Federal Open Market Committee

Conference Call

November 22, 1988

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Heller
Mr. Hoskins
Mr. Johnson
Mr. Kelley
Mr. LaWare
Mr. Parry
Ms. Seger

Messrs. Guffey, Keehn, Melzer, and Morris, Alternate Members of the Federal Open Market Committee

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

Mr. Kohn, Secretary and Economist
Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Patrikis, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Broaddus, J. Davis, Lindsey, and Ms. Tschinkel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account
Mr. Cross, Manager for Foreign Operations, System Open Market Account

Mr. Coyne, Assistant to the Board, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

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

Transcript of Federal Open Market Committee Conference Call
of November 22, 1988

CHAIRMAN GREENSPAN. Good morning, everybody. We have a full Committee and a disproportionate number of them are here at the Board. The purpose of this meeting, as I'm sure you're all aware, is the fact that we have had some considerable difficulty calibrating the borrowing requirement into what many have assumed to be a funds rate somewhere in the area of 8-1/8 to 8-1/4 percent, which is what we originally contemplated as the probable relationship at $600 million of borrowing when the Committee broke up at our last meeting. There are a number of presumed reasons, none of which we seem basically to be getting a handle on, but I thought it would be very useful today to go over the issues that relate to this question and to indicate our hopefully temporary solution until we again meet in full Committee here on December the 14th. To begin the discussion, I'd like to call on Peter Sternlight to give us some judgment as to open market operations since our last meeting. Peter.

MR. STERNLIGHT. Thank you, Mr. Chairman. Can you hear me all right?

CHAIRMAN GREENSPAN. We hear you here.

MR. STERNLIGHT. [Mr. Sternlight reported on recent open market operations. His remarks were not transcribed.]

CHAIRMAN GREENSPAN. I think we ought to add that in the initial claims data--which have been indicating, with a Federal Reserve Board seasonal adjustment, all through the summer that the assumed slowing down was not showing up--that sense of labor markets at subdued levels has yet to show up. There's no indication that I can see which suggests any weakening. And I--

MR. CROSS. Alan, you're fading in and out.

CHAIRMAN GREENSPAN. What I was saying was that the initial claims data, including the weekly data on insured unemployment as of the latest date, still show no indication of any form of labor market weakness. And since this was one of the key indicators which behaved rather well during the summer in suggesting that there was no slowing down going on, it strikes me that what we're looking at is an economy which continues to show still significant expansion without yet developing any measurable imbalances which threaten to tilt it over.

In view of all of this, and in view of the problems that we've been having with the basic relationships and in keeping with the directive, the Desk will temporarily set $400 million as a borrowing target, which it expects to be consistent with a funds rate of about 8-3/8 percent. The directive as I read it, however, still reads asymmetric towards tightness and we will be reviewing the whole outlook at our next meeting, which is scheduled either on December the 13th or 14th. I might say that, at this point, there is some indication that we may be able to do without the December 13th part of the meeting. In any event, that's under review and we should get that issue clarified within a very short period of time. Gentlemen, are there any questions on any of these issues?

MR. MELZER. Alan--maybe this is a question for Peter Sternlight--I wondered if the market has perceived that we've been somewhere around $500 or $600 million of borrowing and then if a pattern of $400 million begins to show up, will there be any interpretations that somehow we are easing the degree of reserve restraint in the face of, say, weakness in the dollar and so on?

CHAIRMAN GREENSPAN. Well, I think we have not been at $600 million.

MR. MELZER. Yes.

CHAIRMAN GREENSPAN. The market knows we haven't been at $600 million. And when it sees what we're doing I think, if anything, it will be read as a snugging, as distinct from any easing. Peter, would you agree with that?

MR. STERNLIGHT. Yes, although it has been a little hard to hear all of your words, Mr. Chairman; it does fade in and out. But I agree if you're saying that we have not been publishing $600 million borrowing numbers. The market tends to think that we've either set a lower number--in fact, I read a market letter last evening that was guessing that we had moved to $400 million--or most people think we have just given some more elbow room in our reserve objective endeavors, sensing that there's been this greater reluctance to borrow. So, I don't think they'll get a sense of easing; I think if anything under what you outlined--that we would tend to be more accepting of funds around 8-3/8, which I take could be on either side of 8-3/8--they may feel that there's been a very, very slight firming.

MR. MELZER. I would not personally be concerned about some spike in borrowings or the funds rate on the final day of a two-week period. But I think that's comforting in terms of Peter's interpretation. I would be troubled if the market interpretation were other than that.

CHAIRMAN GREENSPAN. Well, if the market interpretation at this stage were that we had eased, I think we'd be in serious trouble.

