outlook for continuing if diminishing slack in labor and other production inputs. In addition, business executives reported that strong competition still was making it very difficult to raise prices and that continuing efforts were being made to improve operating efficiencies and hold down costs. At the same time, surveys of price expectations and conversations with business contacts suggested a view, rooted partly in concerns about the prospects for and implications of further large federal deficits, that inflation ultimately would return to the 4 to 5 percent pace of the 1980s. These attitudes tended to underscore the need for a sound fiscal policy that in conjunction with the continued implementation of an anti-inflationary monetary policy would foster a reduction in inflationary expectations and would facilitate the eventual achievement of price stability.

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 established in February for 1992 and decided on tentative ranges for growth in those aggregates in 1993. The current ranges for the period from the fourth quarter of 1991 to the fourth quarter of 1992 included expansion of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3. The monitoring range for growth of total domestic nonfinancial debt had been set at 4-1/2 to 8-1/2 percent.

In the course of the Committee's discussion, all of the members supported a proposal to retain the ranges established in February for this year. Although the rates of M2 and M3 growth for the year through June were somewhat below the lower ends of the Committee's ranges for both aggregates, this outcome had not been associated with unexpected weakness in nominal spending; the expansion in nominal GDP over the first half of the year currently was estimated to have been toward the upper end of the central tendency of the members' earlier expectations. Instead, velocity had risen appreciably--a highly unusual occurrence following a period of sharp declines in interest rates. Among the developments helping to explain the weakness in money and the rise in velocity were a variety of business and balance sheet pressures that tended to reduce total borrowing and channel credit flows away from depository institutions, thereby lessening the need of those institutions to increase their monetary liabilities. At the same time, business firms and households, in the course of their restructuring activities and deleveraging of their balance sheets, had found that monetary assets had become less attractive relative to a variety of other financial assets or debt repayment.

It appeared that the balance sheet adjustments by depository institutions and their customers that had contributed to velocity increases were well under way. However, the factors that were tending to depress broad money growth in relation to measures of economic and price performance were likely to persist, and the extent and duration of deviations from historic relationships were highly uncertain. In these circumstances, while an argument could be made that a somewhat lower M2 range might more readily encompass the rate of expansion in money needed for a satisfactory economic performance over the balance of the year, the selection of a different range would imply greater certainty about emerging relationships than was warranted. Instead, the current ranges should be maintained, pending further developments and the possible emergence of a more settled outlook for money demand. Some members also commented that lowering the ranges could be misconstrued as an intention to tighten monetary policy at a time when relatively sluggish growth in the economy and weakness in the monetary aggregates argued for a steady policy course or possibly for some easing.

At the conclusion of this discussion, the Committee voted to reaffirm the 1992 ranges of 2-1/2 to 6-1/2 percent and 1 to 5 percent that it had established in February for growth of M2 and M3, respectively; the Committee also decided to retain the range of 4-1/2 to 8-1/2 percent for growth of nonfinancial debt in 1992. The following statement was approved for inclusion in the Committee's domestic policy directive:

> 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 1991 to the fourth quarter of 1992. The Committee anticipated that developments contributing to unusual velocity increases could persist in the second half of the year. 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, Hoenig, Jordan, Kelley, LaWare, Lindsey, Melzer, Mullins, Ms. Phillips, and Mr. Syron.

Votes against this action: None.

With regard to the ranges for 1993 to be established on a tentative basis at this meeting, a majority of the members endorsed an extension of the current ranges for another year, but some believed that a somewhat lower range for M2 would be preferable. Members who wanted to retain the current ranges acknowledged that a lower M2 range probably would be desirable at some point to be consistent over time with the Committee's objective of achieving and maintaining reasonable price stability. However, current uncertainties with regard to how soon and to what extent various factors tending to inhibit the growth in M2 would dissipate argued for caution in making any change to the range now. A reduction in the M2 range could be considered next February when the Committee meets to set final ranges for money growth for 1993, or the range could be lowered even sooner if new information on the emerging relationship between the monetary aggregates and nominal spending allowed a determination of the appropriate range to be made with more confidence.

