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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

TO: Federal Open Market Committee DATE: March 17, 1993

FROM: Normand Bernard N.B.

The attached documents from the FOMC subcommittee contain proposals regarding new-style FOMC minutes and an "Executive Summary" of the policy record. Chairman Greenspan has placed this matter on the agenda for next Tuesday's meeting.

Attachments

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CLASS I - FOMC

March 17, 1993

TO: Federal Open Market Committee

FROM: David Mullins

SUBJECT: Proposal Regarding FOMC Minutes

The subcommittee[1] established to review Committee policies relating to the release of FOMC information proposes that the "Minutes of Actions" be merged with the "Policy Record" and made available to the public as one document to be called "Minutes of the FOMC Meeting." Currently, both documents are released a few days after the next regularly scheduled meeting, usually after the close of business on the Friday after that meeting. As you know, the policy record is released to the press and the public more generally by Mr. Coyne and his colleagues around the System; this document subsequently is published in the Board's Bulletin and its Annual Report. The minutes of actions are placed in the Board's Freedom of Information Office. Those minutes, which are routinely approved at the start of every meeting for the previous meeting, receive very little attention from the public--currently no more than 12 to 15 inquiries per year. A few additional copies are made available through the FOMC Secretariat in response to public inquiries.

Merging the two documents would represent a return to the practice followed by the FOMC from 1936 to mid-1967. One significant difference, however, is that the "minutes" in those years included

1. Messrs. Mullins (Chairman), Boehne, Kelley, and Melzer.

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what became known as the "Memorandum of Discussion" in 1967. Those earlier minutes were not intended for distribution to the public; in those years the Board fulfilled its statutory responsibility for informing the public about FOMC matters by publishing a then relatively brief policy record in the Board's Annual Report. After mid-1967, the minutes of actions were made public on the same lagged basis as the policy record--initially about 90 days after each meeting. The memorandum of discussion was made public (with some deletions) after five years. As the members will recall, the memorandum of discussion was discontinued in the spring of 1976. At the same time, the policy record was expanded in length and the current release schedule was adopted.

The objective of merging the documents would be to assemble in convenient form all the information that currently is released pertaining to FOMC meetings. Putting this information in an easily accessible form would underscore the amount of information we currently make available concerning FOMC meetings.

It is the subcommittee's belief that the contents of the merged documents do constitute and are appropriately described as "Minutes of the FOMC Meeting." The new document would be introduced for the meeting held on February 2-3 and would be released to the public on Friday, March 26. It would not include any information not now found in one or the other document.

As may be seen in the attached draft of the new document, the "first edition" would be relatively long--35 pages. The reason is that the minutes of actions for the February meeting include the special "organization meeting" items and the policy record for the

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meeting has several pages devoted to the discussion of the Humphrey-Hawkins ranges. The typical length of most minutes under this format probably would be 15 to 18 pages.

In addition, the subcommittee recommends that the FOMC issue an "Executive Summary" of the policy record. It would seem appropriate to issue the first of these in conjunction with the new minutes format, should the FOMC decide to go ahead with the latter. A draft for the February meeting will be circulated prior to the upcoming meeting on Tuesday.

Chairman Greenspan has decided to put the question of new-style minutes on the agenda for the meeting on March 23.

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D R A F T

For Use at 4:30 p.m. March 26, 1993

The Federal Reserve Board and the Federal Open Market Committee today released the attached minutes of the Committee meeting on February 2-3, 1993.

The minutes for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and subsequently are published in the Federal Reserve Bulletin. The summary description of economic and financial conditions contained in these minutes is based solely on the information that was available to the Committee at the time of the meeting.

Attachment

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CLASS I - FOMC

March 17, 1993

Minutes of the Federal Open Market Committee
Meeting of February 2-3, 1993

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, February 2, 1993, at 2:30 p.m. and was continued on Wednesday, February 3, 1993, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. McTeer
Mr. Mullins
Ms. Phillips
Mr. Stern

Messrs. Broaddus, Jordan, Forrestal, and Parry, Alternate Members of the Federal Open Market Committee

Messrs. Hoenig, Melzer, and Syron, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Boston, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Patrikis,[1] Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. R. Davis, Lang, Lindsey, Promisel, Rosenblum, Scheld, Siegman, Simpson, and Slifman, Associate Economists

Mr. McDonough, Manager of the System Open Market Account
Ms. Greene, Deputy Manager for Foreign Operations
Ms. Lovett,[2] Deputy Manager for Domestic Operations

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

1. Attended Wednesday session only.
2. Attended Tuesday session only.

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Mr. Madigan, Assistant Director, Division of Monetary Affairs, Board of Governors
Mr. Brady,[3] Section Chief, Division of Monetary Affairs, Board of Governors
Mr. Rosine,[3] Senior Economist, Division of Research and Statistics, Board of Governors
Mr. Wiles,[4] Secretary of the Board, Office of the Secretary, Board of Governors
Mr. Winn,[4] Assistant to the Board, Office of Board Members, Board of Governors
Ms. Werneke,[4] Special Assistant to the Board, Office of Board Members, Board of Governors
Mr. Siciliano,[4] Special Assistant to the General Counsel, Legal Division, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Beebe, T. Davis, Dewald, Goodfriend, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Kansas City, St. Louis, Richmond, and Atlanta, respectively

Mr. McNees, Vice President, Federal Reserve Bank of Boston
Mr. Gavin, Assistant Vice President, Federal Reserve Bank of Cleveland
Mr. Weber, Senior Research Officer, Federal Reserve Bank of Minneapolis
Ms. Meulendyke, Manager, Open Market Operations, Federal Reserve Bank of New York

The Secretary reported that advices of the election of the following members and alternate members of the Federal Open Market Committee for the period commencing January 1, 1993, and ending December 31, 1993, had been received and that the named individuals had executed their oaths of office.

