The Federal Reserve Board

Minutes of the Federal Open Market Committee
Meeting of March 23, 1993

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, March 23, 1993, at 9:00 a.m.

PRESENT:

Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. McTeer
Mr. Mullins
Ms. Phillips
Mr. Stern

Messrs. Broaddus, Jordan, Forrestal, and Parry, Alternate Members of the Federal Open Market Committee

Messrs. Hoenig, Melzer, and Syron, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Boston, respectively

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

Messrs. R. Davis, Lang, Lindsey, Rolnick, Rosenblum, Scheld, Siegman, Simpson, and Slifman, Associate Economists

Mr. McDonough, Manager of the System Open Market Account

Ms. Greene, Deputy Manager for Foreign Operations

Ms. Lovett, Deputy Manager for Domestic Operations

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors

Mr. Winn,[1] Assistant to the Board, Office of Board Members, Board of Governors

Mr. Madigan, Assistant Director, Division of Monetary Affairs, 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. Beebe, T. Davis, Dewald, Goodfriend, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Kansas City, St. Louis, Richmond, and Atlanta, respectively

Ms. Browne, and Mr. Sniderman, Vice Presidents, Federal Reserve Banks of Boston and Cleveland, respectively

Ms. Krieger, Manager, Open Market Operations, Federal Reserve Bank of New York

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1. Attended portion of meeting relating to discussion of merging minutes of action and policy record into one document.

At the start of the meeting, the subcommittee established to review policies relating to the release of Committee information reported on its further deliberations and proposed a merging of the current "Minutes of Actions" and the "Record of Policy Actions" into a new document to be designated "Minutes of the Federal Open Market Committee Meeting." Merging the two documents would put in convenient form all the information that is released pertaining to FOMC meetings, and the new document would be made public on the same schedule as its predecessor documents. The Committee members endorsed the subcommittee's proposal and by unanimous vote the Committee approved the "Minutes of the Federal Open Market Committee Meeting" held on February 2-3, 1993; this merged document was scheduled to be released on March 26, 1993.

The Manager of the System Open Market Account reported on developments in foreign exchange markets since the previous meeting on February 2-3, 1993. There were no System open market transactions in foreign currencies during this intermeeting period, and thus no vote was required of the Committee.

The Deputy Manager for Domestic Operations reported on developments in domestic financial markets and on System open market transactions in government securities and federal agency obligations during the period February 3, 1993, through March 22, 1993. By unanimous vote, the Committee ratified these transactions.

The Committee then turned to a discussion of the economic outlook and the implementation of monetary policy over the inter-meeting period ahead. A summary of the economic and financial information available at the time of the meeting and of the Committee's discussion is provided below, followed by the domestic policy directive that was approved by the Committee and issued to the Federal Reserve Bank of New York.

The information reviewed at this meeting suggested that economic activity was expanding at a more moderate pace in the early months of 1993 after increasing substantially in the fourth quarter. Although outlays for business equipment apparently remained on a strong upward trajectory, sales of new homes had slackened and consumer spending was rising less rapidly. Indicators of production activity also were mixed: Industrial output had continued to post solid gains, but homebuilding had been less robust since year-end. Payroll employment had strengthened, and the unemployment rate had moved down further. Increases in wages had remained subdued in recent months, but advances in consumer and producer prices had been larger than those recorded in the latter part of 1992.

Total nonfarm payroll employment rose sharply in February, following generally small advances in previous months, and the length of the average workweek remained at the fourth-quarter level. The strong job gains in construction, services, and retail trade in February apparently reflected to some extent a partial reversal of the special factors that had depressed reported employment in these sectors in previous months. Since December, initial claims for unemployment insurance had fluctuated in a range that was consistent with further modest growth in employment. The civilian unemployment rate edged lower again in February, to 7.0 percent.

Industrial production continued to rise at a fairly brisk pace in January and February. Changes in mining and utilities were about offsetting on balance over the two months, but increases in manufacturing were fairly widespread. Although motor vehicle assemblies fell in February from a relatively high January level, the production of consumer durables and computers turned up sharply. In addition, increases in output were recorded in several other categories, including non-energy materials and construction supplies. Recent surveys indicated that new orders for durable goods increased further in February, and lean factory inventories coupled with reports of lengthening delivery times suggested further gains in industrial output in coming months. Total utilization of industrial capacity rose again in February.

