FEDERAL RESERVE press release

For Use at 4:30 p.m. December 18, 1987

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 November 3, 1987. This record also includes policy actions taken during the period between the meeting on November 3, 1987, and the next regularly scheduled meeting held on December 15-16, 1987.

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 November 3, 1987

1. Domestic policy directive

The economic information available at this meeting was reviewed in the context of the extraordinary developments in financial markets since the Committee meeting on September 22. Over the period, equity prices had fallen sharply and a record drop in mid-October was accompanied by falling interest rates and heightened preferences for safety and liquidity. The economic effects of such developments were not yet clear. At the time of the meeting, data relating to nationwide business activity were available only for the period prior to the mid-October collapse in stock prices. Such data showed that the economy had expanded at a fairly brisk pace in the third quarter; growth in the industrial sector was especially robust, spurred by a sharp pickup in business investment and a further expansion in exports. Prices continued to rise at a relatively moderate rate in recent months, and even with fairly strong labor demands and a considerably reduced unemployment rate, wages accelerated only slightly.

Industrial production rose somewhat further in September after a large increase earlier in the summer. In the third quarter as a whole, output was up nearly 9 percent at an annual rate, with large gains in most major groupings. Production of business equipment was especially strong, apparently reflecting improved foreign as well as domestic demand for U.S. products. Materials output also continued to strengthen, but auto assemblies were reduced sharply in August and September.

Labor demand, on balance, remained strong. Nonfarm payroll employment rose again in September. Manufacturing employment posted a sizable rise in the third quarter, with widespread gains across both durable and nondurable goods industries. Job growth elsewhere, however, has slowed; construction employment dropped in September and hiring in the finance, insurance, and real estate grouping was damped in part by slower mortgage originations. The civilian unemployment rate continued to edge down in September, touching 5.9 percent.

Retail sales declined somewhat in September, but consumer spending rose substantially in the third quarter reflecting primarily an incentive-induced increase in outlays on motor vehicles. With the expiration of the incentives at the end of September, sales of domestic autos dropped sharply. Purchases of other goods were about unchanged last quarter because of continued softness in the demand for big-ticket items as well as for most types of nondurables. However, outlays for services rose appreciably.

Housing activity through September continued to be limited by the effects of higher mortgage interest costs and elevated rental vacancy rates. Building permits were flat in September and, although starts picked up to an annual rate of 1.67 million units, they remained well below the pace of early this year.

Business fixed investment was strong in the third quarter, paced by a surge in purchases of computers, a bulge in purchases of motor vehicles, and a substantial increase in spending on other types of equipment. Outlays on structures also recorded a large rise, as petroleum drilling activity expanded sharply, spending by public utilities increased appreciably, and office construction firmed. The advance spending indicators available through September also pointed to continued strength. Recent events in financial markets were expected to lead to some reassessment of spending plans, but investment outlays would be supported in the near term by projects that were already under way.

Inventory investment was held down in the third quarter by a sharp liquidation of stocks at automobile dealers. Based on data available through August, the level of stocks in other trade categories rose somewhat further but generally did not appear to be excessive in relation to sales. In the manufacturing sector, the stronger orders received since last spring contributed to an increase in the pace of inventory accumulation that was fairly widespread by industry and by stage of fabrication; nonetheless, inventory-sales ratios in most industries remained low at the end of August.

The U.S. merchandise trade deficit in July-August was estimated to have been marginally larger than in the second quarter on a seasonally adjusted basis; both imports and exports rose substantially over the two months. A surge in oil imports, most of which went into domestic inventories, accounted for about half of the July-August rise in total imports. Nonagricultural exports continued to grow at a rapid pace, with shipments of commercial aircraft showing particular strength in July. Agricultural exports also picked up markedly.

Indicators of business conditions in major foreign industrial countries generally suggested somewhat faster economic expansion in the third quarter than the weak average pace of the first half of the year, while inflation abroad remained low. In Japan, industrial production in the third quarter was noticeably above the average level for the first half of the year. The trade surplus was down slightly in nominal terms in the third quarter, and more substantially in real terms. At the same time, consumer prices in Japan were slightly above their year-earlier level, while wholesale prices showed a smaller four-quarter decline than in previous quarters. German industrial production rebounded significantly in August, after declines in the previous two months, but the average level for July-August was still below its year-earlier level. Consumer prices in Germany in the third quarter were slightly above their level a year before. Output in the United Kingdom continued to grow at a healthy pace, while that in France and Italy slowed somewhat.

