

Meeting of the Federal Open Market Committee

October 5, 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, October 5, 1982, at 9:00 a.m.

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

Messrs. Guffey, Keehn, 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  
Mr. Bernard, Assistant Secretary  
Mrs. Steele, Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Mannion, Assistant General Counsel  
Mr. Kichline, Economist

Messrs. Ettin, J. Davis, R. Davis, Koch, Prell, Siegman, 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 approval of minutes.

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Mr. James McIntosh, First Vice President, Federal Reserve Bank of Boston

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

Mrs. Low, Secretary, Open Market Secretariat, Board of Governors

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

Messrs. Broaddus, Bisignano, and Soss, Vice Presidents, Federal Reserve Banks of Richmond, San Francisco, and New York, respectively

Mr. McCurdy, Research Officer and 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 August 24, 1982, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period August 24, through October 4, 1982, were ratified.

Renewal for a further period of three months of a drawing on the System by the Bank of Mexico maturing on November 4, 1982, was noted without objection.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period August 24, through October 4, 1982, were ratified.

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With Messrs. Black and Ford and Mrs. Horn 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 changed little in the third quarter, following a small increase in the second quarter, while prices on the average continued to rise more slowly than in 1981. In August the nominal value of retail sales fell back to the sharply reduced June level, while industrial production and nonfarm payroll employment also declined. Housing starts fell, reversing much of the substantial July increase. The unemployment rate was unchanged at 9.8 percent in August, but claims for unemployment insurance have risen further in recent weeks and there are indications of some further decline in production. In recent months the advance in the index of average hourly earnings has remained considerably less rapid than during 1981.

The weighted average value of the dollar against major foreign currencies has risen strongly further over the past month, reflecting in part a continuing concern in the market about economic and financial difficulties abroad and also some firming of U.S. interest rates relative to foreign rates after a considerable drop earlier. The U.S. merchandise trade deficit rose sharply in August and on average in July and August the deficit rate was well above that for the first half.

After three months of weakness, M1 grew rapidly in August and September; growth in M2 accelerated in August from an already rapid pace but appears to have slowed markedly in September. Following large declines over the preceding two months, short-term market interest rates have risen somewhat on balance since late August, while bond yields and mortgage rates have continued to decline. The Federal Reserve discount rate was reduced

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from 10-1/2 percent to 10 percent in late August. Meanwhile, reflecting some well-publicized problems in recent months of a few banks here and abroad and the financing difficulties of Mexico, a more cautious atmosphere in private credit markets has been reflected in wider spreads between U.S. government and some private credit instruments.

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. In July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at the February meeting. These ranges were 2-1/2 to 5-1/2 percent for M1, 6 to 9 percent for M2, and 6-1/2 to 9-1/2 percent for M3. The associated range for bank credit was 6 to 9 percent. 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.

Specification of the behavior of M1 over the balance of the year is subject to unusually great uncertainties because it will be substantially affected by special circumstances -- in the very near term by reinvestment of funds from maturing all savers certificates and later by the public's response to the new account directly competitive with money market funds mandated by recent legislation. The probable difficulties in interpretation of M1 during the period suggest much less than usual weight be placed on movements in that aggregate during the current quarter. These developments are expected to affect M2 and other broader aggregates to a much smaller extent.

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In all the circumstances, the Committee seeks to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) in a range of around 8-1/2 to 9-1/2 percent at an annual rate from September to December, and taking account of the desirability of somewhat reduced pressures in private credit markets in the light of current economic conditions. Somewhat slower growth, bringing those aggregates around the upper part of the ranges set for the year, would be acceptable and desirable in a context of declining interest rates. Should economic and financial uncertainties lead to exceptional liquidity demands, somewhat more rapid growth in the broader aggregates would be tolerated. 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 10-1/2 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, November 16, 1982, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary