Minutes of the Federal Open Market Committee
Meeting of February 3-4, 1994

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 Thursday, February 3, 1994, at 2:30 p.m. and was continued on Friday, February 4, 1994, at 9:00 a.m.

PRESENT:

Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Broaddus
Mr. Forrestal
Mr. Jordan
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. Parry
Ms. Phillips

Messrs. Hoenig, Keehn, Melzer, Oltman,[1] and Syron, Alternate Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

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

Messrs. Beebe, J. Davis, R. Davis, Goodfriend, Lindsey, Promisel, Siegman, Simpson, Stockton, and Ms. Tschinkel, Associate Economists

Ms. Lovett, Manager for Domestic Operations, System Open Market Account

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

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

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

Mr. Madigan, Associate Director, Division of Monetary Affairs, Board of Governors

Mr. Hooper,[2]Assistant Director, Division of International Finance, Board of Governors

Mr. Reinhart,[3] Section Chief, Division of Monetary Affairs, Board of Governors

Mr. Rosine,[3] Senior Economist, Division of Research and Statistics, Board of Governors

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

Messrs. T. Davis, Dewald, Lang, Rolnick, Rosenblum, and Scheld, Senior Vice Presidents, Federal Reserve Banks of Kansas City, St. Louis, Philadelphia, Minneapolis, Dallas, and Chicago, respectively

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

Ms. Krieger, Assistant Vice President, Federal Reserve Bank of New York

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1. Attended Thursday session only.

2. Attended Thursday session only.

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

In the agenda for this meeting, it was reported that advices of the election of the following members and alternate members of the Federal Open Market Committee for the period commencing January 1, 1994, and ending December 31, 1994, had been received and that the named individuals had executed their oaths of office.

The elected members and alternate members were as follows:

William J. McDonough, President of the Federal Reserve Bank of New York, with James H. Oltman, First Vice President of the Federal Reserve Bank of New York, as alternate:

J. Alfred Broaddus, Jr. President of the Federal Reserve Bank of Richmond, with Richard F. Syron, President of the Federal Reserve Bank of Boston, as alternate:

Jerry L. Jordan, President of the Federal Reserve Bank of Cleveland, with Silas Keehn, President of the Federal Reserve Bank of Chicago, as alternate:

Robert P. Forrestal, President of the Federal Reserve Bank of Atlanta, with Thomas C. Melzer, President of the Federal Reserve Bank of St. Louis, as alternate:

Robert T. Parry, President of the Federal Reserve Bank of San Francisco, with Thomas M. Hoenig, President of the Federal Reserve Bank of Kansas City as alternate.

By unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after December 31, 1994, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, they would cease to have any official connection with the Federal Open Market Committee:

Alan Greenspan	Chairman
William J. McDonough	Vice Chairman
Donald L. Kohn	Secretary and Economist
Normand R. V. Bernard	Deputy Secretary
Joseph R. Coyne	Assistant Secretary
Gary P. Gillum	Assistant Secretary
J. Virgil Mattingly, Jr.	General Counsel
Ernest T. Patrikis	Deputy General Counsel
Michael J. Prell	Economist
Edwin M. Truman	Economist
Jack H. Beebe, John M. Davis, Richard G. Davis, Marvin S. Goodfriend, David E. Lindsey, Larry J. Promisel, Charles J. Siegman, Thomas D. Simpson, David J. Stockton, and Sheila L. Tschinkel	Associate Economists

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after December 31, 1994.

By unanimous vote, Joan E. Lovett and Peter R. Fisher were selected to serve at the pleasure of the Committee in the capacities of Manager for Domestic Operations System Open Market Account, and Manager for Foreign Operations System Open Market Account, respectively on the understanding that their selection was subject to their being satisfactory to the Federal Reserve Bank of New York.

> Secretary's note: Advice subsequently was received that the selections indicated above were satisfactory to the board of directors of the Federal Reserve Bank of New York.

On January 24, 1994, the continuing rules, regulations, authorizations, and other instruments of the Committee had been distributed with the advice that, in accordance with procedures approved by the Committee, they were being called to the Committee's attention before the February 3-4 organization meeting to give members an opportunity to raise any questions they might have concerning them. Members were asked to indicate if they wished to have any of the instruments in question placed on the agenda for consideration at this meeting, and no requests for substantive consideration were received.

At this meeting, the members agreed to update the references to the Management of the System Open Market Account in the following FOMC documents to reflect the new titles of Manager for

Domestic Operations, System Open Market Account, and Manager for Foreign Operations, System Open Market Account: (1) FOMC Rules of Organization. (2) Procedures for Allocation of Securities in the System Open Market Account, and (3) Program for Security of FOMC Information. Except for this change, all of the instruments identified below remained in effect in their existing forms:

1. Procedures for Allocation of Securities in the System Open Market Account.

2. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function.

