

Meeting of the Federal Open Market Committee

December 21-22, 1981

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., starting on Monday, December 21, 1981, at 3:30 p.m. and continuing on Tuesday, December 22, 1981, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Boehne
Mr. Boykin
Mr. Corrigan 1/
Mr. Gramley
Mr. Keehn
Mr. ParTEE
Mr. Rice
Mr. Schultz
Mrs. Teeters
Mr. Wallich

Messrs. Balles, Black, Ford, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roos, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director
Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Mannion, Assistant General Counsel 2/
Mr. Kichline, Economist

Messrs. R. Davis, Duprey, Mullineaux, Prell, Scheld, Truman, and Zeisel, Associate Economists

1/ Entered the meeting prior to the action to ratify System Open Market transactions in Government securities, agency obligations and bankers acceptances.

2/ Attended Tuesday session only.

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

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

Mr. Wallace, First Vice President, Federal Reserve
Bank of Dallas

Mr. Coyne, Assistant to the Board of Governors
Messrs. Gemmill and Siegman, Associate Directors, Division
of International Finance, Board of Governors

Mr. Lindsey, Assistant Director, Division of Research
and Statistics, Board of Governors

Mr. Kohn, Deputy Associate Director, Division of Research
and Statistics, Board of Governors

Mrs. Deck, Staff Assistant, Open Market Secretariat,
Board of Governors

Messrs. J. Davis, T. Davis, Eisenmenger, Keran, Koch,
and Parthemos, Senior Vice Presidents, Federal
Reserve Banks of Cleveland, Kansas City, Boston,
San Francisco, Atlanta, and Richmond, respectively

Messrs. Burger and Syron 1/, Vice Presidents, Federal
Reserve Banks of St. Louis and Boston

Ms. Lovett, Securities Trading 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 November 17, 1981, were approved.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
November 17 through December 21, 1981, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic
Open Market Operations was amended to raise to \$4 billion the dollar limit on

intermeeting changes in System Account holdings of U.S. Government and Federal agency securities, effective immediately, for the period through the close of business on February 2, 1982.

With Messrs. Solomon and Boykin 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 real GNP declined appreciably in the fourth quarter and that prices on the average rose less rapidly than over the first three quarters of the year. In November industrial production fell more than in preceding months; nonfarm payroll employment, especially in manufacturing, declined sharply further; and the unemployment rate rose an additional 0.4 percentage points to 8.4 percent. The nominal value of retail sales increased, but the level was still well below the average for the third quarter. Housing starts remained at a depressed level. The rise in the index of average hourly earnings has been somewhat less rapid this year than during 1980.

The weighted average value of the dollar against major foreign currencies has changed little on balance since mid-November. The U.S. foreign trade deficit in October widened substantially from the unusually low rate in September, and the average for the two months was about the same as that for July and August.

M1-B (adjusted for estimated shifts into NOW accounts) expanded substantially in November and early December, but its level in November was still well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981. Growth of M2 accelerated sharply in November, raising its level above the upper end of its range for the year. Short-term market interest rates and bond yields continued to decline in the latter part of November, but since then they have risen to levels generally higher than those of mid-November; over the period since mid-November, mortgage interest rates have declined further. On December 3 the Board of Governors announced a reduction in Federal Reserve basic discount rates from 13 to 12 percent.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that its objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3-1/2 to 6 percent for M1-B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6-1/2 to 9-1/2 percent for M2 and M3 respectively. The Committee recognized that the shortfall in M1-B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper end of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M1-B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M1, M2, and M3 within ranges of 2-1/2 to 5-1/2 percent, 6 to 9 percent, and 6-1/2 to 9-1/2 percent respectively would be appropriate.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from November 1981 to March at annual rates of around 4 to 5 percent and 9 to 10 percent respectively. The target for M1 no longer reflects the "shift-adjustment" for conversion of outstanding interest-bearing assets into new NOW accounts, formerly estimated in the "shift-adjusted" M1-B series. In setting the M1 target the Committee took account of the relatively rapid growth that had already taken place through the first part of December; it also recognized that interpretation of actual money growth may need to take account of the significance of fluctuations in NOW accounts, which have recently been growing relatively rapidly. 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 10 to 14 percent.

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By unanimous vote, transfer to the National Archives of the FOMC unofficial memoranda of discussion for the first three meetings of 1976, on the basis described in a memorandum from the Secretary dated December 3, 1981, was authorized.

It was agreed that the next meeting of the Committee would be held on Tuesday, February 2, 1982, beginning at 9:30 a.m.

The meeting adjourned.

Secretary