

Meeting of the Federal Open Market Committee

January 30-31, 1984

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, January 30, 1984, at 2:00 p.m., and continuing on Tuesday, January 31, 1984, 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,1/ Deputy Assistant Secretary
Mr. Bradfield,1/ General Counsel
Mr. Oltman,1/ Deputy General Counsel
Mr. Kichline, Economist
Mr. Truman, Economist (International)

Messrs. Balbach,1/ T. Davis,1/ Eisenmenger,1/ Prell,1/ Siegman,1/ Scheld,1/ and Zeisel,1/ Associate Economists

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

1/ Attended Monday session and Tuesday session after action to establish long-run ranges.

Mr. Coyne, Assistant to the Board of Governors
Mr. Roberts, Assistant to the Chairman, Board of Governors
Mr. Kohn,1/ Deputy Staff Director, Office of Staff
Director for Monetary and Financial Policy,
Board of Governors
Mr. Gemmill,1/ Senior Associate Director, Division of
International Finance, Board of Governors
Mr. Lindsey,1/ Associate Director, Division of Research
and Statistics, Board of Governors
Messrs. Freund 2/ and Madigan,2/ Economists, Division of
Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Fousek,1/ Executive Vice President, Federal Reserve Bank
of New York

Messrs. Burns,1/ J. Davis,1/ Keran,1/ Koch,1/ Mullineaux,1/
Parthemos,1/ and Stern,1/ Senior Vice Presidents, Federal
Reserve Banks of Dallas, Cleveland, San Francisco, Atlanta,
Philadelphia, Richmond, and Minneapolis, respectively

Mr. Meek,1/ Vice President and Monetary Adviser,
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 December 19-20, 1983, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period December 20, 1983 through January 30, 1984, were
ratified.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
December 20, 1983 through January 30, 1984, were ratified.

Secretary's Note: All of the above actions were taken on
Monday, January 30, 1984.

1/ Attended Monday session and Tuesday session after action to establish
long-run ranges.

2/ Attended part of Monday session only.

With Mr. Morris dissenting, the Committee voted for the following longer-run policy:

The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

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 indicates that the advance in real GNP moderated in the fourth quarter, following rapid expansion in the spring and summer. In December, industrial production and nonfarm payroll employment increased somewhat further and the civilian unemployment rate declined 0.2 percentage point to 8.2 percent. Retail sales were reported to have changed little in December following sizable gains in preceding months. Housing starts declined in December but for the fourth quarter as a whole were close to their average for the year. Recent data indicate substantial strength in business capital spending. Producer prices were about unchanged on average in November and December, and consumer prices increased at about the moderate pace recorded for the year as a whole. The index of average hourly earnings rose somewhat faster in the fourth quarter than in the previous quarter, but for the year 1983 the index increased more slowly than in 1982.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has appreciated somewhat further since the latter part of December, with most of the rise occurring in early January. In the fourth quarter the U.S. foreign trade deficit was markedly higher than in the third quarter, reflecting a sharp rise in non-oil imports.

M2 and M3 have expanded at moderate rates over the past two months. Expansion in M1 apparently accelerated in January, following several months of reduced growth. By the fourth quarter M2 was at a level close to the midpoint of the Committee's range for 1983, M3 was around the upper limit of its range, and M1 was around the middle of the Committee's monitoring range for the second half of the year. Most interest rates have declined somewhat since the latter part of December.

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 an improved pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run, the Committee seeks to maintain the existing degree of pressure on bank reserve positions, anticipating that approach will be consistent with growth of M2 and M3 each at annual rates of about 8 percent and M1 at an annual rate of about 7 percent during the period from December to March. Growth in nonfinancial debt is expected to be within the range established for the year. Lesser restraint would be acceptable in the context of a shortfall in monetary and credit growth from current expectations, while somewhat greater restraint might be acceptable with more rapid expansion of the aggregates, both viewed in the context of the strength of the business expansion and inflationary pressures.

In implementing policy in the weeks ahead, the Manager was instructed to take account of the uncertainties associated with the introduction of the system of more contemporaneous reserve requirements, particularly including the possibility that depository institutions, during a transition period, may desire to hold more excess reserves.

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, March 27, 1984.

The meeting adjourned.

Secretary