3. Resolution to Provide for the Continued Operation of the Federal Open Market Committee During an Emergency.

4. Resolution Authorizing Certain Actions by Federal Reserve Banks During an Emergency.

5. Resolution Relating to Examinations of the System Open Market Account.

6. Guidelines for the Conduct of System Operations in Federal Agency Issues.

7. Regulation Relating to Open Market Operations of Federal Reserve Banks.

8. Program for Security of FOMC Information.

9. Federal Open Market Committee Rules of Organization, Rules of Procedure, and Rules Regarding Availability of Information.

By unanimous vote, the Authorization for Domestic Open Market Operations shown below was reaffirmed.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS Reaffirmed February 3, 1994

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

> (a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $8.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting:
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> (b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York. on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine

months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods: provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million:

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under l(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph l(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market: and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph l(c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

By unanimous vote, the Authorization for Foreign Currency Operations was amended to reflect the new title of Manager for Foreign Operations, System Open Market Account.

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS Amended February 3, 1994

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $25.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	**Amount of arrangement (millions of dollars equivalent)**
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000

National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph l.A. above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings. U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the

Manager for Foreign Operations, System Open Market Account ("Manager"), for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

> A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;
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> B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;
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> C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3.G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

By unanimous vote, the Foreign Currency Directive shown below was reaffirmed.

FOREIGN CURRENCY DIRECTIVE Reaffirmed February 3, 1994

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

> A. Undertake spot and forward purchases and sales of foreign exchange.
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> B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.
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> C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

> A. To adjust System balances in light of probable future needs for currencies.
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> B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.
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> C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

> A. In close and continuous consultation and cooperation with the United States

Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

By unanimous vote, the Procedural Instructions With Respect to Foreign Currency Operations shown below were amended to reflect the new title of Manager for Foreign Operations, System Open Market Account.

PROCEDURAL INSTRUCTIONS WITH RESPECT TO FOREIGN CURRENCY OPERATIONS
Amended February 3, 1994

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager for Foreign Operations, System Open Market Account ("Manager"), shall be guided by the following procedural understandings with respect to consultations and clearances with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $300 million on any day or $600 million since the most recent regular meeting of the Committee.

B. Any operation that would result in a change on any day in the System's net position in a single foreign currency exceeding $150 million, or $300 million when the operation is associated with repayment of swap drawings.

C. Any operation that might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in l.B.

D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $1.5 billion since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System and about any operations that are not of a routine character.

Agreement to "Warehouse" Foreign Currencies

At its meeting on February 2-3, 1993, the Committee had reaffirmed the $5 billion limit on the amount of eligible foreign currencies that the System was prepared to "warehouse" for the Treasury and the Exchange Stabilization Fund (ESF). The purpose of the warehousing facility is to supplement, at the discretion of the Federal Reserve, the U.S. dollar resources of the Treasury and the ESF for financing their purchases of foreign currencies and related international operations. There had been no use of this facility since a ESF repayment of $2 billion on April 2, 1992. The Committee decided at this meeting to reaffirm the $5 billion ceiling which it viewed as providing adequate operational flexibility to respond on short notice to unanticipated developments.

> **Votes for this action:** Messrs. Greenspan McDonough, Broaddus, Forrestal, Kelley, LaWare, Lindsey, Parry, and Ms. Phillips.
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> **Vote against this action:** Mr. Jordan.
>
> **Absent and not voting:** Messrs. Angell and Mullins.

Mr. Jordan dissented because he felt that providing funds to the Treasury using a warehousing arrangement was, in effect, a loan to the Treasury. In his opinion, direct financing of government operations by the central bank is inappropriate and could compromise the effective conduct of monetary policy. He did not rule out the possible efficacy of some warehousing transactions in very exceptional circumstances in the future, but he believed that the latter should be approved only after full Committee discussion. Accordingly, he did not want to retain the standing $5 billion authorization.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on December 21, 1993, were approved.

The Manager for Foreign Operations reported on developments in foreign exchange markets during the period since the December meeting. There were no System open market transactions in foreign currencies during this period, and thus no vote was required of the Committee.

The 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 December 21, 1993, through February 3, 1994. By unanimous vote, the Committee ratified these transactions.

The Committee then turned to a discussion of the economic and financial outlook, the ranges for the growth of money and debt in 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 indicated that economic activity recorded a strong advance during the closing months of 1993, and the limited data available on production and employment suggested appreciable further gains in the early weeks of this year. Housing starts had strengthened substantially in the fourth quarter of last year, and business fixed investment had registered a sharp rise. Increases in broad indexes of consumer and producer prices, excluding their food and energy components, had been somewhat larger in recent months than earlier in 1993, and prices of a number of commodities had turned up.

