

Meeting of the Federal Open Market Committee

August 24, 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, August 24, 1982, at 9:45 a.m.

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

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

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

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

Messrs. J. Davis, Keran, Koch, Parthemos, Prell, Truman, and Zeisel, Associate Economists

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

1/ Entered the meeting following the action to ratify System open market transactions in foreign currencies.

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Messrs. Czerwinski and Smoot, First Vice Presidents, Federal Reserve Banks of Kansas City and Philadelphia, respectively

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. Promisel, Senior Deputy Associate Director, Division of International Finance, Board of Governors
Mr. Lindsey, Assistant Director, Division of Research and Statistics, Board of Governors
Mrs. Low, Secretary, Open Market Secretariat, Board of Governors

Messrs. Eisenmenger, Fousek, Scheld, and Stern, Senior Vice Presidents, Federal Reserve Banks of Boston, New York, Chicago, and Minneapolis, respectively

Messrs. Burger, Cacy, and Soss, Vice Presidents, Federal Reserve Banks of St. Louis, Kansas City, and New York, respectively

Mr. Pearce, Assistant Vice President, Federal Reserve Bank of Dallas

Mr. Lang, Research Officer, Federal Reserve Bank of Philadelphia

Ms. Lovett, Securities Trading Officer, 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 June 30 - July 1, 1982, and July 15, 1982, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period July 1 through August 23, 1982, were ratified.

By unanimous vote, a special reciprocal currency arrangement with the Bank of Mexico of \$325 million in addition to the regular \$700 million arrangement specified in paragraph 2 of the Authorization for Foreign Currency Operations was approved, effective August 28, 1982, for the period through August 23, 1983.

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By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period July 1 through August 23, 1982, were ratified.

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 only a little further advance in real GNP in the current quarter, following a relatively small increase in the second quarter, while prices on the average are continuing to rise more slowly than in 1981. In July the nominal value of retail sales rose somewhat from a sharply reduced June level; housing starts increased substantially, though from a relatively low rate; and industrial production and nonfarm payroll employment were essentially unchanged. The unemployment rate rose 0.3 percentage point to 9.8 percent. Over the first seven months of the year the advance in the index of average hourly earnings was considerably less rapid than during 1981.

The weighted average value of the dollar against major foreign currencies, while fluctuating over a wide range, has changed little on balance since late June despite a sharp decline in U.S. interest rates relative to foreign rates. Demand for dollars appeared to reflect concern about economic and financial difficulties abroad. The U.S. foreign trade deficit in the second quarter was somewhat below the first-quarter deficit, with petroleum imports down substantially.

M1 declined slightly in June and July, while growth of M2 moderated somewhat from its average pace earlier in the year. Business demands for credit, especially short-term credit, remained generally strong. Market interest rates have declined sharply since around midyear, reflecting a shift in market sentiment about the outlook for interest rates against the background of strains in financial markets, relatively weak economic indicators, and legislative action on the federal budget. The Federal Reserve discount rate was reduced in three steps from 12 percent to 10-1/2 percent during the period.

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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 had 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. The Committee began a review of these ranges at its meeting on June 30 - July 1, and at a meeting on July 15, it reaffirmed the targets for the year set in February. At the same time the Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated that it was tentatively planning to continue the current ranges for 1983 but that it would review that decision carefully in the light of developments over the remainder of 1982.

In the short run, the Committee continues to seek 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. 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 7 to 11 percent.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, October 5, 1982, at 9:30 a.m.

The meeting adjourned.

Assistant Secretary