

**Federal Open Market Committee
Conference Call
April 11, 2001**

A telephone conference meeting of the Federal Open Market Committee was held on Wednesday, April 11, 2001, at 10:00 a.m.

Present:

Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Ferguson
Mr. Gramlich
Mr. Hoenig
Mr. Kelley
Mr. Meyer
Ms. Minehan
Mr. Moskow
Mr. Poole

Messrs. Jordan, McTeer, Santomero, and Stern, Alternate Members of the
Federal Open Market Committee

Messrs. Broadus, Guynn, and Parry, Presidents of the Federal Reserve
Banks of Richmond, Atlanta, and San Francisco respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Ms. K. Johnson, Economist

Messrs. Fuhrer, Hakkio, Howard, Hunter, Lindsey, Reinhart, and Wilcox,
Associate Economists

Ms. J. Johnson, Secretary, Office of the Secretary, Board of Governors

Ms. Smith and Mr. Winn, Assistants to the Board, Office of Board Members,
Board of Governors

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of
Governors

Mr. Simpson, Senior Adviser, Division of Research and Statistics, Board of
Governors

Messrs. Madigan and Struckmeyer, Associate Directors, Divisions of
Monetary Affairs and Research and Statistics respectively, Board of
Governors

Mr. Whitesell, Assistant Director, Division of Monetary Affairs,
Board of Governors

Mr. Skidmore, Special Assistant to the Board, Office of Board Members,
Board of Governors

Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs,
Board of Governors

Mr. Beebe, Mses. Browne, Krieger, and Mester, Messrs. Rolnick,
Rosenblum, and Sniderman, Senior Vice Presidents, Federal Reserve
Banks of San Francisco, Boston, New York, Philadelphia,
Minneapolis, Dallas, and Cleveland respectively

Mr. Cunningham, Vice President, Federal Reserve Bank of Atlanta

Transcript of Federal Open Market Committee Conference Call of
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CHAIRMAN GREENSPAN. I had intended this morning to place on the agenda a prospective rate cut for your deliberation. Owing to the rapid changes in both bond and stock markets in the last 24 hours, I do not believe--for reasons I will get to later--that that would be wise at this time. Instead, I hope to treat this as an informational meeting, recognizing that we will have a credible window for an intermeeting move, if desired, over the next 10 days. Incidentally, the fact that we had this meeting will be made public in the minutes released shortly after the May 15th meeting, but I trust not before.

Personal consumption expenditures and homebuilding appear to be holding up while industrial production flattened in March, suggesting that we have reached the maximum rate of inventory liquidation. If the inventory adjustment were about to abate, history would suggest that second-quarter earnings projections would start to stabilize, but they are not. Indeed, they continue to be revised down at a rate of almost 1 percentage point per week, with little to no evidence--at least through the data we had as of last Friday--that that rate of decline is slowing.

As sales volume slows, businesses have found their pricing power even more constrained. Consequently, margins are falling as businesses are unable to pass on unit wage and energy cost increases. There's little evidence to suggest that this is about to change either. The fall in high-tech prices is accelerating and commodity prices remain weak. Conceivably as a result, spreads of BBB yields over AAA yields have opened up further recently, implying that business risk has been rising. In this context it is not

surprising that reports from capital goods producers indicate no signs of stability as yet. March orders appear to have declined for both low- and high-tech producers, possibly owing to overall decreased corporate cash flow. Foreign markets are also deteriorating, although at a somewhat lesser pace than in the United States. But growth rates abroad also show no signs as yet of stabilizing.

Although the potential power of inventory liquidation turnarounds is such that the odds of the United States economy rebounding over the next several months are still significant, the continued deterioration in profits and the outlook for capital spending indicate that such odds clearly have been falling week by week. The key test for the period ahead, in my judgment, will be whether the momentum coming from a presumed end to the rise in the rate of inventory liquidation will be adequate to stabilize profit margins and the capital goods markets--and with some stretch, economic conditions in the rest of the world. If not, the major springboard to recovery will have been dissipated and a more prolonged adjustment process will confront us.