The elected members and alternate members were as follows:

E. Gerald Corrigan, President of the Federal Reserve Bank of New York, with James H. Oltman, First Vice President of the Federal Reserve Bank of New York, as alternate;

Edward G. Boehne, President of the Federal Reserve Bank of Philadelphia, with J. Alfred Broaddus, Jr., President of the Federal Reserve Bank of Richmond, as alternate;

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3. Attended portion of meeting relating to the Committee's discussion of the economic outlook and its longer-run objectives for monetary and debt aggregates.
4. Attended portion of the meeting relating to the release of FOMC information to the public.

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Silas Keehn, President of the Federal Reserve Bank of Chicago, with Jerry L. Jordan, President of the Federal Reserve Bank of Cleveland, as alternate;

Robert D. McTeer, Jr., President of the Federal Reserve Bank of Dallas, with Robert P. Forrestal, President of the Federal Reserve Bank of Atlanta, as alternate;

Gary H. Stern, President of the Federal Reserve Bank of Minneapolis, with Robert T. Parry, President of the Federal Reserve Bank of San Francisco, as alternate.

By unanimous vote, the Committee elected the following officers of the Federal Open Market Committee to serve until the election of their successors at the first meeting of the Committee after December 31, 1993, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, they would cease to have any official connection with the Federal Open Market Committee:

| | |
|---|---|
| Alan Greenspan | Chairman |
| E. Gerald Corrigan | Vice Chairman |
| Donald L. Kohn | Secretary and Economist |
| Normand R. V. Bernard | Deputy Secretary |
| Joseph R. Coyne | Assistant Secretary |
| Gary P. Gillum | Assistant Secretary |
| J. Virgil Mattingly, Jr. | General Counsel |
| Ernest T. Patrikis | Deputy General Counsel |
| Michael J. Prell | Economist |
| Edwin M. Truman | Economist |
| Richard G. Davis, Richard W. Lang, David E. Lindsey, Larry J. Promisel, Arthur J. Rolnick, Harvey Rosenblum, Karl A. Scheld, Charles J. Siegman, Thomas D. Simpson, and Lawrence Slifman | Associate Economists |

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after December 31, 1993.

By unanimous vote, William J. McDonough, Margaret L. Greene, and Joan E. Lovett were selected to serve at the pleasure of the

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Committee in the capacities of Manager of the System Open Market Account, Deputy Manager for Foreign Operations, System Open Market Account, and Deputy Manager for Domestic Operations, System Open Market Account respectively, on the understanding that their selection was subject to their being satisfactory to the Federal Reserve Bank of New York.

> Secretary's note: Advice subsequently was received that the selections indicated above were satisfactory to the board of directors of the Federal Reserve Bank of New York.

On January 15, 1993, the continuing rules, regulations, authorizations, and other instruments of the Committee listed below were distributed with the advice that, in accordance with procedures approved by the Committee, they were being called to the Committee's attention before the February 2-3 organization meeting to give members an opportunity to raise any questions they might have concerning them. Members were asked to indicate if they wished to have any of the instruments in question placed on the agenda for consideration at this meeting and no requests for substantive consideration were received.

At the meeting, the Committee agreed on the need to update the references to the Management of the System Open Market Account; the latter were contained in the following: (1) Procedures for allocation of securities in the System Open Market Account and (2) Program for Security of FOMC Information. Apart from the indicated updating of titles, all of the instruments listed below remained in effect in their existing forms.

1. Procedures for allocation of securities in the System Open Market Account.

2. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function.

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3. Resolution of FOMC to provide for the continued operation of the Committee during an emergency; Resolution of FOMC authorizing certain actions by Federal Reserve Banks during an emergency.

4. Resolution relating to examinations of the System Open Market Account.

5. Guidelines for the conduct of System operations in Federal agency issues.

6. Regulation relating to Open Market Operations of Federal Reserve Banks.

7. Program for Security of FOMC Information.

8. Federal Open Market Committee Rules.

By unanimous vote, the Authorization for Domestic Open Market Operations, as shown below, was reaffirmed:

> 1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:
>
> (a) To buy or sell U. S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obliga- tions of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U. S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U. S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $8.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;
>
> (b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods

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between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U. S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U. S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U. S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U. S. Government and agency securities, and to arrange corresponding sale and

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repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

By unanimous vote, the Authorization for Foreign Currency Operations was amended to update the title of the Manager of the System Open Market Account. The Authorization, as amended, is shown below:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U. S. Treasury, with the U. S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the