Retail sales advanced in February after a fourth-quarter surge and a pause in January. Sales at automotive dealers weakened in February. However, there were sharp increases in sales of building materials and supplies, miscellaneous durable goods, and nondurable goods other than apparel. After registering sizable gains late last year, housing starts fell substantially in January and retraced only part of that decline in February. The slowdown was concentrated in single-family housing starts; multifamily starts were up in February from a historically low level in January. Although mortgage interest rates had dropped to the lowest levels in decades, sales of both new and existing homes turned down in January from their high December levels.

Incoming data on orders and shipments of nondefense capital goods suggested a further brisk advance in outlays for business equipment in coming months. In January, a decline in shipments of nondefense capital goods only partially reversed a large December rise, as a surge in shipments of computing equipment helped sustain the overall level. Shipments of complete civilian aircraft posted a solid gain in January. The increase appeared to be concentrated in sales to foreign purchasers; in the domestic airline industry, intense competition was forcing cutbacks of unprofitable routes and reductions in both the number of planes in service and orders for new planes. Shipments of durable equipment other than computers and aircraft fell in January to about the level of the fourth quarter. On the other hand, the January reading on new orders for these goods was well above the average for the fourth quarter, suggesting that additional advances in shipments might lie ahead. Nonresidential construction activity was down slightly further in January, reflecting persisting declines in office and industrial building in an environment of excess supply and some continuing, though perhaps lessening, downward pressure on the prices of such structures.

Business inventories appeared to have edged lower in January. In manufacturing, factory stocks were drawn down further, and most industries had relatively low stocks-to-shipments ratios. Among wholesalers, strong January sales pulled down inventories at many types of establishments; in numerous cases, a large accumulation of stocks in the fourth quarter was reversed. For the wholesale sector as a whole, the inventories-to-sales ratio in January was near the bottom of the range of the past two years. Retail inventories rose somewhat further in January after a large December increase. Stocks at automotive dealers accounted for all of the January accumulation. At retail stores other than auto dealers, the ratio of inventories-to-sales remained within the narrow range observed over the past year.

The nominal U.S. merchandise trade deficit widened slightly in January but was little changed from its average level in the fourth quarter. The value of both exports and imports dropped sharply in January from the December levels. The decline in imports was spread widely among major trade categories, but the decrease in exports largely reflected a reduction in shipments of aircraft after a strong December rise. Among the major foreign industrialized countries, the level of real activity contracted further in the fourth quarter in Japan, western Germany, and France; for the first quarter, the limited data available were generally weak for Japan and France but somewhat more mixed for western Germany. By contrast, economic activity appeared to be increasing in Canada and the United Kingdom.

Producer prices of finished goods were up in January and February after changing little over the fourth quarter. Producer prices of finished foods declined over the first two months of the year, but prices of finished energy products climbed rapidly, and prices of other finished items rose at a faster rate than in 1992. At the consumer level, price increases in January and February also were on the high side of the past year's advances. Food prices jumped in January and rose slightly further in February, while energy prices retraced most of a sharp January rise. Excluding food and energy items, consumer prices advanced at a substantially faster pace over the January-February period than in 1992. Increases in wages, as measured by average hourly earnings of production or nonsupervisory workers, remained subdued in recent months. The advance in average hourly earnings slowed in February, and the rise over the twelve months ended in February was considerably smaller than over the previous twelve-month period.

At its meeting on February 2-3, 1993, 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 reserve restraint or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions associated with this directive were expected to be consistent with little change in the levels of M2 and M3 over the two-month period from January through March.

Open market operations during the intermeeting period were directed toward maintaining the existing degree of pressure on reserve positions. Adjustment plus seasonal borrowing averaged only slightly above expected levels in the three full reserve maintenance periods in the intermeeting interval. For the period as a whole, the federal funds rate remained close to the 3 percent level that had prevailed in previous months.

