FEDERAL RESERVE press release

For Use at 4:30 p.m. August 25, 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 July 5-6, 1989. This record also includes a policy action taken during the period between the meeting on July 5-6, 1989, and the next regularly scheduled meeting held on August 22, 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

RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting Held on July 5-6, 1989

1. Domestic Policy Directive

The information reviewed at this meeting tended to confirm earlier indications that economic growth had slowed this year. Recent data on production and spending suggested a fairly consistent pattern of weakness in housing and in consumer goods, notably motor vehicles. Running counter to that trend was a further sizable increase in spending for business equipment following a strong first quarter; in addition, the trade deficit had narrowed further. Broad measures of prices continued to rise more rapidly than in 1988, reflecting sharp upward pressures on energy and food prices. There had been no discernible step-up in the pace of wage inflation, however, even though levels of labor utilization remained relatively high.

Growth in total nonfarm payrolls moderated substantially in recent months from the pace of the previous two years. Employment in manufacturing and construction fell in May and on balance had changed little in both sectors since January. Job growth in services was relatively weak in May, judged by recent standards, as gains in trade and business services were small. Despite the slower pace of payroll growth this year, the factory workweek remained high by historical standards in May, and initial claims for unemployment insurance had increased only slightly through mid-June. The civilian unemployment rate, at 5.2 percent in May, stayed close to its average level in earlier months of the year.

Industrial production increased on balance in April and May at about the reduced rate experienced earlier in the year. Assemblies of motor vehicles, which had turned up in April, fell appreciably in May. Production of consumer goods other than automobiles also softened in May, and output of construction supplies registered a decline for the fourth consecutive month. Production of business equipment excluding automobiles continued to advance strongly in April and May, partly as a result of a surge in the manufacture of computers but also owing to gains for a variety of other types of equipment, particularly capital goods for manufacturing industries. Total industrial capacity utilization retraced its April rise in May but remained well above its relatively high level of a year ago. Operating rates in manufacturing slipped further in May for primary processing industries, while those for advanced processing industries were sustained at the already high levels evident in earlier months of the year.

Despite considerable gains in real disposable income in recent quarters, the sluggish growth in consumer spending that had emerged earlier in 1989 continued into the second quarter. In May, a decline in expenditures was led by a reduction in outlays for motor vehicles, although spending also was flat or down for a broad range of other goods, both durable and nondurable. In contrast to outlays on goods, growth in purchases of services was well maintained. Housing starts declined slightly further in May, as single-family starts slipped back to their weak level of March. Starts of multifamily units were little changed in May from the seven-year low recorded in April. Home sales had fallen this year.

Recent indicators of business capital spending suggested a further substantial increase in the second quarter after a strong first quarter. Shipments of nondefense capital goods advanced sharply in April, with solid gains for most broad categories, and remained high in May. Nonresidential construction activity had changed little in recent quarters although industrial structures put in place strengthened somewhat, perhaps reflecting sustained high levels of factory utilization in some industries. Inventory investment by manufacturers continued in April at about the first-quarter pace and such inventories remained in line with shipments. Much of the increase in factory inventories was concentrated in work-in-process stocks in the aircraft industry, where production had been strong. In the retail sector, dealer stocks of automobiles remained high, and inventories at other retail establishments had risen a bit relative to sales, measured on a constant-dollar basis, but there were only limited indications of excess stocks in the non-automotive segments of retailing.

The nominal U.S. merchandise trade deficit narrowed in April from a first-quarter average that was the smallest in four years. Exports strengthened a little in April when a decline in sales of agricultural products from their high March levels was outweighed by increases in most other major trade categories, especially industrial supplies and machinery. Appreciable declines in imports of automotive products, machinery, and foods more than offset a rise in oil imports. Available data suggested some slowing recently in the growth of economic activity in the major foreign industrial countries following robust expansion in the first quarter; inflation rates had moved up in most of those countries.

Continuing a pattern of sharp increases this year, producer prices of finished goods were up substantially further in May. The May rise was led by further advances in prices of food and energy products, but prices of non-food, non-energy goods also rose after being about unchanged in April. In April and May, increases in prices of most materials were noticeably smaller than those registered for finished goods. The consumer price index rose sharply further in April and May. Over the first 5 months of the year consumer prices increased at a faster rate than in 1988; however, excluding food and energy, the rate of increase in these prices differed little from last year's pace, partly because of the damping effect of the appreciation of the dollar on the prices of a broad range of imported goods. Recent data for labor compensation indicated that year-over-year increases in average hourly earnings of production and nonsupervisory workers remained near the average pace evident since mid-1988.

