FEDERAL RESERVE press release

For Use at 4:30 p.m. March 29, 1985

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on February 12-13, 1985.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE

Meeting Held on February 12-13, 1985

1. Domestic policy directive

The information reviewed at this meeting suggested that the rate of economic expansion strengthened in late 1984. For the fourth quarter as a whole, growth in real gross national product picked up to an annual rate of about 4 percent, according to the preliminary estimate of the Commerce Department, from about 1-1/2 percent in the third quarter, and there was evidence of continued moderate expansion in early 1985. The pick-up in growth from the third to the fourth quarter was attributable in large part to stronger domestic final demand and a reduction in the current account deficit with foreign countries after a sharp further widening of that deficit in the third quarter. Broad measures of prices and wages generally continued to rise in 1984 at rates close to those recorded in 1983.

Industrial production increased 1.0 percent in the November-December period, offsetting the declines in the preceding two months, and preliminary indications suggested a further gain in January. The December rise was broadly based, in contrast to the increase in November, which was concentrated in the automotive category. The index of industrial capacity utilization moved up to 81.9 percent in December, but remained almost 1 percentage point below its recent high in mid-1984.

Nonfarm payroll employment, adjusted for strike activity, rose more than 300,000 further in January. The largest gain occurred at retail trade establishments, but employment growth was also strong in services

and in construction, where unseasonably mild weather boosted hiring in both December and early January. In manufacturing, employment rose moderately after a large gain in December, and the length of the workweek edged down but remained above the average level in the fourth quarter. Despite the continued rise in employment, the civilian unemployment rate increased slightly to 7.4 percent, as the civilian labor force grew substantially.

Retail sales rose 0.7 percent in January, continuing at about the same pace as the average for November and December. Much of the January rise was attributable to sales at automotive outlets. Sales of new domestic automobiles were at an annual rate of 8-1/2 million units, about 1 million units higher than the average in the fourth quarter of 1984. Stores selling primarily discretionary items such as general merchandise, apparel, furniture, and appliances registered a marked decline in sales in January, after substantial increases in the final months of 1984.

The decline in housing activity that had characterized the second half of 1984 appeared to be ending as the year drew to a close. Total private housing starts, though down about 6 percent in the fourth quarter as a whole to an annual rate below 1.6 million units, edged up in the November-December period, and sales of existing homes rose somewhat over the final two months of the year.

Business fixed investment spending continued to grow in the fourth quarter, although at a less rapid pace than in the first three

quarters of 1984. Shipments of nondefense capital goods increased moderately in the fourth quarter, and spending on nonresidential construction advanced substantially. In contrast, new orders for plant and equipment fell in December and over the fourth quarter as a whole.

Some imbalances in business inventories had developed during 1984, but businesses appeared to have made substantial progress toward attaining desired inventory levels, and in some sectors inventories relative to sales were quite lean. Investment in business inventories slowed markedly in late fall, largely in response to the earlier weakness in orders and sales. In November, stocks at all manufacturing and trade establishments were little changed in real terms, after average monthly increases in the range of $20 to $25 billion at an annual rate during prior months in 1984.

In December, the producer price index for finished goods and the consumer price index edged up 0.1 percent and 0.2 percent respectively. During 1984 the rise in producer prices was 1.8 percent, compared with 0.6 percent in 1983, while the increase of 4 percent in consumer prices was about the same as that in the previous year. The advance in the average hourly earnings index was 3.0 percent last year, compared with 3.9 percent in 1983.

The foreign exchange value of the dollar rose about 5-1/2 percent to a new high over the intermeeting period. After the announcement on January 17 by the G-5 Ministers of Finance and Central Bank Governors regarding coordinated intervention in exchange markets, and subsequent exchange market operations, the dollar tended to stabilize. The rise resumed in early February, apparently in association with a perception

that the outlook for economic activity in the United States was improving without signs of a strengthening in inflationary pressures. The U.S. merchandise trade deficit declined sharply in December and for the fourth quarter as a whole, primarily because imports dropped substantially from the high rate in the third quarter. Nevertheless, the trade deficit for 1984 totaled nearly $108 billion, compared with $61 billion in 1983.

