

Meeting of the Federal Open Market Committee

May 21-22, 1984

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, May 21, 1984, at 3:30 p.m., and continuing on Tuesday, May 22, 1984, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Solomon, Vice Chairman  
Mr. Boehne  
Mr. Boykin  
Mr. Corrigan  
Mr. Gramley  
Mrs. Horn  
Mr. Martin  
Mr. Partee  
Mr. Rice 1/  
Mr. Wallich

Messrs. Balles, Black, Forrestal, and Keehn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roberts, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

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

Messrs. Burns, J. Davis, Kohn, Lang, Lindsey, Prell, Siegman, Stern, and Zeisel, Associate Economists

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

1/ Attended Tuesday session only.

Mr. Coyne, Assistant to the Board of Governors  
Mr. Roberts, Assistant to the Chairman, Board of Governors  
Mr. Promisel, Senior Associate Director, Division of  
International Finance, 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, T. Davis, Eisenmenger, Keran, Parthemos,  
Scheld, and Ms. Tschinkel, Senior Vice Presidents,  
Federal Reserve Banks of St. Louis, Kansas City,  
Boston, San Francisco, Richmond, Chicago, and Atlanta,  
respectively

Ms. Lovett, 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 March 26-27, 1984, were approved.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
March 27, 1984 through May 21, 1984, were ratified.

Secretary's Note: All of the above actions were taken on  
Monday, May 21, 1984.

With Mr. Boykin 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, while moderating from the  
unusually strong first-quarter pace, remains relatively  
rapid in the current quarter. In April, industrial  
production and nonfarm payroll employment rose sub-  
stantially following decreased growth in March; the  
civilian unemployment rate was unchanged at 7.8 per-  
cent in March and April as the labor force increased

appreciably. Retail sales grew rapidly in April after two months of decline, and housing starts recovered to a rate equaling their first-quarter average. Information on outlays and spending plans generally suggests continuing strength in business fixed investment. Since the beginning of the year, prices and wages have continued to rise at about the same pace as in 1983.

M1 changed little in April on average, but data available for early May suggest a considerable strengthening. In April M2 grew about in line with expectations while M3 expanded more rapidly than anticipated. From the fourth quarter of 1983 through April, M1 grew at a rate a little below the midpoint of the Committee's range for 1984; M2 increased at a rate in the lower part of its longer-run range, while M3 expanded at a rate a bit above the upper limit of its range. Total domestic nonfinancial debt apparently is growing at a pace above the Committee's monitoring range for the year, with borrowing by businesses continuing to be concentrated in the short-term markets. Interest rates have risen considerably further since late March. On April 6, the Federal Reserve announced an increase in the discount rate from 8-1/2 to 9 percent. Recently, day-to-day market conditions have reflected considerable sensitivity to potential liquidity strains, as highlighted by problems of one large bank, and to uncertainties about the financial and budgetary outlook generally.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has risen considerably further since late March to a level close to the peak in early January. The merchandise trade deficit widened further in the first quarter, as a sharp rise in non-oil imports offset a substantial rise in exports.

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 an improved pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter

of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run, the Committee seeks to maintain existing pressures on bank reserve positions. This is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 6-1/2, 8, and 10 percent, respectively, during the period from March to June. Somewhat greater reserve restraint might be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. In either case, such a change would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. 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 7-1/2 to 11-1/2 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, July 10-11, 1984.

The meeting adjourned.

---

Secretary