

Meeting of the Federal Open Market Committee

November 17, 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., on Tuesday, November 17, 1981, at 9:30 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, Black, Ford, and Winn, Alternate Members of the Federal Open Market Committee

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Messrs. Guffey, 1/ 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  
Mr. Kichline, Economist

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

1/ Left the meeting prior to the action to adopt the domestic policy directive.

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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  
Messrs. Gemmill and Siegman, Associate Directors, Division  
of International Finance, Board of Governors

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

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

Messrs. Balbach, J. Davis, T. Davis, Eisenmenger, Fousek,  
Keran, and Koch, Senior Vice Presidents, Federal  
Reserve Banks of St. Louis, Cleveland, Kansas City,  
Boston, New York, San Francisco, and Atlanta,  
respectively

Messrs. Broaddus and Syron, Vice Presidents, Federal  
Reserve Banks of Richmond and Boston

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

Ms. Clarkin, Senior Trading Officer, Federal Reserve Bank  
of New York

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on October 5-6, 1981, were approved.

By unanimous vote, the Committee approved the renewal for further  
periods of up to one year of the following swap arrangements having the  
indicated amounts and maturity dates:

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<u>Foreign bank</u>	<u>Amount of arrangement (millions of \$ equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 mos.	12/ 4/81
National Bank of Belgium	1,000.0	"	12/18/81
Bank of Canada	2,000.0	"	12/29/81
National Bank of Denmark	250.0	"	12/29/81
Bank of England	3,000.0	"	12/ 4/81
Bank of France	2,000.0	"	12/29/81
German Federal Bank	6,000.0	"	12/29/81
Bank of Italy	3,000.0	"	12/29/81
Bank of Japan	5,000.0	"	12/ 4/81
Bank of Mexico	700.0	"	12/ 4/81
Netherlands Bank	500.0	"	12/29/81
Bank of Norway	250.0	"	12/ 4/81
Bank of Sweden	300.0	"	12/ 4/81
Swiss National Bank	4,000.0	"	12/ 4/81
Bank for International Settlements--			
Swiss francs	600.0	"	12/ 4/81
Other authorized European currencies	1,250.0	"	12/ 4/81

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period October 6 through November 16, 1981, were ratified.

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 suggests that real GNP is declining appreciably in the current quarter and that prices on the average are rising somewhat less rapidly than over the first three quarters of the year. In October the nominal value of total retail sales dropped; industrial production fell more than in September; and nonfarm payroll employment, especially in manufacturing, declined sharply. The unemployment rate rose from 7.5 percent to 8.0 percent. Housing starts edged down in September from an already depressed level. Over the first 10 months of 1981, the rise in the index of average hourly earnings was less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies has declined only a little since early October, although U.S. short-term interest rates have declined more than foreign rates. A reduced U.S. foreign trade deficit in September brought the deficit for the third quarter close to the second-quarter rate.

M1-B (adjusted for estimated shifts into NOW accounts) expanded in October almost as much as it had declined in September, and growth of M2 picked up. The level of adjusted M1-B remained 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. Short-term market interest rates have declined substantially since the end of September, and bond yields have also dropped from the peaks generally reached about then. On October 30 the Board of Governors announced a reduction in Federal Reserve basic discount rates from 14 to 13 percent. The surcharge on frequent borrowings of large depository institutions had been reduced from 3 to 2 percentage points on October 9, and on November 16 the Board removed the remaining 2 percentage points.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that its 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 end 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 respectively 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.

The Committee, after noting a moderate shortfall in growth of M1-B in October from the target path set at the last meeting, seeks behavior of reserve aggregates consistent with growth of M1-B from October to December at an annual rate of about 7 percent (after allowance for the impact of flows into NOW accounts) and with growth of M2 at an annual rate around 11 percent. 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 11 to 15 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, December 22, 1981, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary