Minutes of the Federal Open Market Committee
Meeting of July 6-7, 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, July 6, 1993, at 2:30 p.m. and continued on Wednesday, July 7, 1993, at 9:00 a.m.

PRESENT:

Mr. Greenspan. Chairman
Mr. Mullins[1]
Mr. Angell
Mr. Boehne
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. McTeer
Mr. Oltman[2]
Ms. Phillips
Mr. Stern

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

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

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Patrikis, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist
Messrs. R. Davis, Lang, Lindsey, Promisel, 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. Madigan, Associate Director, Division of Monetary Affairs, Board of Governors

Mr. Stockton, Associate Director, Division of Research and Statistics, Board of Governors

Ms. Danker, Assistant Director, Division of Monetary Affairs, Board of Governors

Messrs. Small,[3] and Whitesell,[4] Section Chiefs, Division of Monetary Affairs, Board of Governors

Ms. Kusko,[4] Senior Economist, Division of Research and Statistics. Board of Governors

Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Beebe, J. Davis, T. Davis, Goodfriend, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of San Francisco. Cleveland, Kansas City, Richmond, and Atlanta, respectively

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

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

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1. Acting Vice Chairman in Mr. Corrigan's absence.

2. First Vice President, Federal Reserve Bank of New York, attending as alternate member for Mr. Corrigan.

3. Attended portion of meeting relating to a discussion of the uses of a broad monetary aggregate that includes bond and stock mutual funds.

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

By unanimous vote, the minutes for the meeting of the Federal Open Market Committee held on May 18, 1993, were approved.

The Manager of the System Open Market Account reported on developments in foreign exchange markets and on System transactions in foreign currencies during the period May 18, 1993, through July 6, 1993. By unanimous vote, the Committee ratified these transactions.

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 May 18, 1993, through July 6, 1993. By unanimous vote, the

Committee ratified these transactions.

The Committee then turned to a discussion of the economic outlook, the ranges for the growth of money and debt in 1993 and 1994, and the implementation of monetary policy over the intermeeting 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 provided a mixed reading on the economy, but on balance the available data suggested that the expansion had picked up somewhat during the second quarter from the very slow pace of the first quarter. Employment statistics, while tending to soften in June, pointed to considerable strength for the second quarter as a whole, although recent spending indicators suggested a much more moderate expansion. Consumer and producer price inflation slowed substantially in May, but prices had risen at a faster rate over the first five months of the year than over the second half of 1992.

Total nonfarm payroll employment changed little in June after registering substantial gains in April and May. For the second quarter as a whole, the increase in employment matched that of the first quarter. Manufacturing employment, which was about unchanged over the first quarter, declined somewhat in June for a third straight month. Construction payrolls edged lower after rising appreciably over the preceding two months, and job gains in the services industries were considerably smaller in June than those recorded earlier in the year. The civilian unemployment rate backed up to 7.0 percent in June.

Industrial production increased in May at the relatively subdued rate recorded in March and April; for June, the limited data available suggested a modest decline in output. In May, assemblies of motor vehicles declined after holding steady over the two previous months. Among other manufactured goods, the production of business equipment, led by computers and industrial equipment, recorded another brisk advance whereas the output of non-auto consumer goods continued to expand sluggishly. Total utilization of industrial capacity was unchanged in May for a third straight month.

Real personal consumption expenditures edged higher in May after a sizable rebound in April from weather-related weakness. On balance, however, consumer spending had increased only slightly thus far this year. Outlays for new cars and light trucks advanced in May to their highest level since January 1990 and apparently remained near that elevated level in June. In addition, spending for non-energy services had increased substantially in recent months. By contrast, energy consumption had fallen from the especially high levels of late winter, and outlays for nondurable goods in May were still below their fourth-quarter level. Housing starts increased in April and May from a depressed first-quarter pace, with most of the rise attributable to starts of single-family dwellings.

Shipments of nondefense capital goods in May retraced only a portion of a sizable April decline. However, for the two months combined, shipments of such goods were above the average for the first quarter and apparently remained on an upward trend that began early in 1992. The upward trajectory for spending on machinery and on electrical and communications equipment seemed to have reflected improved cash flows for the business sector and a declining cost of capital, and incoming data suggested that outlays for business equipment would increase further over the months ahead. Nonresidential construction activity was unchanged over the first quarter but picked up slightly on balance over April and May. Office building rose over the two months, while construction of non-office commercial structures was little changed and industrial building activity was down sharply.

Business inventories recorded another appreciable rise in April, and available data pointed to a further increase in May. In manufacturing, inventory accumulation stepped up in April and May after changing little in the first quarter: the ratio of stocks to shipments edged higher in each month and was only slightly above the very low level reached early in 1993. In the wholesale trade sector, inventories advanced at a slower rate in May than in April, and the inventory-to-sales ratio fell to the low end of the range for the past three years. The buildup of retail inventories slowed considerably in April, and with sales rebounding from the effect of March storms, the inventory-to-sales ratio declined for the retail sector. Nonetheless, the ratio still was near the high end of its range for the past several years.

The nominal U.S. merchandise trade deficit for April was unchanged from March, with both imports and exports declining slightly. However, the April deficit was substantially above the average for the first quarter, reflecting sizable increases in imports of capital goods, automotive products, consumer goods, and oil. The value of exports in April was only slightly above the first-quarter average. Recent indicators pointed to further weakness in economic activity in continental Europe thus far this year. By contrast, economic recovery appeared to be continuing in the United Kingdom and Canada. In Japan, economic activity was up appreciably in the first quarter, but available data suggested that this strength had not carried over to the second quarter.

Changes in producer and consumer prices were small in May following sizable increases earlier in the year. Producer prices of finished goods were unchanged in May, as declines in prices of finished consumer food and energy products offset small advances in prices of other finished goods. Excluding the food and energy components, producer prices had risen more rapidly thus far in 1993 than they had in the second half of 1992. At the consumer level, prices of items other than food and energy rose only slightly in May, but this measure of inflation also had risen faster this year than in the second half of last year. Labor costs likewise had evidenced a quickened pace of increases this year. Average hourly earnings of production or nonsupervisory workers rose substantially in May after edging lower in April, and these earnings had grown more rapidly over the first five months of 1993 than over the preceding six months.

At its meeting on May 18, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions but that included a tilt toward possible firming of reserve conditions 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 would be acceptable or slightly lesser reserve restraint might be acceptable during the intermeeting period. The reserve conditions associated with this directive were expected to be consistent with appreciable growth of the broader monetary aggregates over the second quarter.

Open market operations were directed toward maintaining the existing degree of pressure on reserve positions throughout the intermeeting period. Several upward adjustments were made to expected levels of adjustment plus seasonal borrowing during the period in anticipation of stepped-up demand for seasonal credit during the crop-growing season: borrowing averaged near expected levels over the period. The federal funds rate remained close to 3 percent over the period, although quarter-end pressures in money markets pushed the rate higher for a brief period at the end of June.

Other short-term interest rates also were little changed on balance over the period since the May meeting. Early in the period, unexpectedly robust employment data for May, coupled with media reports about the monetary policy stance adopted at the May meeting, led to some upward pressure on money market interest rates. Subsequently, however, this pressure abated in response to the release of data suggesting slower inflation and a somewhat weaker outlook for the economy. These developments along with the progress in the Congress toward adoption of a deficit-reduction package fostered a decline in bond yields: buoyed by the drop in yields, major indexes of stock prices rose over the intermeeting period in spite of disappointing second-quarter earnings reports by several major companies.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies increased on balance over the intermeeting period. After depreciating somewhat through the end of May, the dollar recovered in early June when U.S. money market interest rates moved higher. The dollar rose more strongly over the last half of June, principally in response to actual and expected monetary easing abroad. The rise in the dollar over the intermeeting interval reflected sizable appreciations against European currencies, especially the German mark. The dollar continued to fall against the Japanese yen through the middle of June, in the process setting several new lows, before recovering a little over the remainder of the period.

After contracting during the first quarter, M2 and M3 expanded appreciably over the second quarter. Most of this growth, which was especially pronounced in May, reflected strength in Ml and occurred despite continued heavy outflows to bond and equity funds. The May surge resulted in part from a strong pickup in mortgage refinancing activity and a reversal of the depressing effect in April of relatively damped individual nonwithheld tax payments on the seasonally adjusted level of liquid deposits. The growth of the broader aggregates moderated substantially in June, and by more than might have been suggested by the waning of these mortgage and tax influences. For the year through June, growth of both M2 and M3 was below the lower ends of the ranges for 1993 that the Committee had established in February. This sluggishness reflected ongoing changes in asset preferences and financing patterns rather than restrictive financial conditions. The velocity of M2 was estimated to have increased at a rate of about 4-1/2 percent over the first half of the year after a 4 percent rise in 1992. Total domestic nonfinancial debt expanded somewhat further through April.

The staff projection prepared for this meeting suggested moderate growth in economic activity and modest reductions in margins of unemployed labor and capital through 1994. The projection assumed the enactment of a federal budget bill that implied a moderately restrictive fiscal policy over the forecast horizon. As in earlier staff projections, lower interest rates were expected to support appreciable gains in interest-sensitive expenditures, including housing, consumer durables, and business equipment. Private spending also would be buttressed by a favorable financial environment associated with strengthened balance sheets and reduced debt burdens and by the apparently increasing willingness of banking institutions to make new loans. Export demand was likely to remain constrained over the near term by the weakness in the economies of several major industrial countries, but some improvement in foreign demand was anticipated later as those economies started to strengthen. The outlook for moderate growth and continuing slack in resource utilization suggested considerably more subdued price increases than had occurred in the early months of 1993.

In the Committee's discussion, the members generally agreed that ongoing economic developments remained consistent with moderate but sustained growth in economic activity. No sector of the economy seemed poised at this juncture to provide strong impetus to the expansion, but a promising basis for further growth was seen in the much improved financial condition of many households and business firms. Lower long-term interest rates, which had contributed to the improvement in balance sheets, were likely as well to bolster housing and business capital spending more directly. While the expansion now appeared to be firmly established, a number of members cautioned that it was subject to some downside risks, notably those associated with the still uncertain outlook for government budget and other policies. The possibility of higher taxes, associated with the deficit reduction legislation currently under consideration in the Congress and with the forthcoming proposals for national health care reform, was widely reported to be damping spending. With regard to the outlook for inflation, the most recent data on prices offered some encouragement that the earlier upturn in key measures of inflation might prove to be temporary, especially in the context of still ample margins of unutilized labor and other production resources. Even so, given generally held expectations among the public that inflation was not likely to decline and might in fact trend higher, many members concluded that for now the disinflationary trend might have been arrested or, at least, that further progress toward price stability would be quite difficult to achieve over the next several quarters.

In conformance with the usual practice at meetings when the Committee considers its longer-run objectives for growth of the monetary and debt aggregates, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members provided individual projections of growth in real and nominal GDP, the rate of unemployment, and the rate of inflation for the years 1993 and 1994. In light of the experience in the first half of the year, forecasts of real growth in 1993 had been revised down somewhat since February, while projections of inflation had been raised. The central tendency of the forecasts of the rate of expansion in real GDP in 1993 was now 2-1/4 to 2-3/4 percent for the year as a whole; for 1994, these projections had a central tendency of 2-1/2 to 3-1/4 percent. With regard to the expansion of nominal GDP, the forecasts converged on growth rates of 5 to 5-3/4 percent for 1993 and 5 to 6-1/2 percent for 1994. Given the projections of a moderate uptrend in economic activity and expectations of some further gains in labor productivity, the forecasts incorporated only a small decline in unemployment to rates of around 6-3/4 percent in the fourth quarter of 1993 and only slightly lower by the fourth quarter of 1994. For the rate of inflation, as measured by the CPI, the projections had a central tendency of 3 to 3-1/4 percent in 1993 and 3 to 3-1/2 percent in 1994, reflecting little change in both years from the rate of inflation experienced in 1992.

Members commented that the improved prospects for significant reductions in the federal deficit had played an important role in fostering the declines in longer-term interest rates that had occurred since the latter part of 1992: the lower rates were having positive effects on spending decisions in a number of interest-sensitive sectors of the economy as well as on balance sheets more generally. At the same time, the prospects for higher taxes--accentuated by uncertainties about their size and incidence--were widely reported to be inhibiting spending decisions by business firms and might also be adding to cautious consumer attitudes. Some of the anecdotal evidence suggested that uncertainties associated with the potential impact of the still unannounced proposals for health care reform were making many businesses especially cautious, notably in their hiring decisions. Adding to the effects of anticipated federal legislation were concerns in various parts of the country about further cuts in defense spending and the impact of additional reductions in state and local expenditures or of increases in state and local taxes. Some members observed that the fiscal policy legislation before the Congress appeared to have generated a perhaps exaggerated degree of concern, and passage of this legislation might have a generally favorable effect on business and consumer sentiment.

