

Meeting of the Federal Open Market Committee

May 21, 1985

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, May 21, 1985, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Balles  
Mr. Black  
Mr. Forrestal  
Mr. Gramley  
Mr. Keehn  
Mr. Martin  
Mr. Partee  
Mr. Rice  
Ms. Seger  
Mr. Wallich

Messrs. Boykin, Guffey, Mrs. Horn, and Mr. Morris, Alternate Members of the Federal Open Market Committee

Messrs. Boehne and Stern, Presidents of the Federal Reserve Banks of Philadelphia and Minneapolis, respectively

Mr. Axilrod, Staff Director and Secretary  
Mr. Bernard, Assistant Secretary  
Mrs. Steele, Deputy Assistant Secretary  
Mr. Bradfield, 1/ General Counsel  
Mr. Truman, Economist (International)

Messrs. Bisignano, Broaddus, Kohn, Lindsey, Prell, Scheld, Siegman, and Ms. Tschinkel, 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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1/ Entered the meeting after action to ratify transactions in domestic operations.

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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. Garbarini, First Vice President, Federal Reserve Bank  
of St. Louis

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

Messrs. Balbach, J. Davis, T. Davis, Lang, and Syron,  
Senior Vice Presidents, Federal Reserve Banks of  
St. Louis, Cleveland, Kansas City, Philadelphia,  
and Boston, respectively

Messrs. Pearce and Rolnick, Vice Presidents, Federal  
Reserve Banks of Dallas and Minneapolis,  
respectively

Mr. McCurdy, Research Officer, 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, 1985, were approved.

By unanimous vote, System open market transactions in Government  
securities and agency obligations during the period March 26, 1985, through  
May 20, 1985, were ratified.

With Mr. Black 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 only a modest pick-up in real GNP in the current quarter from the reduced rate of growth in the first quarter. Total retail sales rose in April to a level somewhat above the average for the first quarter, and housing starts increased further after rising substantially in the first quarter. Information on business capital spending suggests further growth, though at a much less rapid pace than earlier in the economic expansion. Industrial production declined slightly in April after rising little over the first quarter. Total nonfarm payroll employment increased at a somewhat reduced pace in April with employment in manufacturing registering another decline. The civilian unemployment rate remained at 7.3 percent in April. Broad measures of prices and wages appear to be rising at rates close to those recorded in 1984.

Since the Committee's meeting in late March, the trade-weighted value of the dollar against major foreign currencies has continued to fluctuate widely in often volatile market conditions and has declined moderately on balance. The trade and current account deficits widened in the first quarter as a rebound in non-oil imports from their low fourth-quarter level extended the pattern of sharp quarter-to-quarter swings experienced since the beginning of 1984.

Growth in M1 slowed markedly in March from the rapid pace of earlier months and remained moderate in April. The broader aggregates showed little change in April after their growth had slowed appreciably in March. Expansion in total domestic nonfinancial debt has remained relatively rapid. Interest rates have declined considerably since the March meeting of the Committee. On May 17, the Federal Reserve Board approved a reduction in the discount rate from 8 to 7-1/2 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 its meeting

in February 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, and against the background of the recent reduction in the discount rate, the Committee seeks to maintain about the same degree of pressure on bank reserve positions. This action is expected to be consistent with growth in M1 at an annual rate of around 6 percent or a little higher during the period from March to June, while M2 and M3, in the light of their weakness in April, are expected to grow more slowly over the quarter than the 7 and 8 percent annual rates, respectively, anticipated earlier. Somewhat lesser reserve restraint would be acceptable in the event of substantially slower growth of the monetary aggregates while somewhat greater restraint might be acceptable in the event of substantially higher growth. In either case such a change would be considered in the context of appraisals of the strength of the business expansion, progress against inflation, and conditions in domestic credit and 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.

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It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, July 9-10, 1985.

The meeting adjourned.

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Secretary