FEDERAL RESERVE press release

For Use at 4:30 p.m. March 31, 1989

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on February 7-8, 1989.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

75th ANNIVERSARY FEDERAL RESERVE SYSTEM

RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE

Meeting Held on February 7-8, 1989

Domestic Policy Directive.

The information reviewed at this meeting suggested that, apart from the direct effects of the drought, economic activity had continued to expand at a fairly vigorous pace. The latest information on prices indicated little change in the rate of inflation from recent trends, while labor costs had continued to accelerate.

After strong gains in the fourth quarter, total nonfarm payroll employment rose sharply in January. Although some of the strength may have reflected such temporary factors as unusually mild winter weather, job gains were widespread; in manufacturing, sizable increases were registered in non-electrical machinery, transportation equipment, and food processing. The civilian unemployment rate, at 5.4 percent, remained in the lower part of the range that had prevailed since the early spring of last year.

Industrial production rose appreciably further in December and January, with gains continuing at about the robust pace experienced in 1988 as a whole. Output of consumer goods advanced strongly, despite a somewhat slower pace of automobile assemblies over the two months, and production of business equipment picked up a bit. Total industrial capacity utilization moved higher, owing to a sizable jump in the utilization of manufacturing capacity to the highest level since 1979. Housing starts declined somewhat in December but were up substantially on balance for the fourth quarter as a whole, largely because of a strengthening in single-family construction. Multifamily starts have remained relatively flat in recent months.

Consumer spending was up considerably in the fourth quarter, capping a strong year. Spending on household durables rose vigorously in the quarter; and outlays for services again advanced at a rapid pace, reflecting big increases in expenditures for medical care, airline travel, and recreation. Consumption of nondurables advanced further, after a steep rise the previous quarter, while purchases of motor vehicles were little changed over the quarter as a whole.

Indicators of business capital spending suggested some weakening in recent months from the rapid increases evident earlier in 1988. Real outlays for business fixed investment were estimated to have fallen somewhat in the fourth quarter. Softness was fairly widespread among various types of equipment, but the most pronounced weakness was in office and computing equipment. Nonresidential construction activity picked up in December but was estimated to have been about flat on balance for the quarter; oil drilling and expenditures on commercial buildings other than offices declined further. Inventory investment in the manufacturing sector in the fourth quarter was little changed from the third-quarter pace, with much of the accumulation continuing to occur in durable goods industries where demand had been strong. At the retail level, increases in non-automobile inventories generally kept pace with the growth in sales.

Excluding food and energy, producer prices of finished goods rose sharply in December, the rise reflecting large increases for tobacco products, women's apparel, and passenger cars. Prices for intermediate materials again increased substantially in November and December. The most notable hikes occurred in industries such as metals, chemicals, and paper products in which capacity utilization has been high. Consumer prices, reflecting more favorable developments in the food, energy, and apparel components, rose at a somewhat slower pace in November and December. Excluding food and energy, consumer prices rose in the fourth quarter at about the rate observed over 1988 as a whole. Reflecting tighter market conditions, wages and salaries, and labor costs more generally, advanced at a faster pace in the fourth quarter than was observed a year earlier.

The nominal U.S. merchandise trade deficit was slightly larger on average in October and November than it was in the third quarter. The value of imports rose as a sharp rise in the value of non-oil imports, especially from industrial countries, outweighed a drop in the value of oil imports resulting from a decline in oil prices. Increases were widespread across trade categories but were paced by a rebound in imports of passenger cars from somewhat depressed levels in the third quarter. The value of exports was little changed as a decline in agricultural exports offset a rise in nonagricultural products.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose substantially over the intermeeting period and nearly reversed its decline of October and November. Despite the release of data indicating U.S. trade deficits that were larger than expected for October and November, the dollar climbed persistently from early December in response to perceptions of a relative tightening of monetary policy in the United States; short-term interest rate differentials moved in favor of the dollar relative to the yen.

