

Federal Open Market Committee

Conference Call

May 31, 1989

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Guffey
Mr. Heller
Mr. Johnson
Mr. Kelley
Mr. LaWare
Mr. Melzer
Ms. Seger
Mr. Syron

Messrs. Boehne, Boykin, Hoskins, and Stern,
Alternate Members of the Federal Open Market
Committee

Messrs. Forrestal, and Parry, Presidents of the
Federal Reserve Banks of Atlanta and
San Francisco, respectively

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

Messrs. R. Davis, T. Davis, Lindsey, and
Simpson, Associate Economists

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

Ms. Zickler, Assistant Director, Division of
Research and Statistics, Board of Governors
Mr. Keleher, Assistant to Governor Johnson,
Office of Board Members, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Messrs. Doyle and Monhollon, First Vice
Presidents, Federal Reserve Banks of
Chicago and Richmond, respectively

Messrs. Broadus, Lang, Rosenblum, Scheld, and Ms.
Tschinkel, Senior Vice Presidents, Federal
Reserve Banks of Philadelphia, Dallas,
Chicago, and Atlanta, respectively

Transcript of Federal Open Market Committee Conference Call
of May 31, 1989

[Secretary's note: No transcript exists for the beginning of this call.]

CHAIRMAN GREENSPAN. Let me suggest the following: I think it is crucial to get a judgment as to whether, in fact, the money supply is moving or not. Also, it's not so much what the employment data are--I suspect they probably will be soft on Friday--but the wage figures are not irrelevant on the inflation side. We are significantly split at this stage and a few more days is not going to make much difference. I would like to meet again on Monday and review where we stand. I think it's far better that we have a continuing conversation to reach some form of consensus than worry about too many conference calls. So I'd like to recommend that we meet again after we see and can review the data and perhaps get some additional money supply numbers as well.

MR. ANGELL. Mr. Chairman, I understand your desire to have some consensus but I'm bothered by a principle that I hope we don't have to be caught with. It seems to me that historically the Federal Reserve tends to be slow in terms of changing the direction of policy. It's always easy, it seems, to get policy [continuing] in one direction, and I don't like the principle that if we have four people who don't want to move that that means we can't move. If a minority can prevent a change, then that stacks the deck exactly in the wrong direction in regard to previous Federal Reserve errors.

CHAIRMAN GREENSPAN. Well, let me say this. I would be inclined to move on the basis of the current directive; I would move the borrowing requirement down \$100 million early next week provided we don't run into a significant problem from the data on Friday. My expectation is that we will not. And, as I've said, I personally am concerned about what in fact is going on out there. People to whom I'm talking are indicating to me for the first time a degree of softness, especially on the price side. I think the crucial question at this stage is the price side. But I think it is quite legitimate, as Jerry Corrigan has said, not to move right before the Friday report but to remember that we have a full two-week period of adjustment. Today is the last day of the [current] maintenance period, and whether we wait a few more days to make that adjustment or not isn't going to matter very much.

VICE CHAIRMAN CORRIGAN. Mr. Chairman, I'd like to make a procedural point that I think is important: In terms of continuity of the monetary policy process, I think we have to preserve the flexibility of the Chairman to have some discretion within the directive on both sides. I'm not particularly fond of using that discretion right now, but I really do think the principle of maintaining an element of flexibility in the policy process is important notwithstanding my view on the substance of the matter.

MR. HOSKINS. I sound kind of like a broken record, I guess. Inflation is too high and I don't think that it's coming down. Nevertheless, having said that, I have more serious concerns now than previously about the rate of monetary growth. So I would be perfectly willing to go with the Chairman's suggestion of waiting a few more

days and taking a look at the numbers again. The reason I'm concerned about the aggregates is that with [a change] of this size--if in fact they are growing much slower than we think they are--then I can see a rather rapid [rebound] in the aggregates in response. And I think that rate of growth would be inappropriate as well. For consistency and, in a sense, trying to keep within some reasonable bounds in terms of rates of growth of the aggregates, I'd be willing to consider the Chairman's proxy.

MR. MELZER. This is Tom Melzer in St. Louis. My view hasn't changed; the reason I didn't express it is that it's essentially the same as it was at the last FOMC meeting. I have watched the data come out in the meantime and sometimes they give me greater confidence that that's the right view and sometimes they raise questions. I think the data have been mixed. I made a couple of contacts today. One was to a major national retailer who said that April sales were very good. He said sales were strong, and this [assessment] was based on broad geographic evidence across the board.

CHAIRMAN GREENSPAN. Excuse me, is that for April or May?

MR. MELZER. April was very good and May was good up until Mother's Day and then it went dead.

CHAIRMAN GREENSPAN. I just spoke to _____ and he says May at their stores has been very sluggish.

MR. MELZER. Well, this is _____ stores that I'm talking about and for them it has been sluggish since Mother's Day; particular weakness was noted in discount stores. In June they expect sales to start out sluggish. I also talked to a major electrical equipment manufacturer; they sell electrical equipment to manufacturers and they are also in retail. The capital [goods business] has declined and they noted particular softening in the retail end. Their sales year-to-year are down. They are not looking at layoffs but certainly are reducing overtime and possibly the workweek there. Their capital goods business is still very strong. They're not getting [unintelligible] order backlogs anymore but they have leveled off at very high levels; they have a little anxiety about cancellations, but that still looks okay. And export growth has softened but it's still relatively strong--in the double-digit area. In any case, my view is the same as I expressed at the FOMC meeting. I would have no problem waiting to see the employment numbers and some additional data, as you've suggested.

CHAIRMAN GREENSPAN. Well, why don't we do this: Let's reconvene Monday. But I will tell you that the calls I've made and the data that I've looked at suggest that there is a much broader softening out there than I think I perceived at the FOMC meeting. We'll find out Friday's data and reconvene on Monday at 4:00 p.m.

VICE CHAIRMAN CORRIGAN. Are you going to be here on Monday?

CHAIRMAN GREENSPAN. I will be, yes.

VICE CHAIRMAN CORRIGAN(?). I thought you would already be gone to Madrid.

CHAIRMAN GREENSPAN. I'm not leaving until later in the day. Well, let me double check. If we have to, we can make it at 1:00 p.m. or 2:00 p.m.

MR. PARRY. Mr. Chairman?

CHAIRMAN GREENSPAN. Yes.

MR. PARRY. This is Bob. I wonder if Don could take a look-- I know there isn't much time--at what he may be thinking about in terms of the actual targets, leading up to our reevaluation of our targets for 1989, to give us a bit of a benchmark for making our judgments.

CHAIRMAN GREENSPAN. Could you do that? Okay. Don says yes.

MR. PARRY. Okay.

CHAIRMAN GREENSPAN. I'll recheck the calendar, everybody, and we will reschedule for sometime early Monday afternoon.

MR. ANGELL. Mr. Chairman, I understand your wishes and I accede to your wishes. I do suggest, however, that for some of us having to wait until we have an employment number before making a monetary policy move is just--. I just find it impossible to associate myself with a monetary move that seems to have to wait until an employment figure comes out.

CHAIRMAN GREENSPAN. No, I was waiting for the wage figure.

MR. ANGELL. Oh, I see.

CHAIRMAN GREENSPAN. I will grant you it is very crucial to the outlook and inflation.

MR. ANGELL. All right, fine.

CHAIRMAN GREENSPAN. Friday's employment figure doesn't bother me. Adjourned until Monday, gentlemen.

END OF SESSION