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Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $25.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

| Foreign bank | Amount of arrangement (millions of dollars equivalent) |
|---|---|
| Austrian National Bank | 250 |
| National Bank of Belgium | 1,000 |
| Bank of Canada | 2,000 |
| National Bank of Denmark | 250 |
| Bank of England | 3,000 |
| Bank of France | 2,000 |
| German Federal Bank | 6,000 |
| Bank of Italy | 3,000 |
| Bank of Japan | 5,000 |
| Bank of Mexico | 700 |
| Netherlands Bank | 500 |
| Bank of Norway | 250 |
| Bank of Sweden | 300 |
| Swiss National Bank | 4,000 |
| Bank for International Settlements: | |
| Dollars against Swiss francs | 600 |
| Dollars against authorized European currencies other than Swiss francs | 1,250 |

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph I(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign

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currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U. S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager of the System Open Market Account, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

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B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

By unanimous vote, the Foreign Currency Directive, as shown below, was reaffirmed:

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U. S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

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4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

By unanimous vote, the Procedural Instructions with respect to Foreign Currency Operations were amended to update the title of the Manager of the System Open Market Account. The Procedural Instructions, as amended, are shown below:

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account ("Manager"), shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $300 million on any day or $600 million since the most recent regular meeting of the Committee.

B. Any operation that would result in a change on any day in the System's net position in a single foreign currency exceeding $150 million, or $300 million when the operation is associated with repayment of swap drawings.

C. Any operation that might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1B.

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D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $1.5 billion since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

The Report of Examination of the System Open Market Account, conducted by the Board's Division of Reserve Bank Operations and Payments Systems as of the close of business on July 31, 1992, was accepted.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on December 22, 1992, were approved.

The Deputy Manager for Foreign Operations reported on developments in foreign exchange markets during the period December 22, 1992, through February 2, 1993. There were no System open market transactions in foreign currencies during this period, and thus no vote was required of the Committee.

The Manager for the System Open Market Account reported on developments in domestic financial markets and on System open market transactions in government securities and federal agency obligations

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during the period December 22, 1992, through February 2, 1993. By unanimous vote, the Committee ratified these transactions.

The Committee then turned to a discussion of the economic outlook, the ranges for the growth of money and debt in 1993, and the implementation of monetary policy over the intermeeting period ahead. A summary of the economic and financial information available at the time of the meeting and of the Committee's discussion is provided below, followed by the domestic policy directive that was approved by the Committee and issued to the Federal Reserve Bank of New York.

The information reviewed at this meeting indicated that economic activity rose appreciably further in the fourth quarter. Final demands were buoyed by strength in consumption, business spending for durable equipment, and residential construction. Manufacturing activity also increased considerably, and employment appeared to be on a modest upward trajectory, despite a continuing flow of announcements of layoffs by large corporations. Although recent data on wages and prices had been mixed, on balance they suggested that inflation was trending gradually lower.

Total nonfarm payroll employment registered a small increase in December for the fourth consecutive month. Service industries, notably business and health services, and retail trade accounted for nearly all of the rise in jobs. Manufacturing and construction payrolls changed little, and government employment fell as temporary election workers were dropped from payrolls. The civilian unemployment rate remained at 7.3 percent, almost 1/2 percentage point below its mid-year peak but slightly above its level at the beginning of the year.

Industrial production advanced further in December and was up considerably over the fourth quarter as a whole. Motor vehicle

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assemblies rose sharply during the quarter; strong gains also were registered in business equipment, partly reflecting a further jump in output of computers, and in nondurable consumer goods. By contrast, the production of durable consumer goods other than motor vehicles was lower on balance after changing little over the third quarter, and the output of defense and space equipment remained on a downward trend. Total utilization of industrial capacity increased significantly in the fourth quarter and for the year as a whole.

Consumer spending was up substantially in the fourth quarter. Retail sales, after rising sharply in October and changing little in November, posted a further sizable increase in December. The largest sales gains in the fourth quarter were reported at automotive dealers and at building material and supply outlets, but most other types of retail stores also recorded higher sales. By contrast, consumer spending for services, as indicated by data on personal consumption expenditures, rose more slowly. Housing starts surged in December, with single family starts reaching their highest level in nearly three years and multifamily starts picking up slightly from the very low levels of October and November. Sales of new and existing homes remained on a strong upward trend in December.

Real outlays for business fixed investment apparently registered a notable gain in the fourth quarter, particularly for producers' durable equipment. Shipments of nondefense capital goods rose in November and December after changing little in October; for the quarter as a whole, shipments advanced substantially, with increases widespread by category. Business purchases of cars and trucks were up sharply in the fourth quarter, while nonresidential construction activity retraced a small part of a third-quarter decline.

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Business inventories expanded moderately in November as a sizable drop in manufacturing inventories was more than offset by increases in wholesale and retail inventories. At the manufacturing level, the drawdown of stocks was associated with strong shipments of durable goods, and inventory-to-shipments ratios in most industries were at or near the bottom of their recent ranges. In the wholesale sector, sizable inventory increases were reported in November for a second straight month; most of the buildup was limited to machinery, motor vehicles, and miscellaneous nondurable goods. With stocks rising in line with shipments since September, the stock-to-sales ratio in wholesaling remained at the low end of its range over the past year. Retail inventories increased moderately further in November; the inventory-to-sales ratio for the sector was slightly below its average for previous months of the year.

The nominal U.S. merchandise trade deficit widened slightly in November. For October and November together, however, the deficit narrowed a little from its average rate in the third quarter, as the value of exports rose more than the value of imports. Most of the increase in exports was in capital goods, both machinery and aircraft, and in consumer goods. Passenger cars accounted for a considerable part of the rise in imports, while the inflow of consumer goods eased from the very strong pace of the third quarter. Recent indicators suggested that economic activity in the major foreign industrial countries had remained weak and that unemployment rates in those countries had increased further. The recovery in Canada appeared to be continuing, but the downturn in western Germany and Japan evidently had persisted into the fourth quarter.

A small November decline in producer prices of finished goods was reversed in December, with a rebound in prices of finished

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foods outweighing a further drop in energy prices. For finished items other than food and energy, producer prices rose in December, but the advance followed six months of no change on balance; for 1992 as a whole, this measure of prices increased by a considerably smaller amount than in 1991. At the consumer level, the index for prices of nonfood, non-energy items edged higher in December after somewhat larger increases in the two preceding months. The rise in this index in 1992 was the smallest for any year since the early 1970s, when wage and price controls were in effect. Hourly compensation of private industry workers advanced a little more rapidly in the fourth quarter than in the two previous quarters, but the rise in total compensation over the year as a whole was considerably smaller than in 1991. The slowing of labor cost increases last year occurred in both the wages and benefits components.

At its meeting on December 22, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include a presumption about the likely direction of any adjustments to policy during the intermeeting period. Accordingly, the directive indicated that in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions associated with this directive were expected to be consistent with expansion of M2 at an annual rate of about 1-1/2 percent and with M3 remaining about unchanged on balance over the four-month period from November through March.

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Open market operations during the intermeeting period were directed toward maintaining the existing degree of pressure on reserve positions. Adjustment plus seasonal borrowing was well above expected levels in the first two full reserve maintenance periods in the intermeeting interval; borrowing was sizable over the long New Year's weekend and also later when unusually heavy Treasury tax receipts drained reserves from the banking system. The federal funds rate averaged close to expected levels over the intermeeting period. However, the rate was somewhat volatile in late December as a result of sizable swings in market factors affecting reserves and of shifting market anticipations regarding year-end pressures.

Most other short-term interest rates declined somewhat over the intermeeting period, in part reflecting the passing of year-end pressures. Intermediate- and long-term rates, including those on fixed-rate mortgages, also moved somewhat lower; the declines occurred in response to growing indications that any proposed near-term fiscal stimulus would be quite moderate and that the new Administration intended to recommend steps, possibly including new taxes, to lower the trajectory of the fiscal deficit appreciably over time. Broad indexes of stock prices exhibited mixed results over the intermeeting period: Indexes giving heavy weight to large companies changed little, while those primarily reflecting smaller companies rose significantly.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose on balance over the intermeeting period. Through early January, the dollar appreciated against both the yen and the mark, especially the latter, in response to actual and expected further declines in interest rates in both countries. Subsequently, the dollar's gains were partially erased as

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the prospects for near-term easing in Germany diminished somewhat and perceptions grew that fiscal initiatives in the United States would lower the deficit and reduce the chances that monetary policy might be tightened in the months ahead.

After expanding at a moderate pace over the course of earlier months, M2 contracted in December and January. Some of the weakness reflected a slowdown in M1 growth associated with lower mortgage refinancing activity. Within M2's nontransaction component, the expansion of savings and money market deposit accounts slowed abruptly, perhaps owing in part to the wider spread that had developed during the fall between market rates and those paid on these accounts, as well as to the use of monies in these accounts to fund a step-up in consumer purchases and nonwithheld tax payments. In addition, the continued attractiveness to investors of bond and stock mutual funds might have contributed to a quickening of the runoff of holdings of money market mutual funds and to the continuing weakness in other M2 accounts. Appreciable declines in M3 in December and January reflected both the contraction in M2 and reduced needs by banks for managed liabilities at a time of weak overall credit demand. From the fourth quarter of 1991 to the fourth quarter of 1992, both M2 and M3 grew at rates somewhat below the lower ends of the Committee's annual ranges for 1992. Total domestic nonfinancial debt appeared to have expanded at the lower end of the Committee's monitoring range for the year.

The staff projection prepared for this meeting suggested that economic activity would expand over the year ahead at a pace that would be sufficient to reduce gradually margins of unemployed labor and capital. Recent declines in long-term interest rates and more optimistic attitudes on the part of businesses and households were

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expected to support further solid gains in business fixed investment and in homebuying. Continuing progress in reducing debt service burdens and a gradual lessening of concerns regarding job security were projected to foster an expansion of consumer spending a shade faster than the growth in incomes. Export demand would be damped for some period of time by the appreciation of the dollar since mid-1992, but an anticipated pickup in growth abroad later this year would begin to counteract the effects of the higher dollar. Against the background of considerable uncertainties associated with still unannounced fiscal policy initiatives, the staff retained for this forecast the assumption contained in several previous forecasts that fiscal policy would remain mildly restrictive, largely because of declining defense outlays. The persisting slack in resource utilization over the forecast horizon was expected to be associated with some additional progress in reducing inflation.

