

Meeting of the Federal Open Market Committee

July 12-13, 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., starting on Tuesday, July 12, 1983, at 2:30 p.m., and continuing on Wednesday, July 13, 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 and Black, Presidents of the Federal Reserve Banks of San Francisco and Richmond, respectively

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

Messrs. Balbach,^{1/} R. Davis,^{1/} T. Davis,^{1/} Eisenmenger,^{1/} Ettin,^{1/} Prell,^{1/} Scheld,^{1/} Siegman,^{1/} and Zeisel,^{1/} Associate Economists

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

1/ Attended Tuesday session only.

Mr. Coyne, Assistant to the Board of Governors
Mr. Gemmill,^{1/} Senior Associate Director, Division
of International Finance, Board of Governors
Mr. Kohn,^{1/} Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Lindsey,^{1/} Deputy Associate Director, Division
of Research and Statistics, Board of Governors
Mr. Jensen,^{1/} Economist, Division of Research and
Statistics, Board of Governors
Mr. Rosine,^{1/} Economist, Division of Research and
Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Forrestal, First Vice President, Federal Reserve
Bank of Atlanta

Messrs. Burns,^{1/} J. Davis,^{1/} Keran,^{1/} Koch,^{1/} Mullineaux,^{1/}
and Stern,^{1/} Senior Vice Presidents, Federal Reserve
Banks of Dallas, Cleveland, San Francisco, Atlanta,
Philadelphia, and Minneapolis, respectively

Messrs. Broaddus,^{1/} Meek, and Soss, Vice Presidents,
Federal Reserve Banks of Richmond, New York,
and New York, respectively

Mr. McCurdy,^{1/} Research Officer, 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 May 24, 1983, were approved.

Secretary's Note: The following actions were taken at the
Wednesday session.

Renewal for further periods through August 23, 1983, of drawings on
the System by the Bank of Mexico maturing July 24 through August 17, 1983,
was noted without objection.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
May 24 through July 12, 1983, were ratified.

1/ Attended Tuesday session only.

With Mr. Morris dissenting, the Committee voted for the following longer-run policy:

The Committee reaffirmed the longer-run ranges established earlier for growth in M2 and M3 for 1983. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6-1/2 to 9-1/2 percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983 and in a range of 4 to 8 percent from the fourth quarter of 1983 to the fourth quarter of 1984 would be consistent with the ranges for the broader aggregates. The associated range for total domestic nonfinancial debt was reaffirmed at 8-1/2 to 11-1/2 percent for 1983 and tentatively set at 8 to 11 percent for 1984.

With Mrs. Teeters and 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 rapid growth in real GNP in the second quarter and other information reviewed at this meeting suggest that the economic recovery is proceeding at a strengthened pace. Expenditures on consumption and housing expanded substantially in the second quarter and businesses apparently began to add to inventories after a period of sharp liquidation. Nonfarm payroll employment rose considerably in May and June and the civilian unemployment rate declined to 10.0 percent in June. Industrial production continued to rise markedly in May and partial data suggest a sizable gain in June. Data on new orders and shipments continued to indicate improvement in the demand for business equipment. In May housing starts increased substantially following small declines earlier and retail sales rose appreciably further. Average prices and the index of average hourly earnings have risen at a reduced pace in the first five months of 1983.

The weighted average value of the dollar against major foreign currencies rose substantially in late May and the first half of June and subsequently has fluctuated in a narrow range. Reflecting the strength of the U.S. economy and the persistent high

level of the dollar, the U.S. foreign trade deficit increased sharply in April-May from its reduced first-quarter rate; exports declined and both oil and nonoil imports rose.

Strong growth in the broader aggregates in May and June raised M2 to a level somewhat above the mid-point of the Committee's range for 1983 and M3 to around the upper limit of its range. M1 grew very rapidly over both months and was well above its range for the year. Growth in debt of domestic nonfinancial sectors appears to have picked up in the second quarter. Interest rates have risen appreciably since early May.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote 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.

In establishing growth ranges last February 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. 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. These ranges were reviewed at the May meeting and left unchanged, pending further review in July.

At this meeting, the Committee reaffirmed the longer-run ranges established earlier for growth in M2 and M3 for 1983. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6-1/2 to 9-1/2 percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 percent from the fourth quarter of 1983 to the fourth quarter of 1984 would be consistent with the ranges for the broader aggregates. The associated range for total domestic non-financial debt was reaffirmed at 8-1/2 to 11-1/2 percent for 1983 and tentatively set at 8 to 11 percent for 1984.

In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on the behavior of the broader monetary aggregates. The behavior of M1 and total domestic nonfinancial debt will be monitored, with the degree of weight placed on M1 over time dependent on evidence that velocity characteristics are resuming more predictable patterns. 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.

The Committee seeks in the short run to increase slightly further the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of about 8-1/2 and 8 percent respectively from June to September, consistent with the targets established for these aggregates for the year. Depending on evidence about the strength of economic recovery and other factors bearing on the business and inflation outlook, lesser restraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be acceptable should the aggregates expand more rapidly. The Committee anticipates that a deceleration in M1 growth to an annual rate of around 7 percent from June to September will be consistent with its third-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range established for the year. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that

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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, August 23, 1983.

The meeting adjourned.

Secretary