

Meeting of the Federal Open Market Committee

December 20-21, 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 Monday, December 20, 1982, at 3:00 p.m. and continuing on Tuesday, December 21, 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
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,^{1/} Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Oltman,^{1/} Deputy General Counsel
Mr. Kichline, Economist

Messrs. Ettin,^{1/} J. Davis,^{1/} R. Davis,^{1/} Keran,^{1/} Koch,^{1/}
Prell,^{1/} Siegman,^{1/} Truman, and Zeisel,^{1/} Associate
Economists

^{1/} Left the meeting prior to discussion and adoption of domestic policy directive.

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross,1/ Manager for Foreign Operations,
System Open Market Account
Mr. Coyne, Assistant to the Board of Governors
Mr. Gemmill,2/ Associate Director, Division of International
Finance, Board of Governors
Mr. Kohn,2/ Senior Deputy Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Lindsey,2/ Assistant Director, Division of Research
and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Messrs. Balbach,2/ Burns,2/ T. Davis,2/ Eisenmenger,2/
Mullineaux,2/ Scheld,2/ and Stern,2/ Senior Vice
Presidents, Federal Reserve Banks of St. Louis, Dallas,
Kansas City, Boston, Philadelphia, Chicago, and Minneapolis,
respectively

Messrs. Broaddus,2/ and Soss, Vice Presidents, Federal Reserve
Banks of Richmond, and New York

Ms. Meulendyke,2/ Manager, Securities Department, 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 November 16, 1982, were approved.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
November 16 through December 20, 1982, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic
Open Market Operations was amended to raise to \$4 billion the dollar limit on
intermeeting changes in System Account holdings of U.S. Government and Federal
agency securities, effective immediately, for the period through the close of
business on February 9, 1983.

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

2/ Left the meeting prior to discussion and adoption of domestic policy
directive.

Secretary's Note: All of the preceding actions were taken on Monday, December 20, 1982.

By unanimous vote, System open market transactions in foreign currencies during the period November 16 through December 21, 1982, were ratified.

Renewal for further periods of three months of drawings on the System by the Bank of Mexico maturing January 7 through February 17, 1983, was noted without objection.

With Messrs. Black and Ford 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 declined in the fourth quarter, although final sales apparently were maintained, and that the rise in prices remained much less rapid than in 1981. Retail sales and housing activity have strengthened in recent months, but business fixed investment apparently has weakened further and efforts to reduce inventories have continued. In November industrial production and nonfarm payroll employment declined further, and the unemployment rate rose 0.4 percentage point to 10.8 percent. Initial claims for unemployment insurance, although down from the early autumn peaks, have remained relatively high. In recent months the advance in the index of average hourly earnings has slowed appreciably further.

The weighted average value of the dollar against major foreign currencies has declined from peaks reached in early November. The U.S. merchandise trade deficit rose sharply further in October.

Growth of M1 has remained rapid in recent months, while growth of M2 and M3 has continued at about or somewhat below the rates of earlier in the year. On balance short-term market interest rates have declined since mid-November, while bond yields have risen somewhat in response to unusually heavy borrowing by businesses and governments; mortgage rates have edged down further. The Federal Reserve announced reductions in the discount rate from 9-1/2 percent to 9 percent on November 19 and to 8-1/2 percent on December 13.

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 should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee had also earlier indicated that it was tentatively planning to continue the current ranges for 1983, but it will review that decision carefully at its February 1983 meeting in light of economic developments and institutional changes associated with the new deposit accounts authorized by the Depository Institutions Deregulation Committee.

Specification of the behavior of M1 over the months ahead remains subject to substantial uncertainty because of special circumstances in connection with the public's response to the new deposit accounts available at depository institutions. The difficulties in interpretation of M1 continue to suggest that much less than usual weight be placed on movements in that aggregate during the coming quarter. The institutional changes also add a degree of uncertainty to the behavior of the broader monetary aggregates.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves consistent with growth of M2 of around 9-1/2 percent at an annual rate, and of M3 at about an 8 percent rate, from December to March, allowing in the case of M2 for modest shifting into the new money market accounts from large-denomination CD's or market instruments. The Committee indicated that greater growth would be acceptable if analysis of incoming data and other evidence from bank and market reports indicate that the new money market accounts are generating more substantial shifts of funds into broader aggregates from market instruments. 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 6 to 10 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday and Wednesday, February 8-9, 1983, beginning in the afternoon on Tuesday, February 8, 1983.

The meeting adjourned.

Secretary's Note: On January 25-26, 1983, by unanimous vote, Committee members voted to approve an additional increase of \$1.5 billion, to \$5.5 billion, in 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 February 9, 1983.

Secretary