At its meeting on December 17-18, 1984, the Committee had adopted a directive that called for some further reduction in the degree of restraint on reserve positions. The members expected that such an approach to policy implementation would be consistent with growth of M1, M2, and M3 at annual rates of around 7, 9, and 9 percent respectively during the four-month period from November to March. Given the estimated shortfall in growth of M1 for the fourth quarter relative to the Committee's expectations at the beginning of the period, the members agreed that somewhat more rapid growth would be acceptable, particularly if the faster growth occurred in the context of sluggish expansion in economic activity and continued strength of the dollar in foreign exchange markets. The Committee also indicated that greater restraint on reserve positions might be acceptable if growth in the monetary aggregates were substantially more rapid than expected and if there were indications that economic activity and inflationary pressures were strengthening significantly. The intermeeting range for the federal funds rate was set at 6 to 10 percent.

After growing little on balance since early summer, M1 expanded at estimated annual rates of about 10-1/2 and 9 percent respectively in

December and January.[1] M2 and M3 also expanded rapidly over the two months, rising on average at annual rates estimated to be around 14 and 13-1/2 percent respectively, considerably above the short-run objectives for the November-to-March period established at the December meeting. Relative to the Committee's longer-run objectives for the period from the fourth quarter of 1983 to the fourth quarter of 1984, M1 grew at a rate of about 5-1/4 percent, somewhat below the midpoint of its 4 to 8 percent range, and M2 increased at a rate of about 7-3/4 percent, a bit above the midpoint of its 6 to 9 percent range. M3 and domestic nonfinancial sector debt expanded at rates of about 10-1/2 and 13-1/2 percent respectively, above the Committee's ranges of 6 to 9 percent and 8 to 11 percent for the year. The rapid growth in total debt reflected very large government borrowing and strong private credit growth that was boosted in part by the unusual size of merger-related credit activity.

Over the December-January period, the average level of borrowing by depository institutions at the discount window declined on balance, despite a bulge around the year-end statement date, and both nonborrowed and total reserves expanded at very rapid rates. In the first part of the recent intermeeting interval, open market operations were directed toward achieving some further reduction in pressures on reserve positions. Adjustment plus seasonal borrowing at the discount window, after bulging around year-end, declined to the $250 to $300 million range over much of

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1/ These growth rates and all subsequent data on the monetary aggregates reflect annual benchmark and seasonal factor revisions as published on February 14, 1985.

January. By the latter part of January, against the background of continued rapid growth in the monetary and credit aggregates and the relatively good performance of the economy, the easing process came to an end; reserves were provided more cautiously through open market operations, and borrowing rose somewhat, partly because of unexpectedly large demands for excess reserves. Reflecting variations in actual pressures on bank reserve positions, but in part in anticipation of an easing in pressures, the federal funds rate declined in the early part of the period from around 8-3/4 percent to the 8 to 8-1/4 percent area; subsequently it rose to around 8-1/2 percent or somewhat higher. Other short-term market interest rates generally rose somewhat on balance over the intermeeting interval, while most long-term rates were roughly unchanged or a little lower.

The staff projections presented at this meeting suggested that real GNP would grow at a moderate pace in 1985. Business fixed investment was likely to expand further during the year, and anticipated gains in real disposable income were expected to support continued sizable advances in consumption expenditures. The unemployment rate was expected to edge down over the period, and the rate of increase in prices was projected to remain close to, or slightly below, that experienced in 1984.

In the Committee's discussion of the economic situation and outlook, the members agreed that continuing expansion in business activity was a likely prospect for 1985, though at a more moderate rate than in the first two years of the current cyclical upswing. As they had at previous meetings, however, members referred to persisting problems and financial strains in various sectors of the economy that constituted

threats to the sustainability of the overall expansion, especially if substantial progress was not made toward reducing the massive deficit in the federal budget. Moreover, the high level of the dollar and large trade deficit were increasingly being reflected in pressures on some sectors of the economy. Most of the members expected about the same rate of inflation in 1985 as that experienced in 1984, assuming that the dollar exchange rate remained in the range of recent months, but some saw the odds as tilted in the direction of some modest further progress toward price stability.