Turning to the outlook for individual sectors of the economy, members referred to indications of an upturn in consumer spending in recent months, but they also noted that survey results and anecdotal reports still suggested generally cautious consumer attitudes. The prospects for increased taxes might be having some negative effect on consumer confidence, but consumers remained especially concerned about the outlook for jobs and incomes as defense cutbacks continued and many firms, notably larger business establishments, took further steps to restructure and downsize their operations. To an important extent the improvement in retail sales in the second quarter was associated with stronger sales of motor vehicles that, in the view of at least some members, appeared to reflect previously postponed replacement demand rather than a major shift in consumer attitudes. In any event, moderate growth in consumer spending was likely to be maintained in the context of the improved financial condition and the related reduction in debt-service burdens of many households. Further growth in overall employment, in line with that achieved in the first half of the year, would if it persisted provide important support toward sustaining the expansion of consumer spending and thus the growth of the economy more generally.

With regard to the outlook for business fixed investment, members reported that many firms were scaling back or putting on hold their capital spending plans pending a resolution of the business tax proposals under consideration in the Congress. Nonetheless, business spending for equipment still constituted a relatively robust sector of the economy, at least according to the data available to date. To a considerable extent, such spending reflected ongoing efforts to improve the quality of products and the efficiency of business operations while holding down the number of employees, and the members saw this trend as likely to continue. In general, other business capital spending had remained sluggish, although construction activity other than office building appeared to have picked up in parts of the country. The prospects for housing construction, though not ebullient, were viewed as more promising particularly in light of the declines in mortgage interest rates to relatively low levels. The improved financial position of many potential homebuyers also provided a basis for anticipating stronger housing markets. Despite these favorable factors, however, overall housing activity had improved only modestly in recent months as homebuyers tended to remain cautious, and at least in some areas housing developers continued to report that they were encountering difficulties in securing construction finance. On balance, housing construction seemed likely to provide some impetus to the expansion in coming quarters.

Relatively weak economic conditions in a number of foreign industrial countries were likely to continue to limit U.S. exports, which had declined since the end of 1992. Indeed, available data supplemented by reports from a variety of contacts suggested that business conditions had remained quite weak or had worsened in a number of foreign industrial nations. Even so, business contacts in some parts of the United States indicated that foreign demand for their products was still quite robust. Business activity abroad, which already was trending higher in a few industrial nations, was viewed as likely to strengthen more generally over the year ahead, with positive effects on overall U.S. exports.

Turning to the outlook for inflation, members commented that despite favorable readings recently, a wide range of price and wage data had suggested some acceleration in the rate of inflation during the early months of the year. To some extent, the indications of intensified inflation might have been the result of difficulties with seasonal adjustments or other temporary factors, but there were reports of some successful efforts by business firms to raise prices following the spurt in demand and the rise in capacity utilization toward the end of 1992. These price developments were disappointing and suggested to many members that the disinflationary trend might have been arrested, at least for now, though the economic fundamentals remained consistent with a resumption of some further downward movement in the rate of inflation. With regard to those fundamentals, many members saw significant, albeit diminished, slack in labor and product markets as likely to persist over the forecast horizon, given their current forecasts of moderate expansion in economic activity. Other favorable-factors in the inflation outlook included efforts by businesses to hold down costs and increase productivity by restructuring their operations and investing in new, more productive equipment. Unfortunately, these favorable elements in the underlying economic situation seemed at odds with the apparently widely held view by the public that inflation would not diminish and indeed was likely to increase and that in any event current inflation levels were tolerable. Such expectations and attitudes would tend to temper the gains against inflation, if any, over the forecast horizon by their effects on the pricing and wage behavior of business firms and employees and the reactions of consumers toward rising prices. This inflationary climate underscored the importance of credible government policies--monetary, fiscal, trade, and regulatory--that encouraged reduced inflation over time.

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 1993 and it decided on tentative ranges for growth in those aggregates in 1994. The current ranges for the period from the fourth quarter of 1992 to the fourth quarter of 1993 included expansion of 2 to 6 percent for M2 and 1/2 to 4-1/2 percent for M3. A monitoring range for growth of total domestic nonfinancial debt had been set at 4-1/2 to 8-1/2 percent for 1993.