Other short-term interest rates changed little over the intermeeting period, while long-term rates fell appreciably on balance. Bond markets rallied over most of the period, reflecting market assessments of improved prospects for significant reductions in the federal budget deficit in coming years and the consequences for overall spending. Prices of Treasury notes and bonds also were boosted by municipal defeasance activity and by perceptions of heightened prepayment risks in mortgage-backed securities. In early March, interest rates on long-term Treasury bonds and conventional fixed-rate mortgages reached their lowest levels since 1973, but some of the decline in bond and mortgage rates subsequently was reversed in response to increased apprehension about inflation. Equity prices generally responded favorably to the drop in long-term interest rates, but concerns about future changes in government policy toward a number of industries, including health care, led to lower prices in some segments of the equities market.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies fell on balance over the intermeeting period. The dollar depreciated through late February, partly in response to declines in U.S. long-term interest rates and incoming data that were seen as pointing to some slowing of the expansion in the United States. Subsequently, the dollar rebounded in the wake of unexpectedly strong U.S. employment statistics, disappointing inflation numbers, and further signs of weakening economic activity abroad. Near the end of the period, the dollar again dropped against the German mark and other European currencies, following a cut by the Bundesbank of its discount rate that apparently was less than market participants were expecting. On balance over the period, the dollar was marginally lower against the mark and other European currencies, but it declined substantially against the Japanese yen, reaching an all-time low.

M2 and M3 contracted in January and February. Part of the weakness apparently reflected temporary factors, such as distortions in seasonal adjustment factors and a lull in prepayments of mortgage-backed securities that reduced deposits held in association with this activity. More fundamentally, relatively attractive returns on capital market instruments continued to prompt households to shift large amounts of liquid balances into market investments, such as bond and stock mutual fund shares. In addition, banks continued to issue subordinated debt and equity to improve their balance sheets at a time when the expansion of bank credit was slowing noticeably; in particular, bank lending to businesses had been depressed by paydowns from the proceeds of heavy bond and stock issuance by nonfinancial corporations. Total domestic nonfinancial debt appeared to have expanded somewhat further in January.

The staff projection prepared for this meeting suggested that economic activity would grow over the year ahead at a pace that would foster a further gradual reduction in margins of unemployed labor and capital. The projection incorporated the essential elements of the fiscal proposals recently set forth by the Administration; the effects on aggregate demand, all other things equal, were expected to be small over the next several quarters. However, the appreciable declines in long-term interest rates that had occurred in recent months--evidently partly in response to anticipations of intermediate-term deficit reduction--were expected to support substantial additional gains in business and residential investment. Consumer spending would be bolstered by the progress already achieved in reducing debt service burdens and by a gradual lessening of concerns regarding job security, although the higher personal income taxes now envisioned for upper-income taxpayers were expected to be an inhibiting factor. Increases in export demand would be limited in the near term by the continuing weakness in the economies of the major industrialized countries. The persisting slack in resource utilization was expected to be associated with a return to more subdued price increases after a spurt earlier this year.

In the Committee's discussion of current and prospective economic conditions, the members remained encouraged by recent developments that they viewed on the whole as tending to confirm their forecasts of sustained economic expansion, though at a pace appreciably below that now indicated for the fourth quarter of 1992. If realized, such economic growth would be associated over time with a further gradual decline in unemployment. While the expansion appeared to have generated some momentum, a number of factors were likely to limit its strength, including ongoing balance sheet and business restructuring activities, the outlook for a more restrictive federal budget, and continuing weakness in key foreign markets. At the same time, greatly reduced interest rates and much improved, if still vulnerable, business and consumer confidence were positive factors in the outlook. Some members cautioned that even though a moderate rate of economic growth could be viewed as the most likely outcome over the forecast horizon, the current expansion differed in important respects from earlier cyclical recoveries and in light of the attendant uncertainties a considerably different result--in either direction--could not be ruled out. With regard to the outlook for inflation, the faster increases in consumer prices in recent months and a sharp upturn in the prices of certain producer materials tended to raise concerns, or at least a degree of unease, with regard to underlying inflation trends. While these developments might well prove to be an aberration rather than a signal of intensifying inflation, they did suggest the need to reassess the likelihood of a further decline in inflation and to be alert to further signs of a sustained upturn. For now, however, the favorable trends in underlying unit labor costs, which were associated in turn with ongoing gains in productivity and the absence of any firming in wage pressures, led many members to conclude that recent price developments did not provide persuasive evidence of a change in the inflation outlook.

