

Meeting of the Federal Open Market Committee

August 20, 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, August 20, 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. Kichline, Economist  
Mr. Truman, Economist (International)

Messrs. Broaddus, R. Davis, Lindsey, Prell, Scheld, and Siegman, Associate Economists

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

---

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

8/20/85

-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. Jack Gynn, First Vice President, Federal Reserve  
Bank of Atlanta

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

Messrs. McNees, Miller, Pearce, and Beebe, Vice Presidents,  
Federal Reserve Banks of Boston, Minneapolis, Dallas,  
and San Francisco, respectively

Mr. Stevens, Assistant Vice President, Federal Reserve  
Bank of Cleveland

Ms. Meulendyke, Manager, Securities Department,  
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 July 9-10, 1985, were approved.

By unanimous vote, System open market transactions in Government  
securities and agency obligations during the period July 10, 1985, through  
August 19, 1985, were ratified.

With Mr. Black 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 economic activity is probably expanding in the current quarter at a moderately faster rate than in the first half of the year. In July, industrial production continued to move somewhat higher and total retail sales rose modestly after two months of decline. On the other hand, housing starts fell somewhat in July. Information on business capital spending suggests further growth, though at a much less rapid pace than earlier in the economic expansion. Total nonfarm payroll employment continued to increase in July, although employment in manufacturing declined slightly further. The civilian unemployment rate remained at 7.3 percent in July, 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 July, the trade-weighted value of the dollar against major foreign currencies has depreciated further. The merchandise trade deficit widened in the second quarter to the highest rate on record. Both agricultural and non-agricultural exports fell substantially, while imports registered a small increase.

Based on data for July and early August, M1 has been growing relatively rapidly. Demand deposits have shown little change on balance, but other checkable deposits have expanded substantially. Growth in M2 has continued at around the upper end of its 1985 range, while relatively sluggish growth in M3 recently has brought this aggregate to the midpoint of its range. Expansion in total domestic nonfinancial debt has remained high relative to the Committee's monitoring range for the year. Most interest rates have risen somewhat since the July 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 the July 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

8/20/85

-4-

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.

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 reappraisal 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.

In the implementation of policy for the immediate future, the Committee seeks to maintain the degree of pressure on reserve positions sought in recent weeks. This action is expected to be consistent with growth in M2 and M3 at annual rates of around 8-1/2 and 6-1/2 percent, respectively, during the period from June to September. M1 growth is expected to slow from its recent pace, but given the rapid growth in recent weeks, expansion over the June to September period may be at an 8 to 9 percent annual rate. Somewhat greater restraint would be acceptable in the event of substantially higher growth in the monetary aggregates. Somewhat lesser restraint would be acceptable in the

8/20/85

-5-

event of substantially slower growth. In either case such a change would be considered in the context of appraisals of the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit 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.

It was agreed that the next meeting of the Committee would be held on October 1, 1985.

The meeting adjourned.

---

Secretary