At its meeting on December 13-14, the Committee adopted a directive calling for some immediate increase in the degree of pressure on reserve positions, with some further tightening to be implemented at the start of

1989 if economic and financial conditions remained consistent with the Committee's expectations. These reserve conditions were expected to be associated with growth of M2 and M3 at annual rates of about 3 and 6-1/2 percent respectively over the period from November through March. The members agreed that somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable depending on 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.

In accordance with the Committee's instructions, a firming of reserve supply conditions was carried out in two stages over the intermeeting period, although operations were complicated by continuing uncertainty about the relationship between borrowing and money market conditions. In the circumstances, open market operations continued to be conducted with a special degree of flexibility. Adjustment plus seasonal borrowing averaged somewhat more than $500 million over the period, but such borrowing fluctuated over a wide range, including a typical bulge around the year-end. The federal funds rate rose from around 8-1/2 percent to a little above 9 percent during the intermeeting period.

Changes in other short-term market rates were mixed over the intermeeting period. Treasury bill rates rose somewhat on balance, although less than the federal funds rate, while rates on private market instruments were generally unchanged to slightly lower. To some extent, the firming of monetary policy had been anticipated; in addition, private rates in particular were affected by the passing of year-end pressures. Bond yields declined somewhat, apparently influenced in part by the favorable effect of actual and anticipated monetary restraint on inflationary expectations. Major indexes of stock prices rose considerably over the intermeeting period.

Growth of the broader monetary aggregates weakened appreciably in January, especially M2 which apparently declined slightly after a moderate increase in December. The behavior of these aggregates appeared to reflect recent increases in short-term market rates which in turn widened the opportunity costs of holding deposits. Those costs were accentuated by slower-than-usual adjustments in offering rates by depository institutions on most of their retail deposits. Also, needs for deposits to fund credit growth were damped in this period. On average in December and January, growth of M2 was slightly below Committee expectations and that of M3 considerably below. M1 changed little on balance over the two months. For the year 1988, M2 expanded at a rate a little below and M3 at a rate around the midpoint of the Committee's ranges. Growth of total domestic nonfinancial debt moderated in 1988 to a pace around the midpoint of the Committee's monitoring range.

The staff projections prepared for this meeting suggested that the expansion was likely to moderate in 1989 from the pace in 1988, although the adjustments related to the assumed end of the drought would be reflected in relatively strong measured growth in the first quarter. To the extent that expansion of final demand tended to remain at a pace that could foster higher inflation but was not accommodated by monetary policy, pressures would be generated in financial markets that would restrain domestic spending. The staff continued to project slower growth in consumer spending, sharply reduced expansion of business fixed investment, and some decline in housing construction. Foreign trade was expected to make a smaller contribution to growth in domestic output than in 1988. The staff anticipated somewhat faster increases in consumer prices and also some further cost pressures over the year ahead, especially because of reduced margins of unutilized labor and other production resources.

In the Committee's discussion of the economic situation and outlook, members commented that the expansion in business activity was generally well balanced and that continuing growth was a reasonable expectation for the year ahead. Nearly all the members believed that the risks remained on the side of greater inflation and that the Federal Reserve would need to stay especially alert to inflationary developments. However, views differed to some extent with regard to the likely strength of the expansion and the degree of inflationary risk. Several members stressed that, in the absence of some further monetary restraint, economic growth was likely to continue at a rate that would foster greater pressures on already strained production resources and induce more inflation. Other members gave more weight to indications of possible slowing in the expansion and to the possibility that the substantial restraint applied over the past year might be sufficient to foster substainable expansion without increased inflationary pressures. The members agreed that the chances for satisfactory economic performance over time would be greatly enhanced by progress in reducing the Federal budget deficit in order to contain domestic demands and to facilitate the process of adjustment in the nation's external balance.

In conformance with the usual practice at meetings when the Committee considers its long-term objectives for monetary growth, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members had prepared specific projections of economic activity, the rate of unemployment, and inflation for the year 1989. The central tendency of these forecasts pointed to somewhat slower expansion and somewhat greater inflation than had occurred in 1988. For the period from the fourth quarter of 1988 to the fourth quarter of 1989, the forecasts for growth of real GNP had a central tendency of 2-1/2 to 3 percent and a full range of 1-1/2 to 3-1/4 percent. Forecasts of nominal GNP centered on growth rates of 6-1/2 to 7-1/2 percent and ranged from 5-1/2 to 8-1/2 percent. Estimates of the civilian rate of unemployment in the fourth quarter of 1989 were concentrated in a range of 5-1/4 to 5-1/2 percent with a full range of 5 to 6 percent. The projected increase in the consumer price index centered on rates of 4-1/2 to 5 percent and had an overall range of 3-1/2 to 5-1/2 percent for the year. In making these forecasts, the members took account of the Committee's policy of continuing restraint on aggregate demand to resist any increase in inflation pressures and foster price stability over time. They also assumed that normal weather conditions and a rise in acreage under cultivation this year would increase farm output and add around 2/3 of a percentage point to the growth of GNP, an amount similar to the reduction in GNP that resulted from the drought in 1988. Excluding this swing in farm output, the central tendency of the forecasts implied considerably slower growth in output than in 1988. Finally, the forecasts assumed that fluctuations in the foreign exchange value of the dollar would not be of sufficient magnitude to have a significant effect on the economy or prices.

In the Committee's discussion of developments bearing on the economic outlook, a number of members stressed that the economy had a good deal of momentum and that there was little or no current evidence of a potential slowdown or downturn in the expansion. Indeed, some recent data, including those on employment and consumer spending, could be viewed as consistent with some strengthening of the expansion in recent months. Reports from around the country suggested a high level of business activity in many parts of the nation and at least modest improvement in some previously depressed areas. On the whole, growth in production was being well maintained, buttressed by continuing expansion in exports. Other members saw a greater potential for some softening in the rate of economic growth. They referred to sectors of relative weakness in the economy, including energy, nonresidential construction, and housing. With regard to the outlook for capital expenditures, many firms were investing in new equipment to improve their efficiency in competitive markets, but they generally continued to hold back on investments to expand production facilities. More generally, a number of members emphasized that the behavior of money, whose growth had been relatively damped for an extended period and was likely to remain so in 1989 under the Committee's targets, probably was consistent with only limited strength in spending.

A key element in the outlook for business was the extent of the improvement in the nation's external trade balance. The members generally expected further gains, at least over the year ahead, but several observed that these might be considerably smaller than in 1988, given the behavior of the dollar over the past year and assuming a steady dollar in the future. Such an outcome could have the advantage of helping to moderate potential inflationary demand pressures in the economy but at the cost and the risks associated with a continuing need to finance massive external deficits. It also was noted that substantial improvement in the trade balance at a time of increasing pressure on productive resources would require the expansion in domestic demand to slow sufficiently--perhaps more than was currently anticipated--to permit added production for exports.

Turning to the outlook for inflation, several members expressed concern that, with margins of unused labor and capital relatively low, any slowing in the growth of overall demands now in train might be inadequate to prevent some rise in the underlying rate of inflation, much less to permit progress to be made in bringing inflation down. In this view the economy's current momentum in association with a reduced availability of production resources clearly biased the economic risks toward greater inflation. A number of these members expressed particular concern about recent indications of higher labor costs, which might augur escalating inflationary pressures. Other members saw a lesser risk that inflation would intensify, at least in the absence of unfavorable developments such as a second year of drought conditions, a sharp upturn in energy prices, or a substantial decline in the foreign exchange value of the dollar. It was difficult to judge the point at which added pressures on production resources might be translated into stronger inflationary pressures, but several members observed that despite relatively vigorous economic growth the impact on the overall rate of inflation had been less than they might have anticipated earlier. Promising factors in the inflation outlook included the continuation of strong competitive pressures, notably competition from abroad, that tended to inhibit efforts to raise prices, restrained monetary growth, and generally favorable inflationary expectations as evidenced by developments in financial markets. In one view, commodity prices, while still affected by the impact of the drought, might be signalling at least tentatively a downturn in the overall rate of inflation.