At this meeting the members of the Committee and the Federal Reserve Bank presidents not currently serving as members presented specific forecasts of economic activity, the rate of unemployment, and average prices. For the period from the fourth quarter of 1984 to the fourth quarter of 1985, the forecasts for growth of real GNP centered on a range of 3-1/2 to 4 percent, with an overall range of 3-1/4 to 4-1/4 percent. Forecasts of the rate of inflation, as indexed by the GNP deflator, also centered on a range of 3-1/2 to 4 percent, and the central tendency of the forecasts for growth in nominal GNP was a range of 7-1/2 to 8 percent. Forecasts of the rate of unemployment in the fourth quarter of 1985 varied from 6-1/2 to 7-1/4 percent, but most of the members anticipated unemployment rates ranging from 6-3/4 to 7 percent. These forecasts were based on the Committee's objectives for growth in money and credit established at this meeting. The members also assumed that significant progress would be made toward reducing future deficits in the federal budget, thereby helping over the nearer term to moderate inflationary expectations and pressures on interest rates, and they assumed that the

foreign exchange value of the dollar would fluctuate within the range experienced in recent months.

While a number of members commented during the discussion that actual growth in line with the forecasts would represent a favorable development for the third year of an economic expansion, several observed that growth might well be faster, especially in the short run. This possibility was raised by current indications of appreciable strength in both consumer and business spending and an expansive fiscal policy. It was also pointed out that a large decline in the foreign exchange value of the dollar, should it occur, would tend to stimulate domestic business activity while also adding to inflationary pressures. Several members noted their concern that strong growth in spending by the private sectors in the context of a stimulative fiscal policy could lead to some inflationary pressures, particularly as the margin of unutilized productive resources diminished, with adverse consequences for interest rates and interest-sensitive sectors of the economy and ultimately for the sustainability of the expansion itself.

While the overall expansion in economic activity was currently displaying some momentum, the members also referred to the decidedly uneven participation in the expansion of different sectors of the economy or parts of the country, including adverse conditions in agriculture and in certain sectors of industry. Circumstances and problems varied from one industry or region to another, but particular concern was expressed about the damaging impact that a rising dollar internationally was having on a number of manufacturing and extractive industries and on agriculture,

with attendant financial difficulties for those sectors of the economy and related strains on the financial institutions that serviced them. Reference was also made to the overbuilding of multi-family housing and office structures in some parts of the country and to the problem loans associated with such overbuilding. Some concern was expressed about the rapid accumulation of debt by many households and businesses that rendered these borrowers more vulnerable to adverse economic developments. It was generally expected that such problems would not significantly retard overall economic expansion in the near term, but several members indicated that they were more troubled by the economic prospects for the longer run. The members agreed that the odds of prolonging the expansion would be greatly enhanced by a substantial reduction in federal budgetary deficits and the emergence of a more sustainable pattern of international transactions.

With regard to the outlook for inflation, most of the members anticipated that continuing economic expansion in line with their forecasts would probably be associated with little change in the rate of inflation during 1985. Some members were more optimistic and viewed the prospects for some decline in inflation as relatively favorable. Although the members had assumed in presenting their forecasts that the dollar would remain within its recent range of fluctuation in foreign exchange markets, they recognized that the future performance of the dollar was in fact highly uncertain.

Members who were relatively sanguine about the outlook for inflation cited the favorable trend in wages, the strong competition from abroad in many industries, the growth of productive capacity, and the widespread

efforts of businesses to improve productivity. The possibility of further declines in oil prices was also cited. The removal of quotas on imports of automobiles from Japan would also help to restrain the rise in average prices, although the extent of that effect was uncertain. Members who were less optimistic about the outlook for inflation noted that unit labor costs could be expected to be under upward pressure because productivity gains would tend to diminish as the nation continued to move toward fuller utilization of its productive resources during the third year of the current expansion. One member also raised the prospect of at least some pressures from rising commodity prices in 1985.

At this meeting the Committee reviewed the 1985 growth ranges for the monetary and credit aggregates that it had tentatively set in July 1984 within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act). Those tentative ranges included 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 total domestic nonfinancial debt had been provisionally set at 8 to 11 percent for 1985.

The Committee's discussion focused on whether the tentative ranges for 1985 remained appropriate in light of developments since mid-1984 and foreseeable economic and financial circumstances. There were a number of proposals for small changes in the ranges. With respect to M1, a majority of the members wanted to retain the tentative range of 4 to 7 percent, but the remaining members expressed a preference for raising the upper limit to 7-1/2 or 8 percent. In the majority view, the tentative

range provided adequate room to accommodate a desirable and sustainable rate of economic expansion and retention of that range would also serve to underscore the Committee's commitment to an anti-inflationary policy. The members who preferred a higher limit for the M1 range gave considerable emphasis to the uncertainties that surrounded both the economic outlook and the relationship between money growth and GNP. They did not necessarily disagree that the tentative range might in fact prove to be consistent with a satisfactory economic performance, but they believed that some additional leeway was desirable for use if needed.

