

Meeting of the Federal Open Market Committee

October 5-6, 1981

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., starting on Monday, October 5, 1981, at 4:30 p.m. and continuing on Tuesday, October 6, 1981, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Boehne
Mr. Boykin
Mr. Corrigan
Mr. Gramley
Mr. Keehn
Mr. Partee
Mr. Rice
Mr. Schultz
Mrs. Teeters
Mr. Wallich

Messrs. Balles, Ford, Timlen, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris and Roos, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director
Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Bradfield, General Counsel 1/
Mr. Oltman, Deputy General Counsel
Mr. Mannion, Assistant General Counsel 1/
Mr. Kichline, Economist

Messrs. Burns, R. Davis, Ettin, Keir, Mullineaux, Prell, Scheld, Truman, and Zeisel, Associate Economists

1/ Attended Tuesday session only.

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

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

Mr. Coyne, Assistant to the Board of Governors
Mr. Siegman, Associate Director, Division of Inter-
national Finance, Board of Governors

Mr. Lindsey 2/, Assistant Director, Division of Research
and Statistics, Board of Governors

Mr. Simpson, Chief, Banking Section, Division of Research
And Statistics, Board of Governors

Mrs. Deck 1/, Staff Assistant, Open Market Secretariat,
Board of Governors

Mr. Monhollon, First Vice President, Federal Reserve
Bank of Richmond

Messrs. Balbach, J. Davis, T. Davis, Keran, Koch, and
Parthemos, Senior Vice Presidents, Federal Reserve
Reserve Banks of St. Louis, Cleveland, Kansas City,
San Francisco, Atlanta, and Richmond, respectively

Messrs. Fieleke and Syron 1/, Vice Presidents, Federal
Reserve Bank of Boston

Mr. Duprey, Senior Economist, Federal Reserve Bank of
Minneapolis

Mr. Ozog, Manager, Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meetings
of the Federal Open Market Committee held on August 18, 1981, were approved.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
August 18 through October 5, 1981, were ratified.

1/ Attended Tuesday session only.

2/ Attended Monday session only.

With Mr. Wallich dissenting, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real GNP declined slightly further in the third quarter and that prices on the average continued to rise at the somewhat lower rate that emerged in the second quarter. In July and August the nominal value of total retail sales was essentially unchanged from the June level, and unit sales of domestic automobiles weakened in September. Industrial production declined slightly in August and apparently slackened further in September, while nonfarm payroll employment changed little in both months. The unemployment rate rose to 7.5 percent in September, about equal to its average in the first half of 1981. Housing starts fell in August to the lowest rate in several years. Over the first nine months of the year, the rise in the index of average hourly earnings was somewhat less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies declined sharply through mid-September from its peak in early August and on balance has changed little since then. In August the U.S. foreign trade deficit widened substantially from the low rate in July; for July and August combined, the deficit was considerably larger than the second-quarter rate.

M1-B, adjusted for the estimated effects of shifts into NOW accounts, increased little over the period from June to September, while M2 grew at a relatively strong pace. The level of adjusted M1-B in September was well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981; the level of M2 was at the upper end of its range for the year. In frequently volatile markets, short-term interest rates have declined on balance since mid-August while long-term rates have risen considerably further. On September 21 the Board of Governors announced a reduction in the surcharge from 4 to 3 percentage points on frequent borrowings of large depository institutions.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote sustained economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3-1/2 to 6 percent for M1-B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6-1/2 to 9-1/2 percent for M2 and M3, respectively. The Committee recognized that the shortfall in M1-B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper ends of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M1-B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M1, M2, and M3 within ranges of 2-1/2 to 5-1/2 percent, 6 to 9 percent, and 6-1/2 to 9-1/2 percent would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth of M1-B from September to December at an annual rate of 7 percent after allowance for the impact of flows into NOW accounts and with growth in M2 at an annual rate around 10 percent or slightly higher, recognizing that the behavior of M2 will be affected by recent regulatory and legislative changes, particularly the public's response to the availability of the all savers certificate. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 12 to 17 percent.

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It was agreed that the next meeting of the Committee would be held on Tuesday, November 17, 1981, beginning at 9:30 a.m.

The meeting adjourned.

Secretary