Assessment of the January labor market data was complicated by statistical revisions and weather-related reporting problems, but a variety of indicators pointed convincingly to a further strengthening in the demand for labor. Total nonfarm payroll employment posted a small gain in January after a sizable December increase. Manufacturing employment rose for a fourth consecutive month, with gains again concentrated in motor vehicles. Construction payrolls edged down, evidently reflecting the adverse effects of severe winter weather. The total number of jobs in the services industries was unchanged in January, but the inclement weather apparently held down employment in some segments of this sector as well. The average workweek of production or nonsupervisory workers rose in January to its highest level in almost five years; for manufacturing, the average workweek remained at its post-World War II high for a third consecutive month. The civilian unemployment rate, calculated on a new basis, was 6.7 percent in January.

Industrial production increased appreciably further in December, and the available information suggested a considerable rise in January. In December, the advance in manufacturing was led by the motor vehicle and computing equipment industries. Sizable increases in materials and construction supplies also were recorded. On the other hand, the output of consumer goods other than motor vehicles was sluggish, and the production of aircraft and defense and space equipment continued to shrink. Total utilization of manufacturing capacity rose again in December and reached a relatively high level, judged against historical experience.

Consumer spending, as measured by real personal consumption expenditures, posted another solid increase in the fourth quarter, and strong sales of motor vehicles in January suggested continued buoyancy in consumer demand. In the fourth quarter, real outlays on motor vehicles surged, and spending on other durable goods--notably furniture, appliances and other household equipment--registered further large gains. By contrast, real outlays for nondurable goods and services rose only moderately. Housing starts jumped in December, with both single-family and multifamily starts sharing in the advance. For 1993 as a whole, housing starts were at their highest annual total in four years. Sales of new homes were up sharply in November, and sales of existing homes ended the year at the highest monthly level in the twenty-five year history of the series.

Real business fixed investment recorded a very large increase in the fourth quarter. Business spending for equipment, notably for information processing equipment, was up sharply for a seventh straight quarter. The strength evident in recent orders for nondefense capital goods pointed to further gains in shipments of these goods in early 1994. Outlays for nonresidential structures in the fourth quarter posted their largest quarterly rise in six years; the increases were spread across a broad array of categories other than office buildings. Construction permits continued to rise in the fourth quarter, suggesting further growth of investment in nonresidential structures in the near term.

Business inventories remained generally well aligned with sales through November, the most recent month for which complete data were available. In manufacturing, inventory stocks fell in December after edging lower in November: with brisk gains in shipments in both months, the ratio of stocks to shipments fell further from levels that already were low by historical standards. At the wholesale level, inventories rose moderately in November after little change in the preceding two months. The inventory-to-sales ratio for this sector had changed little since May. Retail inventories expanded substantially in November for a third straight month. The buildup of stocks might have been in anticipation of robust holiday sales, but for some retail businesses, particularly general merchandise stores, the increases coincided with weak sales. For the retail sector as a whole, the inventory-to-sales ratio was up slightly in November.

The average nominal U.S. merchandise trade deficit for the October-November period was about the same as its average rate in the third quarter. The value of exports was up for the two-month period, with the increase occurring largely in machinery, automotive products, and aircraft. The higher value of imports for the two-month period reflected, as had been the case earlier in 1993, greater imports of consumer goods, automotive products, and machinery. Trends in economic activity in the major foreign industrial countries appeared to have diverged further in the fourth quarter. Moderate growth appeared to be continuing in Canada and the United Kingdom, but economic activity seemed to be growing more slowly or to have turned down in Japan, western Germany, and France.

Producer prices of finished goods were down slightly in December after being unchanged in November. Excluding the food and energy components, producer prices edged higher in December and were up slightly for the year as a whole. At the retail level, consumer prices rose modestly in November and December, with energy price declines holding down the increase in the overall index. For items other than food and energy, prices advanced in the two months at a slightly faster pace than that seen over previous months of the year; for 1993 as a whole, the increase was about the same as in 1992. Hourly compensation of private industry workers increased in the fourth quarter at the same pace as in the third quarter. For 1993, the rise in hourly compensation was little changed from the previous year. Average hourly earnings of production or nonsupervisory workers rose sharply in January, but for the twelve months ended in January, the increase was the same as that recorded for the previous twelve months.

At its meeting on December 21, 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 adjustment 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 associated with this directive were expected to be consistent with modest growth of M2 and M3 over the following months.