In the course of their discussion, the members referred to evidence that the income velocity of M1 -- nominal GNP divided by the M1 stock -- seemed to be returning to a more normal or predictable pattern. Some analysis suggested that the trend growth of M1 velocity might be somewhat lower than that experienced over much of the postwar period, reflecting in part the deregulation of deposits and other financial changes in recent years and the related prospect of a slower rate of financial innovation in the future. A number of members emphasized that such a development would imply the need for M1 growth in the upper part of the Committee's tentative range. It was also noted that the lagged effects of the interest rate declines during the latter part of 1984 were likely to depress velocity growth in the first part of 1985. Other members raised the prospect that the growth in M1 velocity might not decline as much as expected from the rate experienced in 1984 and in that event growth of M1 near the upper limit of the tentative range, or above it, would have inflationary implications. The members agreed that the trend rate of increase in M1 velocity, as well as the velocity of the other monetary aggregates, remained subject to a considerable range of uncertainty, given

the still limited experience with a relatively deregulated financial environment. Under these conditions, the Committee members indicated the need to continue to judge the behavior of the monetary aggregates in light of the flow of information on business activity, inflationary pressures, and conditions in domestic credit and foreign exchange markets.

With regard to M2, most of the members indicated that they could accept an increase of 1/2 percentage point in the upper limit of the tentative range, although some expressed an initial preference for no change in the range. The small upward adjustment reflected the technical judgment, based upon an assessment of recent developments, that growth in M2 for the year could revert to its earlier pattern that was more in line with the growth in nominal GNP.

Most of the members also supported an increase of 1/2 percentage point in the upper limit of the tentative range for M3 and an increase of 1 percentage point in the provisional monitoring range for total domestic nonfinancial debt. Growth within both ranges in 1985 would represent a considerable slowing from the actual pace in 1984. Some members questioned the need for any increase in those ranges, both because of the anticipated moderation in the expansion of GNP and because the higher ranges could convey a wrong impression of the Committee's anti-inflationary policy. Nonetheless, total debt was expected to continue to grow at a faster rate than nominal GNP, reflecting further rapid expansion in the federal debt, larger than normal growth in merger and other corporate restructuring activities, and the continuing need to finance increases in spending by domestic sectors that exceeded the rise in nominal GNP, as reflected in

the expected further widening of the nation's large deficit in its external trade balance.

In the course of the Committee's discussion, consideration was given to a proposal for using the midpoint of the previous year's fourth-quarter target range, rather than the actual fourth-quarter outcome, as the base for the following year's target range. This issue had been discussed in some detail at the previous meeting of the Committee. No support was expressed in favor of such an approach, although the members recognized that in some circumstances such an alternative might be appropriate. In setting its objectives for a current year, the Committee already took into account the prior year's monetary developments and their implications for the evolving relationship between money and GNP. It was generally felt that employing the midpoint of the previous year's target range as the base for the current year's target would have the disadvantage of introducing a degree of rigidity in the decision-making process; it would impose a base that was decided upon many months before under possibly quite different circumstances. In the current situation, such problems were particularly evident for M3 and total credit whose levels at the end of 1984 were well above their long-run ranges; use of a previously targeted fourth-quarter base would therefore imply either a wrenching slowdown in actual growth for 1985 or adoption of very high target ranges for growth in 1985.

The members also noted that the levels of the monetary aggregates at the start of the year were all above the target ranges under consideration, as those ranges were conventionally illustrated, because monetary growth had been relatively rapid in late 1984 and early 1985. No member

expressed concern about this development, since it was contemplated that monetary growth would slow as the year progressed and expansion for the year as a whole would be consistent with the target ranges. With reference to the Humphrey-Hawkins testimony, the pictorial representation of the targets as "cones" would be supplemented by other lines to indicate that the Committee was not concerned about variations in money growth outside the relatively narrow portion of the cones early in the year.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or found acceptable a policy that included retention of the tentative range for M1, increases of 1/2 percentage point in the upper limits of the tentative ranges for M2 and M3, and an increase of 1 percentage point in the provisional monitoring range for total domestic nonfinancial debt. The members indicated that it might be appropriate for growth in the aggregates to be in the upper part of their ranges for the year, depending on developments with respect to velocity and provided that inflationary pressures remained subdued. In keeping with the Committee's usual procedures under the Humphrey-Hawkins Act, the ranges would be reviewed at mid-year against the background of economic and financial developments.

