

Meeting of the Federal Open Market Committee

July 9-10, 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, July 9, 1985, at 3:00 p.m., and continuing on Wednesday, July 10, 1985, at 9:00 a.m.

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

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

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

Mr. Axilrod, Staff Director and Secretary  
Mr. Bernard, Assistant Secretary  
Mrs. Steele, Deputy Assistant Secretary  
Mr. Bradfield, 1/ General Counsel  
Mr. Oltman, 2/ Deputy General Counsel  
Mr. Kichline, Economist  
Mr. Truman, Economist (International)

Messrs. Broadus, R. Davis, Kohn, Lindsey, Prell, Scheld, Siegman, and Ms. Tschinkel, Associate Economists

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

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1/ Entered the meeting after action to approve minutes for the May meeting.

2/ Attended Wednesday session only.

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

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

Messrs. Judd, Pearce, and Scadding, Vice Presidents,  
Federal Reserve Banks of San Francisco, Dallas, 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 May 21, 1985, were approved.

By unanimous vote, System open market transactions in Government  
securities and agency obligations during the period May 21, 1985, through  
July 9, 1985, were ratified.

With Mr. Black dissenting, the following longer-run policy for 1985  
was approved by the Committee:

The Committee at this meeting reaffirmed ranges  
for the year of 6 to 9 percent for M2 and 6 to 9-1/2  
percent for M3. The associated range for total domestic  
nonfinancial debt was reaffirmed at 9 to 12 percent.  
With respect to M1, the base was moved forward to the  
second quarter of 1985 and a range was established at  
an annual growth rate of 3 to 8 percent. The range  
takes account of expectations of a return of velocity  
growth toward more usual patterns, following the  
sharp decline in velocity during the first half of  
the year, while also recognizing a higher degree of  
uncertainty regarding that behavior. The appropriate-  
ness of the new range will continue to be reexamined

in the light of evidence with respect to economic and financial developments including developments in foreign exchange markets. More generally, the Committee agreed that growth in the aggregates may be in the upper parts of their ranges, depending on continuing developments with respect to velocity and provided that inflationary pressures remain subdued.

With Mr. Martin and Ms. Seger dissenting, the following longer-run policy for 1986 was adopted by the Committee:

For 1986 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986, of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9 percent for M3. The associated range for growth in total domestic nonfinancial debt was provisionally set at 8 to 11 percent for 1986. With respect to M1 particularly, the Committee recognized that uncertainties surrounding recent behavior of velocity would require careful re-appraisal of the target range at the beginning of 1986. Moreover, in establishing ranges for next year, the Committee also recognized that account would need to be taken of experience with institutional and depositor behavior in response to the completion of deposit rate deregulation early in the year.

With Mr. Black and Ms. Seger dissenting from the short-run operational paragraph, 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 some pickup in the expansion of economic activity in recent months following virtually no growth in the first quarter. Total retail sales rose on balance in April and May to a level appreciably above the average for the first quarter, and housing starts held earlier gains 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 and May after rising little

over the first quarter. Total nonfarm payroll employment increased at a somewhat reduced pace in May and June with employment in manufacturing registering further declines. The civilian unemployment rate remained at 7.3 percent in June, unchanged since February. Broad measures of prices and wages appear to be rising at rates close to those recorded in 1984.

Since the Committee's meeting in May, the trade-weighted value of the dollar against major foreign currencies has generally moved within a relatively narrow range but recently has declined to a level below its April low. The merchandise trade deficit in April-May widened from the first-quarter rate as both agricultural and non-agricultural exports fell, while imports remained close to their high first-quarter level.

M1 expanded very rapidly in May and June after growing at a moderate pace in the preceding two months. The broader aggregates also grew more rapidly in May and June after slowing appreciably earlier. From the fourth quarter of 1984 through June, M1 grew at a rate well above the Committee's range for 1985; M2 increased at a rate around the upper end of its longer-run range; while M3 expanded at a rate in the upper half of its range. Expansion in total domestic nonfinancial debt slowed a little in the second quarter but remained high relative to the Committee's monitoring range for the year. Interest rates have declined somewhat further since the May meeting of the Committee.

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 at this meeting reaffirmed ranges for the year of 6 to 9 percent for M2 and 6 to 9-1/2 percent for M3. The associated range for total domestic nonfinancial debt was reaffirmed at 9 to 12 percent. With respect to M1, the base was moved forward to the second quarter of 1985 and a range was established at an annual growth rate of 3 to 8 percent. The range takes account of expectations of

a return of velocity growth toward more usual patterns, following the sharp decline in velocity during the first half of the year, while also recognizing a higher degree of uncertainty regarding that behavior. The appropriateness of the new range will continue to be reexamined in the light of evidence with respect to economic and financial developments including developments in foreign exchange markets. More generally, the Committee agreed that growth in the aggregates may be in the upper parts of their ranges, depending on continuing developments with respect to velocity and provided that inflationary pressures remain subdued.

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In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 at an annual rate of around 7-1/2 percent during the period from June to September, and with a substantial slowing of M1 growth to an annual rate of 5 to 6 percent. Somewhat lesser reserve restraint might be acceptable in the event of substantially slower growth of the monetary aggregates while somewhat greater restraint would 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

7/9-10/85

-6-

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.

It was agreed that the next meeting of the Committee would be held on August 20, 1985.

The meeting adjourned.

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Secretary