Open market operations were directed toward maintaining the existing degree of pressure on reserve positions throughout the intermeeting period. Additional reserves were supplied to the banking system on a temporary basis around year-end to meet seasonal movements in currency and required reserves as well as an enlarged demand for excess reserves. For the intermeeting period as a whole, the federal funds rate remained close to 3 percent while adjustment plus seasonal borrowing averaged somewhat more than anticipated.

Most market interest rates declined slightly during the intermeeting period, and major indexes of stock prices posted new highs. Market participants saw the incoming news on inflation as encouraging; still, they viewed the economy as relatively robust, and on balance they deemed a firming of monetary policy to counteract a potential buildup of inflation pressures as likely in the next few months, but probably not in the very near term.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies changed little on balance over the intermeeting period. The dollar fell against the yen in the context of somewhat higher Japanese interest rates and renewed expressions of U.S. concern about bilateral trade issues. The dollar appreciated slightly relative to the German mark and other European currencies against the background of relatively strong U.S. economic data and generally sluggish economic activity in continental Europe.

Growth of the broad monetary aggregates, though a little faster than in most of 1993, remained relatively slow over December and January. Investors evidently continued to find low-yielding deposits less appealing than stock and bond mutual funds, although recent inflows to bond funds appeared to have been at a slower rate than that seen over most of 1993. For the year 1993, growth of both M2 and M3 was estimated to have been slightly above the lower ends of the Committee's ranges. Private borrowing had picked up in recent months, and total domestic nonfinancial debt expanded at a somewhat faster, though still moderate, pace in the fourth quarter; for the year, nonfinancial debt was estimated to have been in the lower half of the Committee's monitoring range.

The staff forecast prepared for this meeting suggested that economic expansion would slow from the very strong pace of the fourth quarter, but that the economy still would advance in 1994 at a rate somewhat in excess of the growth of potential. The severe winter weather over much of the country and the California earthquake would tend to distort economic indicators for the early part of the year: however, taken together, these developments were not expected to have a material or lasting effect on the overall level of activity or prices. Consumer spending, which for some time had tended to outpace the growth of disposable income, was projected to increase at a rate more in line with incomes. Business fixed investment was expected to decelerate gradually from the very rapid rate of 1993, reflecting the diminishing effect of the earlier pickup in output growth, the slower growth of corporate cash flow, and a less rapid decline in the cost of capital. Homebuilding activity, driven by the greatly improved affordability of housing and increased confidence in employment prospects, was anticipated to continue at a relatively brisk pace through much of the year. Exports were projected to strengthen somewhat, bolstered by some pickup in foreign economic growth, and fiscal restraint was expected to exert a reduced drag on spending. In light of the limited margins of slack in labor and product markets that were anticipated to prevail over the forecast horizon, the ongoing expansion was projected to be associated with only a slight further reduction in the core rate of inflation.

In the Committee's discussion of current and prospective economic developments, members commented that the economy had entered the new year with appreciable forward momentum and that the expansion was likely to be sustained over the year ahead at a pace somewhat above the economy's long-run potential. The very rapid rate of economic growth now indicated for the fourth quarter of 1993 clearly could not be maintained. Much of the recent impetus to the expansion stemmed from a surge in expenditures on housing, business equipment, and consumer durables. Such spending had reached a very high level in relation to underlying demands so that the pace of additional increases undoubtedly would moderate during the course of 1994. Still, the economic expansion seemed to have considerable momentum, largely as a consequence of diminishing balance sheet constraints and generally favorable financial conditions spurred by a highly accommodative monetary policy. As a consequence, a number of members expressed the view that the risks were on the upside of a moderate growth forecast. In the context of low and decreasing slack in the economy, little further progress would be made toward price stability in 1994, and there was a distinct risk of higher inflation at some point if monetary policy were not adjusted. While broad measures of inflation did not on the whole suggest any changes in inflation trends, some members noted that a number of commodity prices had turned up in recent months, and they referred to still scattered but increasing anecdotal reports that some business firms were paying slightly higher prices for various materials purchased for use in the production process.

In keeping with the practice at meetings when the Committee establishes its long-run ranges for growth of the money and debt aggregates, the Committee members and the Federal Reserve Bank presidents not currently serving as members had prepared projections of economic activity, the rate of unemployment, and inflation for 1994. The central tendency of the forecasts pointed to somewhat faster economic growth this year than currently was estimated for 1993. The anticipated rate of economic expansion was expected to foster a limited further drop in the rate of unemployment by the fourth quarter of this year. With the slack in productive resources expected to diminish further to a quite low level, price and cost pressures were unlikely to abate significantly: indeed, price increases in 1994 could exceed those of 1993 when inflation had been held down by favorable developments in energy prices. Measured from the fourth quarter of 1993 to the fourth quarter of 1994, the forecasts for growth of real GDP had a central tendency of 3 to 3-1/4 percent and a full range of 2-1/2 to 3-3/4 percent. Projections of the civilian rate of unemployment in the fourth quarter of 1994 were all in a range of 6-1/2 to 6-3/4 percent calculated on the basis of the new survey recently introduced by the Bureau of Labor Statistics. For the CPI, the central tendency of the forecasts for the period from the fourth quarter of 1993 to the fourth quarter of 1994 was centered on increases of about 3 percent within a range of 2-1/4 to 4 percent, and for nominal GDP the forecasts were clustered in a range of 5-1/2 to 6 percent for the year.

In the Committee's review of factors underlying recent developments, members observed that generally favorable financial conditions provided a backdrop conducive to further robust expansion in business activity. Much of the recent strengthening in economic growth was generated by increased spending in interest-sensitive sectors of the economy such as housing in response to relatively low interest rates. Generally buoyant equity markets, a readier availability of financing from lending institutions, and the strengthened financial condition of businesses and households also were cited as factors tending to boost economic activity. Balance sheet restructuring activities appeared to have slackened markedly, and while balance sheet adjustments probably were still being made, the latter seemed to be exerting much less restraint on the willingness of businesses and especially households to spend and to incur new debt to finance growing expenditures.

In their reports on developments across the nation, members commented on widespread indications of improving economic activity, including some strengthening in regions that earlier were characterized by stagnant business conditions. Some areas continued to be affected adversely by special factors, especially by spending cutbacks in defense and aerospace industries. California was a notable example, but a range of indicators suggested that the California economy might be stabilizing, albeit at a depressed level. after an extended period of declining activity. Mirroring these developments, business sentiment was characterized as generally optimistic around the nation. While business executives remained cautious in their hiring practices, the expansion in business activity was fostering sizable overall gains in employment even in areas where some major business concerns were reducing their workforces. A few large firms that previously had frozen or reduced their payrolls were now reported to be hiring additional workers.

Turning to prospective developments in key sectors of the economy, the members anticipated that the expansion in consumer expenditures would be well maintained during 1994, though the growth in such spending probably would moderate to a pace more in line with gains in disposable income. The available data on retail sales since the holiday period were still limited, but anecdotal reports pointed to continuing momentum in several parts of the country. Winter storms had hindered sales in a number of areas, but according to some retail contacts the adverse effects were likely to be temporary. In any event, the very rapid rates of growth in sales of automobiles and other consumer durables were not sustainable, and already high consumer debt ratios would be a further inhibiting factor. It was noted in this connection that consumer debt had become more concentrated over the course of recent years among consumer groups that were most likely to borrow to help finance their spending, with the result that the ability of such consumers to incur additional indebtedness could be diminished. Higher taxes confronting some households also were cited as a negative factor in the outlook for the consumer sector. On balance, however, while the prospects for consumer spending clearly were not free of uncertainty, the marked improvement in consumer confidence and favorable financial conditions would provide a setting conducive to sustained moderate growth in consumer expenditures.

The improvement in consumer sentiment together with the availability of relatively low cost financing had fostered very strong growth in housing construction over the closing months of 1993 and, adjusting for seasonal weather conditions, anecdotal reports from many areas suggested a continued robust performance in this sector of the economy in the early weeks of this year. The strength in housing activity had induced increases in the costs of lumber and other building materials, and shortages of skilled construction workers were reported in some areas. Despite these developments, prices of new homes did not appear at this point to be under significant upward pressure. Looking ahead, with housing construction already at high levels, further gains over the course of 1994 were expected to be substantially below those recorded in recent quarters.

Business fixed investment was likely to be sustained by continuing efforts to modernize production facilities in order to achieve more efficient operations in highly competitive domestic and world markets. The gains in such investment had been concentrated in expenditures for equipment, and while new orders pointed to further brisk growth in the months ahead, increases in such expenditures were likely to moderate over time. At the same time, growing economic activity and associated declines in commercial and industrial vacancy rates, at least in some parts of the country, suggested that nonresidential building construction other than office structures would post sizable increases over the year. Rebuilding activity following the earthquake in California would stimulate engineering and construction in the Los Angeles area over the quarters ahead.

