

Meeting of the Federal Open Market Committee

December 16-17, 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 Monday, December 16, 1985, at 3:30 p.m. and continuing on Tuesday, December 17, 1985, at 9:30 a.m.

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

Mr. Guffey,<sup>1/</sup> 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, General Counsel  
Mr. Kichline, Economist  
Mr. Truman, Economist (International)

Messrs. Broaddus, R. Davis, 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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<sup>1/</sup> At this meeting, Mr. Guffey voted as alternate for Mr. Balles.

Mr. Roberts,<sup>1/</sup> Assistant to the Chairman, Board of Governors  
Mr. Gemmill,<sup>1/</sup> Staff Adviser, Division of International  
Finance, Board of Governors  
Mrs. Low, Open Market Secretariat Assistant,  
Board of Governors

Mr. Griffith, First Vice President, Federal Reserve  
Bank of San Francisco

Messrs. Balbach, J. Davis, T. Davis, Lang, Rosenblum,  
Scadding, and Thieke, Senior Vice Presidents,  
Federal Reserve Banks of St. Louis, Cleveland,  
Kansas City, Philadelphia, Dallas, San Francisco,  
and New York, respectively

Messrs. McNees and Miller, Vice Presidents, Federal Reserve  
Banks of Boston and Minneapolis, respectively

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on November 4-5, 1985, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period November 5, 1985, through December 16, 1985  
were ratified.

By unanimous vote, System open market transactions in Government  
securities and agency obligations during the period November 5, 1985, through  
December 16, 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:

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<sup>1/</sup> Entered meeting after action to approve minutes of meeting held on  
November 4-5, 1985.

The information reviewed at this meeting suggests that economic activity is expanding at a relatively modest pace in the current quarter. Total nonfarm payroll employment increased further in November, though less than in October, and the civilian unemployment rate edged down to 7.0 percent. Retail sales and industrial production picked up in November after declining in October. After strengthening in October, housing starts fell appreciably in November. Incoming information generally suggests relatively sluggish business capital spending. Revised merchandise trade data for the third quarter confirm that the deficit widened further, as non-oil imports continued to increase and exports fell somewhat. Broad measures of prices and wages appear to be rising at rates close to those recorded earlier in the year.

After declining in October, M1 grew substantially in November while growth in M2 and M3 continued quite moderate. Expansion in total domestic nonfinancial debt has remained rapid. Through November, M1 expanded at a rate well above the long-run range set by the Committee, M2 grew at a rate a bit below the upper end of its range for the year, and M3 expanded at a rate near the midpoint of its range for 1985. Treasury bill rates have fallen somewhat while other short-term market interest rates have changed little on balance since the November meeting of the Committee; long-term rates have moved appreciably lower over the period. The trade-weighted value of the dollar against major foreign currencies has declined on balance since the Committee's meeting in early November, though the dollar has tended to stabilize more recently.

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 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 depository 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 decrease somewhat the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from November to March at annual rates of about 6 to 8 percent; while the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of 7 to 9 percent over the period is anticipated. Somewhat greater reserve restraint might, and somewhat lesser reserve restraint would, be acceptable depending on behavior of the aggregates, 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 reserve conditions during the period before the next meeting are 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 February 11-12, 1986.

The meeting adjourned.

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Secretary