The following paragraph relating to the longer-run ranges was approved:

> 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 this meeting to establish ranges for monetary growth of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9-1/2 percent for M3 for the period from the fourth quarter of 1984 to the fourth quarter of 1985. The associated range for total domestic nonfinancial debt was set at 9 to 12 percent for the year 1985. The Committee agreed that growth in the monetary aggregates in the upper part of their ranges for 1985 may be appropriate, depending on developments with respect to velocity and provided that inflationary pressures remain subdued.

Votes for this action: Messrs. Volcker, Corrigan, Boykin, Gramley, Mrs. Horn, Messrs. Partee, Rice, Ms. Seger, and Mr. Balles. Votes against this action: Messrs. Boehne, Martin, and Wallich. (Mr. Balles voted as an alternate).

Messrs. Boehne and Martin dissented because they preferred a somewhat higher upper boundary for the M1 range in order to provide enough leeway, if needed, to accommodate a satisfactory rate of economic expansion. In their view, the additional leeway was desirable because of the uncertainties surrounding the outlook for velocity, and it took account of the favorable outlook for inflation and the continuing financial strains in some sectors of the economy. Mr. Boehne also noted that M1 growth in 1984 was in the lower part of the Committee's range.

Mr. Wallich dissented because he wanted to retain the ranges for the broad monetary aggregates that were tentatively adopted in July 1984. In his view those ranges provided adequate room for fostering a sustainable rate of economic expansion. They were more consistent with the Committee's long-run objective of bringing down inflation, and raising them might be misinterpreted by the market as a weakening of policy in that regard.

In the Committee's discussion of policy implementation for the weeks immediately ahead, all of the members indicated their support of an approach directed toward maintaining the reserve conditions characteristic of recent weeks. Such an approach was thought likely to be associated with reduced growth in the monetary aggregates over the balance of the first quarter, although growth for the quarter as a whole would probably exceed the Committee's longer-run ranges for the year. That approach was reinforced by the current strength of the dollar in the exchange markets and the sense that the outlook for the economy and prices did not appear to signal a need for a change.

With regard to M1, the members referred to an analysis which suggested that expansion in this aggregate should moderate as the lagged effects of earlier declines in market interest rates on the demand for money balances dissipated. With respect to the outlook for the broader aggregates, the members viewed appreciably slower growth as a reasonable expectation, partly because of the prospect that inflows of funds to money market deposit accounts and to money market mutual funds would moderate as the interest paid on such accounts was brought into better alignment with short-term market rates. Indeed, evidence of such a development was already apparent with respect to money market mutual funds. Additionally, the expansion in M3 might be held down by continued moderation in the issuance of large-denomination certificates of deposit by commercial banks.

Despite the prospects for more moderate growth in the monetary aggregates, some members were concerned that such growth might not slow

sufficiently over the period ahead and that some firming of reserve conditions might be needed to foster a desirable rate of monetary expansion. They found the current approach to policy implementation appropriate for the present, but they did not want to rule out the possible need for some modest firming over the weeks ahead. Several members indicated that the degree of any firming should remain fairly limited even if money growth was above expectations for a time because they were concerned about the adverse impact that a substantial rise in market interest rates over the near term could have on the exchange market situation and on interest- or trade-sensitive sectors of the economy and ultimately on the economic expansion itself. Members concluded that evaluation of the desirability for firming should take account of the strength of the dollar in exchange markets as well as the business outlook and inflationary pressures and that any firming of reserve conditions over the weeks ahead should be undertaken in a limited and gradual manner. Accordingly, relatively rapid monetary growth would not automatically call for more reserve restraint if it occurred in the context of emerging weakness in business conditions and a strong dollar in the foreign exchange markets. The members also agreed on the possibility of some easing in reserve conditions, but in the view of at least some of the members, any potential need for easing seemed less likely, given the recent strength of the monetary aggregates and the performance of the economy.

At the conclusion of the Committee's discussion, all of the members indicated their acceptance of a directive that called for maintaining the degree of reserve pressure that had prevailed in recent weeks.