Fiscal policy and foreign trade had exerted retarding effects on the economy in 1993. While the response of the economy to fiscal restraint and the outlook for export markets remained subject to substantial uncertainty, both fiscal policy and the trade deficit were expected at this point to be less negative factors in the performance of the economy during 1994. With regard to the outlook for fiscal policy, the downtrend in defense spending was projected to moderate and to contribute to a smaller net decline in overall federal government expenditures on goods and services in 1994. It was noted that the widespread political support of efforts to curtail federal government deficits could be expected to continue to contain new federal spending initiatives. With regard to the outlook for U.S. exports, more accommodative fiscal or monetary policies abroad were expected to foster a gradual improvement in rates of economic growth in major foreign industrial countries with beneficial effects on the demand from those countries for U.S. goods and services. One member also commented that NAFTA already seemed to be having a favorable effect on some exports to Mexico.

One sector of the economy that was viewed as a source of particular uncertainty was the outlook for inventories. Business firms continued to maintain tight control over their inventories, and in general the latter were at quite low levels in relation to sales. Indeed, there were some anecdotal reports that inventory shortfalls had resulted in the loss of sales in recent months. Lean inventory levels in the context of diminishing slack in labor and product markets raised concerns about the potential for increasing capacity pressures should strong demands persist that would tend to deplete existing inventories and lead to efforts not only to rebuild but to increase them. Thus far, there were few signs of developments such as significant increases in delivery lead times or in the costs of goods purchased by business firms that in the past had triggered substantial inventory buildups. However, there were ample precedents in the history of business cycle expansions of efforts to accumulate large inventories in periods when strong final demands already were exerting inflationary pressures in the economy.

The members generally expressed concern about a buildup in inflationary pressures during the year ahead, especially if what they currently viewed as a very accommodative monetary policy were maintained. A number of members emphasized that even with the substantial slowing that they anticipated in the rate of economic expansion from the very rapid growth in the fourth quarter, overall margins of slack in labor and product markets, already reduced to fairly modest levels, would shrink further in the quarters ahead with the clear possibility that various imbalances and added inflation would emerge in the absence of monetary tightening actions. Continuing upward impetus to food prices, resulting from the adverse weather conditions during 1993, and the likelihood that energy prices would not decline further and might in fact turn up in an environment of somewhat stronger worldwide demand for energy products could add to overall price pressures.

The members acknowledged that broad measures of prices and wages had displayed mixed patterns over recent months and that on the whole they did not yet point to any clear change in inflation trends. However, some other indicators were more disquieting. One example was the growing, though still limited, number of anecdotal reports of shortages of skilled workers in some parts of the country or occupations, notably construction. Moreover, there were more reports of rising prices for products being purchased by business firms for use in the production process and in turn of successful efforts by businesses to raise their own prices in order to pass on higher costs or to improve their profit margins. More generally, many commodity prices had increased over the past several weeks. On the positive side, competitive pressures remained intense in many markets, augmented in markets for numerous products by competition from foreign producers. Some members also commented that the tradeoff between economic growth and inflation would be improved over the year ahead to the extent that the credibility of the System's anti-inflationary policy was maintained.

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 of the monetary and debt aggregates in 1994 that it had established on a tentative basis at its meeting on July 6-7, 1993. The tentative ranges included expansion of 1 to 5 percent for M2 and 0 to 4 percent for M3, measured from the fourth quarter of 1993 to the fourth quarter of 1994. The monitoring range for growth of total domestic nonfinancial debt had been set provisionally at 4 to 8 percent for 1994. All of these ranges were unchanged from those that the Committee had set for 1993: the latter had been adjusted down to take account of ongoing increases in velocity.

In the Committee's discussion of the ranges for 1994, which tended to focus on M2, all the members expressed a preference for affirming the M2 and M3 ranges that had been established on a provisional basis in July and all but one favored adopting the provisional monitoring range for nonfinancial debt, that member preferred a lower range. Many of the members commented on the uncertainties that surrounded the establishment of ranges that were consistent with the Committee's goals for the economy. They noted that a variety of developments had altered the historical relationships between the monetary aggregates and broad measures of economic performance over the past several years. The resulting uncertainty implied that the Committee needed to retain a flexible approach to the behavior of the monetary aggregates in relation to their ranges, including the need to assess a broad array of other indicators to gauge the implications of monetary growth developments. Nonetheless, the members concluded that as best they could evaluate evolving financial conditions at this point, monetary growth within the tentative ranges would be likely to promote the Committee's objectives of sustained economic expansion and subdued inflation.