In the Committee's discussion of current and prospective economic developments, the members were encouraged by the mounting evidence of appreciable momentum in the economic expansion. On the whole, recent developments tended to reinforce their forecasts of continuing growth at a moderate pace over the year ahead, especially in light of the improvement in business and consumer confidence. The impact of some retarding influences on the expansion, notably various balance sheet adjustment activities, appeared to be waning. In addition, while some major sectors of the economy such as defense spending and commercial construction remained weak, the economy was benefitting from considerable growth in consumer spending, from rising business expenditures for producer equipment, and from increasing outlays for housing. In one view, the recent behavior of commodity prices also tended to indicate some strengthening in the economy's

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expansion. Despite various indications of a more firmly established expansion, however, the members felt that the outlook remained subject to a good deal of uncertainty, and some commented that substantial deviations--in either direction--from their current forecasts could not be ruled out. It was noted in this connection that the specifics of the President's fiscal policy proposals were still unknown, and their reception by the public and the Congress would have a major influence on confidence, interest rates, and the performance of the economy. Other sources of uncertainty related to the outlook for further restructuring activities that involved cut-backs in operations and employment by many firms, and the prospective lending policies of banking institutions. With regard to the outlook for inflation, most of the members believed that some further progress toward stable prices was likely over the year ahead, given an economic outcome about in line with their forecasts of continued, albeit reduced, margins of unutilized or underutilized production resources. Some members also referred to the extended period of relatively sluggish growth in the broad measures of money as a favorable indicator in the outlook for inflation.

In keeping with the practice at meetings when the Committee establishes its long-run ranges for growth of the money and debt aggregates, the Committee members and the Federal Reserve Bank presidents not currently serving as members had prepared projections of economic activity, the rate of unemployment, and inflation for 1993. The central tendencies of the forecasts pointed to slightly faster economic growth this year than currently seemed to have occurred in 1992. The anticipated rate of economic expansion would be at a pace that was rapid enough to reduce the rate of unemployment a little further. Nonetheless, with some slack in production resources

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persisting, price and cost pressures would remain subdued and modest additional moderation in inflation was expected by most members. Measured from the fourth quarter of 1992 to the fourth quarter of 1993, the forecasts for growth of real GDP had a central tendency of 3 to 3-1/4 percent within a full range of 2-1/2 to 4 percent. Projections of the civilian rate of unemployment in the fourth quarter of 1993 were concentrated in the upper half of a 6-1/2 to 7 percent range. For the CPI, the central tendency of the forecasts for the period from the fourth quarter of 1992 to the fourth quarter of 1993 were centered on increases in a range of 2-1/2 to 2-3/4 percent, and for nominal GDP the forecasts were clustered in a range of 5-1/2 to 6 percent for the year.

In the course of the Committee's discussion of various factors underlying the outlook for economic activity, the members observed that on the whole the effects of a number of structural impediments to the expansion seemed to be diminishing as the financial condition of households, business firms, and financial institutions continued to improve. Household and business debt-service burdens had eased substantially, but it remained difficult to predict to what extent and for how long the ongoing balance sheet adjustments would continue to divert an unusual proportion of cash flows from spending to balance sheet repair. Improved profitability and new capital-market issuance had strengthened the capital positions of banking institutions, and in general they were now in a much better position to augment their lending activities. However, there were few indications thus far of any easing in terms or standards on business loans, and the depressed and uncertain values of commercial mortgages and real estate held in bank portfolios might continue to exert an inhibiting effect on the willingness of banks to lend. Another

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negative factor was the persistence of downsizing and other restructuring activities by numerous firms, notably large businesses. Such restructuring activities had not fully run their course as many firms continued to pare excess production capacity and to modernize production facilities to meet strong competition in domestic and foreign markets. The resulting layoffs had damped job overall growth.

Despite tepid job growth, retail sales had strengthened markedly during the closing months of 1992, and several members commented that such sales had continued to display surprising vigor in some parts of the country during the early weeks of 1993. Apart from the improvement in consumer sentiment, other favorable factors cited with regard to the outlook for consumer spending included lower debt-service burdens and the capital gains or enhanced cash flows now being realized as sales of homes picked up and mortgage refinancings again strengthened. Some members nonetheless expressed a degree of concern about the sustainability of the gains in consumer spending unless there were faster growth in employment and income to support such spending. Announcements by prominent firms of cutbacks in their workforces had continued into the new year, and while job gains at other firms, especially smaller ones, were contributing to modest net growth in overall employment, the publicity surrounding the persisting job cutbacks and a tendency for many new jobs to be lower-paying added an element of caution to the outlook for consumer expenditures. On balance, with the measured saving rate already at a low level, though an argument could be made that the actual rate was somewhat higher than indicated by the currently published data, consumer spending seemed likely to expand about in line with the growth in consumer incomes over the coming year.

