

Meeting of the Federal Open Market Committee

February 11-12, 1986

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, February 11, 1986, at 3:10 p.m. and continuing on Wednesday, February 12, 1986, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Corrigan,^{1/} Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Johnson
Mr. Keehn
Mr. Martin
Mr. Parry
Mr. Rice
Ms. Seger
Mr. Wallich

Mr. Guffey, Mrs. Horn, Messrs. Melzer and Morris, Alternate Members of the Federal Open Market Committee

Messrs. Boehne, Boykin, and Stern, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

Mr. Axilrod, Staff Director and Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele,^{1/} Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Oltman,^{1/} Deputy General Counsel
Mr. Kichline, Economist
Mr. Truman, Economist (International)

Messrs. Broadus, Kohn,^{1/} Lindsey, Prell, Scheld, Siegman, and Ms. Tschinkel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account
Mr. Cross,^{1/} Manager for Foreign Operations, System Open Market Account

^{1/} Entered meeting after action to approve minutes for meeting of December 16-17, 1985, and acceptance of the report of Examination of the System Open Market Account.

Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Roberts, Assistant to the Chairman, Board of Governors
Mr. Gemmill, Staff Adviser, Division of International
Finance, Board of Governors
Mrs. Danker 1/ and Mr. Stockton, 1/ Economists, Division of
Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Fousek, 2/ Executive Vice President, Federal Reserve Bank
of New York

Messrs. Balbach, J. Davis, T. Davis, Lang, Rolnick,
Rosenblum, and Scadding, Senior Vice Presidents,
Federal Reserve Banks of St. Louis, Cleveland,
Kansas City, Philadelphia, Minneapolis, Dallas,
and San Francisco, respectively

Messrs. Higgins and McNeese, Vice Presidents, Federal Reserve
Banks of Kansas City and Boston, respectively

Mr. Guentner, Manager, Securities Department, Federal
Reserve Bank of New York

Secretary's Note: Prior to this meeting notice of the
election of Robert T. Parry as member of the Federal Open
Market Committee for the period February 5 through
February 28, 1986, had been received by the Secretary,
and Mr. Parry had executed his oath of office.

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on December 16-17, 1985, 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 May 31, 1985, was accepted.

By unanimous vote, System open market transactions in Government
securities and Federal agency obligations during the period December 17, 1985,
through February 11, 1986, were ratified.

1/ Attended portion of meeting relating to the Committee's discussion
and action on monetary growth ranges for 1986.

2/ Entered meeting after action to approve minutes for meeting of
December 16-17, 1985, and acceptance of the report of Examination
of the System Open Market Account.

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Secretary's Note: The following actions were taken at the Wednesday session.

By unanimous vote, the Committee voted for the following longer-run policy:

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. In furtherance of these objectives the Committee agreed to establish the following ranges for monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate was subject to substantial uncertainties in relationship to economic activity and prices, depending among other things on its responsiveness to changes in interest rates. It agreed that an appropriate target range under existing circumstances would be 3 to 8 percent, but it intends to evaluate movements in M1 in the light of its consistency with the other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures. It adopted a range of 6 to 9 percent for M2 and 6 to 9 percent for M3. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for the year 1986.

With Mr. Martin and Ms. Seger 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 economic activity is currently expanding at a moderate pace. Total nonfarm payroll employment increased substantially further in January, and the civilian unemployment rate declined to 6.7 percent.

In December industrial production rose further, and available information suggests some additional rise in January. Retail sales increased considerably in December after declining on balance over the previous two months, and housing starts rebounded from their October-November pace. Business capital spending strengthened somewhat in the fourth quarter. Merchandise trade data for the fourth quarter suggest that the deficit widened further from the very high third-quarter level. In late 1985 consumer and producer prices rose somewhat more than earlier, but for the year as a whole broad measures of prices and wages increased at rates close to those recorded in 1984.

With respect to the Committee's ranges for longer-term monetary growth, M1 expanded at a rate well above the range set for the second half of 1985; M2 grew at a rate somewhat below the upper end of its range for the year; and M3 expanded at a rate near the midpoint of its range for 1985. Expansion in total domestic nonfinancial debt was above the upper end of its monitoring range for the year. In January growth in M1 and M2 slowed markedly, while growth in M3 picked up as banks issued a substantial volume of large time deposits to support further robust growth in bank credit. Interest rates have fluctuated considerably since the December meeting of the Committee; on balance, short-term interest rates have risen a little while longer-term rates are unchanged to somewhat lower. The trade-weighted value of the dollar against major foreign currencies has declined further.

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In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from November to March at annual rates of about 6 percent and 7 percent, respectively; while the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of about 7 percent over the period is anticipated. Somewhat greater reserve restraint or somewhat lesser reserve restraint might be acceptable depending on behavior of the aggregates, the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are 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 April 1, 1986.

The meeting adjourned.

Secretary