Members continued to report somewhat uneven business conditions across the nation. Steady economic growth characterized many parts of the country, but business activity remained depressed in some areas and industries, notably those related to defense, aerospace, and nonresidential construction. While business sentiment was generally positive, many business contacts were uncertain about the outlook for demand in their own industries or the potential strength of the overall expansion, and recent fiscal policy developments appeared to have introduced a further note of caution. This uncertainty helped to account for the continuing reliance of numerous firms on overtime work to meet growing demand rather than incurring the considerable costs of adding new workers. Even so, an increasing number of contacts were reporting worker recalls or new hires. One member commented that job growth could be viewed both as a measure of business sentiment and as a necessary element in building or maintaining consumer confidence and thus helping to ensure an enduring economic expansion.

The quickening recovery during 1992, especially in the second half of the year, had received considerable impetus from consumer spending, and while growth in such spending could be expected to moderate from its pace in recent quarters, the consumer sector was viewed as likely to play a key role in sustaining the expansion this year. Many consumers had taken advantage of steep declines in interest rates to strengthen their balance sheets and reduce their debt service burdens, and they were now in a much improved position to finance further growth in their expenditures. The members took note of recent indications of a decline in consumer confidence and of some softening in retail sales since early in the year. However, the latter appeared to be in part the result of recently adverse weather conditions in some major parts of the country, and consumer confidence was still much improved on balance since earlier in the recovery. Accordingly, recent developments were not seen in themselves as harbingers of a weakening consumer spending trend over the next several quarters.

Business spending on producers' durable equipment also was believed likely to continue to provide appreciable stimulus to the expansion assuming that the much reduced interest rates and currently favorable business attitudes would be sustained and that proposed investment tax credit legislation eventually would be enacted. At the same time, business spending for nonresidential structures probably would continue to be held back by weakness in office construction stemming from widespread overcapacity. While office building activity was likely to be restrained for an extended period, members saw some positive signs that pointed to a degree of stabilization in this sector, including the leveling out or even a marginal pickup in rents and occupancy rates in some markets that previously had been severely depressed. A slow turnaround in other building activity was reported in some regions, notably for industrial and retail structures.

While the available data on starts of single-family houses in January and February were somewhat disappointing, the members felt that housing construction activity had held up relatively well thus far this year, after allowing for the adverse weather conditions that had retarded construction in some areas. The greatly reduced cost of mortgage financing pointed to continuing gains in housing construction despite a rise in costs associated with the sharp jump in lumber prices and a scarcity of finished building lots in some areas.

The members agreed that the prospects for overall spending on business capital goods and housing were vulnerable to shifts in attitudes that might be triggered, for example, by increases in market interest rates associated with an absence of progress in reducing the federal budget deficit. The outlook for a significant contraction in the federal deficit was subject to considerable uncertainty, especially in light of the still pending decisions to be made with regard to health care programs and their financing. The members recognized that the direct effects of appreciable deficit reduction would tend to constrain economic activity, as evidenced by the impact in many areas of the defense cutbacks that were already being implemented. Business contacts had expressed concerns about the potential effects on their industries and local markets of various provisions in the proposed legislation. Even so, a more encompassing assessment of the effects of deficit reduction needed to take account of its favorable implications for domestic interest rates. Moreover, insofar as the nearer-term outlook was concerned, the fiscal legislation now under consideration included new spending initiatives and the investment tax credit that were intended to provide some temporary stimulus to an economic expansion that, in the view of many observers, might still be in the process of gathering sustainable momentum. On balance, substantial deficit reduction in line with the currently proposed legislation was seen as likely to have a positive effect on business and consumer confidence, financial markets, and the longer-term health of the economy.

Several members observed that the outlook for exports had worsened as a result of weakening economic trends in a number of major industrialized nations. Members also commented on the uncertainties in the outlook for foreign trade associated with a variety of political risks abroad and the persisting protectionism that currently was highlighted by strong opposition to key trade agreements now under negotiation or under consideration for ratification. Anecdotal information from business contacts involved in export markets continued to suggest lagging foreign demands for many U.S. goods; however, backlogs for other products, such as labor-saving capital equipment, remained sizable.