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The growth in consumer incomes in turn was likely to depend importantly on the expansion in business investment spending, and members cited a number of factors that were likely to provide a favorable setting for sustained momentum in such spending over the year ahead. These included the strengthening of final demands, the recent declines in intermediate- and long-term interest rates, the greater leeway for financial intermediaries to increase their lending to businesses, and a continuing desire by business firms to improve their operating efficiencies. Commercial construction activity, however, was likely to remain quite sluggish. There were indications that commercial real estate values had stabilized in a number of areas, but at low levels, and given the persistence of marked imbalances in numerous real estate markets that were the result of several years of overbuilding, a significant rebound in commercial building activity for the nation as a whole might well be several years away. The outlook for housing construction was much more promising. Against the background of a general upswing in consumer confidence and the improved balance sheets of many households, the declines that had occurred in mortgage interest rates had fostered a marked strengthening in the demand for single-family housing as evidenced by reports from many parts of the country as well as the overall statistics on housing. On the basis of these developments, the members anticipated a continuing impetus to the economic expansion from housing construction and from related industries over the year ahead. In addition, the current indications of generally lean business inventories, associated in part with strong final demands over the past several months, suggested that the prospects for further gains in overall spending were likely to stimulate efforts by business firms to build up inventories over the quarters ahead.

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The increasing signs of slow growth or recession in a number of foreign nations represented a greater downside risk to the demand for U.S. exports than had been apparent earlier. It was noted, for example, that firms engaged in business activities abroad were reporting substantial deterioration in markets for U.S. goods in many foreign countries. Growth in U.S. exports might remain positive over the year ahead, but against the background of a relatively expansive U.S. economy and the dollar's recent appreciation, the value of exports might well fall increasingly short of that of imports with adverse effects on the growth of U.S. economic activity.

Turning to the outlook for fiscal policy, members were encouraged by the prospect that the President would soon propose a program that would produce substantial reductions in the federal deficit over the years ahead. Such a deficit-reduction program, if deemed credible, could result in lower intermediate- and long-term interest rates than would otherwise prevail--even before the program was enacted--with very positive implications for interest-sensitive expenditures. For the nearer term, the President was expected to announce some modest fiscal stimulus relative to what was currently in train. However, the specifics of the President's proposals were not yet known and there was little current basis on which to judge prospective public and Congressional reactions. Members emphasized the critical need for long-term deficit reduction, and some expressed concern about the adverse effects on financial markets if fiscal stimulus measures were to be enacted for the short run without the assurance of further legislation to cut federal deficits over time.

With regard to the outlook for inflation, most of the members anticipated that the trend toward lower price and wage inflation would be sustained over the year ahead, and one member observed that the

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disinflationary momentum in the economy might well be underestimated. Favorable developments relating to the outlook for inflation included evidence of slowing increases in labor costs and continued aggressive efforts by many business firms to improve productivity and reduce costs in the face of intense competition from domestic and foreign producers. Indeed, anecdotal reports from around the country continued to suggest little or no upward pressure on prices in many regions. In addition, the behavior of interest rates in longer-term debt markets was consistent with spreading expectations of gradually diminishing inflation. Some members believed, however, that little or no further progress in reducing inflation was a more likely outcome in the year ahead, though none anticipated higher inflation. Some commodity price indexes had edged higher recently, apparently in response to growing demands related to strengthening activity in several sectors of the economy. Lumber prices in particular had risen considerably in conjunction with the uptrend in single-family housing construction and various constraints on lumber supplies. Anecdotal reports from some business contacts suggested for the first time in a long while that they were experiencing or anticipated some upward pressure on their raw materials prices. Further, while most business contacts saw or anticipated little or no upward pressure on prices in their own industries, many continued to expect rising inflation more generally. The still relatively steep slope of the yield curve and its implications with regard to expec-tations of future increases in interest rates also suggested that investors remained concerned about the possibility of higher inflation over the longer run, even though such concerns might have abated somewhat recently and did not appear to extend to the next year or two. In general, however, the members viewed the inflation outlook with

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considerable optimism on the presumption of favorable fiscal and monetary policy developments.

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 of the monetary and debt aggregates in 1993 that it had established on a tentative basis at its meeting on June 30-July 1, 1992. The tentative ranges included expansion of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The monitoring range for growth of total domestic nonfinancial debt had been set provisionally at 4-1/2 to 8-1/2 percent for 1993. All of these ranges were unchanged from those that the Committee had set for 1992 at its meeting in February of last year and had reaffirmed at mid-year. When the provisional ranges for money growth were established, the Committee had noted that they were especially tentative and subject to revision in the latter part of 1992 or early 1993 owing to the considerable uncertainty about the evolving relationship of money to income.

In the event, the velocities of M2 and M3 had increased appreciably in the second-half of 1992 and analysis of the factors behind this development suggested further increases in the year ahead. Consequently, in the Committee's discussion, which tended to focus on M2, all of the members indicated that they could support a proposal to lower the tentative ranges of the broad monetary aggregates by one-half percentage point for 1993. At the same time, a number of members expressed preferences for somewhat different ranges including the retention of the tentative ranges, lowering the ranges by more than the proposal, and widening or narrowing them. The members were in firm agreement that the purpose of the proposed reductions, which all

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found acceptable, was not to signal or implement any change in monetary policy or to convey any intention to move away from the Committee's commitment to maximum sustainable economic expansion. Rather, the lower ranges were motivated by the persistence of marked shortfalls in money growth from their historical relationships with various measures of aggregate economic performance; those shortfalls appeared to be the technical result of forces that are altering the relationship between money and income. Members of the Committee urged that the Board's report to Congress and the Chairman's accompanying testimony make clear the reasons for the unusual behavior of money and its consequences for the Committee's choice of ranges.