Increases in U.S. consumer prices have been relatively moderate in recent months. The CPI rose 0.2 percent in September, as retail energy prices fell but food prices rose. Excluding food and energy items, consumer prices have slowed a bit recently from the average pace over the first seven months of the year. Price increases for finished goods at the producer level also have remained moderate. However, prices for intermediate and crude materials (apart from food and energy) have continued to rise substantially, reflecting the higher levels of industrial activity, the lower exchange value of the dollar, and the effects on petroleum-based products of earlier increases in crude oil prices. Wage trends have remained moderate, although increases in the past few months have been slightly larger than earlier in the year.

At its meeting on September 22, the Committee adopted a directive that called for maintaining the degree of pressure on reserve positions that had been sought since early September. The members decided that somewhat greater or somewhat lesser reserve restraint would be acceptable depending on indications of inflationary pressures, the strength of the business expansion, developments in foreign exchange markets, as well as the behavior of the monetary aggregates. Adjustment plus seasonal borrowing in the first complete reserve maintenance period following the September meeting increased to a daily average of about $725 million, boosted in part by unusual borrowing related to Reserve Bank computer problems. Apart from higher levels around quarter-end, federal funds traded in a 7-1/4 to 7-1/2 percent range during that maintenance period. Federal funds and other interest rates subsequently rose through mid-October as market participants appeared to anticipate monetary tightening in an environment of firmer policy abroad, concerns about the dollar, and pessimism about the prospects for domestic inflation.

After declining appreciably in the first half of the month, stock prices plunged on October 19 in chaotic trading. Most interest rates fell sharply. The Committee held daily telephone conferences in the last two weeks of October to assess the extraordinary developments in financial markets. The members agreed on the need to assure adequate liquidity in a period of continuing volatility in domestic and international financial markets, and in particular on the need to meet promptly any unusual liquidity requirements of the economic and financial system in this period. They recognized that special flexibility in the conduct of open market operations was called for after the stock market collapse. Accordingly, reserves were provided generously on a daily basis, often at an atypically early hour. In the process, operations were directed toward some easing in reserve market conditions. The degree of pressure that was sought on reserve positions was reduced shortly after October 19 and again late in the month, but actual operations continued to be guided by day-to-day developments. Growth in nonborrowed reserves surged in late October as open market operations accommodated substantially enlarged desires for excess reserves and a large increase in required reserves associated with a sharp rise in transactions deposits.

In addition to providing liquidity to the financial markets through open market operations, the Federal Reserve assisted the Treasury market by relaxing some of the constraints on its collateralized lending of Treasury securities to primary dealers. Committee members agreed on a temporary suspension of the size limits imposed on loans of securities to individual dealers and the requirement that such loans not be related to short sales. 1/

The federal funds rate dropped from above 7-1/2 percent just before October 19 to 7 percent and below immediately following the stock market collapse; borrowing at the discount window averaged $525 million in the reserve maintenance period ending October 21 and excess reserves rose substantially, reflecting cautious reserve management by depository institutions. During the early part of the current reserve maintenance period federal funds traded mostly in a 7 to 7-1/4 percent range, but more recently the funds rate moved below 7 percent after large injections of reserves by the Desk. Borrowing in the current reserve maintenance period was running well below that in the previous period.

1/ Secretary's note: The temporary liberalization of securities lending terms was terminated effective November 19, 1987.

Equity prices fluctuated sharply after their collapse on October 19, but most major stock indexes have recovered to levels somewhat above their October lows. Markets for fixed-income securities also were quite volatile after mid-October, but yields fell substantially on balance, with rates on long-term Treasury and high-grade corporate bonds reversing much of their run-up since August. In recent days, bond markets generally have retained their earlier gains, as market participants have appeared to reassess the outlook for the economy, inflation, and monetary policy. In short-term markets, Treasury bill rates have shown net declines of around 1-1/4 percentage points since mid-October, in association with the easing of reserve conditions as well as increased demands for safe and liquid instruments, while rates on some private money market instruments have fallen somewhat less. In general, pressures in financial markets appeared to have moderated to some extent, although the markets continued to be characterized by an unusual degree of anxiety and uncertainty.