Members who preferred a somewhat lower M2 range for 1993 acknowledged that substantial uncertainties with regard to an appropriate rate of M2 growth were likely to persist for some time, but they felt that relatively subdued monetary expansion was likely to be consistent with an adequate degree of liquidity and a satisfactory economic performance next year. Lowering the M2 range at this point would extend the series of gradual reductions in the ranges that had been implemented over the last five years or so and would have the important advantage of affirming the Committee's commitment to price stability, with favorable implications for inflationary expectations and in turn perhaps also for the strength and sustainability of the expansion. A few members favoring this option were also of the view that more weight ought to be placed on M2 as a guide to policy; this would have possible implications for actions to boost M2 growth in 1992 in addition to reducing the range for 1993 to promote long-run disinflation. All of the members agreed that regardless of the particulars of the decisions to be made at this meeting, it was vital for the Committee to reaffirm its commitment to the goal of achieving price stability. This outcome was the key contribution the Federal Reserve could make toward facilitating the highest possible growth of the economy over time; and maintaining the credibility of the System's anti-inflationary effort was the best means available to the Committee to minimize disruptions to the economy as it was moving toward its potential.

At the conclusion of this discussion, the Committee approved provisional ranges for 1993 that were unchanged from those for 1992. The Committee voted to incorporate the following statement regarding the 1993 ranges in its domestic policy directive:

> For 1993, the Committee on a tentative basis set the same ranges as in 1992 for growth of the monetary aggregates and debt, measured from the fourth quarter of 1992 to the fourth quarter of 1993. 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, Angell, Hoenig, Kelley, LaWare, Lindsey, Melzer, Mullins, and Mr. Syron.

Votes against this action: Mr. Jordan and Ms. Phillips.

Mr. Jordan and Ms. Phillips dissented because they believed that a somewhat lower M2 range for 1993 would be more consistent with a policy of continuing progress toward price stability. They recognized that the substantial uncertainties surrounding the outlook for M2 growth and its velocity next year made it very difficult to determine an appropriate M2 range, but a lower range would be needed eventually to achieve and sustain stable prices. In the interim, it was important for the System and the credibility of its anti-inflationary policy to continue the practice of gradually reducing the M2 range to be consistent with a noninflationary target. They would have coupled the decrease in the range for 1993 with actions to expand bank reserves immediately with the objective of boosting M2 growth to within its range for 1992. Such a combination would make clear that the decrease in the range for M2 growth in 1993 did not represent a monetary "tightening" in the conventional sense, but rather that it was a step toward lasting reductions in inflation.

Turning to policy for the intermeeting period ahead, the members were divided between those who supported an unchanged policy stance and others who preferred to ease. A majority indicated, however, that they could support an unchanged directive that incorporated a bias toward possible easing.

Members who preferred not to change policy at this point believed that the economy was on a moderate growth path and that in any case the forces restraining the expansion were not the result of inadequate liquidity or a restrictive monetary policy. While the outlook was clouded by unusual forces acting on the economy, the available economic information remained consistent with continuing expansion at a pace that offered favorable prospects for a gradual reduction of unemployment and abatement of inflation. The low level of real and nominal short-term interest rates, the decline in the dollar, and the rapid growth of reserves and narrow money along with the expansion of bond mutual funds--which while not in M2 seemed to provide liquidity at least comparable to that of time deposits--suggested that monetary policy had been quite accommodative. Some members who supported this view expressed concern that in the absence of more definitive indications of a softening economy or much greater weakness in the monetary aggregates, any easing at this point would tend to erode the credibility of the Committee's commitment to an anti-inflationary policy. The result might well be to put substantial and disruptive downward pressure on the dollar in foreign exchange markets and to arrest or reverse the tendency for domestic long-term interest rates to decline.

Most of the members who preferred an immediate easing of policy emphasized the risks of a faltering economy in the period ahead, especially given the recent indications of some slowing in the expansion and the already considerable slack in the economy. Their concerns were heightened by the constraining effects of ongoing structural adjustments in the economy, the weakness in various measures of money, and the limited expansion in total credit. A few of these members focused on the desirability of taking relatively prompt action to foster growth in the broad measures of money within the Committee's ranges for the year. Some members observed that under current circumstances an easing action might have a relatively limited effect in stimulating monetary growth over the months ahead, but such a policy move would nonetheless tend to boost spending by reducing the costs of borrowing.