The members devoted considerable attention to the discussion of various factors underlying the outlook for inflation. The consumer and producer price indexes had been less favorable in January and February than in the latter part of 1992. Also, prices of various industrial and construction materials had firmed since the start of the year in apparent response to rising production and, in some industries, to import or environmental restrictions. Anecdotal reports of increasing costs and prices had begun to appear with somewhat greater frequency in some areas, and pressures to widen profit margins reportedly were strong in a number of industries. In their evaluation of recent inflation developments, however, the members generally gave more weight to the behavior of unit labor costs, which indicated that much of the economy's underlying cost structure did not reflect any signs of a pickup in inflationary pressures. Moreover, from a financial perspective, extensions of credit and growth in overall nonfinancial sector debt were not consistent with an economy that was generating significant inflationary pressures, and the recent behavior of long-term debt markets suggested expectations of more subdued inflation. Against this background, the recent upturn in consumer and certain commodity prices might well represent a temporary development such as had occurred previously during the current cyclical upswing. In support of this view, members cited various fundamentals that seemed inconsistent with accelerating inflation, including the considerable slack in the utilization of labor and capital resources, strong competitive conditions in many markets, the absence of significant lengthening in supplier delivery schedules, and an extended period of weak expansion in the broader monetary aggregates that now encompassed some recent deceleration in M1. Nonetheless, the members acknowledged that recent price developments had raised a degree of unease in their minds, and their concerns would rise if the recent pace of price advances were sustained in the months immediately ahead. One member observed that a somewhat faster economic expansion than currently was expected by most members might well serve to intensify inflation pressures. While price developments were notably difficult to predict, most of the members concluded that the evidence at this point did not confirm a resurgence in inflationary pressures, and some commented that further modest disinflation remained a reasonable expectation for the next several quarters.

In the Committee's discussion of policy for the intermeeting period ahead, most of the members endorsed a proposal to maintain an unchanged degree of pressure on reserve positions, while two members supported an immediate move to tighten reserve conditions. In the majority view, the current degree, of reserve pressure continued to represent a policy stance that was appropriately balanced in light of the opposing risks of a faltering economic expansion and a resurgence of inflation. Conditions in credit markets did not provide confirming evidence of the emergence of greater inflationary pressures and the need to restrain the growth in credit. Indeed, the continuation of balance sheet restructuring activities by financial institutions and the associated caution on the part of these institutions with regard to extending loans still appeared to be exerting a significantly inhibiting effect on the overall growth in spending and economic activity. Several members acknowledged that a policy of maintaining unchanged reserve conditions and an associated federal funds rate around current levels, which implied that real short-term rates were near zero or even slightly negative, could have inflationary consequences in the event of a strengthening of the expansion and a sustained pickup in credit demands. The Committee would need to remain alert to such a development. In present circumstances, however, an unchanged policy stance seemed most consistent with achieving sustained economic expansion in an environment of subdued inflation. The members who favored a prompt move toward restraint were persuaded that a steady policy incurred an unacceptable risk of halting the progress toward price stability and indeed of intensifying inflation as the current expansion matured. In this view, a policy tightening move at this point was likely to counter the need for more substantial and potentially disruptive tightening actions later.

In the course of the Committee discussion, the members took account of a staff analysis that pointed to a resumption of M2 and M3 growth over the months ahead. This analysis suggested that the temporary factors depressing the broader monetary aggregates likely would be reversing, but that the other influences causing a rechanneling of credit flows away from depository institutions and boosting the velocity of money undoubtedly would persist, though probably with diminishing force. Accordingly, the staff foresaw moderate growth of M2 and M3 that at midyear would leave these aggregates below the lower ends of the Committee's ranges for 1993. Under prevailing circumstances, such continuing weakness in the broader aggregates was not viewed as indicating inadequate monetary stimulus. Indeed, a number of members commented that other indicators suggested that current monetary policy was in fact quite accommodative as evidenced for example by low short-term interest rates, especially on an inflation-adjusted basis. Moreover, Ml, reserves, and the monetary base had continued to expand in the first quarter, though at much reduced rates. One member commented that the slowdown in these narrower monetary measures, which he viewed as important indicators of the thrust of monetary policy, had favorable implications with regard to bringing inflation under control. The members agreed that the considerable uncertainty that continued to surround the outlook for broad money relative to spending implied that forming precise expectations for monetary growth over the months ahead was not feasible.