Against the background of the members' views regarding the economic outlook and 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 of growth for the monetary and debt aggregates that had been established on a tentative basis in late June 1988 for the year 1989. The tentative range for M2 had been reduced by one percentage point to 3 to 7 percent and that for M3 by 1/2 percentage point to 3-1/2 to 7-1/2 percent for 1989. The monitoring range for growth of total domestic nonfinancial debt had been lowered by 1/2 percentage point to 6-1/2 to 10-1/2 percent for the year. The Committee had decided in June not to establish any range for M1.

In the Committee's discussion, a majority of the members indicated that they were in favor of affirming the reduced ranges that had been set on a tentative basis in mid-1988, while the remaining members expressed a preference for some further reductions. Members who supported the tentative ranges believed that they were fully consistent with progress toward price level stability. Indeed, the reduction of a full percentage point in the M2 range was larger than usual and would convey in this view an appropriately strong signal of the System's commitment to an anti-inflationary policy. This lower range encompassed money growth that was fully consistent under likely economic and financial conditions with continued expansion of spending but at the somewhat slower pace needed to contain inflationary pressures. A number of members also commented that the tentative ranges would provide more room in subsequent years for continuing the desirable policy of gradually lowering the monetary growth targets to noninflationary levels while also reducing the possibility that unanticipated economic or financial developments might require those targets to be raised on a temporary basis. Even though temporarily higher ranges might be consistent with progress toward price stability, a decision to raise the ranges could be misinterpreted as a weakening of the System's anti-inflationary resolve.

Other members believed that further reductions in the ranges would provide greater assurance of encompassing the potential policy responses and associated monetary growth that might be needed to resist inflationary pressures over the year ahead, should they prove to be especially strong. Such reductions would underscore the Committee's commitment to its longer-run objective of price stability, since achieving that objective would require lower money growth at some point than was indicated by the middle of the tentative ranges. Lower ranges for the broader aggregates would have midpoints that were more clearly below actual growth in 1988 and given the slow growth thus far this year, especially in the case of M2, would improve the prospects that expansion for the year would approximate the midpoints. Moreover, the upper ends of the tentative ranges, while below those for 1988, nonetheless remained appreciably higher than the rates of monetary growth that were likely to be consistent with price stability over time.

The Committee agreed on the desirability of retaining the relatively wide spread of 4 percentage points between the upper and the lower ends of the growth ranges for M2 and M3. These ranges were initially widened in 1988 in recognition of the uncertain outlook for financial markets and the economy and the extent to which the relationship between monetary growth and economic performance had varied over an extended period.

In particular, the growth of M2 and its velocity had remained very sensitive to fluctuations in interest rates, reflecting in turn a tendency of depository institutions to adjust only sluggishly their offering rates on many types of deposit accounts. In these circumstances and against the background of the multiplicity of largely unpredictable factors affecting the economy and interest rates, the appropriate rate of monetary growth remained subject to considerable uncertainty and could not be projected within narrow ranges with any degree of confidence. An additional uncertainty in 1989 would be the impact of developments affecting thrift depository institutions as serious financial problems at many of those institutions moved toward resolution under the aegis of new government programs. The behavior of M2 and M3 was likely to be affected by such developments, but there was only limited basis in prior experience to gauge the extent of the impact.

The members found acceptable the tentative reduction of 1/2 percentage point in the monitoring range for total domestic nonfinancial debt in 1989. As in several previous years, growth of total debt was expected to exceed that of nominal GNP. The members anticipated that the federal government would continue to place heavy demands on credit markets to finance its large ongoing deficits. In addition, the expansion of business borrowing would probably continue to be boosted by a widening financing gap and by the substitution of debt for equity in conjunction with leveraged buyouts and other corporate restructuring activities. Growth of household debt might moderate somewhat, reflecting the effect of increases in interest rates in 1988 on mortgage debt and of reduced expansion in consumer credit in association with a smaller rise in outlays on consumer durables over the year.

