

APPENDIX

Summary of Staff Reports
Federal Open Market Committee Conference Call
of June 23, 1983

Mr. Kichline said that there had been more strength in the economy than the staff had expected. The Commerce Department had released its estimate of 6.6 percent real GNP growth in the second quarter. This reflected not only a movement in inventories but in final sales as well. The Department in making its estimates had been quite conservative. He would not be surprised if the GNP growth were revised upward. The economy was entering the third quarter with more momentum than anticipated, and good third-quarter growth appeared assured. Price expectations remained good. The second-quarter performance was consistent with a 4 percent increase in the implicit price deflator. The staff had been surprised by the stronger performance of the economy and expected it to carry forward.

Mr. Cross reported that the dollar was slightly stronger than it had been at the time of the May FOMC meeting. In recent days weakness in the dollar had developed, involving about a 2 percent decline. The puzzling feature of this movement was that it occurred under conditions that were usually associated with dollar strength. The U.S. economy was strong, government borrowing had been substantial, M1 growth had been large, and the federal funds rate had remained firm. Technical factors could be an important part of the explanation. The end-of-quarter and half-year might be producing some settling of outstanding positions. There was less expectation in the exchange market of further strength in market interest rates. The newspapers were commenting that the long-heralded weakness in the dollar was beginning to occur. No one in the foreign exchange markets had a strong feeling on that front. One would have to wait a bit longer to see whether this weakness foreshadowed a greater decline.

Mr. Ettin reported that growth in the monetary aggregates had been stronger than the Committee had contemplated. It now appeared that M1 would grow at an 11-1/2 percent rate in June. The System had published a big rise in M1 in one week and expected some decline in the week to be reported currently. March-to-June M1 growth had been at a 12 percent rate compared with the 6 to 7 percent increase expected at the time of the March meeting. The non-M1 component of M2 also remained strong. M2 was expected to grow at a rate of about 11 percent in June. This would leave M2 just below the 9 percent growth anticipated for the quarter in March and 1/2 percentage point higher than had been anticipated in May. For M3, growth over the March-to-June quarter would be at about the 8 percent rate anticipated in March, but one percentage point above the rate expected in May. Domestic nonfinancial credit through May had been growing at about a 9-3/4 percent rate.

Mr. Sternlight reported that short-term interest rates had increased about 1/2 percentage point since the May meeting. This broadly represented movements in rates on Treasury bills, CDs, and

commercial paper. In the long-term market, yields had risen by 10 to 20 basis points in government securities while there had been little change in corporate and municipal yields. The federal funds rate had been in about an 8-1/2 to 8-3/4 percent range at the time of the May meeting. By early June it was in the 8-3/4 to 8-7/8 percent range and it had risen to 9.14 percent in the latest week. The market was uncertain about the deliberateness of a Federal Reserve move toward restraint. A few thought there had been no such move, but the market generally thought that funds were around 9 to 9-1/4 percent. There was some feeling that a continuing move was in process, one which would bring the federal funds rate to 9-1/2 percent in a few weeks.

Mr. Sternlight also noted that open market operations had encountered a high demand for excess reserves during the interval. Technical factors having to do with reserve projections had also proved troublesome at times. In the last two weeks there had been some tendency to underprovide reserves. Borrowing had risen to the \$600 to \$700 million range.