The members agreed that modest increases in reserve restraint would be sought if growth in M1 appeared to be exceeding an annual rate of about 8 percent and M2 and M3 a rate of around 10 to 11 percent during the period from December to March, particularly if such monetary expansion was associated with satisfactory growth in business activity and diminishing pressures in exchange markets. The members also agreed that lesser restraint on reserve positions would be acceptable in the event of substantially slower growth in the monetary aggregates, especially against the background of sluggish growth in economic activity and continued strength of the dollar in foreign exchange markets. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

The following directive, embodying the Committee's longer-run ranges and its short-run operating instructions, was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real GNP expanded at a moderate pace in the fourth quarter, reflecting some strengthening in late 1984 after several months of considerably reduced growth, and there was evidence of continued moderate expansion in early 1985. Total retail sales rose in January at about the same pace as the average for November and December, while the decline in housing starts appears to have ended. Industrial production and nonfarm payroll employment increased appreciably in the November-December period and nonfarm payroll employment rose substantially further in January. The civilian unemployment rate rose slightly in January to 7.4 percent. Information on business spending suggests less rapid expansion in outlays for fixed investment, following exceptional growth earlier; businesses also appear to have made substantial progress in adjusting

their inventories. During 1984 broad measures of prices generally increased at rates close to those recorded in 1983, and the index of average hourly earnings rose somewhat more slowly.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has continued to appreciate strongly since mid-December. After the announcement on January 17 by the G-5 Ministers of Finance and Central Bank Governors regarding coordinated intervention in exchange markets, and subsequent operations, the dollar's rise moderated somewhat. The merchandise trade deficit declined sharply in December and for the fourth quarter as a whole, primarily because of a large drop in imports from the high rate in the third quarter. Nevertheless, the deficit for the full year 1984 was substantially higher than in 1983.

After growing little on balance since early summer, M1 expanded at a rapid pace in late 1984 and early 1985. The broader aggregates also expanded rapidly in recent months. For the period from the fourth quarter of 1983 to the fourth quarter of 1984, M1 grew at a rate of about 5-1/4 percent, somewhat below the midpoint of the Committee's range for the year, and M2 increased at a rate of about 7-3/4 percent, a bit above the midpoint of its longer-run range. Both M3 and total domestic nonfinancial debt expanded at rates above the Committee's ranges for the year, reflecting very large government borrowing and strong private credit growth, boosted in part by the unusual size of merger-related credit activity. Short-term interest rates have risen somewhat on balance since the December meeting of the Committee, but long-term rates are about unchanged to a little lower. On December 21, the Federal Reserve approved a reduction in the discount rate from 8-1/2 to 8 percent.

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 this meeting to establish ranges for monetary growth of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9-1/2 percent for M3 for the period from the fourth quarter of 1984 to the fourth quarter of 1985. The associated range for total domestic nonfinancial debt was set at 9 to 12 percent

for the year 1985. The Committee agreed that growth in the monetary aggregates in the upper part of their ranges for 1985 may be appropriate, depending on developments with respect to velocity and provided that inflationary pressures remain subdued.

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 for the immediate future, taking account of the progress against inflation, remaining uncertainties in the business outlook, and the strength of the dollar in the exchange markets, the Committee seeks to maintain reserve conditions characteristic of recent weeks. Should growth in M1 appear to be exceeding an annual rate of around 8 percent and M2 and M3 a rate of around 10 to 11 percent during the period from December to March, modest increases in reserve pressures would be sought, particularly if business activity is rising at a satisfactory rate and exchange market pressures diminish. Lesser restraint on reserve positions would be acceptable in the event of substantially slower growth in the monetary aggregates, particularly in the context of sluggish growth in economic activity and continued strength of the dollar in foreign exchange markets. 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.

Votes for short-run operational paragraph: Messrs. Volcker, Corrigan, Boehne, Boykin, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, Messrs. Wallich and Balles. Votes against this action: None. (Mr. Balles voted as an alternate).

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $4 billion to $6 billion 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, effective for the intermeeting period ending with the close of business on March 26, 1985.

> Votes for this action: Messrs. Volcker, Corrigan, Boehne, Boykin, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, Messrs. Wallich and Balles. Votes against this action: None. (Mr. Balles voted as an alternate).

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net purchases of securities were likely to be necessary over the upcoming intermeeting interval in order to offset the estimated absorption of reserves stemming from technical factors including changes in currency in circulation, vault cash, and required reserves.