

FEDERAL RESERVE press release



For Use at 4:10 p.m.

May 21, 1982

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 March 29-30, 1982. This record also includes policy actions taken during the period between the meeting on March 29-30, 1982, and the next regularly scheduled meeting held on May 18, 1982.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS OF
THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on March 29-30, 1982

1. Domestic policy directive

The information reviewed at this meeting suggested that real GNP, which had declined at an annual rate of 4-1/2 percent in the fourth quarter of 1981, fell appreciably further in the first quarter of this year. However, the level of final purchases in real terms was sustained, and the contraction in activity apparently moderated during the quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, were estimated to have risen much less than the annual rate of 7.5 percent in the preceding quarter.

The index of industrial production rose 1.6 percent in February, after a decline of 2.5 percent in January that was accounted for partly by severe winter weather. Although curtailments in output continued early this year, the rate of decline in industrial production from December to February was notably smaller than in the last four months of 1981.

Like industrial production, nonfarm payroll employment in February recovered some of its January decline. Over the two months the average monthly decline amounted to a little less than 100,000, compared with an average of about 300,000 in the fourth quarter. The unemployment rate in February, at 8.8 percent, was the same as in December.

The nominal value of retail sales, also distorted in January by the unusually severe weather, rebounded in February to about the level in December. Almost all categories of retail sales increased in February after having declined in January. Unit sales of new domestic automobiles rose to an annual rate of 6.2 million in February, buoyed by rebates and other price concessions; unit sales dropped in the first few weeks of March despite the continuation of purchase-incentive programs, but remained above the depressed fourth-quarter rate.

The Department of Commerce survey of business spending plans taken in January and February suggested that current-dollar expenditures for plant and equipment in 1982 would be about 7-1/4 percent greater than in 1981. The results implied a year-to-year decline of about 1 percent in real terms.

Private housing starts edged up in January and February from their unusually depressed pace in the fourth quarter of 1981, but the annual rate in February remained less than 1 million units for the seventh consecutive month. Sales of new and existing houses fell in January, reflecting the adverse weather conditions in many areas of the country in addition to the high level of mortgage interest rates; sales of existing homes picked up in February, but sales of new homes declined markedly further.

The rise in both producer and consumer prices moderated substantially in the first two months of the year. The producer price index for finished goods declined 0.1 percent in February, after a rise of 0.4 percent in January. Reductions in energy prices and rebates on motor vehicles contributed to the February decline in producer prices and to a deceleration

in consumer prices as well. The consumer price index rose only 0.3 percent and 0.2 percent in January and February respectively. The rise in the index of average hourly earnings over the first two months of the year remained at a reduced pace.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose about 4 percent further in February and March, partly reflecting a widening of the differential between U.S. and foreign interest rates during much of the intermeeting interval. However, the differential narrowed somewhat toward the end of the period. Monetary authorities of some foreign countries intervened on a substantial scale to resist the depreciation of their currencies. The U.S. foreign trade deficit in January and February was somewhat less on average than in the fourth quarter, reflecting declines in imports of both oil and non-oil products. Exports also declined further from the fourth-quarter rate.

At its meeting on February 1-2, 1982, the Committee had adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1981 to the fourth quarter of 1982: M1, 2-1/2 to 5-1/2 percent; M2, 6 to 9 percent; and M3, 6-1/2 to 9-1/2 percent. The associated range for bank credit was 6 to 9 percent.

At the February meeting, the Committee recognized that rapid monetary growth over recent months had placed both M1 and M2 in January above the ranges adopted for growth over the year. Consequently, the Committee had also decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates over the balance

of the first quarter consistent with bringing growth of M1 and M2 over time into their longer-run target ranges. For the period from January to March, the Committee sought no further growth in M1 and growth in M2 at an annual rate of around 8 percent. It was also agreed that some decline in M1, which would be associated with a faster return to its longer-run range, would be acceptable in the context of reduced pressure in the money market. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was set at 12 to 16 percent.

After having grown rapidly for three months, M1 declined at an annual rate of about 3-3/4 percent in February and expanded only a little in early March. A substantial contraction in demand deposits accounted for the decline in February, as flows into other checkable deposits continued strong. Growth of M2 slowed to an annual rate of 4-1/4 percent in February, reflecting a slackening of the expansion in its nontransaction component as well as the decline in M1, but partial data suggested that growth accelerated in March.