In the Committee's discussion, the members focused on the issue of whether or not to lower the ranges further. In February, the ranges for M2 and M3 had been reduced by 1/2 percentage point in the expectation that continuing rechanneling of credit demands and savings flows into securities markets and away from depository institutions would result in further increases in velocity, the ratio of nominal GDP to monetary measures such as M2 or M3. In fact, the strength of these forces was underestimated to some extent. Substantial increases occurred in the velocity of both M2 and M3, especially in the first quarter, that were reflected in weak bank credit and huge inflows into bond and stock mutual funds. In the circumstances, the expansion of both aggregates through midyear was below the lower ends of the reduced ranges established by the Committee for the year. According to a staff analysis, the developments boosting M2 and M3 velocity could be expected to persist over the balance of 1993. Such an outcome would imply monetary growth for the year as a whole slightly below the Committee's current ranges, even if the growth of nominal GDP picked up in the second half of the year as implied by the central tendency of the members' forecasts.

In light of this expectation, many of the members indicated their support of a proposal to lower the M2 and M3 ranges further for 1993 and on a tentative basis to retain the reduced ranges for 1994. It was emphasized during the discussion that the reductions were intended solely as technical adjustments to reflect expected increases in velocity and that the lower ranges did not imply any tightening of monetary policy. Rather, the reductions in the ranges would serve to align them with monetary growth rates that were more likely to be associated with a satisfactory economic performance. Indeed, M2 and M3 growth consistent with most members' forecasts might still leave the expansion of those aggregates near the lower ends of their reduced ranges for the year; at the same time, the probability of a surge in monetary growth to levels above the new ranges appeared remote. In this connection, some members commented that the uncertainties surrounding the behavior of M2 and M3 might well persist for some time. The value of these aggregates in guiding policy seemed to have diminished in 1992 and 1993, and the Committee needed to continue to rely on its evaluation of a broad array of other financial and economic developments in its assessment of an appropriate course for monetary policy. The members did not rule out the possibility that a more normal or predictable relationship between money and economic activity might be restored once the current process of balance sheet adjustments was completed, the yield curve flattened, and some stabilization in the intermediation function of depository institutions emerged. In the view of a few members, moreover, the lower range proposed for M2 might in fact be more consistent with the rate of monetary growth that would be needed over the long term to sustain price stability and satisfactory economic expansion, if the earlier relationships between broad money growth and economic performance were to reemerge.

Many of these members commented that the considerations underlying the desirability of a technical adjustment to the ranges for this year applied to 1994 as well, and they therefore supported extending the reduced ranges to 1994 on a tentative basis subject to review early next year. Monetary growth outcomes somewhat higher within these ranges might be anticipated in association with the somewhat faster economic growth and essentially unchanged rate of inflation that most members had forecast for next year.

Several members indicated that while they could accept reductions in the 1993 ranges, they nonetheless preferred to retain the existing ranges. One reason given for this preference was that the prospective performance of the broad monetary aggregates in relation to developments in the economy was not sufficiently understood to warrant the specification of new ranges. Indeed, a change might be misinterpreted as implying more knowledge about velocity relationships than the Committee in fact possessed and could set up expectations that the Committee would put greater and, depending on emerging circumstances, perhaps undesirable emphasis on achieving monetary growth within the new ranges. Moreover, to the extent that some observers interpreted the ranges as the Committee's proxies for presumed nominal GDP objectives, an erroneous conclusion could be reached that the Committee had decided on a reduced target level of nominal GDP even though the Committee had not in fact framed its objectives in terms of GDP targets. On balance, while these members did not view this choice as a matter of great consequence in current circumstances, they concluded that it was marginally preferable to retain the ranges for this year, and if necessary, to accept and explain the reasons for a shortfall once the latter were more clearly established. The members who preferred to retain the current ranges agreed that there were plausible arguments on both sides of this issue and they could accept a proposal to reduce the ranges for both 1993 and 1994.

In light of the limited reliance that the members felt they could place on the behavior of the current monetary aggregates, the Committee at this meeting reviewed the possible advantages of a newly constructed measure of money. This measure involved the addition of bond and stock mutual funds to M2 as currently defined. There were indications that the shares of such funds had become closer substitutes for M2, and large portfolio shifts into such funds seemed to account for much of the weakness in M2 and its uncertain relationship to income and the longer-run behavior of prices. After examining the properties of this measure and reviewing its past behavior in relation to key indicators of economic performance, the members concluded that it would not enhance the formulation or implementation of monetary policy, at least at this point. However, the members agreed that mutual funds flows should continue to be monitored for their effects on M2 and that the relevant data should be made available to outside analysts.

At the conclusion of its discussion, the Committee voted to lower the M2 range that it had established in February by an additional one percentage point and to reduce the M3 range by another 1/2 percentage point, bringing the M2 range to 1 to 5 percent and that for M3 to 0 to 4 percent for 1993. The Committee also voted to reduce the annual monitoring range for growth of total domestic nonfinancial debt by 1/2 percentage point to 4 to 8 percent. The members anticipated that this debt aggregate would continue to grow at a rate that was roughly in line with that of nominal GDP. The Committee approved the following statement for inclusion in its 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 at this meeting lowered the ranges it had established in February for growth of M2 and M3 to ranges of 1 to 5 percent and 0 to 4 percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee anticipated that developments contributing to unusual velocity increases would persist over the balance of the year and that money growth within these lower ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt also was lowered to 4 to 8 percent for the year.

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

Votes against this action: None.

Absent: Mr. Corrigan. (Mr. Oltman voted as alternate for Mr. Corrigan.)

For the year 1994, the Committee approved provisional ranges that were unchanged from the reduced levels for 1993. Accordingly, the Committee voted to incorporate the following statement regarding the 1994 ranges in its domestic policy directive.

For 1994, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1993 to the fourth quarter of 1994, of 1 to 5 percent for M2 and 0 to 4 percent for M3. The Committee provisionally set the monitoring range for growth of total domestic nonfinancial debt at 4 to 8 percent for 1994. 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, Mullins. Angell, Boehne, Keehn, Kelley, LaWare, Lindsey, McTeer, Oltman, Ms. Phillips. and Mr. Stern.

Votes against this action: None.

Absent: Mr. Corrigan. (Mr. Oltman voted as alternate for Mr. Corrigan.)

In the Committee's discussion of policy for the period until the next meeting, most of the members indicated that they saw little or no reason to change monetary policy in either direction. The most recent information on the performance of the economy was mixed, and this together with questions about the course of fiscal policy contributed to considerable uncertainty about the outlook. Even so, the members felt that the evidence pointed on the whole to a sustained rate of economic expansion. The latest price statistics provided some encouragement that the apparent intensification of inflation in earlier months of the year might have abated. For now, therefore, nearly all the members saw the balance of factors bearing on the course of economic activity and the outlook for inflation as calling for an unchanged degree of pressure on reserve positions.

According to a staff analysis prepared for this meeting, the growth of M2 could be expected to slow markedly in the months ahead from its pace over the second quarter. The projected deceleration was mainly associated with some unwinding of the second-quarter bulge in mortgage refinancings along with further heavy inflows to bond and stock mutual funds. The expansion of M3 appeared likely to be held down by weaker bank credit extensions as alternative sources of funds in the capital markets attracted more borrowers. On balance, modest growth of both M2 and M3 would keep them close to the lower ends of their downward-revised ranges through September.

Some members cautioned that despite the very sluggish behavior of the broad measures of money thus far this year, monetary policy was relatively expansive as evidenced by a variety of other indicators including the growth in narrow measures of money and reserves and the very low levels of money market interest rates. Indeed, in the view of several members, in a period characterized by indications of some worsening in inflationary expectations, a policy course that maintained steady conditions in reserve markets could be said to have become more accommodative as the federal funds rate, in real terms after adjustment for expected inflation, moved down from an already low level. Accordingly, while current monetary policy seemed likely to support further economic-expansion, the Committee needed to remain alert to the potential for intensifying inflation. At some point the current policy stance could well begin to foster greater price pressures. One member urged a prompt move toward restraint, given the prospect in his view that further progress toward price stability was unlikely with the current, quite stimulative, stance of monetary policy.

A majority of the members, taking account of the current stance of monetary policy, favored a proposal to retain the bias toward possible tightening that the Committee had adopted at the May meeting. In this connection, some commented that while the need for any policy adjustment during the period ahead seemed somewhat remote, the next policy move was more likely to be in the direction of some firming than toward easing. Other members suggested that a symmetrical directive might be more consistent with current economic conditions and the related outlook for a steady policy course over the near term. These members agreed, however, that a return to symmetry so soon after the adoption of a directive that was biased toward restraint could convey a misleading impression that recent developments had increased the Committee's concerns about the sustainability of the expansion or that the Committee had become less committed to a disinflationary policy course. Accordingly, these members indicated that they could support an asymmetric directive at this point. Several members observed that a number of key economic measures were scheduled for release during the intermeeting period and that the data in question should provide a firmer basis for evaluating the performance of the economy and a desirable course for monetary policy.

