

Meeting of the Federal Open Market Committee

May 16, 1989

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, May 16, 1989, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Guffey
Mr. Heller
Mr. Johnson
Mr. Keehn
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. Black, Forrestal, and Parry, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

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

Messrs. Balbach, R. Davis, T. Davis, Lindsey, Ms. Munnell, Messrs. Promisel, Scheld, Siegman, and Simpson, 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
Mr. Ettin, Deputy Director, Division of Research and
Statistics, Board of Governors
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
Mr. Wajid, Assistant to Governor Heller, Office of
Board Members, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Mr. Thomson, Executive Vice President, Federal Reserve
Bank of San Francisco

Messrs. Broaddus, Lang, Rolnick, Rosenblum, and
Ms. Tschinkel, Senior Vice Presidents, Federal
Reserve Banks of Richmond, Philadelphia, Minneapolis,
Dallas, and Atlanta, respectively

Mr. Sniderman, Vice President, Federal Reserve Bank
of Cleveland

Ms. Krieger, Manager, Open Market Operations,
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on March 28, 1989, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period March 28, 1989, through May 15, 1989, were
ratified.

With Mr. LaWare dissenting, the Committee approved an increase
from \$12.0 billion to \$15.0 billion in the limit on the System's overall
open position in all foreign currencies contained in paragraph 1D of the
Authorization for Foreign Currency Operations. This action was effective
immediately.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period March 28, 1989,
through May 15, 1989, were ratified.

With Mr. Melzer dissenting, the Federal Reserve Bank of New York
was authorized and directed, until otherwise directed by the Committee, to

execute transactions in the System Account in accordance with the following policy directive:

The information reviewed at this meeting suggests that the rate of economic growth has slowed in recent months. Gains in total nonfarm payroll employment moderated substantially in March and April, and employment in manufacturing was about unchanged over the two months. The civilian unemployment rate rose considerably to 5.3 percent in April. Industrial production increased in April after declining on balance in the preceding two months. Growth in consumer spending has slowed considerably in recent months. Housing starts declined further in April. Recent indicators of business capital spending show a rebound after a decline in the fourth quarter. The nominal U.S. merchandise trade deficit was smaller on average in January and February than in the fourth quarter. Broad measures of prices have risen somewhat more rapidly in 1989, with a significant contribution from sharp increases in energy prices.

Interest rates have declined considerably since the Committee meeting in late March. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose further on balance over the intermeeting period.

Growth of M2 and M3 was sluggish in April, primarily because of a sizable decline in transactions balances. Through April, expansion of M2 has been at a rate below the Committee's range for the year, while growth of M3 has been in the lower portion of its range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in February established ranges for growth of M2 and M3 of 3 to 7 percent and 3-1/2 to 7-1/2 percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. The monitoring range for growth of total domestic nonfinancial debt was set at 6-1/2 to 10-1/2 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from March through June at annual rates of about 1-1/2 and 4 percent, respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 8 to 12 percent.

It was agreed that the next meeting of the Committee would be held on Wednesday-Thursday, July 5-6, 1989.

The meeting adjourned.

Secretary