The deviations in monetary growth from historical norms reflected a number of developments whose relative importance and intensity had shifted to some extent over the course of recent years, but in general they had served to rechannel funds away from depository institutions, and the associated weakness in deposit growth had raised velocity--the ratio of nominal GDP to money. The result was the need for lower money growth than in the past to support a given rate of income growth. Among the developments that had tended to retard the relative growth of M2 and M3 was the unprecedented steepness of the yield curve that had prompted large shifts of funds by savers from M2 accounts to higher-yielding intermediate- and long-term assets. At the same time, credit growth at bank and thrift depository institutions had been weak, partly as a result of efforts by these institutions to improve capital and liquidity positions, and partly owing to weak demand. As a consequence, they had also maintained relatively low rates on deposits that had provided consumers with an incentive to reduce or hold down their deposit holdings in order to pay down relatively high cost mortgages and other debts. In 1992,

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sluggish growth of M2 and M3 had been associated with a considerable acceleration in nominal spending. Indeed, despite growth of both M2 and M3 at rates below the Committee's ranges, the expansion of the economy had exceeded most forecasts.

The members generally anticipated that the intensity of these forces might diminish in 1993 as borrowers and lending institutions achieved more comfortable balance sheet positions. Nonetheless, the relative weakness in money growth was seen as likely to persist to a marked extent. The yield curve, while it had flattened a bit recently, was still expected to provide a considerable incentive for many savers to shift funds out of M2 assets, especially as relatively high-yielding time deposits continued to mature. In addition, banks were likely to remain generally unaggressive in bidding for deposits, in part because their substantial earlier acquisitions of securities would permit them to accommodate some of the anticipated growth in loan demand by selling securities or limiting purchases. In these circumstances, restrained money growth seemed likely to remain consistent with relative strength in the economic expansion.

The members recognized that the strength of the factors that probably would continue to depress broad money growth in relation to income in 1993 was still subject to considerable uncertainty, and this implied the need for flexibility in assessing the implications of money growth relative to the Committee's ranges. Should the factors influencing the behavior of the broad aggregates persist in holding down money growth to the extent seen in 1992, expansion of M2 and M3 in the lower portion of their reduced ranges would be consistent with considerable further growth in nominal spending. Indeed, a shortfall from the reduced ranges could not be ruled out, and one member felt that the potential for such a development warranted consideration of a

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somewhat larger reduction in the M2 range; such a reduction also would signal more clearly the Committee's commitment to price stability. On the other hand, the upper portions of the reduced ranges would still accommodate an ample provision of liquidity to support further economic expansion even if the growth of money and of income were to move toward an historically more normal alignment and velocity were to slow from its high rate of increase. In one view, widening the tentative M2 range by reducing its lower limit while retaining its upper limit would help the Committee to convey its views regarding the potential for a continuing but acceptable sluggishness in M2 growth while leaving room for the possibility of faster M2 expansion should changing circumstances foster diminishing strength in velocity. Another member expressed a preference for narrowing the tentative range by lowering only its upper limit as a means of signaling the Committee's intent to resist both inflationary and recessionary developments. In light of the uncertainties that were involved, the informational content of the aggregates probably had diminished and in any event the Committee would need to continue to evaluate monetary growth developments in the context of a careful assessment of a wide variety of other financial, economic, and price developments. In this connection, one member observed that the uncertainties were of such a magnitude that, while plausible arguments could be made for a number of different ranges, retention of the tentative ranges would be appropriate in light of the Committee's willingness to review the ranges in the event that unanticipated developments were to unfold.

All of the members agreed that it would be desirable to retain the monitoring range of 4-1/2 to 8-1/2 percent that the Committee had established on a provisional basis for the growth of total domestic nonfinancial debt in 1993. The expansion in such debt

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had not been damped by special forces to the same extent as the broad monetary aggregates in 1992. Over the year ahead, growth in the federal debt was likely to remain substantial, and the expansion of debt in the nonfederal sectors was projected to accelerate somewhat given the continued improvement in borrower balance sheets and an anticipated increase in the willingness of financial institutions to lend as the economy continued to expand. Nonetheless, in the context of still cautious attitudes on the part of both borrowers and lenders, the growth of nonfederal debt probably would remain below that of nominal GDP in the year ahead.