In foreign exchange markets, the dollar recorded significant gains against most of the other G-10 currencies in the weeks after the Committee meeting on May 16; in mid-June, the dollar reached a 2-1/2 year high against the mark and a 1-1/2 year high against the yen. Smaller-than-anticipated trade deficits announced for March and April, political events in China and Japan, and expectations of capital gains in U.S. bond and equity markets appeared to have helped trigger buying pressure at a time of narrowing differentials between interest rates in the United States and abroad. The dollar subsequently fell back sharply in often volatile trading, its weighted-average value in terms of the other G-10 currencies more than retracing the earlier rise. The decline in the value of the dollar occurred largely in the absence of significant new economic developments or clear indications of a reassessment of economic fundamentals by market participants.

At its meeting on May 16, the Committee adopted a directive calling for no immediate change in the degree of pressure on reserve positions. The Committee agreed that somewhat greater or somewhat lesser reserve restraint would 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. This policy stance was expected to be consistent with growth of M2 and M3 at annual rates of around 1-1/2 and 4 percent respectively over the period from March through June.

Immediately after the Committee meeting, the Manager for Domestic Operations directed operations toward maintaining the existing degree of pressure on reserve positions. A technical upward revision was made to the assumed level of adjustment plus seasonal borrowing to bring it in line with desired overall conditions in reserve markets; this revision resulted from the recent, unusual strength of seasonal borrowing that perhaps was associated with heavier demands for crop-production loans at a time of weak deposit growth at agricultural banks. Later in the intermeeting period, a variety of developments began to suggest that a slackening in inflation pressures might be in prospect as indications of slower economic expansion continued to accumulate, monetary growth remained sluggish, and the dollar climbed further. In these circumstances, the Manager for Domestic Operations acted in early June to reduce somewhat the degree of pressures on reserve positions. Adjustment plus seasonal borrowing averaged about $550 million over the three full reserve maintenance periods completed since the May 16 meeting, while the federal funds rate moved down about 1/4 percentage point to 9-1/2 percent or slightly higher more recently.

Other market interest rates also fell over the intermeeting period in response to indications of a continuing softness in the economy and a better outlook for inflation as well as to the easing of monetary policy. Short-term market rates dropped 25 to 70 basis points, and the prime rate was lowered 1/2 percentage point to 11 percent in early June. In long-term debt markets, yields on Treasury coupon issues dropped 70 to 90 basis points. Stock prices rallied through much of the intermeeting period, and major indexes reached new post-1987-crash highs before giving up most of those gains.

M2 and M3 declined in May, primarily because of sizable reductions in transaction and other liquid deposit balances that seemed to be related to the clearing of unexpectedly large payments to cover federal tax liabilities for 1988. Through mid-June, growth of these aggregates appeared to have rebounded in conjunction with some rebuilding of tax-depleted balances and the declines in market interest rates that brought some narrowing of the large opportunity costs associated with holding liquid deposits. Nonetheless, the growth of M2 for the year to date remained below the lower end of the Committee's annual target range. M1 continued to contract through mid-June, as weakness in transaction balances, especially in demand deposits, persisted. Domestic nonfinancial debt expanded in May at a slightly lower rate than it did in the first quarter.

The staff projections prepared for this meeting suggested that growth of the nonfarm economy over the remainder of 1989 and for 1990 was likely to be at a pace a little lower than that estimated for the first half of this year. The projection continued to assume that normal agricultural growing conditions would prevail. Although the recent strengthening of the dollar was tending to damp import prices and thereby domestic inflation, the staff anticipated that, with margins of unutilized labor and other production resources still relatively low, most measures of prices and labor costs would increase at slightly faster rates in 1989 than in 1988. Inflationary pressures were expected to abate a bit in 1990, partly in response to gradually mounting slack in labor and product markets. The staff projected that the contribution of foreign trade to growth would be very limited, as real export gains dropped well below the pace of recent quarters, and that fiscal policy would remain moderately restrictive. In view of expected meager gains in employment and real income, consumer spending would be sluggish through 1990. Housing activity was projected to benefit from the recent drop in interest rates. Relatively sluggish final demands along with reduced capacity utilization rates were expected to have a restraining effect on the growth of business capital spending.