In keeping with the Committee's tentative decision in late June, no member proposed the inclusion of M1 among the monetary target ranges. The Committee continued to view the prospective relationship between M1 and aggregate measures of economic activity as too unpredictable to warrant reliance on this monetary measure as a guide for the conduct of monetary policy.

At the conclusion of the Committee's discussion, all but one of the members indicated that they favored or could accept the ranges for 1989 that had been established on a tentative basis in late June 1988. Against the background of the uncertainties that continued to surround the relationship between monetary growth and broad measures of economic performance, most of the members endorsed a proposal to make explicit in the directive the Committee's procedure in recent years of evaluating money growth in the conduct of policy in light of the behavior of other indicators, including inflationary pressures, the strength of the business expansion, and developments in domestic financial and foreign exchange markets.

At the conclusion of this discussion, the Committee approved for inclusion in the domestic policy directive the following paragraph relating to its longer-run policy for 1989:

> 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 this meeting reaffirmed its decision of late June to lower the ranges for growth of M2 and M3 to 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.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Black, Forrestal, Heller, Johnson, Kelley, LaWare, Parry, and Ms. Seger. Vote against this action: Mr. Hoskins.

Mr. Hoskins dissented because he preferred lower ranges for the year. In his view satisfactory progress in reducing the underlying rate of inflation would require a degree of restraint over the year that would be likely to result in money growth at the low end of the tentative ranges, and he believed that the ranges adopted should be more closely centered on that possible outcome. He also felt that lower ranges were desirable at this time to underscore the System's determination to pursue an anti-inflationary policy.

In the Committee's discussion of policy implementation for the period until the next meeting, a majority of the members indicated a preference for maintaining unchanged conditions of reserve availability, at least initially following today's meeting. Further monetary restraint might be desirable in the near future, perhaps during the intermeeting period. However, recent information had given a somewhat mixed picture of economic and price developments, and these members preferred to wait for further confirmation of inflationary pressures before additional firming of monetary policy was undertaken. Appreciable policy tightening had been implemented only recently and the impact would be felt only after a considerable lag. Monetary policy was now fairly restrictive, as evidenced for example by relatively high real rates of interest, a slightly inverted yield curve, and the slow growth of the monetary aggregates. The credibility of the System's anti-inflationary policy was quite high. Some members expressed concern that higher interest rates would exacerbate the financial difficulties of many thrift depository institutions, weaken heavily indebted firms, and in the context of a strong dollar possibly lead to an undesired upward ratcheting of interest rates in world financial markets. It also was noted that further tightening should be approached with special caution when the dollar was under upward pressure in the foreign exchange markets.

Other members indicated a preference for some immediate firming of monetary policy in light of their concerns about current and prospective inflationary pressures in the economy. In this view delaying further tightening would only worsen such pressures and could greatly increase the difficulty and ultimate cost of achieving the Committee's anti-inflationary objectives. Moreover, while higher interest rates could have adverse effects on interest-sensitive sectors of the economy, a failure to arrest and to reverse inflation would lead to even higher interest rates and greater damage over time. Some concern also was expressed that maintenance of steady reserve conditions might disappoint market expectations, with adverse repercussions in present circumstances on the credibility of the System's anti-inflationary policy and thus on inflationary expectations. Should too much restraint later prove to have been applied, it could be reversed more readily and with less lasting implications for economic performance than too little restraint, which would tend to imbed inflation and inflationary expectations in the economic structure.