The dollar moved lower during the first half of October, especially after the release of U.S. trade data on October 14 intensified market concern over the failure of the U.S. current account balance to improve. Though the dollar firmed temporarily immediately following the worldwide stock market collapse and reports of Secretary Baker's meeting with German officials, by the latter part of October the dollar again came under downward pressure amid widespread speculation that dollar exchange rates under the Louvre accord would be allowed to adjust downward. In addition, interest rates in the United States had dropped substantially relative to those in other major industrial countries. Over the entire intermeeting period, the dollar declined by about 4-1/2 percent in terms of a weighted average of other G-10 currencies.

The plunge in equity prices prompted moves to short-term liquid assets and growth of money, especially M1, appears to have accelerated in October. Demand deposits rose sharply around the time of the stock market collapse, perhaps reflecting the huge increase in financial transactions associated with the market turmoil. M2 growth was bolstered as well by an increase in assets of money market funds which may have been associated in part with shifts from equity market funds. Even so, growth in M2 through October was estimated to have remained well below its long-run range. Expansion in M3 was boosted by increases in the managed liabilities of banks, partly to finance a sharp rise in security loans. This aggregate has continued to increase at about the lower bound of its range for the year. Growth of nonfinancial debt has remained around the middle of its long-run monitoring range.

The staff projection suggested that the decline in equity prices would lead to weaker economic growth through the end of 1988 than was expected at the time of the September meeting. The economy would be supported to an extent by the decline in interest rates and the lower dollar. However, the effects of these developments on domestic demand and net exports were thought likely to offset only part of the adverse impact of sharply lower equity prices on consumers and businesses. Consumption was expected to be relatively subdued in the quarters immediately ahead, reflecting the termination of automobile sales incentive programs as well as stock market developments, but to pick up later next year. Real business fixed investment was projected to grow at a slow pace given the outlook for sales. Housing construction was likely to drop somewhat in the near term, but that decline was forecast to be stemmed by lower mortgage rates. The outlook for real net exports of goods and services remained favorable, but with domestic demands weaker, the unemployment rate probably would move up somewhat. Against this background, the projected increases in prices and wages over the coming year were expected to be somewhat less than previously expected. Nonetheless, some pickup in price pressures still might be observed in association with sizable increases in nonpetroleum import prices.

In the Committee's discussion of current and prospective economic developments, the members focused on the potential effects of the recent turbulence in financial markets. They generally agreed that the sharp decline in stock prices and the still unsettled conditions in financial markets portended weaker growth in economic activity, at least for the nearer term, but also a lower risk of any substantial pickup in inflation. Members stressed that, while the direction of the adjustment was clear, it still was too early to quantify the impact of the recent disturbances in financial markets. No data were available on the overall performance of the economy since mid-October. Most business contacts around the country reported little or no immediate changes in retail sales activity or in business investment plans, but uncertainties about prospective business conditions clearly had increased. A more cautious attitude had emerged in the business community and possibly also among consumers.

Members commented that the staff forecast of somewhat reduced economic growth over the next several quarters was a reasonable expectation, but one that presumed the return of confidence and more normal conditions in financial markets. Accordingly, the risks of a different outcome, notably in the direction of more weakness, were viewed as much greater than usual. The prospects for satisfactory economic performance clearly depended on the restoration of generally stable financial conditions that would in turn foster the basic confidence that was needed to sustain long-term investments in business capital and in the debt and equity markets. The timing of such a development could not be predicted, but the members agreed that progress in reducing the federal budget deficit could play a key role by relieving market concerns and uncertainties. Indeed, recently renewed efforts to cut the budget deficit had contributed to a marginal reduction of tensions in key financial markets.

Despite the uncertainties that were involved, a few members stressed that the outlook for sustained economic growth still could be viewed as basically promising. Available data indicated an appreciable momentum in the current expansion, at least through the third quarter, and recent declines in interest rates along with an increasing ability of domestic firms to compete with foreign producers constituted elements of strength in the business picture. The view also was expressed that both the financial and the nonfinancial sectors of the economy were better balanced than earlier in the current business expansion. A less optimistic view pointed to the possibility that consumer and business spending might continue to be inhibited by the negative impact of stock price declines on wealth positions, the cost of equity capital, and more generally on consumer and business confidence. One member observed that a recession could not be ruled out and incoming data on the economy would need to be scrutinized with special care for signs of greater weakness than now were expected.