At the conclusion ot the Committee's discussion, all of the members indicated that they favored or could accept a technical downward adjustment of one-half percentage point in the tentative ranges for the broader monetary aggregates for 1993 to levels of 2 to 6 percent for M2 and 1/2 to 4-1/2 percent for M3. It was agreed that there should be no change in the tentative range for total domestic nonfinancial debt. In keeping with the Committee's usual procedures under the Humphrey-Hawkins Act, the ranges would be reviewed at midyear, or sooner if deemed necessary, in light of the growth and velocity behavior of the aggregates and ongoing economic and financial developments. Accordingly, by unanimous vote, the following longer-run policy for 1993 was approved by the Committee for inclusion in the domestic policy directive:

> The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 2 to 6 percent and 1/2 to 4-1/2 percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee expects that developments contributing to unusual velocity increases are likely to persist during the year. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. The

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> behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

Turning to policy for the intermeeting period ahead, all of the members endorsed a proposal to maintain unchanged conditions in reserve markets, and all indicated that they could accept a directive that did not incorporate any presumption with regard to the likely direction of possible intermeeting adjustments to policy. While there was concern about the recent weakness in the monetary aggregates, the members generally agreed that recent economic developments tended to reinforce the view that monetary policy was on an appropriate course. The economy seemed to be on a stronger growth track than earlier in the expansion, and inflation remained quite subdued--only a bit above some estimates of price stability--and likely to moderate further in coming quarters in the view of most members. Some commented that a further easing move at this juncture might well have adverse effects on inflation sentiment and on interest rates in intermediate- and long-term debt markets. A few referred to the recent firming in some commodity prices and the consensus among private forecasters that inflation could drift higher over the next few years. In the view of one member, these developments might argue for a tilt the directive toward possible restraint but did not call for an immediate tightening in reserve conditions.

A staff analysis prepared for this meeting suggested a resumption of some growth in the broad measures of money later in the first quarter but a decline in both M2 and M3 for the quarter as a whole. While part of the declines appeared to reflect distorted seasonal factors and the ebbing of special factors that previously had boosted growth, the uncertainties surrounding the behavior of these aggregates

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tended to reduce their role in current monetary policy. Nevertheless, there was concern about the persisting weakness in the broad aggregates, including the likelihood that they would fall well short of the Committee's new ranges over the first part of the year. Some members also noted that the growth of M1, while still fairly robust in December and January, was markedly below its pace over most of 1992. On the other hand, bank loans had increased in recent months, and the weakness in the monetary aggregates did not appear to reflect underlying weakness in the economy. In these circumstances, a number of members believed that any effort to stimulate monetary growth under immediately prevailing economic conditions and market expectations might well prove to be counterproductive. An easing at this time could accelerate outflows from interest-sensitive M2 assets if the easing were seen as signaling a weakening of the System's anti-inflationary resolve and were to result in higher rates on intermediate- and long-term debt securities.

At the conclusion of the Committee's discussion, all of the members indicated that they favored a directive that called for maintaining the existing degree of pressure on reserve positions. They also noted their preference for, or acceptance of, a directive that did not include a presumption about the likely direction of any adjustment to policy over the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, the Committee decided that slightly greater or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with

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little change in the levels of M2 and M3 over the two-month period from January through March.

By unanimous vote, 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 indicates that economic activity rose appreciably further in the fourth quarter. Total nonfarm payroll employment registered another small increase in December, and the civilian unemployment rate remained at 7.3 percent. Industrial production posted solid gains over the closing months of the year. Retail sales were up substantially in the fourth quarter, and residential construction activity increased sharply. Indicators of business fixed investment suggest a notable gain in recent months, particularly for producers' durable equipment. The nominal U.S. merchandise trade deficit narrowed slightly in October-November from its average rate in the third quarter. Recent data on wages and prices have been mixed but they continue to suggest on balance a trend toward lower inflation.
>
> Interest rates have declined somewhat since the Committee meeting on December 22. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose on balance over the intermeeting period.
>
> M2 appears to have contracted in December and January, after expanding at a moderate pace over the course of previous months; M3 is estimated to have declined appreciably in both months. From the fourth quarter of 1991 to the fourth quarter of 1992, both M2 and M3 grew at rates somewhat below the lower ends of the Committee's annual ranges for 1992. Total domestic nonfinancial debt appears to have expanded at the lower end of the Committee's monitoring range for the year.
>
> The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 2 to 6 percent and 1/2 to 4-1/2 percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee expects that developments contributing to unusual velocity increases are likely to persist during the year. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. The behavior of the monetary aggregates will continue to be

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> evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.
>
> In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with little change in M2 and M3 over the period from January to March.

At this meeting the Committee discussed a preliminary report of a subcommittee that had been established to examine various issues relating to the release of information about Committee meetings and decisions. All of the members agreed that the Committee should keep the public as fully informed as possible about its monetary policy decisions and their rationale. Such information could reduce uncertainty about the stance of policy and about the factors the Committee takes into account in reaching its decisions. However, release of information should not be allowed to compromise the overriding objective of making and implementing the best possible decisions. In that regard, the Committee noted that its deliberative process requires a free flow of ideas, including the ability to advance or question hypotheses, to speculate on alternative outcomes, and to change opinions in response to the views expressed by other members. The members also needed to feel at liberty during meetings to use a wide array of information that is obtained on a confidential basis; at least some of that information would no longer be provided to the Committee if there were a risk of public disclosure. Moreover, the Committee wanted to give further consideration to the risk that the adoption of a different schedule for releasing information about

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policy decisions might have the effect, in difficult circumstances, of reducing its willingness to make needed policy adjustments promptly. No decisions were made at this meeting concerning various options for apprising the public more fully or promptly of the Committee's actions, and it was understood that the subcommittee would continue to study the matter.

It was agreed that the next meeting of the Committee would be held on Tuesday, March 23, 1993.

The meeting adjourned.

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Secretary