I indicated earlier that I would counsel against moving today, for if we do, in my judgment we will break whatever developing pattern for equity price stability may be currently emerging, at least temporarily. Were we to cut rates, there doubtless would be an initial sharp rise in stock prices as less sophisticated buyers enter the market. However, a move today would remove the constructive ambiguity about monetary policy from the markets. As a consequence, after the initial price surge the more sophisticated traders could well be selling, with a distinct possibility that stock prices would fall markedly, essentially undercutting the nascent stabilization that may be in the process of forming. We would have used up some significant monetary policy ammunition without

realizing any short-term stabilizing benefits. Long term, of course, it doesn't matter much unless the failure of achieving short-term stability sets us on a path with long-term consequences.

To repeat, we have a credible intermeeting window over the next 10 days. Let us employ the time to monitor markets, but especially to look for evidence of emerging stability in capital goods orders. I might say in closing that I know all of you in the Reserve Banks will be working on Beige Book commentary shortly. And I would request that you make a special endeavor to see if you can gain some insights on what is going on in capital spending within your Districts and what the prospects are for a stabilization and hopefully an upturn.

Let me now turn to Sandy Krieger for an update on the markets and then to Dave Wilcox for an update on the staff's forecast. And though neither Don Kohn nor Karen Johnson has anything to report initially, they of course will be available for questions, as all of us will be. Then I hope we can do a roundtable as well. Sandy.

MS. KRIEGER. Thank you. As you noted, the markets are moving rather quickly, so some of the point estimates I give you may be dated. Looking first at forward rates, the spreads between LIBOR and the 3-month forward rate agreements and between LIBOR and the 9-month forward contracts continue to show expectations of Fed easing. The 3-month forward and 9-month forward rates suggest easing of about 35 and 29 basis points, respectively, a little more than at the time of your last meeting but not terribly so, and they indicate a bottom in rates over the next nine to twelve months. Overall, these rates are about 16 basis points lower than just after your last easing move.

By comparison, in the euro area--and this does not take into account gyrations currently as a result of the ECB not moving today--the forward markets continue to show more aggressive easing but at a longer lag than in the United States. And in Japan, as you know, forward rate expectations converge since the rates are so very low.

In the Fed funds futures market, we saw some very sharp moves yesterday as a result of the stock market's gyrations. The market has been moving away from pricing in expectations of an intermeeting move, and that continued this morning. The April contract is now very near the current 5 percent funds target. The May contract is about 25 basis points below that and the June contract is a little under 50 basis points below. So, the market is still looking for a 50 basis point cut by June, but its conviction is shaky right now I would say. And Eurodollar futures continue to suggest a pattern of declining rates through the fall, but the shape of that curve also suggests that rates will turn up somewhere around the end of the year.

Treasury yields have been buffeted as much by the stock market--if not more--than by economic data. Again, these yields are continuing to move upward today as they did--sharply--yesterday. The two-year yield, at around 4.32 percent, is about 11 basis points higher than just after your last move. But the really significant increases have been further out in the curve. The 10-year and the long bond are maybe 35 basis points higher than after your last move was digested, and the yield curve has a positive slope across the entire curve. Equities have bounced off their lows as data such as the Conference Board Index for March have shown some improvement. Also, there has been an inordinate focus on statements from Fed officials, which have been read to suggest confidence in economic performance later this year. That was a big driver in the upward

movement in yields yesterday. Additionally, in the 10-year area in particular, there has been some upward pressure as a result of very heavy corporate issuance and related hedging activity.

Of course, the other factor that is taking on heightened importance is any indication at all regarding first-quarter earnings. That has buffeted both the stock and bond markets in recent days as well, and I believe it was a big factor yesterday in explaining why the NASDAQ turned so sharply higher.

That said, when we look at equities overall--and as you know we have tested bear market territory in the few short weeks since your last meeting and we had a big bounceback yesterday--the net changes have not been large. The Dow is only about 50 points higher than after your last move, the S&P is virtually unchanged, and the NASDAQ is lower by about 100 points.

Overseas, as you know, the Nikkei rallied on optimism about banking sector reform in the wake of the Bank of Japan's announcement just before your March meeting. But since that time I believe actual optimism has dwindled, as people are concerned about the lack of details. Also, a Bloomberg index of European stocks shows some small positive changes on balance since March 20th. The dollar is stronger against the euro and the yen, and risk reversals indicate a preference for dollars.

