

Federal Open Market Committee

Conference Call

June 10, 1991

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Black  
Mr. Forrestal  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. Mullins  
Mr. Parry

Messrs. Guffey, Hoskins, Melzer, 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, Lindsey, Promisel, Siegman,  
Simpson, and Slifman, Associate Economists

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

Mr. Winn, Assistant to the Board, Office of Board  
Members, Board of Governors  
Mr. Ettin, Deputy Director, Division of Research  
and Statistics, Board of Governors  
Ms. Low, Open Market Secretariat Assistant,  
Division of Monetary Affairs, Board of  
Governors

Transcript of Telephone Conference Call of  
June 10, 1991

CHAIRMAN GREENSPAN. We are about halfway through the intermeeting period and at our meeting in May we all thought it might be useful to get a general review of where we stand at this particular point. I thought we might start off as we usually do, with Sam Cross updating us on how he perceives the markets across the waters.

MR. CROSS. Well, Mr. Chairman, the dollar has been firming pretty steadily over the past couple of weeks against the mark, the yen, and the general range of currencies. That firming seems to be a reflection of the changing prospects for our economy and the feeling that the end of the recession may not be so far ahead. The implications of that are that we are not likely to be seeking further reductions in interest rates and that output and profits are more likely to be a little higher. But at the same time nothing has happened elsewhere, for example in Germany, to improve the political or economic prospects there. So, though the dollar has been somewhat stronger, it's still generally trading within the same ranges that it has been for some weeks. Against the mark, for example, the dollar had traded in a range of 1.58 to 1.78 since mid-April, before the G-7 meeting. We're now operating at very near the top of that range; it's just under 1.77.

Though the dollar has strengthened, particularly in the past two or three days, both Germany and Japan have been concerned about the other side of that coin--the decided weakening in their own currencies. Both Germany and Japan did intervene in the market today; in the case of Germany, their intervention was followed by most of the other European countries at least in modest amounts. Both showed an interest in having us join them in the intervention--not in any expectations of reversing the dollar's movement or pushing it down--but more to give a signal of some resistance to blunt the dollar's drive. The case for joining any such operations would have been to do a modest operation in a cooperative move. And we've seen not too long ago, of course, how important the cooperation of others was to us in some of these matters. The current [mood] in the Treasury was not sympathetic to any operations, and in the end we did not do any operations. So, that is where we stand at this point, Mr. Chairman.

CHAIRMAN GREENSPAN. Any questions for Sam? If not, we have Ted Truman back with us. Ted do you want to add anything to what Sam has said?

MR. TRUMAN. I'd like to comment after Mike does.

CHAIRMAN GREENSPAN. Okay, let's then go to Peter Sternlight.

MR. STERNLIGHT. Mr. Chairman, I can be pretty brief about open market operations since your mid-May meeting. Operations have been steadily geared to reserve conditions consistent with a 5-3/4 percent funds rate. We've come pretty close to that on average. For a couple of days in late May there was some persisting softness in the fed funds market, leading to market speculation that we might be paving the way for another easing move. And we took the occasion to drain some reserves in an overt manner, even though at that point in time we were looking at a reserve [add] need for that reserve period.

That pretty much seemed to disabuse the market about any near-term easing as a likely event. The flow of information more recently was such as to discourage thought of further policy easing in any event. Some observers even feel that the next move could just as well be on the firming as the easing side, although that is not to say that they expect anything any time very soon. Interest rates over the period were at first down a bit as the market was digesting the mid-May financing. More recently, yields have backed up amid reports suggesting at least a bottoming of the economy's decline and maybe a glimmer of an upturn. On balance, we've had rates moving up by, say, 10 to 25 basis points. The highlight, of course, was the focus of all the attention on the employment report, which came out just this past Friday. On 30-year bonds, yields have been pretty close to 8-1/2 percent; 8.48 percent is what we were looking at a couple of minutes ago. That compares with about 8-1/4 percent at the time of your mid-May meeting and an 8.21 average when that issue was at its auction. I think that summarizes my report on the markets.

CHAIRMAN GREENSPAN. Questions for Peter? Mike Prell, would you bring us up to date on the economy?