Nonborrowed reserves declined substantially in February and then turned up in March; in the statement week ending March 24, such reserves remained somewhat below the average for the month of January. Borrowings from Federal Reserve Banks for purposes of adjusting reserve positions averaged a little less than \$1.1 billion in the four statement weeks ending March 24 compared with an average of \$1.2 billion in the four weeks ending January 27, although such borrowings averaged nearly \$1.5 billion in the intervening four weeks.

The federal funds rate, which had been about 14 percent in the days preceding the February meeting, generally fluctuated in a range of 13-3/4 to 15-1/2 percent during the subsequent intermeeting period. Most other short-term market interest rates declined 1/2 to 1 percentage point on balance over the intermeeting interval and long-term yields fell about 1/2 to 3/4 percentage point. The prime rate charged by most commercial banks on short-term business loans, which had been raised from 15-3/4 to 16-1/2 percent on February 2, was unchanged during the remainder of the intermeeting period. Average rates on new commitments for fixed-rate home mortgage loans moved down nearly 1/2 percentage point to about 17 percent.

Total credit outstanding at U.S. commercial banks, adjusted for shifts of assets to IBFs, expanded at an average annual rate of about 11 percent in January and February, the same as in December. Growth in total loans picked up in February and expansion in business loans continued sizable in both months. Issuance of commercial paper by nonfinancial institutions was quite strong in February.

Staff projections presented at this meeting suggested that real GNP would begin to recover in the second quarter and would expand moderately over the balance of 1982. The unemployment rate was expected to reach a peak in the second quarter, while inflation, as measured by the fixed-weight price index for gross domestic business product, was projected to slow somewhat further over the year.

Views of Committee members concerning the most probable direction of economic activity and the behavior of prices in the remaining three quarters of 1982 generally differed little from the staff projections, but several members emphasized the unusual uncertainties that could produce a different result. The prospective cut in federal income taxes at midyear and the current expansion in defense orders and outlays, together with a reduction or a reversal of inventory liquidation, were expected to contribute to economic recovery before long; but whether recovery would begin as early as in the second quarter was questioned, in part because a number of sensitive indicators of activity had continued to point to weakness. Concern was also expressed that continuing deterioration in both agriculture and nonagricultural industries and regions might dampen some types of consumer expenditures and overall outlays for plant and equipment. Moreover, there was a general feeling that the recovery could be more restrained than in earlier cycles, partly because financial stringency and high interest rates had prevailed for so long. With respect to inflation, progress recently had been greater than expected, and some further reduction in the underlying trend of costs and prices was thought likely; current price indicators were expected to show particularly small increases for some months.

The Committee considered objectives for monetary growth over the period from March to June in light of several circumstances bearing on the recent and prospective behavior of the monetary aggregates. It appeared that growth of both M1 and M2 from January to March would be close to the

rates that the Committee had specified for that period. Consistent with the targets established for the year, however, slower growth than in the first quarter as a whole would be needed in the remaining quarters. The level of M2 in March appeared close to the upper end of its longer-run range.

A staff analysis suggested that the demand for money in the three months through June might be expected to moderate significantly from its growth in the first quarter. Growth of M1 on average in the first quarter had been considerably greater than would have been predicted on the basis of the actual behavior of nominal GNP and interest rates; the income velocity of M1 had declined very sharply after a small decline in the last quarter of 1981. Velocity declines of this magnitude and duration have been rare in the postwar period, and they were particularly unusual in the absence of declines in short-term interest rates.

The great bulk of the first-quarter growth of M1 had occurred in NOW accounts, suggesting that individuals wished to hold increased liquid balances in an environment of considerable uncertainty about the prospects for economic activity and interest rates. That interpretation was supported by renewed growth over recent months in highly liquid savings deposits that had relatively low yields. In the course of the second quarter, the accumulated liquidity balances might be drawn down to some extent, either for spending or for investing in other assets, especially if the economy strengthened and uncertainties were reduced. Thus at some point, relatively slow growth of M1, consistent with a fairly prompt return to its longer-run range, could be associated with a substantial

rise in velocity. Should the recently increased preference for liquidity be more enduring, somewhat greater growth in M1 over time might be needed to foster economic recovery.

The task of judging the trend in M1 and of implementing monetary policy in the period immediately ahead would be complicated by problems involved in assessing the pattern of monetary growth during the early part of the second quarter. Calculation of seasonal adjustments for that part of the year is particularly difficult because of large tax payments, differences in the speed of their processing, and uncertainties about the size of tax refunds. The behavior of M1 is also affected by the extent to which funds accumulated in anticipation of tax payments are held in M1 deposits or, for example, in money market mutual funds.

Seasonal factors allow for a large rise in unadjusted M1 in April. However, the computation of the seasonal factors for the month has been complicated by the sharp variation in growth patterns in April for the past two years and by the related difficulties of isolating the impact of such non-recurring influences as the credit control program in 1980 from possible shifts in the seasonal influences over time. Thus, inherent difficulties in the seasonal adjustment process as well as the usual uncertainties related to large tax payments and refunds raised the possibility that, while aiming at a second-quarter deceleration in monetary growth, allowance would need to be made for some bulge of growth in April.

Given the uncertainties about the near-term economic prospects as well as about the technical and other factors affecting the monetary aggregates,

almost all members of the Committee felt that it would be desirable to set a course for the second quarter as a whole designed to permit modest growth of M1, consistent with moving toward the longer-run growth objective over a period of time. Considerable attention was paid to evaluating the significance of recent behavior of NOW accounts. In the Committee's discussion, the point was made that the growth of M1 since October could be traced almost entirely to extraordinarily rapid growth in NOW accounts. A number of factors suggested that the growth of NOW accounts, as well as the accompanying growth in savings accounts, reflected a desire of individuals to hold more highly liquid assets, at least temporarily, in the light of uncertainties about economic activity and interest rates. Growth in demand deposits, which are held by businesses as well as by individuals, had been sluggish. Moreover, growth of the larger M2 aggregate, especially since December, appeared generally in line with the Committee's expectations.

Liquid balances accumulated in NOW accounts might be drawn upon in the second quarter, but if they were not, an effort to return M1 to its longer-run range might imply a more restrictive policy than was intended or would be desirable. It was suggested that if individuals evidenced a continuing desire to hold large liquid balances, the Committee would need to consider the implications of such a shift in liquidity preference for its range for growth of M1 over 1982. At the same time, it was noted that growth of M1 over a longer period extending back into 1981 understated the expansion of transactions balances to the extent that the accumulation of shares in money market mutual funds represented such balances. Partly for that reason, some members suggested that a

stronger effort to reduce growth of M1 would be desirable to maintain pressure for continuation of the reduction in the rate of inflation.

Considering the pattern of growth in the period ahead and the seasonal uncertainties, most members believed that the behavior of M1 in April should be evaluated partly in light of the behavior of M2. Thus, for example, relatively rapid growth of M1 in April should be more readily accepted if M2 appeared to be growing at a pace consistent with the Committee's expectations for growth over the year. Should M1 growth in April be relatively rapid, offsetting behavior in the ensuing months would be expected. At the same time, sentiment was expressed for prompt efforts to contain an undue bulge in growth of M1 in April, on the grounds that the absence of such efforts would be interpreted as a weakening of the Committee's anti-inflationary stance and could have adverse consequences in long-term bond markets.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. It was understood that most, if not all, of the expansion in M1 over the period might well occur in April, and within limits, an April bulge in M1 alone should not be strongly resisted. In any event, it was agreed that deviations from those targets should be evaluated in light of the probability that over the period, M2 would be less affected than M1 by deposit shifts related to the mid-April tax date and by changes in the relative importance of NOW accounts as a savings

vehicle. Some shortfall in growth of M1, consistent with progress toward the upper part of the range for the year as a whole, would be acceptable in the context of appreciably reduced pressures in the money market and relative strength of other aggregates. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 12 to 16 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP declined appreciably further in the first quarter of 1982 but that final purchases were sustained and the contraction in activity moderated during the quarter; prices on the average rose much less rapidly than in the preceding quarter. In January weakness in activity was accentuated by unusually severe weather, and in February the nominal value of retail sales rebounded while industrial production and nonfarm payroll employment recovered part of their January declines. The unemployment rate in February, at 8.8 percent, was unchanged from December. Although housing starts rose further in the first two months of the year, they remained at a depressed level. The rise in both the consumer price index and the producer price index for finished goods moderated substantially, and the advance in the index of average hourly earnings on the average remained at a reduced pace.

The weighted average value of the dollar against major foreign currencies continued to rise strongly in February and March; foreign monetary authorities intervened on a substantial scale to resist the depreciation of their currencies. The U.S. foreign trade deficit in January and February on the average was somewhat less than the fourth-quarter rate.

M1 declined in February, after three months of rapid growth, and then increased moderately in early March. Growth of M2 slowed appreciably in February, owing to a slackening of the expansion in the nontransaction component as well as to the decline in M1. Short-term market interest rates and bond yields on balance have declined since early February, and mortgage interest rates have edged down.

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 February, the Committee agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 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. The associated range for bank credit was 6 to 9 percent.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. The Committee also noted that deviations from these targets should be evaluated in light of the probability that M2 would be less affected over the period than M1 by deposit shifts related to the tax date and by changes in the relative importance of NOW accounts as a savings vehicle. Some shortfall in growth of M1, consistent with progress toward the upper part of the range for the year as a whole, would be acceptable in the context of appreciably reduced pressures in the money market and relative strength of other aggregates. 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 16 percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Ford, Gramley, Partee, Rice, Mrs. Teeters, and Mr. Winn. Votes against this action: Messrs. Black and Wallich.

Messrs. Black and Wallich dissented from this action because they favored specification of somewhat lower rates for monetary growth from March to June than those adopted by the Committee, which would be associated with a relatively prompt return of M1 growth to its range for the year. Mr. Black believed that continued growth of M1 above its longer-run range for any extended period would adversely affect economic activity by exacerbating inflationary expectations and weakening markets for longer-term securities; for that reason, he felt that it was particularly important to resist any surge in growth of M1 that might develop in April. In Mr. Wallich's opinion, it would be desirable to restrain the pace of the prospective recovery in economic activity, consistent with some reduction in the unemployment rate, to sustain a degree of pressure for continuation of the reduction in the underlying rate of inflation.

2. Review of continuing authorizations

At this, the first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1982, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the authorization for foreign currency operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Solomon, Balles, Black, Ford, Gramley, Partee, Rice, Mrs. Teeters, Messrs. Wallich and Winn.
Votes against these actions: None.

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the lending of U.S. government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager for Domestic Operations that the lending activity in question remained reasonably necessary and that the authorization should remain in effect on a continuing basis, with the understanding that the manager would monitor the lending operation closely and would recommend discontinuing it in the event that it was no longer reasonably necessary to the effective conduct of open market operations.

3. Agreement with Treasury to warehouse foreign currencies

At its meeting on January 17-18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies--that is, to make spot purchases of foreign currencies from the Exchange Stabilization Fund and simultaneously to make

forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to \$5 billion of eligible foreign currencies. At this meeting the Committee reaffirmed the agreement on the terms adopted on March 18, 1980, with the understanding that it would be subject to annual review.

Votes for this action: Messrs. Volcker,
Solomon, Balles, Black, Ford, Gramley, Partee,
Rice, Mrs. Teeters, Messrs. Wallich and Winn.
Votes against this action: None.

4. Authorization for Domestic Open Market Operations

On April 13-14, 1982, members of the Committee voted to increase from \$3 billion to \$5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on May 18, 1982.

Votes for this action: Messrs. Volcker,
Solomon, Balles, Black, Gramley, Martin, Partee,
Rice, Mrs. Teeters, Messrs. Wallich, Winn, and
and Roos. Votes against this action: None.
Mr. Roos voted as alternate for Mr. Ford.

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the March meeting, large-scale net purchases of securities had been undertaken to counter the effects on member bank reserves of increases in currency in circulation and in Treasury balances at Federal Reserve Banks. The amount of these purchases

was approaching \$3 billion, leaving no leeway for further purchases over the current intermeeting interval. It appeared likely that sizable additional purchases would be required in the period ahead because of a projected further rise in Treasury balances associated with expansion in tax receipts.

On April 26-27, the Committee voted to approve an additional increase of \$1 billion, to \$6 billion, in the intermeeting limit on changes in holdings of U.S. government and federal agency securities, after the Manager had advised that the rise in Treasury balances at Federal Reserve Banks apparently would be considerably larger than anticipated earlier.

Votes for this action: Messrs. Volcker, Solomon, Black, Martin, Partee, Rice, Mrs. Teeters, Messrs. Wallich, Winn, Guffey, and Roos. Votes against this action: None. Absent: Mr. Gramley. Messrs. Guffey and Roos voted as alternates for Messrs. Balles and Ford respectively.