A number of members observed that the relatively slow monetary expansion that had been experienced in recent months--and indeed on balance for some two years--portended restraint on prices and was a welcome development. A staff forecast suggested that money growth was likely to remain damped over coming months, with both M2 and M3 growing at the lower end of the Committee's 1989 ranges. In the view of a number of members, this might be acceptable or even desirable depending on the extent of inflationary pressures being experienced in the economy. At the same time some members cautioned that a persistent shortfall from the ranges might be a cause for concern.

In the Committee's discussion of possible intermeeting adjustments in the degree of reserve restraint, members generally felt that there should be a clear presumption of some further firming if the incoming information tended to confirm expectations of growing inflationary pressures. Indeed, several members indicated that such a presumption would enable them to accept a directive that called for no immediate change in the degree of reserve pressure. Some members expressed the view that developments in foreign exchange markets might have an important bearing on the timing or even the desirability of any firming in the period ahead. More generally, the Committee agreed that consideration would need to be given to the usual range of factors that might call for a change in policy implementation, including the possibility that some easing might be warranted under certain conditions.

For the immediate future, however, several stressed that any perceptions that monetary policy might be easing should be resisted.

At the conclusion of the Committee's discussion, all but two members indicated that they favored or could accept a directive that called for maintaining the current degree of pressure on reserve conditions and for remaining alert to potential developments that might require some firming during the intermeeting period. Accordingly, somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint might be acceptable, over the intermeeting period depending on 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. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 2 percent and 3-1/2 percent respectively over the three-month period from December to March. It was understood that operations would continue to be conducted with some flexibility in light of the persisting uncertainty in the relationship between the demand for borrowed reserves and the federal funds rate. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 7 to 11 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that, apart from the direct effects of the drought, economic activity has continued to expand at a fairly vigorous pace. After strong gains in the fourth quarter, total nonfarm payroll employment rose sharply

in January, including a sizable increase in manufacturing. The civilian unemployment rate, at 5.4 percent in January, remained in the lower part of the range that has prevailed since the early spring of last year. Industrial production rose appreciably further in December and January. Housing starts declined somewhat in December but were up substantially on balance in the fourth quarter. Consumer spending advanced considerably in the fourth quarter, in part reflecting stronger sales of durable goods. Indicators of business capital spending suggest some weakening in recent months. The nominal U.S. merchandise trade deficit was slightly larger on average in October and November than in the third quarter. The latest information on prices suggests little change from recent trends, while wages have tended to accelerate.

The federal funds rate and Treasury bill rates have risen since the Committee meeting in mid-December; other short-term interest rates are generally unchanged to somewhat lower. Bond yields have declined somewhat. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose substantially over the intermeeting period.

M2 and M3 weakened appreciably in January, especially M2. For the year 1988, M2 expanded at a rate a little below, and M3 at a rate around, the midpoint of the ranges established by the Committee. M1 has changed little on balance over the past several months; it grew about 4-1/4 percent in 1988. Expansion of total domestic nonfinancial debt appears to have moderated somewhat in 1988 to a pace around the midpoint of the Committee's monitoring range for the year.

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 this meeting reaffirmed its decision of late June to lower the ranges for growth of M2 and M3 to 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 would, or slightly lesser reserve restraint might, 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 December through March at annual rates of about 2 and 3-1/2 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 7 to 11 percent.

Votes for the paragraph on short-term policy implementation: Messrs. Greenspan, Corrigan, Angell, Black, Forrestal, Heller, Johnson, Kelley, LaWare, and Ms. Seger. Votes against this action: Messrs. Hoskins and Parry.

Messrs. Hoskins and Parry dissented because they believed that a prompt move to greater monetary restraint was needed. Mr Hoskins felt that additional restraint was desirable to put policy on a course that would lead toward longer-run price stability. Mr. Parry emphasized that inflationary pressures appeared to be intensifying as the economy had grown to a level in excess of its long-run, noninflationary potential. Both believed that any delay in implementing more restraint probably would aggravate inflationary pressures, thereby increasing the difficulty of achieving the Committee's anti-inflationary objectives and leading to even higher interest rates over time.