

Meeting of the Federal Open Market Committee

October 2, 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, October 2, 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. 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. Kichline, Economist
Mr. Truman, Economist (International)

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

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

10/2/84

-2-

Mr. Coyne, Assistant to the Board of Governors
Mr. Roberts, Assistant to the Chairman, Board of Governors
Mr. Gemmill, Staff Adviser, Division of International
Finance, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Griffith, First Vice President, Federal Reserve
Bank of San Francisco

Messrs. T. Davis, Keran, Scheld, and Ms. Tschinkel,
Senior Vice Presidents, Federal Reserve Banks
of Kansas City, San Francisco, Chicago, and
Atlanta, respectively

Messrs. Broaddus, Burger, Ms. Clarkin, and Mr. Fieleke,
Vice Presidents, Federal Reserve Banks of Richmond,
St. Louis, New York, and Boston, respectively

By unanimous vote, the minutes of actions taken at the meeting of the
Federal Open Market Committee held on August 21, 1984, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period August 21 through October 1, 1984, were ratified.

By unanimous vote, System open market transactions in Government
securities and agency obligations during the period August 21 through
October 1, 1984, were ratified.

With Messrs. Martin and Rice and Ms. Seger 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 slowed appreciably in the third quarter from a strong pace earlier
in the year. In August, industrial production rose
only slightly and gains in nonfarm payroll employment

moderated further; retail sales and housing starts declined for the second month in a row. The civilian unemployment rate was unchanged in August at 7.5 percent. Information on outlays and spending plans suggests slower expansion in business fixed investment, following exceptionally rapid growth in recent quarters. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.

In August the monetary aggregates expanded at relatively slow rates, but data available for September suggested some strengthening. From the fourth quarter of 1983 through September, M1 apparently grew at a rate close to the midpoint of the Committee's range for 1984, M2 at a rate somewhat below the midpoint of its longer-run range, and M3 at a rate near 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 large government borrowing along with relatively strong private credit growth. Interest rates generally have fallen somewhat further since the August meeting of the Committee.

Over the past month, the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has fluctuated widely under often volatile market conditions, reaching a new high in the latter part of September; since then the dollar has declined somewhat. The merchandise trade deficit rose sharply to a record high rate in the July-August period.

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 nonfinancial 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 the lesser degree of restraint on reserve positions sought in recent weeks. This action is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 6, 7-1/2, and 9 percent, respectively, during the period from September to December. A somewhat further lessening of restraint on reserve positions would be acceptable in the event of significantly slower growth in the monetary aggregates, evaluated in relation to the strength of business expansion and inflationary pressures, domestic and international financial market conditions, and the rate of credit growth. Conversely, greater restraint might be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. 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 8 to 12 percent.

10/2/84

-5-

It was agreed that the next meeting of the Committee would be held on Wednesday, November 7, 1984.

The meeting adjourned.

Secretary