

Meeting of the Federal Open Market Committee

December 19-20, 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 Monday, December 19, 1983, at 3:00 p.m., and continuing on Tuesday, December 20, 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, Black, and Forrestal, 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. R. Davis, T. Davis, Eisenmenger, Prell, Siegman, 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. Roberts, Assistant to the Chairman, Board of Governors  
Mr. Kohn, Deputy Staff Director, Office of Staff  
Director for Monetary and Financial Policy,  
Board of Governors  
Mr. Gemmill, Senior Associate Director, Division of  
International Finance, Board of Governors  
Mr. Lindsey, Associate Director, Division of Research  
and Statistics, Board of Governors  
Mrs. Low, Open Market Secretariat Assistant,  
Board of Governors

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

Messrs. Broaddus and Burger, Vice Presidents, Federal  
Reserve Banks of Richmond and St. Louis

Mr. McCurdy, Research 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 14-15, 1983, were approved.

The report of examination of the System open market account, made  
by the Board's Division of Federal Reserve Bank Operations as of the close of  
business February 4, 1983, was accepted.

By unanimous vote, System open market transactions in foreign  
currencies during the period November 15 through December 19, 1983, were  
ratified.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
November 15 through December 19, 1983, were ratified.

By unanimous vote, the Committee extended the temporary increase to \$5 billion in the limit specified in paragraph 1(a) of the authorization for domestic open market operations for the intermeeting period beginning December 21, 1983.

With Mr. Martin 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 has grown at a relatively rapid pace in the current quarter, although the rate of expansion appears to have moderated since the spring and summer. In November, industrial production and nonfarm payroll employment increased appreciably further and the civilian unemployment rate declined 0.4 percentage point to 8.4 percent. Retail sales rose substantially in November following sizable gains in September and October. Housing starts increased in November to a level close to their third-quarter average. Recent data indicate continuing expansion in business capital spending. Producer prices were little changed on average in October and November, and consumer prices continued to increase in October at about the same pace as in other recent months. The index of average hourly earnings changed little in November after rising somewhat faster in September and October than in previous months; over the first eleven months of the year the index has risen more slowly than in 1982.

The foreign exchange value of the dollar has risen considerably further since mid-November against a trade-weighted average of major foreign currencies. In October the U.S. foreign trade deficit was markedly higher than in the third quarter, reflecting a sharp rise in imports.

After slowing substantially over the summer months, growth in M2 and M3 strengthened in October and November. M1 continued to grow at a sluggish pace in November but increased substantially in early December. Through

November, M2 was at a level in the lower portion of the Committee's range for 1983, M3 was close to the upper limit of its range, and M1 was near the lower end of the Committee's monitoring range for the second half of the year. Most interest rates have risen somewhat since mid-November.

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 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 of 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 at least 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 November to March. The Committee anticipates that M1 growth at an annual rate of around 6 percent from November to March will be consistent with its objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would continue at around its recent pace. Depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more 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 6 to 10 percent.

The meeting adjourned.

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Secretary