Going back to our markets, I mentioned that the heavy supply we saw in the corporate market in January and February has continued. Spreads for investment grade corporates to Treasuries have widened by about 5 to 15 basis points since your last meeting, and issuance has remained heavy as issuers take advantage of the lower yields. They continued to offer price concessions of about 5 to 15 basis points to get their

business done. In the high-yield area, we haven't seen as much issuance but we've seen a sharper widening of the spreads. Spreads were a little over 700 basis points around the time of your last meeting and are closer to 770 or so now, according to a high-yield index that Merrill Lynch publishes. And that's about all I have to report for the moment.

CHAIRMAN GREENSPAN. Thank you, Sandy. Dave Wilcox.

MR. WILCOX. Since the March Greenbook, the incoming news about real activity has been a little softer than we had been expecting. New orders and shipments for February came in substantially weaker than anticipated and there were downward revisions to those series for January. Moreover, the general tenor of the employment report was a bit more negative for the near-term outlook than we had assumed.

That said, as the Chairman noted, consumer spending--especially for motor vehicles and for housing--has held up reasonably well and the indexes of consumer sentiment seemed to have stabilized in March. Incidentally, we understand that the Survey Research Center at the University of Michigan will release its preliminary results for April tomorrow rather than Friday as previously scheduled.

Putting all this together, we would trim about 1/4 percentage point off our estimate of growth for the first quarter, putting it at 1/2 percent at an annual rate as compared to the 3/4 percent forecast in the March Greenbook. And we've nudged down our assumption for the second quarter by a similar amount, based partly on the suggestion from the employment report that the economy entered the second quarter on a somewhat softer note than we had been assuming and partly on the weaker orders data. That would put our estimate for second-quarter growth at 1 percent rather than the 1.3 percent rate in

the March Greenbook. Beyond the current quarter, we still expect activity to pick up over the course of the second half of this year and throughout next year.

CHAIRMAN GREENSPAN. Thank you. If there are questions, we'll address them first and after that we'll do our regular roundtable for those who would like to participate.

MR. HOENIG. This is Tom Hoenig. I have a question about the staff's forecast. Are you starting to factor into the longer-run outlook for this year any of the fiscal activity that is going on right now? Is there any anticipation of spending increases or a tax cut in the projections that you just shared with us?

MR. WILCOX. I would say that there has not been sufficient action on fiscal policy yet to move us off our previous Greenbook assumptions.

MR. HOENIG. Okay, thank you.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, this is Bill McDonough. When you want to start the roundtable, I would have something to say.

CHAIRMAN GREENSPAN. Does anybody else have any other questions? Okay, Bill, you're on.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, I feel as you do that we have a very important window over the next 10 days, and I definitely believe that an intermeeting move toward ease is appropriate. I think today is not the right day to do it for the reasons you suggested and some others. In my view we are better off to wait and see if that window is available to us sometime next week.

I believe, as consistent with your presentation, that the issue before us is business fixed investment. From all the soundings we hear in the Second District and

from the discussions we are working very hard to have with people all around the country, I'm convinced that, sadly, the view is spreading among business executives that they must delay investment decisions. Because of the uncertainties about the economic recovery and the lack of pricing power, corporate executives feel they must postpone investment decisions in order to shore up their numbers for the second and probably the third quarters. Therefore, I believe that the downside risk to our economic forecast is extremely considerable.

At the risk of being somewhat unpleasant, I'd also like to say that I think we have a particular problem at the moment. This is a time when it is highly vital that we get all the information we can, but that is being made somewhat difficult by the fact that we are looking at ourselves in the mirror because of what I view as too many statements by Fed officials. We are all in a position where making statements about policy is a temptation. But let me suggest that that is something we don't have to do. If I can hold myself up as an example, there was a Dow-Jones report yesterday about my comments at a conference sponsored by the U.K. Financial Services Authority. The report said that my remarks "largely repeated recent speeches on the Basle Accord, but failed to touch on the U.S. economy. McDonough, a voting member of the Federal Open Market Committee, declined to discuss monetary policy with reporters." Now, other than patting myself on the back for virtue, there is a reason I raise this point. Even though we may believe that a recovery in the second half of the year is likely, when we say that publicly a degree of certainty is being postulated that I find very troublesome. It makes it difficult for the Federal Reserve to move if we decide in this period that we wish to do so. More generally, this is the time of year when I think one should be honoring Passover and the

Christian holidays and I believe that in both of those religions silence is considered a great virtue. Thank you.

CHAIRMAN GREENSPAN. Anyone else?