MR. ANGELL. What would be the pros and cons for choosing a $500 million borrowing target? What rate do you think might be associated with $500 million borrowing?

MR. KOHN. Well, Peter can put his word in here also, but I would guess that we would have a funds rate of 8-1/2 percent or even tending above that, in the 8-1/2 to 8-3/4 percent area. So 8-1/2 percent, or maybe a little above that, would be associated with $500 million in borrowing, as best as one can say under these various uncertain circumstances.

MR. STERNLIGHT. I would agree with Don on that.

MR. ANGELL. Would that be a real disadvantage from someone's point of view?

MR. JOHNSON. It would be a disadvantage from my point of view. This is Governor Johnson speaking. I think it might be the case that the way borrowing is running, if you really tried to hit

$500 million, you could end up with something like 9 percent on the funds rate. We're averaging about $300 million, as Peter mentioned. But it has been running below that if you take out some computer problems and things like that, I believe. But you know, I'm not sure we could actually religiously hit $400 million and expect to see an 8-3/8 percent funds rate. I think this is going to be a period when we have to be more sensitive to the funds rate. I'm all for a slight firming posture and wouldn't want anything else to show through, but the fact of the matter is that this borrowing relationship is pretty weak. And I think we're trying to kid ourselves into hitting a borrowing number, unless we're willing to accept a lot of pressure on the funds rate. Now, if you're willing to accept that, that's fine. But that's not my understanding of what we're trying to do.

CHAIRMAN GREENSPAN. I think that this is the type of discussion which would be rather extensive. And I would suggest that we postpone it until the actual meeting, because I think it's a crucial issue and I think we ought to air it as fully as we can at our mid-December meeting. Any other questions relevant to today's issues?

SPEAKER(?). Alan, I didn't hear your last set of comments.

CHAIRMAN GREENSPAN. Well, I don't know why I'm having--. Do you hear everybody else?

MR. HOSKINS. I have the same problem--

VICE CHAIRMAN CORRIGAN. Is the microphone covered up?

MR. ANGELL. No, it's here.

CHAIRMAN GREENSPAN. It can't possibly be [unintelligible].

MR. HELLER. Turn it sideways, maybe.

CHAIRMAN GREENSPAN. Is this better?

SPEAKER(?). That's better.

CHAIRMAN GREENSPAN. I'm surprised. I was mentioning the fact that I thought the issue which was being discussed between Governors Angell and Johnson is a crucial issue that I think we have to debate extensively. And it's going to require a good deal of time. I'm suggesting that that be put off until the December meeting because I think we'll know a good deal more about this relationship by then. And I think we'll know a good deal more about the order patterns. I think the orders data that come in tomorrow are going to be really quite important in telling us a good deal about the structure of the early months of 1989. I might add that the capital investment data which are coming in are also crucial to this issue, and I think they will tell us much more than we know at this particular stage. Any other questions relevant to today's--?

MR. HOSKINS. Yes, I have a comment.

CHAIRMAN GREENSPAN. Go ahead.

MR. HOSKINS. I think that I share some of Tom Melzer's concerns about market interpretations of this. I agree with you, though, that unless we're going to change policy we shouldn't be disrupted in terms of our policy thrust by some [disturbance] to the borrowing functions. With respect to my concerns about the market, we could consider releasing this discussion with the minutes of the next meeting to indicate that we had some problems with the borrowing and that we did not do any easing--perhaps quite the contrary.

CHAIRMAN GREENSPAN. I think we intend to do that, Lee. Governor Seger.

MS. SEGER. Yes. I just had one question in regard to how religiously we will try to hit the $400 million borrowing if, in fact, this relationship--I mean the relationship between $400 million in borrowing and the 8-3/8 percent funds rate--doesn't prove to be too dependable. I mean, would we go to, say, 8-3/4 percent? Is there some feel for that?

CHAIRMAN GREENSPAN. Well, I would say at this stage that we expect that the relationship, with this adjustment, will work for the next three weeks. There's not much time between now and then.

MS. SEGER. Yes.

CHAIRMAN GREENSPAN. It's not inconceivable that it can go significantly off. But I would interpret the directive as it stands, with the revision, in the way that we always have. And there's always some ambiguity involved in how one interprets that, because how the markets are behaving on a specific day when all those events occur is part of what Peter Sternlight has to evaluate. And I think at that point, judgments are made that I don't think you can successfully forecast, or realistically forecast, in advance.

MS. SEGER. Thank you.

CHAIRMAN GREENSPAN. Anything else? If not, we will adjourn this meeting and look forward to seeing you in mid-December, with the specific formulation of whether it's the 13th or 14th hopefully being worked out in a very few days. Happy Thanksgiving, everybody.

END OF SESSION