The members continued to view further improvement in real net exports as a key to sustaining moderate expansion in business activity, especially in the context of potentially weaker domestic demands than had been anticipated earlier. The prospects for continuing gains seemed favorable, given the depreciation of the dollar and indications of considerable improvements in the productivity of U.S. manufacturers. Tending to support such an outlook were reports from various parts of the country indicating that many domestic firms were competing more effectively in export markets and with importers. At the same time, some members commented that improvement in the nation's nominal net export position continued to be held back by the vigorous efforts of foreign firms to maintain market shares at the expense of profit margins as their own currencies appreciated in relation to the dollar. As they had at earlier meetings, members observed that trade developments would depend to an important extent on the economic performance of key foreign industrial nations.

Turning to the prospects for wages and prices, a number of members indicated that they saw in recent developments a potential for somewhat less inflation than they had anticipated earlier. The large decline in stock prices had reduced inflation expectations and the weakening in the outlook for economic growth implied less pressures on wages and prices. Other developments that would tend to curb inflation included indications of ongoing improvement of labor productivity in manufacturing and the substantial slowdown in monetary growth this year. On the other hand, reference also was made to pressures on capacity in a number of industries, including some that competed actively with foreign producers. A sizable further decline in the dollar, should it occur, would exacerbate price and wage pressures in those industries and in the economy more generally.

At its meeting in July the Committee reviewed the basic policy objectives that it had set in February for growth of the monetary and debt aggregates in 1987 and established tentative objectives for expansion of those aggregates in 1988. For the period from the fourth quarter of 1986 to the fourth quarter of 1987, the Committee reaffirmed the ranges established in February that included growth of 5-1/2 to 8-1/2 percent for both M2 and M3. Given developments through mid-year, the Committee agreed that growth in these aggregates around the lower ends of their ranges might be appropriate, depending on the circumstances. The monitoring range for expansion in total domestic nonfinancial debt also was left unchanged at 8 to 11 percent for 1987. For 1988 the Committee agreed on tentative reductions of 1/2 percentage point to growth ranges of 5 to 8 percent for both M2 and M3. The Committee also reduced the associated range for growth in total domestic nonfinancial debt by 1/2 percentage point to 7-1/2 to 10-1/2 percent for 1988. With respect to M1, the Committee decided at the July meeting not to set a specific target for the remainder of 1987 or to establish a tentative range for 1988. It was understood that all the ranges for 1988 were provisional and that they would be reviewed early next year in the light of intervening developments. The issues involved with establishing a target for M1 would be carefully reappraised at the beginning of 1988.

In the Committee's discussion of policy implementation for the weeks immediately ahead, the members generally agreed on the basic desirability of directing open market operations toward maintaining the easier conditions that had developed in money markets. This would involve about the degree of pressure on reserve positions that had been sought most recently. The members recognized that the still unsettled conditions in financial markets and related uncertainties in the economic outlook might continue to call for the more flexible and accommodative approach to policy that had characterized operations since October 19. This approach implied giving more weight than usual to money market conditions in order to facilitate the return to a more normal functioning of financial markets and to minimize the chances that the Committee's intentions would be misinterpreted. Such an approach also could help to assure that shifting demands for liquidity and reserves would be accommodated without undesirable fluctuations in money market conditions. As financial markets continued to stabilize, open market operations would be phased into a more normal approach to policy that was oriented more fully to a provision of reserves keyed to pressures on reserve positions. The transition would need to be executed with a great deal of caution under the still sensitive market circumstances that were foreseen.

Committee members agreed that the lower interest rates that had emerged since mid-October were needed to help offset the effects of the sharp decline in stock prices. It was acknowledged that the interest rate reductions increased the risks for the dollar in the foreign exchange markets, particularly in the absence of similar reductions abroad, but in the opinion of a number of members those risks were manageable. Some members expressed concern, however, that a further substantial depreciation in the dollar, if it were to materialize, would have seriously adverse consequences for domestic prices and interest rates and might indeed trigger another crisis in domestic and international financial markets.