MR. POOLE. Mr. Chairman, this is Bill Poole. I agree that we certainly should not make an intermeeting move today. I also agree that the major issue confronting us is the strength of business fixed investment. I must say that I am opposed to intermeeting moves in general in the absence of some compelling new piece of information of the sort that we confronted in the fall of 1998 or some other totally unexpected shock. In my view, intermeeting moves create the expectation going forward, for many months or quarters to come, that an intermeeting move might be considered. That adds to the riskiness of the short-run trading environment in the markets, including the equity market. The presumption is that with greater risk in the market, prices will tend to be lower and expected yields have to be higher to compensate for the greater risk. So I'm concerned that an intermeeting move in the near future would simply create more problems for us going forward. I don't think it matters for the longer-run course of the economy whether rates are moved down now or on May 15th. But an intermeeting move does produce an environment of greater uncertainty about the way in which we will proceed in the period ahead. So, I must say that I am very opposed to an intermeeting move in the absence of compelling new information.

MR. MCTEER. Mr. Chairman, this is Bob McTeer.

CHAIRMAN GREENSPAN. Can you hold on just a minute, Bob? Bill, the proposition that you put out is a testable hypothesis. We have a lot of history with intermeeting moves--periods when we were making intermeeting moves and periods

when we were not. So the question of whether markets are more volatile is a testable hypothesis, and maybe you ought to take a shot at seeing whether it's a viable proposition.

MR. POOLE. Of course, you're right that it's a testable hypothesis. There is the presumption in the investment literature in general about the effects of greater riskiness--that a higher rate of return is required for riskier assets. Since the change in our procedures in 1994, with the announcement of our decisions following each FOMC meeting, we have made so few intermeeting moves that we have a sample size problem in terms of actually testing any hypothesis about them. So, I'm not sure that the hypothesis can in fact be tested directly with the available data. I think the situation changed quite dramatically in February of 1994 when the FOMC began to announce its decisions immediately after each meeting.

CHAIRMAN GREENSPAN. Well, then the issue really is that what you're putting forth is a hypothesis.

MR. POOLE. That's correct. I was offering a hypothesis, but I was trying to explain my reasoning.

CHAIRMAN GREENSPAN. That's okay. I'm not saying that all truths are statistical truths. On the contrary, the most important ones are not. Bob McTeer.

MR. MCTEER. Normally, I would agree with Bill Poole about intermeeting moves. I don't think it's a good idea to count on them very often. But the interval between our March 20th and May 15th meetings is a long one and we know, as does everybody else, that we're probably going to cut rates further. To delay that gives a rather perverse incentive to the market that makes it more attractive to sell stocks in order

to buy bonds. While I accept your point that it would be desirable for the stock market to get its legs on its own and not through action by the Federal Reserve, there is another thing to consider. And that is that we have just had two days of really good stock market performance. So if we were to cut the target funds rate today, we couldn't be accused of doing so because of the stock market. Later in this 10-day window, that may not be the case. We may get to the point where we want to cut the rate in the next 10 days and the stock market environment will make the Greenspan "put" come alive again. So, I was disappointed to hear that you didn't want to make a move today. I think we really should cut the funds rate today.

MR. STERN. Mr. Chairman, this is Gary Stern. I'm certainly comfortable with your recommendation for now. My sense of the economy is similar to what we've been discussing, namely that it seems to have stabilized. The issue is whether this is a durable stabilization or whether there is another leg of weakness to follow. I don't have the answer to that, obviously.

I might note that at our directors' meeting last month we did talk rather extensively about capital spending. Though this information is a bit stale, the reports we received were somewhat mixed but by no means entirely negative. In fact, I would have to say that I was mildly encouraged by those reports. On the other hand, more recently we met with a group of financial professionals from the Twin Cities and, not unexpectedly, they expressed a lot of concern about the economy, the markets, and in particular earnings, in line with your comments earlier.

MS. MINEHAN. Mr. Chairman, this is Cathy Minehan. I'm in full agreement with your proposal not to make a move right now. On the subject of intermeeting moves,

my views are rather similar to those of President Poole. Unless there is a considerable change in circumstances or in sentiment or a severe downturn of prospects, à la January of this year or the fall of '98, I believe it is better to move in measured paces at our regularly scheduled meetings. At those times we are together looking at a broad array of data over a period of time and we can discuss the issues thoroughly. Personally, I think that's a better way to operate.

