

Meeting of the Federal Open Market Committee

November 14, 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, November 14, 1989, at 2:30 p.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Guffey
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. Prell, Economist
Mr. Truman, Economist

Messrs. Balbach, R. Davis, T. Davis, Lindsey,
Ms. Munnell, Messrs. Promisel, Scheld, Siegman,
Simpson, and Slifman, Associate Economists

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

Mr. 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

Messrs. Broaddus, J. Davis, Rolnick, and Ms. Tschinkel,
Senior Vice Presidents, Federal Reserve Banks of
Richmond, Cleveland, Minneapolis, and Atlanta,
respectively

Messrs. Judd, Meyer, and O'Driscoll, Vice Presidents,
Federal Reserve Banks of San Francisco, Philadelphia,
and Dallas, respectively

Ms. Krieger, Manager, Open Market Operations, Federal
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 October 3, 1989, were approved.

The report of examination of the System Open Market Account, made
by the Board's Division of Federal Reserve Bank Operations as of the close
of business on April 28, 1989, was accepted.

By unanimous vote, System open market transactions in foreign
currencies during the period October 3, 1989, through November 13, 1989,
were ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period October 3,
1989, through November 13, 1989, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for
Domestic Open Market Operations was amended to raise from \$6 billion to \$8
billion the dollar limit on intermeeting changes in System Account holdings
of U.S. government and federal agency securities for the intermeeting
period ending December 19, 1989.

By unanimous vote, the Committee authorized the renewal for
further periods of one year of the System's reciprocal currency ("swap")
arrangements having the amounts and maturity dates indicated below:

<u>Foreign Bank</u>	Amount of arrangement (millions of \$ equivalent)	Term (months)	Maturity date
Austrian National Bank	\$ 250.0	12 mos.	12/04/89
National Bank of Belgium	1,000.0	"	12/18/89
Bank of Canada	2,000.0	"	12/27/89
National Bank of Denmark	250.0	"	12/28/89
Bank of England	3,000.0	"	12/04/89
Bank of France	2,000.0	"	12/27/89
German Federal Bank	6,000.0	"	12/27/89
Bank of Italy	3,000.0	"	12/27/89
Bank of Japan	5,000.0	"	12/04/89
Bank of Mexico	700.0	"	12/04/89
Netherlands Bank	500.0	"	12/27/89
Bank of Norway	250.0	"	12/04/89
Bank of Sweden	300.0	"	12/04/89
Swiss National Bank	4,000.0	"	12/04/89
Bank for International Settlements--			
Swiss francs	600.0	"	12/04/89
Other authorized European currencies	1,250.0	"	12/04/89

With Ms. Seger 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 domestic policy directive:

The information reviewed at this meeting suggests continuing expansion in economic activity, though at a somewhat slower pace than earlier in the year. Total nonfarm payroll employment increased appreciably in October, but on balance its growth has been more moderate over the past several months, especially in the private sector. The civilian unemployment rate has remained around 5-1/4 percent. Strike activity and other disruptions depressed industrial production noticeably in October. Retail sales fell appreciably in October, reflecting a sharp drop in purchases of motor vehicles, but some upward revisions were made for August and September. Housing starts fell further in September and for the third quarter as a whole were about unchanged from their reduced second-quarter average. Indicators of business capital spending suggest slower growth after a substantial increase in the first half of the year. The nominal U.S. merchandise trade deficit widened in August from its July rate as non-oil imports increased markedly. Consumer

prices have risen more slowly on balance since midyear, partly reflecting sharp reductions in energy prices, but the latest data on labor compensation suggest no significant change in prevailing trends.

Most interest rates have declined appreciably since the Committee meeting on October 3. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined slightly on balance over the intermeeting period.

M2 continued to grow fairly briskly in October, largely reflecting strength in its M1 and other liquid components; thus far this year M2 has expanded at a pace somewhat below the midpoint of the Committee's annual range. Growth of M3 picked up in October but has remained much more restrained than that of M2, as assets of thrift institutions and their associated funding needs apparently continued to contract; for the year to date, M3 has grown at a rate around the lower bound of the Committee's annual 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 July reaffirmed the ranges it had established in February 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 non-financial debt also was maintained at 6-1/2 to 10-1/2 percent for the year. For 1990, on a tentative basis, the Committee agreed in July to use the same ranges as in 1989 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1989 to the fourth quarter of 1990. 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 progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or slightly lesser

reserve restraint would be acceptable in the inter-meeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from September through December at annual rates of about 7-1/2 and 4-1/2 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.

It was agreed that the next meeting of the Committee would be held on Monday-Tuesday, December 18-19, 1989.

The meeting adjourned.

Secretary