In their discussion, the members took account of a staff analysis that suggested only modest growth in M2 and virtually none in M3 for the third quarter on the assumption of an unchanged degree of reserve pressure. Relatively weak expansion in these broad measures of money did not appear to have the usual implications for the economy, as evidenced by experience over the first half of the year. The prospects were for continuing balance sheet and other adjustments that would tend to curb the demand for money assets relative to spending and income. Many members nonetheless were concerned about the possible persistence of the recent weakness in reserves and the longer-term sluggish behavior of broad money, especially given the relatively subdued pace of the expansion. While monetary measures might well have lost some of their indicator and predictive properties, continued weakness in money might still be a signal that financial conditions were not yet conducive to fostering a sustained pickup in spending.

The varying policy preferences expressed by the members were reflected in differing views with regard to possible adjustments to the degree of reserve pressure in the intermeeting period ahead. All of the members who favored some immediate easing in policy indicated that they could support an unchanged directive that was tilted toward ease, and at least some of these members anticipated that developments over the near term were likely to trigger an adjustment toward easing. Most of the members who favored an unchanged policy stance at this point also indicated that they could accept a bias toward ease in the directive, especially in light of current uncertainties and the potential problems associated with any significant shortfall in the expansion from current expectations. Other members who preferred a steady policy course believed that it would be premature for the Committee to signal any bias toward easing, given the relatively low probability that they assigned to the potential need for such a move, and they believed that a return to an asymmetric directive after the move to symmetry at the May meeting could have unfavorable repercussions on the Committee's credibility.

At the conclusion of the Committee's discussion, all but two of the members indicated that they favored or could accept a directive that called for maintaining the existing degree of pressure on reserve positions and that included a bias toward possible easing during the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint might be acceptable or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with a resumption of growth in M2 and M3 at annual rates of about 2 percent and 1/2 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 continues to suggest that economic activity is expanding at a moderate pace. Total nonfarm payroll employment increased somewhat further in May, but a surge in job seekers led to a sizable rise in the civilian unemployment rate to 7.5 percent. Industrial production rose appreciably further in May, partly reflecting continued recovery in motor vehicle assemblies. Growth in consumer spending has slackened after a sharp advance earlier this year. Although sales of new homes declined in May, single-family housing starts rebounded to a level close to the first-quarter pace. Recent data on orders and shipments of nondefense capital goods indicate appreciable increases in outlays for

business equipment, and the trend of building contracts points to some slowing of the decline in nonresidential construction. The nominal U.S. merchandise trade deficit increased in April and was substantially above its average rate in the first quarter. Incoming data on retail prices and labor costs suggest that inflation is slowing.

Most interest rates have changed little since the Committee meeting on May 19. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period.

M2 and M3 changed little in May and appear to have contracted in June; both retail and large-denomination time deposits continued to run off rapidly. Through June, expansion of the two aggregates was somewhat below the lower ends of the ranges established by the Committee for the year.

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 1991 to the fourth quarter of 1992. The Committee anticipated that developments contributing to unusual velocity increases could persist in the second half of the year. 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 1993, the Committee on a tentative basis set the same ranges as in 1992 for growth of the monetary aggregates and debt, measured from the fourth quarter of 1992 to the fourth quarter of 1993. 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. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint might 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 June through September at annual rates of about 2 and 1/2 percent, respectively.

Votes for short-run policy: Messrs. Greenspan, Corrigan, Angell, Hoenig, Jordan, Kelley, Lindsey, Mullins, Ms. Phillips, and Mr. Syron.

Votes against this action: Messrs. LaWare and Melzer.

Messrs. LaWare and Melzer dissented because they judged an asymmetric directive, with a bias toward easing, as being inappropriate at this time. In their view, the current stance of monetary policy was not impeding an expansion consistent with the economy's long-run potential. In addition, a bias toward ease, especially in the context of the Committee's decision at the May meeting to adopt a symmetrical directive, suggested an excessive emphasis on short-term economic developments that might undermine the credibility of the System's long-run policies. They were concerned that such a loss of credibility could have adverse effects on the dollar in foreign exchange markets and on long-term interest rates in domestic markets. Mr. Melzer also believed that, if additional easing were undertaken, a greater policy reversal ultimately would be necessary, making the attainment of sustainable economic growth more difficult in the long run.