I take your point about profit problems and the worsening decline in business fixed investment, and I certainly believe that the downside risks are considerable. But I don't know that an intermeeting move is an answer to any of those concerns; it's an answer only to a short-term speculative downturn, which at present anyway we are not seeing. So I certainly am in agreement with waiting. I may even want to wait at any point over the next 10 days. The issue that Bob McTeer spoke about--that we know we need to move--really to me says that perhaps we should think about avoiding such long intervals as the one between the March and May meetings rather than that we should make an intermeeting move, with all that has begun to imply.

MR. GUYNN. Mr. Chairman, this is Jack Guynn in Atlanta. I'd like to echo Cathy's comments; her views are very similar to my own this morning. I, too, recognize that we still face considerable downside risks, which in the real world are being reflected, I think, in caution, waiting, and some uneasiness. But going back to your comments at the start of the meeting, I think the notion of passing today makes a lot of sense. When I'm out talking with people, I get the feeling that businesses and individuals seem to have gotten past the notion, at least for the moment, that somehow or another we are going to rush in and make everything right. They are going about their own business and are

making the kinds of adjustments that fundamentally need to be made. In my view an intermeeting move--whether it be today or later--in the absence of some compelling new information would tend to undermine that quiet that we've achieved for the moment and the adjustment process that is under way. So, I'm not at all sure that an intermeeting move is a positive step unless the data show a compelling reason for us to move. I'd be very happy, assuming we don't get some more negative data over the next couple of weeks, to wait until our next meeting.

Incidentally, we will meet with our directors tomorrow for the first time since the week before the last FOMC meeting. And we in fact have asked them to give us their insights into investment spending, so hopefully we'll have something to report on that the next time we talk. Thank you.

MR. PARRY. Mr. Chairman, this is Bob Parry. We had four branch meetings last week and I must say that I detected a real change in the tone of our directors' comments. I got the impression that they are significantly more pessimistic about what is happening at the current time and what is likely to happen in the future. Also, I must admit that in meeting with people on a more casual basis over the last couple of weeks, an increased degree of pessimism seems to characterize the comments that I hear.

When I look at developments in the District, it would be hard for me to say that a fundamental change has occurred since our meeting. But there is no question that the uncertainties have intensified. It looks as though the adjustment in the high-tech area--and that adjustment involves plans for capital spending--is going to be greater and more intense than many of the people in the industry thought as recently as a month or two ago. I'd also say that pessimism has been growing about the possibility, especially this

summer, of negative fallout from recent energy developments, including the bankruptcy of PG&E. I talked with the _____ yesterday and he indicated that about 11,000 to 15,000 suppliers to PG&E will now receive payments based on what the bankruptcy court suggests. So I must admit that I certainly came to this meeting prepared to go along with the idea of a reduction in rates. Also, if we are going to have intermeeting changes, I found attractive some of the comments that Bob McTeer made about the timing. Thank you.

MR. MOSKOW. Mr. Chairman, this is Michael Moskow. I agree with your recommendation not to make a move today. I do believe that the risks clearly are on the down side, based on reports from contacts I've had with people. Let me mention just a few. There is a lot of concern in Chicago about the situation at Motorola. The company has been frozen out of the commercial paper market. Its problems are similar to those of other high-tech firms, but some of its difficulties may reflect internal problems as well. In talking to people who manage mutual funds, I find that they are very concerned about the cutbacks in capital spending. I had a conversation yesterday with a contact in the airlines industry and he told me that business travel, especially to the Far East, has been way down, a pattern that has continued from last month. On the other hand, consumer travel, which is booked far in advance, is very strong.

I would note one outlier to the generally negative tone of the comments I've been hearing. I took a trip to Rockford, Illinois last week, which is a metropolitan area of about 350,000 people where about 27 percent of the workforce is in manufacturing. I expected them all to be down in the dumps but they were very upbeat about the situation. Their unemployment rate is 5.1 percent now. It had been very, very high back in the

'80s. They are heavily oriented to the automotive industry, which may be helping them, in terms of the pickup they see now. Nevertheless, I was pleasantly surprised when I spoke to the bankers and community leaders there. During my visit, the town passed two referendums, both of which involved increases in spending. That certainly didn't give me any indication of negative consumer confidence there. That's possibly just an outlier, but it was a bit of upbeat news for me last week.

MR. BROADDUS. Mr. Chairman, this is Al Broaddus. My general view is very similar to the views of Bill Poole, Cathy Minehan, and Jack Guynn. But I certainly agree with your decision not to move today. I have a lot of concern about an intermeeting move. It would be a strong move and a bit of a surprise, I think. In my judgment it would have a significant impact on market expectations in terms of potential further actions down the road. If my reading of the record is correct, we have taken three intermeeting moves since the beginning of 1994. Most, if not all three, were in response to a specific problem, such as the Asian financial crisis. In any case, I agree very much with Bill Poole that we need to think very carefully about the longer-term ramifications of an intermeeting move.

In terms of the general information we're getting in our District, the picture is still mixed. I was in North Carolina a couple of weeks ago, an area with a heavy concentration of manufacturing, and certainly there were some pessimistic points of view on the table. But there was also a general feeling among almost all of the people I talked to--a number of whom were in the construction sector--that conditions are not all that bad and are likely to improve later in the year. So, in this region, I think we have a very mixed picture.

Mr. Chairman, we do have a 10-day window, I suppose, but a lot of information will be coming out over that period. We'll get sales data later this week and we'll get information on industrial production, housing starts, and a number of other measures. I hope that we will look at all of that carefully before we decide definitively to take an action before the next meeting. Thank you.

MR. SANTOMERO. Mr. Chairman, this is Tony Santomero. I agree with your concern about the state of the economy and your focus on capital expenditure and earnings issues. Whether that should lead us to an intermeeting movement is, in my view, subject to what we find out over the next 10 days. So, one way of interpreting your discussion is to argue that we should be aware of the vulnerabilities that exist and we should be watching the data very closely. I agree with all of that. I think having an extended period of time between meetings is really a structural issue, and we may want to address that as we think about our calendar for next year.

As for the local situation around the Philadelphia District, it pretty much corresponds to what we have been hearing from other Districts in terms of mixed reviews, although there is one piece of information that you might find interesting. Our BOS survey, which will not be coming out for another 10 days, is being tabulated as we speak. Our results suggest that the outlook continues to be negative but considerably less so than earlier. Our March data suggested an index of minus 23; the new data series will have an index of minus 7. So we are seeing some stabilization in the real economy as the slowdown starts to slow down, if you will.

Now, what does that mean in terms of an intermeeting move? A number of my colleagues have indicated that it would be useful to have a reason to move as opposed to

stepping in at some ill-defined time. I hope we don't have such a reason, in the sense that I'd like not to have some bad news that precipitates an immediate response. So where I come out on all of this is that I think we clearly will be easing as we go forward and we have to remain vigilant as we look at the data and see whether or not it is an appropriate time to act. Thank you, Mr. Chairman.

MR. HOENIG. Mr. Chairman, this is Tom Hoenig. I have visited with different groups around the region and I'll be meeting with our board of directors tomorrow and will learn more about developments in our District. Of the groups I have talked with recently, some have been in the technology and industrial sectors and some in the consumer area. Let me just summarize a couple of points. The technology sector is clearly in difficulty. Agilent, as you well know, has announced pay cuts and cutbacks in the technology area, which is similar to some other organizations in that sector. Clearly, there have been delays in capital expenditures by that company, by Intel, and by others. On the industrial side, in terms of large capital projects, the individuals I've talked with in this region have seen a holding back on some industrial projects. It is not panic, but more a wait-and-see attitude; that is how it has been described to me repeatedly. Finally, the consumer providers I've talked with have seen a continuation of what they say is almost strength in sales of nondurables and some appliances. They say that the picture is very mixed but nothing in their recent experience would strike them as so bad that it would cause them to be afraid of or down on the market. And, frankly, I'm hearing some anticipation of action on the fiscal policy side. So, it's a mixed bag, not unlike the situation at the time of our last meeting, with some signs of stabilization and a sense that people are waiting as things work through.

That leads me first of all, to agree with you; today doesn't strike me as necessarily the right day to reduce the funds rate. I don't know that the data available at this point would lead people to expect that or cause me to feel the need to cut rates. Moreover, I would like to avoid an intermeeting move unless important evidence suggests otherwise. That's the way I would lean. I'm certainly open to the possibility, should the data over the next few days suggest the need for us to move. But I would like to see some additional data come in and see how the new information would affect the forecast. That completes my comments.

MR. JORDAN. Mr. Chairman, this is Jerry Jordan. I'll be having a joint board meeting with all three boards of directors tomorrow, so I'll get more information of an anecdotal nature and the thoughts they bring to the meeting on how they see the situation and what their various contacts say. What information I do have at the moment comes mostly from meetings with bankers last week. In particular we had separate meetings with the top executives of three of the largest banking companies in the District. It was their sense that the situation is not continuing to get worse overall; they have confidence that things are definitely picking up. Some said that their customers thought there was room for optimism in February but that tended to dissipate in March. In the words of one banker, they had an early spring. Expectations were that a turn would occur quickly and when that didn't seem to materialize, their customers became less optimistic.

The automotive sector, of course, is still important in our District. The fact that automobile sales didn't drop as much as had been expected just a few months ago has been a relief to a lot of folks. We know that the problems in steel and heavy trucking are structural and long-lasting; those headwinds are going to be around for quite a while

and there's not a lot that monetary policy can do about that. It's going to take a long period for them to rationalize the scale of their operations.

On policy, when I look at the yield curve, the three-month Treasury bill rate is now the lowest point on the curve. Just a couple of months back the low point was at two years and last summer it was at five years. At slightly above 4 percent, where the bill rate is at the moment, I think the funds rate is probably too high at 5 percent. I would be happy if the funds rate were lower than it is because I do worry that we could become inadvertently restrictive relative to where the markets are. On the other hand, the act of cutting the rate sends messages and has implications that I find troubling. So while I would like the rate to be lower, I don't know how to get from where it is to where I think it probably ought to be. And I don't like the idea that we, whether intentionally or not, tend to support the notion that there is one particular statistical indicator that causes us to adjust our policy stance. What I will be monitoring are the trends in the various monetary and reserve aggregates. Growth in the base has slowed recently. That is not a desirable development in the current environment and I think that we have to be careful not to hold the overnight rate artificially high if that's what is implied by the rest of these yields. If it turns out that this economy does have a little more resilience and if economic activity does come back a little more quickly than seems likely in the views of the people we're hearing from, then maybe we will get through this period without having to lower the funds rate further. But it's a tough call at the moment.

CHAIRMAN GREENSPAN. Anybody else? Governor Meyer.

MR. MEYER. I'd like to make three points. First, I agree that the incoming data suggest perhaps a slight downward revision to the near-term forecast but not much

change to the overall outlook. The change is not one that normally would be large enough to justify an intermeeting move. On the other hand, I am somewhat pessimistic about the challenge that lies ahead in terms of how long it will take us to get back to trend. And, therefore, I do believe that we have further easing ahead of us. I wouldn't be surprised if we need to move a full percentage point between now and the end of June. The question is how to get there, which brings me to the issue of timing. My view has been that 50 basis points at each of the next two meetings would be just fine and that sooner isn't always better than later. There's a lot of uncertainty in the outlook and a number of crosscurrents. Sometimes going a little slower allows one to get data that either confirm or disconfirm one's views. I also think it is better to move at meetings. I like to have a full forecast in front of me and to have detailed presentations by the staff on recent developments and the outlook. If we're going to move between meetings, then I think we need to have an appropriate justification. I think moving today at a time when the markets have been pricing out the probability of an intermeeting move would only lead to a great deal of confusion about what we are doing and how we are viewing the economy. But given the fact that I do expect we will ease further, I couldn't argue too strenuously against a move if the data over the next few days are worse than expected. But my preference now would be to ease over the course of the next couple of meetings.

MR.GRAMLICH. This is Ned Gramlich. I prefer not to do intermeeting moves too, but let me make three points. First, the economy is changing rather sharply from last year to this year. Secondly, at the last meeting we didn't make the full change in rates that I frankly thought would have been appropriate at that time. We didn't because we don't like to make too large a change in any one move, which is fine. Still, I

left that meeting feeling that rates were a little on the high side. And thirdly, it's a long time between meetings. So while I prefer not to make intermeeting moves, I don't think it's wise to hold to that as an absolute no-no. Since our March meeting the data, as Dave Wilcox said, have weakened slightly. And I'd just like to remind everybody that the weakening is from a Greenbook forecast that already had the year-end unemployment rate at 5.2 percent. So the economy is weakening from a forecast that already is showing a weak economy. I would point out further that some people are taking solace in the fact that housing, autos, and overall consumption have been fairly strong. But that could be a danger sign as well because if those equations ever start working, we could have more of a problem on our hands than we think.