MR. PRELL. Well, Mr. Chairman, I think everyone is aware that generally the recent economic data have been on the firmer side. Relative to our expectations, it seems as if almost every number has been about where we expected it or perhaps just a little stronger. Our basic reading of this is that it is all consistent with our expectation that we would see the turning point in the current quarter. It gives us a little more confidence that we are indeed headed toward the kind of recovery that we predicted in the last Greenbook. But I must say that the signs at this point are very tentative and I don't think that we would change our forecast materially for the remainder of the year. If we were to write down a number for growth of real GNP in the current quarter, I suspect that rather than it being the marginal minus of the May meeting's Greenbook, it would be a slight plus. That summarizes our view.

CHAIRMAN GREENSPAN. Questions for Mike? Ted would you like to comment?

MR. TRUMAN. I think the only point to be made on the external side is that the data that have come in on the trade side, which are quite old, are consistent with what we had expected. The March data came in after the May FOMC meeting and were consistent with what we had expected. On growth abroad, the German number that was announced last week was stronger than we expected, but we think it had some special features so that it doesn't suggest more strength than we anticipated. There may be marginal easing and a deeper recession in Canada than we had expected and a later turnaround. The other factor, of course, in terms of the outlook, is this relatively strong dollar, which has persisted since the last Committee meeting. As Sam said, if it persists, it does imply that we probably would take the external sector more as a negative than as essentially neutral, which was the view in the last Greenbook forecast.

CHAIRMAN GREENSPAN. Any questions? Don Kohn.

MR. KOHN. Thank you, Mr. Chairman. M2 in May came in as we were expecting at about a 4 percent rate of growth. We have seen a

little flattening out at the end of May and in the preliminary data for early June. As a consequence, we're only projecting about 4 percent for June, which is a bit less than we had in the Bluebook. If that June flattening out continued, that would bring the three-month growth rate to 3-1/2 percent versus the 4 percent in the policy record and the directive. For M3 the weakness has been much more pronounced; though we didn't have much M3 growth projected, we got even less--only about 1/2 percent in May. And we're looking for maybe 2 percent in June, giving us 1 percent for March-to-June versus [an expectation of] 2 percent at the time of the May meeting. The weakness in M3 likely reflects a continued downward trend in bank credit. Preliminary data for May suggest a 1 percent decline in bank credit after no growth in April, and that includes about a 3-1/2 percent decline in total loans with a drop both in business loans and in consumer loans. Consumer loans reflect some more securitization of credit card receivables; with the securitization added back in we'd have a small plus there. We think business loan growth probably reflects a continued holding down of inventories by businesses and very substantial volumes of long-term debt and equity issuance, reducing the demand for short-term credit.

CHAIRMAN GREENSPAN. Questions for Don? If not, do any of the Board members or presidents have changed views or any new insights that they've come up with since the last meeting?

MR. BOEHNE. This is Ed Boehne, Mr. Chairman. I would say that in this part of the country economic activity has stopped falling and there's a more steady tone to it although, of course, the experience is mixed in different industries and areas. This is different from what I was getting a month ago. In manufacturing one sees a few signs that the direction may be up, although it's not much. I'd say it's sort of a rock bottom with a little more activity in new orders being the difference. Retailers report that discount stores are more positive than the more traditional kinds of stores, but I would say retailing is generally positive. Auto dealers that we talk to still see demand slipping; but even though we get such reports, I would say overall with stocks falling and [unintelligible], it's a significant change over a month ago.

MR. KEEHN. This is Si Keehn in Chicago. I agree with the thrust of Ed's comments. The tentative signs out here are that economic activity in the Midwest is stabilizing, but I doubt that it has turned around. Still, it seems much better than it was at the time of the last FOMC meeting. The residential real estate activity is better; there are increases on a year-over-year basis in sales of houses. Retail sales--at least from what we hear in the Midwest--are higher than the national averages. The auto sector, I think, is still something of a quandary. Dealers are continuing to report very weak sales without any particular signs of improvement. But given the [unintelligible], production levels are a little higher than we saw in the earlier part of the year. And manufacturers look toward 1991 closeouts. The steel business has improved, particularly in the foreign sales of at least one producer, and there are several others as part of the auto industry who report at least some increase in orders. But I think it's too early to conclude that the regional economy has moved into recovery.

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CHAIRMAN GREENSPAN. Anyone else? Gary Stern, did you have anything? If not, we have Don Winn here to bring us up-to-date on the status of the Annunzio Subcommittee's Task Force on regulatory structure, run by Doug Barnard. [Secretary's note: The legislative update was not transcribed.]

END OF SESSION