Meeting of the Federal Open Market Committee

February 8-9, 1983

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, February 8, 1983, at 2:30 p.m. and continuing on Wednesday, February 9, 1983, 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 1/, and Roberts, 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. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Kichline, Economist

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

1/ Entered the meeting following the action to approve minutes for the December 20-21, 1982, meeting.

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

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

Mr. Coyne, Assistant to the 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. Dooley, Assistant Director, Division of International Finance, Board of Governors
Ms. Scanlon 1/, Senior Economist, Division of Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant, Board of Governors

Mr. Fousek, Executive Vice President, Federal Reserve Bank of New York

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

Messrs. Meek and Soss, Vice Presidents, 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 December 20-21, 1982, were approved.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period December 21 through February 8, 1983, were ratified.

1/ Left the meeting following discussion of the Committee's longer-run objectives for monetary and credit aggregates.

2/ Entered the meeting following the action to approve minutes for the December 20-21, 1982, meeting.

Renewal for further periods of three months of drawings on the System by the Bank of Mexico maturing February 20 through April 8, 1983, was noted without objection.

With Messrs. Black, Ford, Mrs. Horn, and Mr. Wallich dissenting, the Committee established the following longer-run ranges for monetary growth: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3, which appears to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent has been established for monitoring M1, assuming that Super NOW accounts draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances is not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt has been estimated at 8-1/2 to 11-1/2 percent.

With Mr. 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 indicates that real GNP declined in the fourth quarter because of a sharp reduction in business inventories. Final sales increased appreciably, and 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 has weakened further. Nonfarm payroll employment rose in January, after an extended period of declines, and the civilian unemployment rate fell 0.4 percentage point to 10.4 percent. In recent months the advance in the index of average hourly earnings has slowed further.

The weighted average value of the dollar against major foreign currencies depreciated moderately further from mid-December to mid-January, but a subsequent appreciation has more than offset that decline. In the fourth quarter the U.S. merchandise trade deficit was close to the relatively high third-quarter rate.

Growth of M2 surged to an extraordinary pace in January, apparently reflecting shifts of funds into recently authorized money market deposit accounts. Growth of M3 accelerated, following very slow expansion in December. Growth of M1 remained rapid in January, although it was down appreciably from the average pace in other recent months. Market interest rates on U.S. Treasury obligations have risen somewhat since the latter part of December, while rates on most private market instruments are about unchanged to slightly higher. Mortgage rates have declined further.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In establishing growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives, the Committee recognized that the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the current impact of new deposit accounts on growth rates of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid build-up of money market deposit accounts has distorted growth in that aggregate during the current quarter.

In establishing growth ranges for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts has subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges will be reviewed in the spring and altered, if appropriate, in the light of evidence at that time.

With these understandings, the Committee established the following growth ranges: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3, which appears to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent has been established for M1, assuming that Super NOW accounts draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances is not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt has been estimated at 8-1/2 to 11-1/2 percent.

In implementing monetary policy, the Committee agreed that substantial weight would be placed on behavior of the broader monetary aggregates, expecting that current distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

For the more immediate future, the Committee seeks to maintain the existing degree of restraint on reserve positions. Lesser restraint would be acceptable in the context of appreciable slowing of growth in the monetary aggregates to or below the paths implied by the long-term ranges, taking account of the distortions relating to the introduction of new accounts. 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, March 29, 1983, beginning at 9:30 a.m.

The meeting adjourned.

Assistant Secretary