So my personal preference would be to do 50 basis points of easing as soon as we possibly can. I'd like to find a tranquil time in the markets, but I would like to get out there ahead of the data. Many of you have counseled waiting for another 10 days or so and see more data. I would go the other way in that I would like to move ahead of the data.

CHAIRMAN GREENSPAN. Governor Ferguson.

MR. FERGUSON. Thank you, Mr. Chairman. This is Roger Ferguson speaking. I agree that the incoming data since our meeting, as Dave Wilcox and Ned Gramlich have suggested, have been a bit on the soft side. Obviously, it's easy to focus on the good news of the household side, but the orders and shipments data for February are both softer real numbers that we've seen and also the anecdotal reports continue to be disturbingly weak from my standpoint. One could look at the unemployment numbers as perhaps a sign of some improvement, but I could also easily find ways to look at those

numbers as suggesting that the risks are starting to spread. I've noticed that no one has talked about the nonmanufacturing NAPM survey, which for the first time in a long while also showed some weakness. I also agree with your evaluation of the profits issue, Mr. Chairman. I am growing increasingly concerned that the outlook and certainly the expectations with respect to profits continue to be revised down. That would suggest to me that business people who are closest to the markets are more concerned and not less so. That might well have negative spillover effects on investment, which I think is an important point.

Putting this all together, while I recognize the consensus is for some pickup in growth in the second half of the year, it's really not out of the question that we may continue to muddle through with downward revisions to the forecast. We could end up having a longer period this year--several quarters, not just the first and second--in which growth is at a number starting with one. And even if growth were to pick up a bit in the second part of the year, there is still a notable output gap. All of this suggests to me, as others have said, that over the next several meetings we are likely to be moving rates down as opposed to staying pat.

On the question of intermeeting moves, I could line up with everybody else and say that it's probably better not to do them. On the other hand, I don't believe that our meeting schedule was set with any sort of divine intervention. It's not as though we knew that the dates we chose last year would be ideal for making decisions about the macroeconomic conditions of this year. Therefore, while I would prefer not to move between meetings, I frankly don't believe that we necessarily have to wait for a crisis either. I think we should be willing to move, particularly if the period between meetings

is uncomfortably long, as the data start to mount and as a consensus on the outlook starts to emerge. We haven't seen all the data coming forth, but I'm very supportive, Mr. Chairman, of your notion that if the information we receive over the next week or so continues to show an erosion, then we should be prepared to move. It probably will not be that much of a surprise to the markets. It will certainly be easily justifiable. And mainly our challenge should be to do what is right for the economy and not necessarily to try to live by a meeting schedule that we set last year when I suspect most of us weren't expecting to be talking about economic growth close to 1 percent. Thank you.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Thank you, Mr. Chairman. Many people have expressed the desire to stay away from intermeeting moves and in general I think that certainly makes sense. And if we did that in this case we would have a host of data available to us by the 15th of next month that we don't have right now. So I think there's a very good argument for waiting until our regular meeting.

But if we feel that we definitely are going to need to lower rates, and if further it is desirable to have an intermeeting move, then the question obviously becomes whether to do it now or wait until some other day over the course of the next 10 days. In that case, on balance I think I would prefer to go ahead. With all of the data that are coming out over the next several days and, of course, the normal course of daily events, I can envision many different scenarios that would end up making it less rather than more desirable to do it some day in the near future. I think that's a distinct risk. Is today necessarily not as good a day as we will have some time over the next week or so? It's not at all clear to me that that is the case.

So, I would like to support Ned Gramlich in that I believe there is an argument to be made that when the data are as mixed as they are now, there may a positive benefit in moving ahead of the data. That would indicate that we are not moving in panic but just that the general situation requires lower rates, and we could go ahead and make the move on a day when there is not a specific data release, whether it be good or bad.

In sum, I'm comfortable to wait because I don't think it's critical that we move right now. But if we are focused on whether we're going to do it today or soon, then I'd prefer to go ahead today.

CHAIRMAN GREENSPAN. Any further questions or comments? If not, let me say that I thought this was a very useful meeting. I learned a lot from listening to everybody around the table because things are moving reasonably fast. To repeat, this is not an official meeting of the FOMC but an informational one. Nonetheless, we will report its existence as part of the minutes released after our next official meeting. And I trust that everyone will keep that in confidence as we move forward and monitor the data. Thank you very much everybody. I'll speak to you again soon.

END OF SESSION