

Meeting of the Federal Open Market Committee

October 4, 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, October 4, 1983, at 9:00 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 and Black, Presidents of the Federal Reserve Banks of San Francisco and Richmond, 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. Balbach, R. Davis, T. Davis, Eisenmenger, Prell, Scheld, Siegman,<sup>1/</sup> and Zeisel, Associate Economists

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

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<sup>1/</sup> Entered the meeting after the action to approve the minutes of the August 23, 1983, meeting.

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Mr. Coyne,<sup>1/</sup> Assistant to the Board of Governors  
Mr. Kohn, Deputy Staff Director, Office of Staff  
Director for Monetary and Financial Policy,  
Board of Governors  
Mr. Lindsey, Associate Director, Division of Research  
and Statistics, Board of Governors  
Mr. Gemmill, Senior Associate Director, Division of  
International Finance, Board of Governors  
Mr. Roberts, Assistant to the Chairman, Board of Governors  
Mrs. Low, Open Market Secretariat Assistant,  
Board of Governors

Mr. Forrestal, First Vice President, Federal Reserve  
Bank of Atlanta

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

Mr. Broaddus, Vice President, Federal Reserve Bank of  
Richmond

Mr. Pearce, Assistant Vice President, Federal Reserve  
Bank of Dallas

Ms. Lovett, 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 August 23, 1983, were approved.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
August 23 through October 3, 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:

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<sup>1/</sup> Entered the meeting after the action to ratify transactions in the System  
Open Market Account.

The information reviewed at this meeting suggests that real GNP continued to grow rapidly in the third quarter, although the rate of expansion moderated from that in the second quarter. Industrial production and employment increased appreciably further in August, following large gains in previous months, and the civilian unemployment rate remained at 9.5 percent. After rising sharply in the spring, growth in consumer spending has moderated substantially. Housing starts rose in August but permits turned down. Data on new orders and shipments generally continued to indicate strength in the demand for business equipment. Producer and consumer prices increased somewhat more in August than in other recent months, but over the first eight months of the year average prices and the index of average hourly earnings have risen more slowly than in 1982.

After slowing substantially in July, growth in M2 remained at a reduced pace over the August-September period, while expansion in M3 picked up. Through September M2 is estimated to be at a level in the lower portion of the Committee's range for 1983 and M3 in the upper portion of its range. Growth in M1 decelerated considerably further in August-September and moved within the Committee's monitoring range for the second half of the year. Interest rates have declined somewhat since mid-August.

The foreign exchange value of the dollar, as measured by its weighted average value against major foreign currencies, has fluctuated within a relatively narrow range since mid-August. The U.S. foreign trade deficit rose substantially in July-August from the second-quarter rate, reflecting a further increase in imports of a broad range of goods.

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 slightly lesser degree of reserve restraint sought in recent weeks. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8-1/2 percent from September to December, 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

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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 acceptable should the aggregates expand more rapidly. The Committee anticipates that M1 growth at an annual rate of around 7 percent from September to December will be consistent with its fourth-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, November 15, 1983.

The meeting adjourned.

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Secretary