To the extent that market developments permitted a more normal focus on the implementation of a desirable degree of pressure on reserve positions, attention might need to be given during the intermeeting period to a possible adjustment in such reserve conditions depending on economic and financial developments and the behavior of the monetary aggregates. All of the members could foresee possible adjustments in either direction under alternative potential circumstances. However, in light of the uncertainties that continued to dominate financial markets and the risks that the recent developments could depress business activity, nearly all believed that policy implementation should remain especially alert to developments that might call for somewhat easier reserve conditions.

In keeping with the Committee's usual approach, it was understood that any decision to alter reserve objectives during the intermeeting period should take account of the behavior of the monetary aggregates. The members took note of a staff analysis which indicated that the uncertainty surrounding projections of monetary growth was considerably greater than usual. In particular, the extent to which heightened preferences for liquidity and substantial variations in the volume of financial transactions might affect future demand for money balances was difficult to gauge. Moreover, it was hard to assess how quickly the money markets and depository institutions would move to reestablish a more normal structure of short-term market and deposit interest rates and in particular how fully the opportunity costs of holding money balances would be adjusted in the period ahead. On the assumption that conditions in financial markets would gradually return to more normal patterns but that some residual of the heightened demands for liquidity would remain, the reserve conditions that were contemplated might be accompanied by somewhat faster growth in M2 and M3 in the current quarter than had occurred in the third quarter. The members understood that such growth implied expansion in M2 for the year that would be well below the Committee's range and growth in M3 that was close to the lower end of its range. Growth in M1 continued to be particularly difficult to project in present circumstances, but a considerable slowing after the October bulge was seen as likely over the balance of the quarter.

Given the Committee's current approach to open market operations, the members anticipated that the federal funds rate would continue to fluctuate generally in a fairly narrow band close to recent levels. Nonetheless, most of the members agreed that the usual, relatively wide range to trigger a consultation should continue to be set for the federal funds rate. A majority favored a reduction in the range from the current 5 to 9 percent to 4 to 8 percent. While the midpoint of the current range would be centered approximately on the expected average trading level, some members commented that a rise toward 9 percent would have destabilizing effects in the period ahead. Moreover, a 4 to 8 percent range might be viewed as more in keeping with the recent thrust in monetary policy and the expectation that intermeeting adjustments, if any, were likely to be in the direction of easier reserve conditions.

At the conclusion of the Committee's discussion, all of the members indicated their support of a directive that called for maintaining the degree of reserve pressure that had been sought in recent days. The members recognized that the volatile conditions in financial markets and related uncertainties in the business outlook might continue to indicate the need for special flexibility in the conduct of open market operations. Such an approach to policy implementation would depend in particular on the strength of demands for liquidity stemming from recent and prospective developments in financial markets. To the extent that the functioning of those markets permitted a return to more normal open market operations, the members indicated that somewhat lesser reserve restraint would be acceptable, while slightly greater reserve restraint might be acceptable, depending on the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, with account also taken of the behavior of the monetary aggregates. The members believed that the outlook for monetary growth over the months ahead was subject to unusual uncertainty, but the contemplated reserve conditions were thought likely to be consistent with somewhat faster growth in M2 and M3 than had been expected earlier; such growth might center on annual rates of around 6 to 7 percent for the period from September through December. Largely reflecting the bulge in October, growth in M1 in the fourth quarter as a whole was expected to be well above its average pace in the previous several months. However, because of the very substantial uncertainty that still surrounded the outlook for M1, the Committee decided to continue its practice of not specifying a numerical expectation for its growth. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be reduced from 5 to 9 percent to 4 to 8 percent.

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

> The economic information available at this meeting was reviewed against the backdrop of extraordinary developments in financial markets in the period since the previous Committee meeting on September 22. Share prices in the stock market were down sharply. Following a particularly large decline of stock prices in mid-October, interest rates fell steeply and increases that had occurred during the first part of the intermeeting period subsequently were more than reversed on most types of debt obligations. Foreign exchange markets were relatively calm over most of the intermeeting period, but the dollar came under significant downward pressure late in the period.
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> In the third quarter economic activity had expanded at a fairly brisk pace. Total nonfarm payroll employment rose further in September, with the manufacturing sector continuing to record relatively sizable gains. The civilian unemployment rate edged down to 5.9 percent. Industrial production increased somewhat further in September following large gains in other recent months. Retail sales declined somewhat in September, but consumer spending, bolstered by a rise in auto sales, posted a large increase over the third quarter. Business capital spending was strong in the third quarter and forward indicators pointed to continuing gains. Housing starts were up in September but were little changed in the third quarter from their second-quarter average. The nominal U.S. merchandise trade deficit narrowed in August, but the July-August average remained above the second-quarter rate. The rise in consumer and producer prices was relatively moderate in recent months following more rapid increases earlier in the year.

Growth of the monetary aggregates appeared to have strengthened in October, with some of the strength reflecting heightened demands for transaction balances and other liquid assets in the latter part of the month. Even so, for 1987 through October, expansion of M2 evidently moved closer to, but remained below, the lower end of the range established by the Committee for the year, while growth of M3 was around the lower end of its range. Expansion in total domestic nonfinancial debt has remained on a more moderate trend in recent months.

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at its meeting in July to reaffirm the ranges established in February for growth of 5-1/2 to 8-1/2 percent for both M2 and M3 measured from the fourth quarter of 1986 to the fourth quarter of 1987. The Committee agreed that growth in these aggregates around the lower ends of their ranges may be appropriate in light of developments with respect to velocity and signs of the potential for some strengthening in underlying inflationary pressures, provided that economic activity is expanding at an acceptable pace. The monitoring range for growth in total domestic nonfinancial debt set in February for the year was left unchanged at 8 to 11 percent.

For 1988, the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1987 to the fourth quarter of 1988, of 5 to 8 percent for both M2 and M3. The Committee provisionally set the associated range for growth in total domestic nonfinancial debt at 7-1/2 to 10-1/2 percent.

With respect to M1, the Committee recognized that, based on experience, the behavior of that aggregate must be judged in the light of other evidence relating to economic activity and prices; fluctuations in M1 have become much more sensitive in recent years to changes in interest rates, among other factors. Because of this sensitivity, which has been reflected in a sharp slowing of the decline in M1 velocity over the first half of the year, the Committee again decided at the July meeting not to establish a specific target for growth in M1 over the remainder of 1987 and no tentative range was set for

1988. The appropriateness of changes in M1 this year will continue to be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures. The Committee welcomes substantially slower growth of M1 in 1987 than in 1986 in the context of continuing economic expansion and some evidence of greater inflationary pressures. The Committee in reaching operational decisions over the balance of the year will take account of growth in M1 in the light of circumstances then prevailing. The issues involved with establishing a target for M1 will be carefully reappraised at the beginning of 1988.

In the implementation of policy for the immediate future, the Committee seeks to maintain the degree of pressure on reserve positions sought in recent days. The Committee recognizes that the volatile conditions in financial markets and uncertainties in the economic outlook may continue to call for a special degree of flexibility in open market operations, depending, in particular, on demands for liquidity growing out of recent or prospective developments in financial markets. Apart from such considerations, somewhat lesser reserve restraint would, or slightly greater reserve restraint might, be acceptable depending on the strength of the business expansion, indications of inflationary pressures, developments in foreign exchange markets, as well as the behavior of the monetary aggregates. While the outlook for monetary growth over the months ahead is subject to unusual uncertainty, the contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from September through December at annual rates of about 6 to 7 percent, but more rapid growth is possible should preferences for liquidity be particularly strong. Over the same period, growth in M1 is expected to be well above its average pace in the previous several months. 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 4 to 8 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Heller, Johnson, Keehn, Kelley, Ms. Seger, and Mr. Stern. Votes against this action: None.

2. Authorization for Domestic Open Market Operations

Effective November 4, 1987, the Committee approved a temporary increase of $3 billion, to $9 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 Operations. The increase was effective for the intermeeting period ending with the close of business on December 16, 1987.

> Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Heller, Johnson, Keehn, Kelley, Ms. Seger, and Mr. Stern. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that the normal leeway of $6 billion for changes in the System's Account probably would not be sufficient over the intermeeting period because of seasonal increases in currency in circulation and required reserves; such increases could be enlarged even further if current financial market tensions persisted.