

Meeting of the Federal Open Market Committee

November 14-15, 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 Monday afternoon, November 14, 1983, and continuing on Tuesday, November 15, 1983, at 9:30 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, 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, Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Kichline, Economist  
Mr. Truman, Economist (International)

Messrs. Balbach, T. Davis, Eisenmenger, Prell,  
Scheld, and Zeisel, Associate Economists

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

Mr. Frost, Staff Director, Office of Staff Director  
for Management, Board of Governors  
Mr. Coyne, Assistant to the Board of Governors  
Mr. Roberts, Assistant to the Chairman, Board of Governors  
Mr. Kohn, Deputy Staff Director, Office of Staff  
Director for Monetary and Financial Policy,  
Board of Governors  
Mr. Lindsey, Associate Director, Division of Research  
and Statistics, Board of Governors  
Mr. Henderson, Deputy Associate Director, Division of  
International Finance, Board of Governors  
Mrs. Low, Open Market Secretariat Assistant,  
Board of Governors

Messrs. Forrestal and Wallace, First Vice Presidents,  
Federal Reserve Banks of Atlanta and Dallas

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

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

Mr. Bisignano, Vice President, Federal Reserve Bank of  
San Francisco

Ms. Meulendyke, 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 October 4, 1983, were approved.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
October 4 through November 14, 1983, were ratified.

By unanimous vote, the Committee approved the renewal for further  
periods of up to one year of the reciprocal currency ("swap") arrangements  
having the indicated amounts and maturity dates as shown below.

<u>Foreign bank</u>	<u>Amount of arrangement (millions of \$ equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 mos.	12/ 2/83
National Bank of Belgium	1,000.0	"	12/16/83
Bank of Canada	2,000.0	"	12/29/83
National Bank of Denmark	250.0	"	12/29/83
Bank of England	3,000.0	"	12/ 2/83
Bank of France	2,000.0	"	12/29/83
German Federal Bank	6,000.0	"	12/29/83
Bank of Italy	3,000.0	"	12/29/83
Bank of Japan	5,000.0	"	12/ 2/83
Bank of Mexico	700.0	"	12/ 2/83
Netherlands Bank	500.0	"	12/29/83
Bank of Norway	250.0	"	12/ 2/83
Bank of Sweden	300.0	"	12/ 2/83
Swiss National Bank	4,000.0	"	12/ 2/83
Bank for International Settlements--			
Swiss francs	600.0	"	12/ 2/83
Other authorized European currencies	1,250.0	"	12/ 2/83

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise from \$4 billion to \$5 billion the dollar limit on intermeeting changes in System account holdings of U.S. government and federal agency securities for the period from November 16, 1983 through the close of business on December 20, 1983.

By unanimous vote 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 is growing at a relatively rapid pace in the current quarter, although the rate of expansion appears to have moderated since the spring and summer. In October, industrial production increased appreciably, following large gains in previous months. Nonfarm payroll employment rose substantially further and the civilian unemployment rate declined 1/2 percentage

point to 8.8 percent. After changing little on balance during the summer months, retail sales strengthened in September and October. Housing starts and permits declined in September while home sales rose somewhat. Recent data on new orders and shipments indicate further strength in the demand for business equipment. Producer and consumer prices have continued to increase at about the same pace as in other recent months. The index of average hourly earnings rose somewhat more in September and October than in previous months but over the first ten months of the year the index has risen more slowly than in 1982.

The foreign exchange value of the dollar has risen since early October against a trade-weighted average of major foreign currencies. The U.S. foreign trade deficit increased considerably in the third quarter, with imports, especially of petroleum, rising faster than exports.

After slowing substantially over the summer months, growth in M2 accelerated in October, while M3 continued to expand at a moderate rate. Through October M2 was at a level in the lower portion of the Committee's range for 1983 and M3 in the upper portion of its range. M1 continued to grow at a sluggish pace in October and was in the lower portion of the Committee's monitoring range for the second half of the year. Longer-term market rates have risen somewhat on balance since early October, and short-term rates generally have fluctuated in a narrow range.

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 July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of the monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts may be reflected in some changes in the historical trends in velocity.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; 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. 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 of 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.

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 maintain the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8-1/2 percent from September to December, consistent with the targets established for these aggregates for the year. Depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more rapidly; lesser restraint might be acceptable in the context of a significant shortfall

in growth of the aggregates from current expectations. Given the relatively slow growth in October, the Committee anticipates that M1 growth at an annual rate of around 5 to 6 percent from September to December will be consistent with its fourth-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 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, December 20, 1983.

The meeting adjourned.

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Secretary