

Meeting of the Federal Open Market Committee

June 30 - July 1, 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., starting on Wednesday, June 30, 1982, at 3:10 p.m., and continuing on Thursday, July 1, 1982, at 9:15 a.m.

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

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

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

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

Messrs. R. Davis, Keran, Koch, Siegman, Truman  
and Zeisel, Associate Economists

1/ Attended Thursday session only.

Mr. O'Brien, Deputy 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  
Messrs. Lindsey and Slifman, Assistant Directors,  
Division of Research and Statistics, Board of Governors  
Mr. Johnson, Economist, Division of Research and  
Statistics, Board of Governors  
Mrs. Deck, Staff Assistant, Open Market Secretariat,  
Board of Governors

Mr. MacDonald, First Vice President, Federal Reserve  
Bank of Cleveland

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

Mr. Broaddus, Ms. Greene, and Mr. Soss, Vice Presidents,  
Federal Reserve Banks of Richmond, New York,  
and New York, respectively

Mr. Meek, Monetary Adviser, Federal Reserve Bank of  
New York  
Mr. Erceg, Assistant Vice President, Federal Reserve  
Bank of Cleveland

Ms. Meulendyke, Senior Economist, 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 May 18, 1982, were approved.

With Messrs. Black and Ford, Mrs. Teeters, and Mr. Wallich dissenting,  
the Federal Reserve Bank of New York was authorized and directed, until other-  
wise 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 changed little in the second quarter, after the appreciable further decline in the first quarter, as business inventory liquidation moderated from an extraordinary rate. In May the nominal value of retail sales continued to pick up, while industrial production declined only a little further and nonfarm payroll employment was essentially unchanged. The unemployment rate edged up 0.1 percentage point to 9.5 percent. Housing starts rose appreciably from a depressed level.

The price index for gross domestic business product appears to have risen at a relatively slow rate in the second quarter. Over the first five months of this year the producer price index for finished goods was virtually stable, and the advance in the index of average hourly earnings remained at a reduced pace. The consumer price index rose sharply in May, after a small net increase over the preceding four months.

The weighted average value of the dollar against major foreign currencies has risen sharply over the past month, reaching its highest level since early 1971, in response to a rise in U.S. interest rates relative to foreign rates as well as to hostilities in the Middle East. The U.S. foreign trade deficit in the first five months of 1982 was at a rate substantially less than in the fourth quarter of last year, as imports declined more than exports.

M1 declined somewhat in May, after its sharp rise in April, while growth of M2 remained substantial. Business demands for credit, especially short-term credit, were exceptionally strong. Short-term market interest rates and bond yields generally have risen since late May, and mortgage interest rates have increased.

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. These ranges were under review at this meeting.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from June to September at annual rates of about 5 percent and about 9 percent respectively. Somewhat more rapid growth would be acceptable depending on evidence that economic and financial uncertainties are leading to exceptional liquidity demands and changes in financial asset holdings. It was also noted that seasonal uncertainties, together with increased social security payments and the initial impact of the tax cut on cash balances, might lead to a temporary bulge in the monetary aggregates, particularly M1. 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.

By unanimous vote, System open market transactions in foreign currencies and transactions in Government securities, agency obligations, and bankers acceptances during the period May 18 through June 30, 1982, were ratified.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, August 24, 1982, at 9:30 a.m.

The meeting adjourned.

---

Secretary