In the Committee's discussion of current and prospective economic conditions, members focused on accumulating indications of reduced growth in business activity and on the implications for the outlook for the economy and prices. The members generally concluded that continuing expansion at a relatively slow pace was a reasonable expectation for the next several quarters and that the associated lessening of pressures on labor and capital resources was likely to foster progress in curbing inflation over time. Members noted that the economic outlook was subject to considerable uncertainty and that substantial deviations from current expectations might well occur. The latest information suggested some risk that the expansion might weaken further, but current business conditions provided few indications of the kinds of imbalances and distortions that often lead to downturns in economic activity. Some members emphasized that a recession, should one materialize, might be aggravated by the debt burdens or debt exposure of many business and financial firms. At the same time, inflation remained unacceptably high and cost pressures substantial; however, in the context of a weaker economic outlook and an extended period of slow monetary growth, the risks of a sustained acceleration in inflation appeared to be more limited than they had earlier in the year. Nonetheless, a policy designed to bring about some reduction in underlying inflation pressures and improvement in the nation's external accounts might be associated with relatively slow growth of domestic spending for some time.

In keeping with the usual practice at meetings when the Committee considers its long-run objectives for monetary growth, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members provided specific projections of growth in real and nominal GNP, the rate of unemployment, and the rate of inflation. With regard to the rate of expansion in real GNP, the projections had a central tendency of 2 to 2-1/2 percent for 1989 as a whole, implying continuing growth at a reduced pace in the second half of the year; for the year 1990 the central tendency was 1-1/2 to 2 percent. Projections of growth in nominal GNP converged on rates of 6 to 7 percent for 1989 and 5-1/2 to 6-3/4 percent for 1990. The projected rates of unemployment centered around 5-1/2 percent for the fourth quarter of 1989 and 5-1/2 to 6 percent for the fourth quarter of 1990. With respect to the rate of inflation, the projections had a central tendency for the consumer price index of 5 to 5-1/2 percent for 1989 and 4-1/2 to 5 percent for 1990. In making these projections the members took account of the Committee's decisions at this meeting with regard to the objectives for monetary growth in 1989 and 1990. The members assumed that progress would be made in reducing the federal budget deficit and that fluctuations in the exchange value of the dollar would not be of sufficient magnitude to affect economic growth and inflation materially in the period through the end of 1990.

In their review of specific developments bearing on the outlook for the economy, members observed that growth appeared to be slowing in many parts of the country but that the utilization of labor and capital resources remained high in most regions and continued to improve in others from relatively depressed levels. In general, business sentiment remained favorable, though the emergence of somewhat more cautious attitudes was detected in a number of areas and industries. With regard to specific sectors of the economy, current data and business contacts did not suggest any general backup in inventories apart from motor vehicles; however, there were some recent reports of marginally excessive inventories in a few non-automotive businesses, and a further slippage in the growth of final demand could lead to efforts to pare inventories and production schedules. The members generally anticipated continued overall growth in business fixed investment, though at a pace much reduced from that experienced earlier in the year. Nonresidential construction activity was lagging in many areas, but the demand for business equipment remained relatively vigorous, in part because of sales abroad. Housing activity was weak in a number of markets, including some that had displayed considerable vigor until recently, but the decline in mortgage rates was believed likely to sustain activity in this sector of the economy.

A key element in the outlook for overall business activity was the prospects for consumer spending; many members saw little basis for anticipating further slowing in the expansion of consumer expenditures, but others were less persuaded and some cited in particular the possibility that relatively weak sales of motor vehicles might continue. Foreign trade was another important sector bearing on the economic outlook. Some further growth in net exports was viewed as a reasonable prospect, but the improvement might be limited if the dollar remained strong and growth slowed in key economies abroad. Finally, a number of members stressed that some acceleration in monetary growth from the pace in the first half of the year likely was needed to help support expansion in business activity.

Turning to the outlook for inflation, members generally anticipated that reduced economic growth in line with the central tendency of their forecasts would contribute to some damping of underlying inflationary pressures by 1990. The rate of increase in the consumer price index might well moderate over the balance of this year, assuming relief from special factors that had affected food and energy prices during the first half. In particular, the larger farm crops that were anticipated this year would tend to reduce pressures on food prices, and recent oil price developments suggested some softening in consumer energy prices. Other favorable developments included generally restrained increases in wages despite ongoing labor shortages in many parts of the nation and, as evidenced in part by business contacts around the country, some apparent lessening of inflationary expectations. In addition, commodity prices had been subdued in recent months, supporting indications of less intense demands in industrial sectors and perhaps pointing to slower increases in consumer prices in the months ahead. On the negative side, some members stressed that underlying inflation pressures remained strong and, given current levels of resource use, an expansion in line with the forecasts of most members might avert accelerating inflation but was less likely to foster any significant decline over the forecast horizon . More generally, the members' forecasts pointed to a rate of inflation that was unacceptably high and that moderated only slightly over this period; moreover, the risks of some acceleration, while small, were not negligible especially if economic growth turned out to be appreciably faster than most members currently anticipated, putting additional pressure on resources.

Against the background of the Committee's views regarding prospective economic developments 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 for growth in the monetary and debt aggregates that it had established in February for 1989 and decided on tentative ranges for growth in those measures in 1990. The 1989 ranges included growth of 3 to 7 percent for M2 and 3-1/2 to 7-1/2 percent for M3 for the period from the fourth quarter of 1988 to the fourth quarter of 1989. A monitoring range of 6-1/2 to 10-1/2 percent had been set for growth in total domestic nonfinancial debt in 1989. For the year to June, the cumulative expansion of M2 was at a rate about one percentage point below the Committee's range, while that of M3 placed it at the lower bound of its range. The expansion in nonfinancial debt was near the middle of its range in the first half of the year.

In the Committee's review of the ranges for 1989, all of the members endorsed a proposal to retain the ranges set in February. The Committee took account of a staff analysis which indicated that the more rapid growth in M2 and M3 since mid-May was likely to persist over the months ahead and that by the fourth quarter both aggregates would be well within the current ranges for the year. The staff assessment incorporated the impact of the recent declines in market interest rates, which would tend to reduce the opportunity costs of holding M2 balances, and also assumed that there would be no special factors influencing the growth of the aggregates such as those experienced earlier in the year. Expansion in total domestic nonfinancial debt was projected to continue at a rate around the middle of its range through year-end; growth in this measure had been trending lower in recent years but it remained at a pace appreciably above that for nominal GNP. The members concluded that the ranges set in February for 1989 were still consistent with the Committee's objectives of fostering sustained expansion in economic activity and progress toward price stability.

The ranges for 1989 represented reductions from those for 1988, and the members agreed that restrained monetary growth and further reductions in the ranges would be needed over time to achieve and maintain price stability. Views differed, however, as to whether the ranges for 1990 should be reduced at this meeting.

A majority of the members indicated a preference for extending the 1989 ranges provisionally to 1990, subject to the usual review next February in light of the economic and financial conditions prevailing then. The outlook for next year was uncertain, especially this far in advance. Nonetheless, the 1989 ranges were likely in this view to encompass monetary growth that would foster desired economic expansion and moderation of price pressures in 1990. This outcome could be associated with somewhat more rapid growth of M2 in 1990 than appeared to be in train for 1989. Such a pickup in monetary growth would be consistent with expansion of nominal GNP along the lines of the central tendency of the members' forecasts and should be associated with only minor changes in interest rates and hence in velocity next year. Moreover, somewhat faster growth in M2 might be needed next year to counter any potential weakening tendencies that might develop in the economy. In these circumstances there existed a considerable risk that a reduction in the range for M2 might have to be reversed next year or growth in excess of the range tolerated. Either development might be viewed as inconsistent with the stability and predictability of policy that tended to enhance its effectiveness over time. Especially in light of the foregoing considerations, a marginal reduction in the ranges, although it might be seen as more consistent with the long-run objective of price stability, would seem to imply greater precision than was warranted by the Committee's current ability to project next year's developments. If small adjustments were called for, they could be made early next year when a more firmly based decision would be possible.

Members who preferred lower ranges for 1990 gave a good deal of emphasis to the desirability of continuing the Committee's policy of reducing the ranges from year to year in order to implement anti-inflationary objectives. In this view, a failure to reduce the ranges at least slightly in present circumstances might be read as an implicit acceptance of current rates of inflation. These members recognized the possibility that monetary growth next year might be at the upper end, or even above, the ranges that they favored especially if interest rates were to decline further in the interim. If economic and financial conditions early next year suggested a need, they would be prepared to raise the ranges at that time. Such a decision would be made in the light of circumstances that provided the rationale for it and need not therefore have the adverse consequences for inflationary expectations that some members feared. Members who favored lower ranges also did not want to rule out the possibility that inflation pressures next year might turn out to be more intense than was currently anticipated and that relatively limited monetary expansion therefore might remain appropriate.

