

Meeting of the Federal Open Market Committee

August 23, 1983

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 23, 1983, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Gramley
Mr. Guffey
Mr. Keehn
Mr. Martin
Mr. Morris
Mr. Partee
Mr. Rice
Mr. Roberts
Mrs. Teeters
Mr. Wallich

Messrs. Boehne, Boykin, Corrigan, and Mrs. Horn, Alternate Members of the Federal Open Market Committee

Messrs. Balles, Black, and Ford, Presidents of the Federal Reserve Banks of San Francisco, Richmond, and Atlanta respectively

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

Messrs. Eisenmenger, Prell, Scheld, and Zeisel, Associate Economists

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

Mr. Coyne, Assistant to the Board of Governors
Mr. Promisel, Associate Director, Division of
International Finance, Board of Governors
Mr. Kohn, Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Lindsey, Deputy Associate Director, Division
of Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Fousek, Executive Vice President, Federal Reserve
Bank of New York

Messrs. Burns, J. Davis, Keran, Koch, Mullineaux, Parthemos,
and Stern, Senior Vice Presidents, Federal Reserve
Banks of Dallas, Cleveland, San Francisco, Atlanta,
Philadelphia, Richmond, and Minneapolis, respectively

Messrs. Burger, and Soss, Vice Presidents, Federal Reserve
Banks of St. Louis, and New York, respectively

Ms. Clarkin, 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 July 12-13, 1983, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period July 13 through August 22, 1983, were ratified.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
July 13 through August 22, 1983, were ratified.

By unanimous vote, 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 continued rapid growth in real GNP in the current quarter. Industrial production increased sharply in July following large gains in the second quarter. Nonfarm payroll employment also rose substantially further in July and the civilian unemployment rate declined 1/2 percentage point to 9.5 percent. After rising sharply in the spring, retail sales have leveled off recently. Housing starts edged down over the past two months but permits continued to rise. Recent data on new orders and shipments on average continued to indicate strength in the demand for business equipment. In July, information on producer and consumer prices and the index of average hourly earnings was consistent with earlier indications of a considerable moderation in the rate of inflation.

Growth in the broader monetary aggregates slowed substantially in July, bringing M2 to a level near the midpoint of the Committee's range for 1983 and M3 to a level somewhat below the upper limit of its range. Growth in M1 decelerated considerably from its May-June pace, but its level remained above the Committee's monitoring range for the year. Interest rates rose appreciably through much of the intermeeting period but recently market rates have retraced most of their rise.

In part reflecting the course of U.S. interest rates, the weighted average value of the dollar against major foreign currencies rose substantially further in July and early August, but the rise was followed by a subsequent decline that reversed most of the earlier increase. The U.S. foreign trade deficit was smaller in June than in May, but the deficit in the second quarter was much larger than in the first as imports rose while exports were essentially unchanged.

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 a sustainable pattern of international transactions. At its meeting in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate

economic goals have become less predictable; that the impact of new deposit accounts on growth of the monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts may be reflected in some changes in the historical trends in velocity.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6-1/2 to 9-1/2 percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 percent from the fourth quarter of 1983 to the fourth quarter of 1984 would be consistent with the ranges for the broader aggregates. The associated range for total domestic nonfinancial debt was reaffirmed at 8-1/2 to 11-1/2 percent for 1983 and tentatively set at 8 to 11 percent for 1984.

In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on the behavior of the broader monetary aggregates. The behavior of M1 and total domestic nonfinancial debt will be monitored, with the degree of weight placed on M1 over time dependent on evidence that velocity characteristics are resuming more predictable patterns. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

The Committee seeks in the short run to maintain the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8 percent from June to September, consistent with the targets established for these aggregates for the year. Depending on evidence about the strength of economic recovery and other factors bearing on the business and inflation outlook, lesser restraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be

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acceptable should the aggregates expand more rapidly. The Committee anticipates that a deceleration in M1 growth to an annual rate of around 7 percent from June to September will be consistent with its third-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range established for the year. 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 Tuesday, October 4, 1983.

The meeting adjourned.

Secretary