At the conclusion of the Committee's discussion, all but one of the members indicated that they preferred or found acceptable a directive that called for maintaining the existing degree of pressure on reserve positions and that retained a bias toward possible firming of reserve conditions 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 reserve restraint would be acceptable or slightly lesser reserve restraint might be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with modest growth in the broader monetary aggregates over the third 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 the economic expansion has picked up somewhat in recent months from the very slow pace of the first quarter. Total nonfarm payroll employment changed little in June after registering substantial gains in April and May, and the civilian unemployment rate edged up to 7.0 percent in June. Industrial production has changed little on balance over the last few months. Real consumer expenditures edged higher in May after a sizable rise in April but have increased only slightly thus far this year. Housing starts turned up in April from a depressed first-quarter pace and rose somewhat further in May. Incoming data suggest a continued brisk advance in outlays for business equipment, while nonresidential construction has remained soft. The nominal U.S. merchandise trade deficit was about unchanged in April but substantially larger than its average rate in the first quarter. Consumer and producer prices were about unchanged in May, but for the year to date inflation has been more rapid than in the second half of 1992.
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> Short-term interest rates have changed little since the Committee meeting on May 18 while bond yields have declined somewhat. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies increased on balance over the intermeeting period.
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> After contracting during the first quarter, M2 and M3 expanded appreciably over the

second quarter. For the year through June, growth of the two aggregates was below the lower ends of the ranges established by the Committee for 1993. Total domestic nonfinancial debt expanded somewhat further through April.

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 this meeting lowered the ranges it had established in February for growth of M2 and M3 to ranges of 1 to 5 percent and 0 to 4 percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee anticipated that developments contributing to unusual velocity increases would persist over the balance of the year and that money growth within these lower ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt also was lowered to 4 to 8 percent for the year. For 1994, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1993 to the fourth quarter of 1994, of 1 to 5 percent for M2 and 0 to 4 percent for M3. The Committee provisionally set the monitoring range for growth of total domestic nonfinancial debt at 4 to 8 percent for 1994. 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 would or slightly lesser reserve restraint might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with modest growth in the broader monetary aggregates over the third quarter.

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

Vote against this action: Mr. Angell.

Absent: Mr. Corrigan. (Mr. Oltman voted as alternate for Mr. Corrigan.)

Mr. Angell dissented because he favored a prompt move to tighten policy. In his view, monetary policy was overly expansive at this point as evidenced by what he viewed as excessive liquidity in financial markets, the negative level of real short-term interest rates, and the disappointing lack of progress toward lower inflation this year. Given indications of worsening inflationary expectations, such as the substantial rise in the price of gold, as well as projections of an increase in inflation, a policy that led to a steady federal funds rate in fact implied a further easing of an already stimulative monetary policy. In these circumstances, a tightening of policy would not involve any significant risk to the expansion but would foster changes in financial conditions and the outlook for inflation that would be more consistent with renewed progress toward price stability in 1994 and later. Declining inflation around the world and a stronger trend of productivity growth in the United States, among other factors, were providing a favorable environment for further disinflation, but those developments needed to be supported and validated by appropriate monetary policy action.

At this meeting, the Committee reviewed its practices with regard to the release of information to the public. This review was undertaken in response to media reports of the purported results of the May meeting before the Committee had made public any information about that meeting. In its discussion, the Committee reaffirmed its long-standing rules governing the confidentiality of FOMC information, including the schedule that calls for releasing the minutes of a Committee meeting, along with an explanation of the Committee's decisions, a few days after the next meeting. These rules are designed to safeguard the Committee's flexibility to make needed adjustments to policy and also to provide adequate time to prepare a full report of the context and rationale for its decisions. Committee members emphasized the potential for inadvertent leaks of information in the course of general conversations with representatives of the news media or others concerning the members' views about economic developments or monetary policy. The members agreed that particular care needed to be taken for some period before and after each of its meetings.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 17, 1993.

The meeting adjourned at 12:25 p.m. on Wednesday, July 7, 1993.

Donald L. Kohn
Secretary