

Federal Open Market Committee

Conference Call

July 26, 1989

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Guffey  
Mr. Johnson  
Mr. Keehn  
Mr. Kelley  
Mr. Melzer

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

Messrs. Black, and Parry, Presidents of the  
Federal Reserve Banks of Richmond and  
San Francisco, respectively

Mr. Bernard, Assistant Secretary  
Mr. Gillum, Deputy Assistant Secretary  
Mr. Prell, Economist  
Mr. Truman, Economist

Mr. Lindsey, Associate Economist

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. 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

Mr. Guynn, First Vice President, Federal Reserve  
Bank of Atlanta

Ms. Tschinkel, Senior Vice President, Federal  
Reserve Bank of Atlanta

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

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CHAIRMAN GREENSPAN. Good afternoon, everyone. There are two issues I'd like to discuss this afternoon. One is monetary policy and the other is the Mexican agreement. On the issue of monetary policy: As a result of data we have just gotten recently, which I'll mention in a moment, the Desk has been instructed to lower the borrowing requirement from \$600 million to \$550 million, which is equivalent to moving the funds rate from around 9-1/4 to 9-3/8 percent down to the 9 to 9-1/8 percent area. The two most recent indications of continued softening [in the economy] are: (1) the initial claims figures, which will be released tomorrow; and (2) information from the purchasing managers' survey.

The initial claims data show a rather sharp increase for the week ended July 15th to the highest level in a year to 18 months. As best I can judge, part of it reflects the peculiarities of the effects of the July 4th weekend plus the beginning of a quarter. Even with all the seasonal adjustment we can do, we never quite get that out. But extracting from that there does appear to be some real information in that increase--in part automotive layoffs, but a little more than that. Secondly, and more importantly, information that will be coming out on the purchasing managers' survey, which must be kept confidential until it is released--and it's very crucial that it be kept confidential--is likely to show a significant weakening in new orders. In fact, their early estimates suggest that the change in new orders, which is the measure they seasonally adjust, is likely to be the lowest number since 1982. There is no evidence in the report, as best I can judge, that suggests that the softening is accelerating in any material way; but there is clear evidence that the economy continues to weaken. The automobile sales figures for the middle 10 days of July--which appeared initially to be somewhat stronger using the BEA seasonals--on our seasonals look to be soft, with very little pickup evident in the data. Finally, on the side of softness, the seasonally adjusted employment cost index continues to be well behaved and pretty much coming in according to expectations.

The issues that suggest our having to be cautious on monetary policy are: (1) the welcomed improvement in existing home sales, which may be the first sign of stabilization and not deterioration; and (2) the worrisome acceleration now in the money supply. This all suggests to me that, having made this move, we should probably stay put for a while until we see how the money supply works out and how a number of other elements within the economy continue to move. I would generally characterize the economy at this stage as one that continues to soften but does not yet exhibit any accelerated weakness. The latter could occur, but it's not in any of the data that I can see at this stage. Unless and until that occurs, it would be inappropriate for us to move down further, certainly not before the next FOMC meeting. Before I move on to the Mexican issue I would like to solicit any comments or feelings on this that any of the participants at this meeting might have. If not, I would ask our Vice Chairman to give us some insights into the Mexican negotiations. Jerry, are you there?

VICE CHAIRMAN CORRIGAN. Yes, I'm here.

[Secretary's note: The reports of Vice Chairman Corrigan and Mr. Truman on the Mexican negotiations were not transcribed.]

END OF SESSION