In the Committee's discussion of possible intermeeting adjustments to the degree of reserve pressure, members who favored an unchanged policy stance also expressed a preference for retaining the symmetry of the existing directive. Some observed that a policy change during the intermeeting period, if any, might well be in the direction of a tightening move. However, because there was no compelling case in the view of most members for such a move at this time and any intermeeting adjustment would be made in the light of emerging developments, a symmetric directive was warranted. In this connection, one member commented that, given the Committee's assessment of current economic and financial conditions, a tilt in the directive toward restraint would give a misleading indication of the Committee's current intentions. Members also noted that a change in policy, should one be called for by intermeeting developments, would represent a shift in the direction of policy and would be likely to have an especially pronounced impact on financial markets.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored a directive that called for maintaining the existing degree of pressure on reserve positions. These members also expressed a preference for a directive that did not include a presumption about the likely direction of any adjustment to policy 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, the Committee decided that slightly greater 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 moderate growth in M2 and M3 over the second quarter.

At the conclusion of the meeting, the Federal Reserve Bank of New York was authorized and directed, until instructed otherwise 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 increased at a more moderate pace in the early months of 1993 after expanding robustly in the fourth quarter. Total nonfarm payroll employment registered a sharp increase in February following generally small advances in previous months, and the civilian unemployment rate edged down further to 7.0 percent. Industrial production continued to post solid gains in January and February. Retail sales increased somewhat further over the first two months of the year after a fourth-quarter surge. Housing starts slipped in early 1993 after registering sizable gains late last year. Incoming data on orders and shipments of nondefense capital goods suggest a further brisk advance in outlays for business equipment, while nonresidential construction has remained soft. The nominal U.S. merchandise trade deficit was essentially unchanged in January from its average level in the fourth quarter, but both exports and imports were substantially lower. Increases in wages have remained subdued, but recent advances in consumer and producer prices have been larger than those recorded in the latter part of 1992.
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> Short-term interest rates have changed little since the Committee meeting in early February while bond yields have fallen appreciably on balance. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined on balance over the intermeeting period.

M2 and M3 contracted in January and February, apparently reflecting transitory factors and further shifts into market investments. Total domestic nonfinancial debt appears to have expanded somewhat further in January.

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 at its meeting in February established ranges for growth of M2 and M3 of 2 to 6 percent and 1/2 to 4-1/2 percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee expects that developments contributing to unusual velocity increases are likely to persist during the year. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. 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 or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with a resumption of moderate growth in the broader monetary aggregates over the second quarter.

Votes for this action: Messrs. Greenspan, Corrigan, Boehne, Keehn, Kelley, LaWare, McTeer, Mullins, Ms. Phillips, and Mr. Stern.

Votes against this action: Messrs. Angell and Lindsey.

Messrs. Angell and Lindsey indicated that their concerns about the outlook for inflation prompted them to favor an immediate move to tighten reserve conditions. In their view, such an action was desirable not only to arrest the possible emergence of greater inflation but especially to promote further disinflation. They were persuaded that monetary policy currently was overly accommodative as suggested by various indicators such as recent data on consumer and producer prices, the upswing in commodity prices, the low level of real short-term interest rates, and what in their judgment was a relatively depressed foreign exchange value of the dollar given the comparative strength of the U.S. economy and international interest rate trends. They noted that the current federal funds rate was probably not sustainable in the long term and that a tightening move at this time might well avoid the need for more sizable and potentially disruptive policy actions later.

Mr. Angell also emphasized the risks associated with any policy that did not firmly maintain a disinflationary trend. As he interpreted historical precedents, the typical result of a policy that tolerated some inflation was an eventual rise in inflation leading to permanently higher interest rates with adverse effects on economic activity. Indeed, he supported unpegging the federal funds rate to counter incipient price pressures showing through in commodity and finished goods prices. He believed that a clear signal of the Committee's commitment to price level stability would stabilize the price of gold along with the exchange value of the dollar and thereby provide a climate for further reductions in long-and intermediate-term interest rates. Such an approach to policy not only would assure a continuing disinflationary trend and eventual price stability, with very favorable implications for financial markets and economic growth, but it would in his view preclude an unsettling tendency for the debt markets to weaken every time newly available data appeared to suggest that economic growth was strengthening and that further monetary policy tightening actions therefore might be in the offing. In sum, such a policy would provide for the achievement of the Committee's objective of sustaining progress toward price stability which he believed was necessary for maintaining recent higher labor productivity, a permanently higher savings rate, and a prolonged period of economic expansion.

It was agreed that the next meeting of the Committee would be held on Tuesday, May 18, 1993.

The meeting adjourned.

Normand Bernard
Deputy Secretary

Last update: May 4, 2007