In light of the persisting uncertainties about the relationship between monetary expansion and ultimate policy objectives, the members were in favor of retaining relatively wide ranges of 4 percentage points for M2 and M3. For many years prior to 1988, the Committee had set narrower ranges, almost uniformly of 3 percentage points, for the broader monetary aggregates and for total domestic nonfinancial debt. Wider ranges provided greater scope for achieving monetary growth that was consistent with the Committee's objectives for the economy. In assessing appropriate rates of monetary expansion in the prevailing uncertain environment, the Committee would continue to evaluate a wide assortment of economic and financial indicators.

At the conclusion of this review, the Committee approved for inclusion in the domestic policy directive the following statement of its objectives for growth of the broader monetary aggregates and nonfinancial debt for the year 1989:

> **The Committee reaffirmed at this meeting 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 nonfinancial debt also was maintained at 6-1/2 to 10-1/2 percent for the year.**

> Votes for this action: Messrs. Greenspan, Corrigan, Angell, Guffey, Johnson, Keehn, Kelley, LaWare, Melzer, Ms. Seger, and Mr. Syron. Votes against this action: None. Absent and not voting: Mr. Heller.

For the year 1990, the Committee approved for inclusion in the domestic policy directive the following statement regarding the ranges for growth of the monetary aggregates and nonfinancial debt:

> For 1990, on a tentative basis, the Committee agreed 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.

> Votes for this action: Messrs. Greenspan, Corrigan, Angell, Guffey, Johnson, Kelley, LaWare, Melzer, Ms. Seger, and Mr. Syron. Vote against: Mr. Keehn. Absent and not voting: Mr. Heller.

Mr. Keehn dissented because he wanted to reduce the ranges for 1990. In his view, a reduction of the ranges for next year would provide an important signal of the System's continuing commitment to price stability. While the velocity of the monetary aggregates had been erratic recently, lower ranges for the aggregates would encompass desirable rates of monetary growth should more normal conditions prevail next year. Given the uncertainty in the relationship between the monetary aggregates and economic growth, he would, however, be prepared to adjust the ranges early next year on the basis of intervening developments.

In the Committee's discussion of policy implementation for the period until the next meeting, the members generally agreed that recent developments suggested that some further easing of reserve conditions would be appropriate. Nearly all endorsed a proposal to lessen the degree of reserve pressure marginally at this time, but one member favored somewhat greater easing and another saw merit in a phased lessening of reserve pressures in the weeks ahead. Many emphasized that current economic and financial uncertainties called for caution in adjusting policy at this point. In this view, more than a slight move to less restraint could have an undesirable effect on inflationary expectations and, at least in the absence of further indications of lagging economic growth, could lead eventually to upward pressure on long-term interest rates. Moreover, in the view of some members, there remained some risk that inflationary pressures would intensify and that the easing might have to be reversed later. Caution also was indicated in light of the prevailing sensitivity and volatility of financial markets.

Several members emphasized the need for faster monetary growth than had been experienced in recent months. Some acceleration in the rate of monetary expansion had occurred since the middle of May, and a staff analysis suggested that such growth was likely to continue as the full effect of recent declines in market interest rates was felt. On the assumption of no further changes in interest rates, the staff projection anticipated that cumulative M2 growth would reach the bottom of the Committee's annual range by late summer. However, given the uncertainties that were involved, a number of members felt that some futher easing was desirable to improve the prospects that monetary growth would be within the Committee's ranges for the year, if only in the lower part of the range in the case of M2. A moderate pickup in monetary growth at this time would help assure continued expansion of the economy and possibly avoid a situation in which a substantial weakening of the economy would be followed by rapid monetary growth and a marked rebound in activity--a pattern that would be unlikely to foster the Committee's objective of price stability over time.

Turning to the question of possible intermeeting adjustments in the degree of reserve restraint, a majority of the members indicated a preference for retaining an unbiased instruction as in the directive for the May meeting. This approach, in the context of the indicated preference of the members to move toward some immediate easing, was in keeping with the caution about future policy moves favored by most members. This caution was dictated by current uncertainties regarding the economic outlook, the still rapid rate of inflation, and the relatively sensitive conditions in financial markets. Others preferred an intermeeting instruction that was tilted toward ease partly to help underscore--in conjunction with a decision to ease--their view that the risks were in the direction of a shortfall in economic growth from current expectations and therefore that any intermeeting adjustment would very likely be in the direction of less restraint. Indeed, in this view a dramatic and unlikely turnaround would be needed in the tenor of the incoming economic information to warrant any firming in the weeks ahead.

In light of the easing of reserve conditions in early June and the further slight easing contemplated at this meeting, the members decided to lower the intermeeting range for the federal funds rate by 1 percentage point to 7 to 11 percent. Such a reduction centered the range more closely around the federal funds rate that was expected after this meeting. The federal fund range provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded.

At the conclusion of the Committee's discussion, all but one of the members indicated that they preferred or could accept a directive that called for some slight easing in the degree of pressure on reserve positions. Some firming or some easing of reserve conditions would be acceptable during 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 some acceleration in the growth of M2 and M3 to annual rates of around 7 percent over the three-month period from June to September.

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

> The information reviewed at this meeting tends to confirm earlier indications that economic growth has slowed this year. Gains in total nonfarm payroll employment have moderated substantially in recent months, but the civilian unemployment rate, at 5.2 percent in May, remained close to its average level in earlier months of the year. Industrial production increased on balance in April and May at about the reduced rate experienced earlier in the year. Growth in consumer spending has weakened considerably this year. Housing starts declined slightly further in May. Recent indicators of business capital spending suggest a substantial additional increase in the second quarter after a rebound in the first quarter. The nominal U.S. merchandise trade deficit narrowed in April from a substantially reduced average value in the first quarter. Broad measures of prices have risen more rapidly this year than in 1988, reflecting sharp increases in energy and food prices.

Interest rates have fallen since the Committee meeting on May 16, with the largest declines generally occurring in long-term markets. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose sharply earlier in the intermeeting period but subsequently more than retraced that rise in often volatile trading.

M2 and M3 declined in May, primarily because of sizable reductions in transaction and other liquid balances arising from the clearing of unusually large tax payments; data through mid-June point to a rebound in these measures of money. Thus far this year, expansion of M2 has been at a rate below the Committee's annual range, while growth of M3 has been around the lower bound of the Committee's 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 reaffirmed at this meeting 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 nonfinancial 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 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 decrease slightly the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 7 percent. 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, Guffey, Johnson, Keehn, Kelley, LaWare, Melzer, and Syron. Vote against this action: Ms. Seger. Absent and not voting: Mr. Heller.

Ms. Seger dissented because she felt that somewhat greater easing was warranted. In her view, the expansion in business activity already had slowed substantially and recent developments pointed to further weakness. While a change in monetary policy would have little effect on the economy over the remainder of this year, a more pronounced easing than the Committee currently contemplated was needed to foster financial conditions that would support the economy in 1990 and beyond.

2. Authorization for Domestic Open Market Operations

Effective July 7, 1989, the Committee approved a temporary increase of $2 billion, to $8 billion, in the limit between Committee meetings on changes in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations. Subsequently, effective July 31, 1989, the Committee approved a further increase of $2 billion, to $10 billion, in the intermeeting limit. Both increases applied to the period ending with the close of business on August 22, 1989.

Votes for the action effective July 7: Messrs. Greenspan, Corrigan, Angell, Guffey, Johnson, Keehn, Kelley, LaWare, Melzer, Ms. Seger and Mr. Syron. Votes against this action: None. Absent and not voting: Mr. Heller.

Votes for the action effective July 31: Messrs. Greenspan, Angell, Boykin, Guffey, Johnson, Keehn, Kelley, Oltman, Ms. Seger, and Mr. Syron. Votes against this action: None. Absent and not voting: Messrs. Heller and LaWare. (Messrs. Boykin and Oltman voted as alternates for Messrs. Melzer and Corrigan, respectively.)

The increases were approved on the recommendation of the Manager for Domestic Operations. The Manager had advised on July 5 that the usual leeway of $6 billion for changes in System account holdings probably would not be sufficient over the intermeeting period, partly because of expected sales of securities to offset large declines in balances held by the U.S. Treasury at the Federal Reserve Banks and because of large foreign currency transactions. On July 28, the Manager advised that the remaining leeway under the $8 billion limit had been reduced to about $650 million, mainly as a result of declines in Treasury balances at the Reserve Banks but also owing to further official foreign currency transactions and smaller than expected increases in currency in circulation. The Manager anticipated that additional leeway might be necessary to meet continuing needs to absorb reserves in upcoming reserve maintenance periods.