

Meeting of the Federal Open Market Committee

November 7, 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 Wednesday, November 7, 1984, at 9:00 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,<sup>1/</sup> 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, 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

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<sup>1/</sup> Left meeting before action to adopt domestic policy directive.

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

Mr. Balbach, Ms. Munnell, Messrs. Parthemos, Scheld, and  
Ms. Tschinkel, Senior Vice Presidents, Federal  
Reserve Banks of St. Louis, Boston, Richmond,  
Chicago, and Atlanta, respectively

Messrs. Cacy, Bisignano, and Judd, Vice Presidents, Federal  
Reserve Banks of Kansas City, San Francisco, and  
San Francisco, respectively

Ms. Lovett, Assistant Vice President, 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 2, 1984, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period October 2 through November 6, 1984, were ratified.

By unanimous vote, the Committee authorized the Manager to negotiate  
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.

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<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/ 3/84
National Bank of Belgium	1,000.0	"	12/17/84
Bank of Canada	2,000.0	"	12/28/84
National Bank of Denmark	250.0	"	12/28/84
Bank of England	3,000.0	"	12/ 3/84
Bank of France	2,000.0	"	12/28/84
German Federal Bank	6,000.0	"	12/28/84
Bank of Italy	3,000.0	"	12/28/84
Bank of Japan	5,000.0	"	12/ 3/84
Bank of Mexico	700.0	"	12/ 3/84
Netherlands Bank	500.0	"	12/28/84
Bank of Norway	250.0	"	12/ 3/84
Bank of Sweden	300.0	"	12/ 3/84
Swiss National Bank	4,000.0	"	12/ 3/84
Bank for International Settlements--			
Swiss francs	600.0	"	12/ 3/84
Other authorized European currencies	1,250.0	"	12/ 3/84

By unanimous vote, System open market transactions in Government securities and agency obligations during the period October 2 through November 6, 1984, were ratified.

With Mr. Gramley 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 indicates a mixed pattern of developments but on balance suggests that economic activity is continuing to expand, though at a considerably more moderate pace than earlier in the year. Nonfarm payroll employment rose substantially outside of manufacturing in October, following a moderate increase in September, and the civilian unemployment

rate was unchanged at 7.4 percent. Industrial production fell in September, partly because of strikes, and available information suggests little increase in October. Retail sales and housing starts rebounded in September after two months of decline. Information on outlays and spending plans suggests slower expansion in business fixed investment, following exceptionally rapid growth earlier, and inventory investment, having risen relative to sales in recent months, also appears to be slowing. Since the beginning of the year, broad measures of prices generally have continued to rise at rates close to, or somewhat above, those recorded in 1983, and the index of average hourly earnings has risen somewhat more slowly.

Growth of the monetary aggregates strengthened in September, but data available for October indicated that M1 declined during the month, growth of M2 slowed somewhat, and expansion of M3 picked up further. From the fourth quarter of 1983 through October, M1 grew at a rate in the lower half 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 a bit above the upper limit of its range. Growth in total domestic nonfinancial debt appears to be continuing above the Committee's monitoring range for the year, reflecting large government borrowing; private credit growth, though relatively strong, has moderated in recent months. Interest rates have fallen substantially further since the meeting of the Committee on October 2.

Over the past month, the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has continued to fluctuate widely, rising to a new high in mid-October but subsequently declining to somewhat below its level at the time of the previous meeting. The merchandise trade deficit in the third quarter was substantially above the first-half rate as a sharp rise in non-oil imports exceeded some further growth 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.

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 evaluations of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the short run, the Committee seeks to reduce somewhat existing pressures on reserve positions. This action is expected to be consistent with growth of M2 and M3 at annual rates of around 7-1/2 and 9 percent during the period from September to December. M1 is expected to grow over the period at an annual rate of around 3 percent, less than anticipated earlier in view of the decline in October. In light of that decline, more rapid growth of M1 would be acceptable. Lesser restraint on reserve positions would be sought in the event of significantly slower growth in the monetary aggregates, evaluated in relation to the strength of the 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

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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 7 to 11 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, December 18, 1984.

The meeting adjourned.

Secretary's note: Subsequent to this meeting, the Committee unanimously approved temporary increases in the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations. The first action, increasing the limit from \$4 billion to \$6 billion was effective November 21, 1984; the second increase, from \$6 billion to \$8 billion, was effective on December 5, 1984. Both increases applied to the intermeeting period ending with the close of business on December 18, 1984.

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Secretary