

Meeting of the Federal Open Market Committee

May 24, 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, May 24, 1983, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Gramley
Mr. Guffey
Mr. Keehn
Mr. Martin
Mr. Morris
Mr. Partee
Mr. Rice
Mr. Roberts
Mrs. Teeters
Mr. Wallich

Messrs. Boehne, Boykin, Corrigan, and Mrs. Horn, Alternate Members of the Federal Open Market Committee

Messrs. Balles, Black, and Ford, Presidents of the Federal Reserve Banks of San Francisco, Richmond, and Atlanta, respectively

Mr. Axilrod, Staff Director and Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Bradfield, 1/ General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Truman, Economist (International)

Messrs. Balbach, T. Davis, Eisenmenger, Ettin, Prell, Scheld, Siegman, 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 prior to the action to ratify System Open Market transactions.

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Mr. Coyne, Assistant to the Board of Governors
Mr. Gemmill, Senior Associate Director, Division
of International Finance, Board of Governors
Mr. Lindsey, Deputy Associate Director, Division
of Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Messrs. Burns, Koch, Parthemos, and Stern,
Senior Vice Presidents, Federal Reserve Banks
of Dallas, Atlanta, Richmond, and Minneapolis,
respectively

Ms. Arak, Messrs. Bisignano, Lang, and Soss,
Vice Presidents, Federal Reserve Banks of
New York, San Francisco, Philadelphia, and
New York, respectively

Ms. Meulendyke, Manager, Securities Department, Federal
Reserve Bank of New York

Mr. Stevens, Economic Advisor, Federal Reserve Bank of
Cleveland

By unanimous vote, the minutes of actions taken at the meeting of the
Federal Open Market Committee held on March 28-29, 1983, were approved.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
March 29 through May 23, 1983, were ratified.

Renewal through August 23 of drawings on the System by the Bank of
Mexico maturing June 7 through July 20, 1983, was noted without objection.

With Messrs. Solomon, Guffey, Morris, Rice, and Mrs. Teeters
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 growth in real GNP has accelerated in the current quarter following a moderate increase in the first quarter. Industrial production increased sharply in April after rising at a moderate pace in previous months; nonfarm payroll employment and retail sales rose considerably in March and April. Housing starts declined somewhat in both months but were still well above depressed 1982 levels. Data on new orders and shipments suggest that the demand for business equipment is reviving. The civilian unemployment rate edged down to 10.2 percent in April. Average prices have changed little and the index of average hourly earnings has risen at a much reduced pace in the early months of 1983.

The weighted average value of the dollar against major foreign currencies has remained in a narrow range near its recent high level since late March. The U.S. foreign trade deficit fell substantially in the first quarter, reflecting a sharp drop in the value of oil imports.

Growth in M2 and M3 decelerated further in April to relatively low rates but appears to have picked up recently. M1 declined in April but has strengthened markedly in early May. Growth in debt of domestic nonfinancial sectors appears to have been moderate over the first four months of the year. Interest rates have changed little on balance since late March.

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. At its meeting in February the Committee established 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 impact of new deposit accounts on growth ranges 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, distorted growth in that aggregate during the first 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 had subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges were to be reviewed in the spring and altered, if appropriate, in the light of evidence at that time. The Committee reviewed the ranges at this meeting and decided not to change them at this time, pending further review at the July meeting. 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 appeared to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent was established for M1, assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances was not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8-1/2 to 11-1/2 percent.

In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on behavior of the broader monetary aggregates expecting that distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will continue to 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.

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The Committee seeks in the short run to increase only slightly the degree of reserve restraint. The action was taken against the background of M2 and M3 remaining slightly below the rates of growth of 9 and 8 percent, respectively, established earlier for the quarter and within their long-term ranges, M1 growing well above anticipated levels for some time, and evidence of some acceleration in the rate of business recovery. Lesser restraint would be appropriate in the context of more pronounced slowing of growth in the broader monetary aggregates relative to the paths implied by the long-term ranges and deceleration of M1, or indications of a weakening in the pace of economic recovery. 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-Wednesday, July 12-13, 1983.

The meeting adjourned.

Secretary