

Meeting of the Federal Open Market Committee

May 18, 1982

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, May 18, 1982, at 9:15 a.m.

PRESENT: Mr. Volcker, 1/ Chairman  
Mr. Balles  
Mr. Black  
Mr. Ford  
Mr. Gramley  
Mrs. Horn  
Mr. Martin  
Mr. Partee  
Mr. Rice  
Mrs. Teeters  
Mr. Wallich  
Mr. Timlen, Alternate for Mr. Solomon

Messrs. Guffey, Keehn, Morris, and Roos, Alternate Members  
of the Federal Open Market Committee

Messrs. Boehne, and Boykin, Presidents of the Federal Reserve  
Banks of Philadelphia, and Dallas, respectively

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

Messrs. J. Davis, Ettin, Keran, Koch, Prell,  
Siegman, and Ziesel, Associate Economists

Mr. Sternlight, 2/ Manager for Domestic Operations,  
System Open Market Account

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1/ Left the meeting prior to the approval of the minutes of actions and returned prior to the action to ratify System Open Market transactions in Government securities, agency obligations, and bankers acceptances.

2/ Entered the meeting prior to the action to ratify System open market transactions in Government securities, agency obligations, and bankers acceptances.

Mr. Coyne, Assistant to the Board of Governors  
Mr. Gemmill, Associate Director, Division of  
International Finance, Board of Governors  
Mr. Kohn, Senior Deputy Associate Director, Division of  
Research and Statistics, Board of Governors  
Mr. Lindsey, Assistant Director, Division of Research  
and Statistics, Board of Governors  
Mr. Robinson,<sup>3/</sup> Assistant Director, Division of Federal  
Reserve Bank Operations, Board of Governors  
Mrs. Deck, Staff Assistant, Open Market Secretariat,  
Board of Governors

Messrs. Balbach, Burns, T. Davis, Eisenmenger, Fousek,  
Mullineaux, Scheld, and Stern, Senior Vice  
Presidents, Federal Reserve Banks of St. Louis,  
Dallas, Kansas City, Boston, New York, Philadelphia,  
Chicago, and Minneapolis, respectively

Mr. Broaddus, Ms. Greene, and Mr. Soss, <sup>4/</sup> Vice Presidents,  
Federal Reserve Banks of Richmond, New York,  
and New York, respectively

Ms. Meulendyke, Senior Economist, Federal Reserve Bank of  
New York

Secretary's Note: Advices had been received of the  
election by the Federal Reserve Banks of Cleveland  
and Chicago of Mrs. Karen N. Horn, President of the  
Federal Reserve Bank of Cleveland, as member of the  
Federal Open Market Committee to represent those  
Federal Reserve Banks for the balance of the one-year  
term expiring February 28, 1983; and it appeared that  
Mrs. Horn was legally qualified to serve. Mrs. Horn  
had executed her oath of office prior to this meeting.

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on March 29-30, 1982, were approved.

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<sup>3/</sup> Left the meeting following the acceptance of the report of examination  
of the System open market account.

<sup>4/</sup> Entered the meeting prior to the action to adopt the domestic policy  
directive.

5/18/82

- 3 -

The report of examination of the System open market account, made by the Board's Division of Federal Reserve Bank Operations as of the close of business May 29, 1981, was accepted.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period March 30 through May 17, 1982, were ratified.

With Mrs. Teeters 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 will change little in the current quarter after the appreciable further decline in the first quarter, as business inventory liquidation moderates from last quarter's extraordinary rate. In April the nominal value of retail sales expanded, while industrial production and nonfarm payroll employment continued to decline. The unemployment rate rose 0.4 percentage point to 9.4 percent. Although housing starts edged up in March for the fifth consecutive month, they remained at a depressed level. The rate of increase in prices on the average appears to be slowing somewhat further in the current quarter; so far this year both the consumer price index and the producer price index for finished goods have risen little on balance, and the advance in the index of average hourly earnings has remained at a reduced pace.

The weighted average value of the dollar against major foreign currencies, after rising somewhat further in early April, has fallen sharply over the past month, reflecting in part a decline in U.S. interest rates relative to foreign rates and market expectations of further declines. The U.S. foreign trade deficit in the first quarter was one-third less than in the preceding quarter.

5/18/82

- 4 -

M1 increased sharply in April, but the expansion was concentrated in the first half of the month and was largely retraced later. Growth of M2 moderated somewhat, owing to a slackening of the expansion in the nontransaction component. Short-term market interest rates and bond yields on balance have declined since the end of March, and mortgage interest rates have edged down further.

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 changes in the relative importance of NOW accounts as a savings vehicle. 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 10 to 15 percent.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Thursday, July 1, 1982, at 9:30 a.m.

The meeting adjourned.

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Secretary