In 1993, both M2 and M3 had grown at rates about 1/2 percentage point above the lower bounds of the ranges that the Committee now contemplated retaining for 1994. According to a staff analysis prepared for this meeting, somewhat faster growth in both of these aggregates could be expected in 1994. But with nominal GDP also expected to be stronger, as indicated by the central tendency of the members' forecasts, the velocity of M2 would continue to rise at an appreciably faster rate than historical relationships would have suggested. This assessment assumed that households would continue to redirect savings from M2-type accounts to higher-yielding investments, especially bond and stock mutual funds. However, such redeployments of funds should moderate this year to the extent that some investors already had accomplished a considerable portion of their desired portfolio reallocations and in light of the possibility that changes in the prices of stocks and bonds, including the drop in bond prices in recent months, would underline the risks of holding such instruments.

Moreover, depository institutions had strengthened their capital positions markedly and were likely to compete more aggressively for M2 and especially for M3-type deposits in an effort to maintain or increase their role in the financing of expanding economic activity. While these developments and their implications for monetary growth could not be forecast with confidence, the members believed that the ranges under consideration would probably be sufficiently wide to accommodate M2 and M3 growth rates under a variety of likely velocity scenarios. For example, if the factors that had tended to depress the growth of the broad aggregates in relation to income did not abate as expected this year, M2 and M3 growth would again be near the lower bounds of the Committee's ranges. Alternatively, if the behavior of these aggregates were to move closer to earlier patterns, growth in the upper portions of the ranges would foster an economic performance in line with the members' forecasts.

From the perspective of a longer time horizon, many of the members noted that the provisional range for M2 was essentially at a level that could well prove to be consistent with sustained and noninflationary economic expansion. This conclusion assumed that historical relationships between money growth and the expansion of broad measures of economic performance would be restored at some point. In the absence of such a development or the emergence of new, reasonably stable relationships, the Committee would have to continue to place diminished reliance on the monetary aggregates in the formulation of monetary policy.

With regard to the range for nonfinancial debt, the members anticipated that its growth this year would remain within the contemplated range. A staff analysis suggested that its federal borrowing component would decrease as a result of the ongoing effects of deficit reduction measures that had been enacted and the rise in tax receipts stemming from economic growth. At the same time, borrowing by the nonfederal sectors should strengthen further against the backdrop of more comfortable financial positions and the expected pickup in GDP expansion. In one view, however, a somewhat lower range was desirable for nonfinancial debt. In light of the shift in business preferences away from debt and toward equity, debt velocity could increase and slower growth in debt would be consistent with the Committee's objectives. However, this member could accept the higher range favored by the other members for 1994.

At the conclusion of the Committee's discussion, all the members indicated that they favored or could accept the ranges for 1994 that the Committee had established on a tentative basis at its meeting in July 1993. In keeping with the Committee's usual procedures under the Humphrey-Hawkins Act, the ranges would be reviewed at midyear, or sooner if deemed necessary, in light of the behavior of the aggregates and interim economic and financial developments. The Committee approved the following paragraph for inclusion in the 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 established ranges for growth of M2 and M3 of 1 to 5 percent and 0 to 4 percent respectively, measured from the fourth quarter of 1993 to the fourth quarter of 1994. The Committee anticipated that developments contributing to unusual velocity increases could persist during the year and that money growth within these ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt was set at 4 to 8 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.

Votes for this action: Messrs. Greenspan McDonough, Broaddus, Forrestal, Jordan, Kelley, LaWare, Lindsey, Parry, and Ms. Phillips.

Votes against this action: None.

Absent and not voting: Messrs. Angell and Mullins.

In the Committee's discussion of policy for the intermeeting period ahead, the members favored an adjustment toward a less accommodative policy stance, though views differed to some extent with regard to the amount of the adjustment. The current policy posture, which had been in effect since the late summer of 1992, was highly stimulative as evidenced, for example, by very low or even slightly negative real short-term interest rates and, in the view of at least some members, the relatively rapid growth over an extended period in narrow measures of money and reserves. Such a policy had been appropriate in a period when various developments had tended to inhibit the expansion, including widespread efforts to repair strained balance sheets and a variety of business restructuring activities that had tended to depress confidence and spending. More recently, the considerable progress made by households and businesses in decreasing their debt service burdens and the much strengthened capital positions of lending institutions had provided a financial basis, in the context of low interest rates, for growth in demands on productive capacity that could generate inflation pressures. In this situation, the members agreed that monetary policy should be adjusted toward a more neutral stance that would encourage sustained economic growth without a buildup of inflationary imbalances. The members recognized that timely action was needed to preclude the necessity for more vigorous and disruptive policy moves later if inflationary pressures were allowed to intensify. The history of past cyclical upswings had demonstrated the inflationary consequences and adverse effects on economic activity of delayed anti-inflation policy actions.

In the course of the Committee's discussion, a number of members endorsed a policy move that would involve only a slight adjustment toward a less accommodative degree of reserve pressure. These members recognized that evolving economic conditions might well justify a somewhat greater policy adjustment. They believed, however, that even a slight move at this time was likely to have a particularly strong impact on financial markets because it would be the first policy change after a long hiatus and indeed the first tightening action in about five years. The market effect might be amplified by a contemplated decision to authorize the Chairman to announce the policy action (discussed below). In the circumstances, these members felt that a somewhat greater policy adjustment would incur an unacceptable risk of dislocative repercussions in financial markets. A relatively small move would readily accomplish the purposes of signaling the Committee's anti-inflation resolve and together with expected further action should help to temper or avert an increase in inflation expectations and speculative developments in financial markets.

Other members indicated a preference for a somewhat greater firming action that would move monetary policy closer to a desirable neutral stance. In this view, recent developments in the economy had demonstrated that monetary policy was much too accommodative and that slow, gradual tightening moves risked allowing inflation pressures to build. A more decisive policy move at this juncture would in fact reduce uncertainty, because fewer discrete actions would be required and they would have a more pronounced and desirable effect in curbing inflationary sentiment and thus in minimizing upward pressures on longer-term interest rates over time. The result would be a policy stance that was more consistent with sustained economic expansion and progress toward price stability.

In further discussion, all the members indicated that they could accept the proposed slight policy adjustment at this point, but many observed that additional firming probably would be desirable later. The members did not see any unusual likelihood that a further policy action would be needed during the intermeeting period, and the Committee therefore decided to retain an unbiased intermeeting instruction in the directive. In this connection, it was understood that the Committee would be prepared to review its policy stance and take further action, if warranted by intermeeting developments, at a telephone conference during the period ahead.

At this meeting, Committee members discussed and agreed on a proposal to have the Chairman announce the Committee's short-term policy decision promptly. The purpose of such an announcement, which would be a departure from past Committee practice, was to avoid any misinterpretation of the Committee's action and its purpose. Because this would be the first tightening policy action in a long time, it was likely to attract considerable attention. The Committee did not intend this announcement to set any precedents or to imply any commitments regarding the announcement of its decisions in the future. That matter would be reviewed along with other issues relating to the disclosure of Committee information at a later meeting.

At the conclusion of the Committee's discussion, all the members indicated that they could support a directive that called for a slight increase in the degree of pressure on reserve positions and that did not include a presumption about the likely direction of any adjustment to policy during the intermeeting period. Accordingly, the Committee decided that in the context of its 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 at this meeting were expected to be consistent with moderate growth in M2 and M3 over the first half of 1994.

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 indicates a strong advance in economic activity during the closing months of 1993, and the limited data available for the early weeks of this year suggest appreciable further gains. The January labor market data were complicated by statistical revisions and weather-related reporting problems; however, a variety of indicators pointed convincingly to a continuing expansion of employment. Industrial production increased sharply in the fourth quarter and appears to have risen considerably further in January. Consumer spending and housing activity posted solid gains in late 1993, and strong sales of motor vehicles in January suggested continued buoyancy in consumer demand. Trends in contracts and orders point to further sizable gains in business fixed investment. The average nominal U.S. merchandise trade deficit in October-November was about the same as its average rate in the third quarter. Over the latter part of 1993, increases in broad indexes of consumer and producer prices, excluding their food and energy components, were somewhat larger than earlier in the year and prices of a number of commodities also turned up recently.
>
> Most market interest rates have declined slightly since the Committee meeting on December 21. 1993. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies is about unchanged over the intermeeting period.
>
> Growth of M2 and M3 was relatively slow over December and January. From the fourth quarter of 1992 to the fourth quarter of 1993, M2 and M3 are estimated to have grown at rates slightly above the lower ends of the Committee's ranges for the year. Private borrowing has picked up in recent months and total domestic nonfinancial debt expanded at a moderate rate in the fourth quarter; for the year, nonfinancial debt is estimated to have increased at a rate in the lower half of the Committee's monitoring

range.

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 established ranges for growth of M2 and M3 of 1 to 5 percent and 0 to 4 percent respectively, measured from the fourth quarter of 1993 to the fourth quarter of 1994. The Committee anticipated that developments contributing to unusual velocity increases could persist during the year and that money growth within these ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt was set at 4 to 8 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 increase slightly 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 might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over the first half of 1994.

Votes for this action: Messrs. Greenspan McDonough, Broaddus, Forrestal, Jordan. Kelley, LaWare, Lindsey, Parry, and Ms. Phillips.

Votes against this action: None.

Absent and not voting: Messrs. Angell and Mullins.

It was agreed that the next meeting of the Committee would be held on Tuesday, March 22, 1994. The meeting adjourned at 11:45 a.m.

Secretary

Return to top

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