

Meeting of the Federal Open Market Committee

August 21, 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 Tuesday, August 21, 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
Ms. Seger
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. Oltman, Deputy General Counsel
Mr. Kichline, Economist
Mr. Truman, Economist (International)

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

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

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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
Mr. Henderson, 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, Keran, Parthemos, Scheld,
and Ms. Tschinkel, Senior Vice Presidents, Federal
Reserve Banks of St. Louis, Kansas City, San Francisco,
Richmond, Chicago, and Atlanta, respectively

Mr. McNees, Vice President, Federal Reserve Bank of
Boston

Mr. McCurdy, Research Officer, Open Market Operations,
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 July 16-17, 1984, were approved.

The report of examination of the System Open Market Account, made
by the Board's Division of Federal Reserve Bank Operations as of the close of
business January 13, 1984, was accepted.

By unanimous vote, System open market transactions in Government
securities and agency obligations during the period July 17 through
August 20, 1984, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic
Open Market Operations was amended to raise temporarily from \$4 billion to
\$6 billion the dollar limit on intermeeting changes in System account holdings
of U. S. government and federal agency securities for the period from
August 21, 1984 through October 2, 1984.

With 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 information reviewed at this meeting suggests that the expansion in economic activity is continuing at a strong pace, but there are indications of a moderation in the rate of growth. In July, industrial production and nonfarm payroll employment rose further, but retail sales fell after rising considerably in earlier months and housing starts declined to a rate appreciably below the average in the second quarter. The civilian unemployment rate increased 0.4 percentage point to 7.5 percent. Information on outlays and spending plans continues to suggest strength in business fixed investment. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.

In July, M1 declined after two months of rapid growth, though data for early August suggested some rebound, while M2 expanded at a relatively slow pace. M3 growth, however, remained comparatively sizable. From the fourth quarter of 1983 through July, M1 grew at a rate a bit above the midpoint of the Committee's range for 1984; M2 increased at a rate a little below the midpoint of its longer-run range, while M3 expanded at a rate above the upper limit of its range. Growth in total domestic nonfinancial debt appears to be continuing at a pace above the Committee's monitoring range for the year, reflecting very large government borrowing along with strong private credit growth. Most interest rates have fallen considerably since the July meeting of the Committee, with the largest declines generally in intermediate and long-term bond markets.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies rose further to a new high in early August and since then has fluctuated in a range just below the peak. The merchandise trade deficit in June was somewhat above the May level, and for the second quarter as a whole the deficit was little changed from the high first-quarter rate.

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. In furtherance of these objectives the Committee agreed at the July meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 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 associated range for total domestic non-financial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8-1/2 percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

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 implementation of policy in the short run, the Committee seeks to maintain existing pressures on reserve positions. This action is expected to be consistent with growth in M1 at an annual rate of around 5 percent or slightly less, and in M2 and M3 at annual rates of around 7-1/2 and 9 percent respectively during the period from June to September. Somewhat greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint would be acceptable in the event of significantly slower growth. 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

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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 8 to 12 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, October 2, 1984.

The meeting adjourned.

Secretary