

Meeting of the Federal Open Market Committee

November 16, 1982

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, November 16, 1982, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Solomon, Vice Chairman  
Mr. Balles  
Mr. Black  
Mr. Ford  
Mr. Gramley  
Mrs. Horn  
Mr. Martin 1/  
Mr. Partee  
Mr. Rice  
Mrs. Teeters  
Mr. Wallich

Messrs. Guffey, Keehn, Morris, Roos, and Timlen,2/  
Alternate Members of the Federal Open Market Committee

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

Mr. Axilrod, Staff Director  
Mr. Altmann, Secretary  
Mr. Bernard, Assistant Secretary  
Mrs. Steele,2/ Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Oltman,2/ Deputy General Counsel  
Mr. Kichline, Economist

Messrs. Ettin,2/ J. Davis,2/ R. Davis,2/ Keran,2/ Koch,2/  
Parthemos,2/ Prell,2/ Siegman,2/ Truman, and Zeisel,2/  
Associate Economists

1/ Entered the meeting following acceptance of Report of Examination of System Open Market Account.

2/ Left the meeting prior to discussion and adoption of domestic policy directive.

Mr. Sternlight, Manager for Domestic Operations,  
System Open Market Account  
Mr. Cross, Manager for Foreign Operations,  
System Open Market Account  
Mr. Coyne, Assistant to the Board of Governors  
Mr. Gemmill,1/ Associate Director, Division of International  
Finance, Board of Governors  
Mr. Kohn,1/ Senior Deputy Associate Director, Division of  
Research and Statistics, Board of Governors  
Mr. Lindsey,1/ Assistant Director, Division of Research  
and Statistics, Board of Governors  
Mrs. Low, Open Market Secretariat Assistant,  
Board of Governors

Messrs. Balbach,1/ Burns,1/ T. Davis,1/ Eisenmenger,1/  
Mullineaux,1/ Scheld,1/ and Stern,1/ Senior Vice  
Presidents, Federal Reserve Banks of St. Louis, Dallas,  
Kansas City, Boston, Philadelphia, Chicago, and Minneapolis,  
respectively

Mr. Soss, Vice President, Federal Reserve Bank of  
New York

Ms. Clarkin,1/ 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 October 5, 1982, 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 April 23, 1982, was accepted.

By unanimous vote, System open market transactions in foreign  
currencies during the period October 5 through November 15, 1982, were  
ratified.

By unanimous vote, the Committee approved the renewal for further  
periods of up to one year of the following swap arrangements having the  
indicated amounts and maturity dates:

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1/ Left the meeting prior to discussion and adoption of domestic policy directive.

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<u>Foreign bank</u>	<u>Amount of arrangement (millions of \$ equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 mos.	12/ 3/82
National Bank of Belgium	1,000.0	"	12/17/82
Bank of Canada	2,000.0	"	12/29/82
National Bank of Denmark	250.0	"	12/29/82
Bank of England	3,000.0	"	12/ 3/82
Bank of France	2,000.0	"	12/29/82
German Federal Bank	6,000.0	"	12/29/82
Bank of Italy	3,000.0	"	12/29/82
Bank of Japan	5,000.0	"	12/ 3/82
Bank of Mexico	700.0	"	12/ 3/82
Netherlands Bank	500.0	"	12/29/82
Bank of Norway	250.0	"	12/ 3/82
Bank of Sweden	300.0	"	12/ 3/82
Swiss National Bank	4,000.0	"	12/ 3/82
Bank for International Settlements —			
Swiss francs	600.0	"	12/ 3/82
Other authorized European currencies	1,250.0	"	12/ 3/82

Renewal for further periods of three months of drawings on the System by the Bank of Mexico maturing December 7 through December 21, 1982, was noted without objection.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise to \$4 billion the dollar limit on intermeeting changes in System account holdings of U.S. Government and Federal agency securities, effective immediately, for the period from October 6, 1982 through the close of business on November 16, 1982.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period October 5 through November 15, 1982, were ratified.

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With Mr. Ford 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 little change in real GNP in the fourth quarter and continuation of the rise in prices at a much less rapid pace than in 1981. In October the nominal value of retail sales edged up, but was little higher than in the second and third quarters; industrial production and nonfarm payroll employment continued to decline; and the unemployment rate rose another 0.3 percentage point to 10.4 percent. Initial claims for unemployment insurance have remained exceptionally high. In September and the third quarter as a whole, housing starts had strengthened. In recent months the advance in the index of average hourly earnings has remained considerably less rapid than during 1981.

The weighted average value of the dollar against major foreign currencies continued to appreciate from the end of September to mid-November. The U.S. merchandise trade deficit in the third quarter was more than double the rate in the first two quarters of the year.

Growth of M1, already rapid in August and September, accelerated sharply in October in association with the maturing of a large volume of all savers certificates. Growth of M2 and M3 picked up from sluggish rates in September, but remained below the brisk pace of earlier in the year. Most short-term market interest rates have declined on balance since early October, after a reversal in September, and bond yields and mortgage rates have declined further. On October 8 the Federal Reserve announced a reduction in the discount rate from 10 percent to 9-1/2 percent. Quality spreads in the money markets, which had widened, have narrowed in recent weeks as interest rates have declined, and common stock prices have advanced sharply.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at the February meeting. These ranges were 2-1/2 to 5-1/2 percent for M1, 6 to 9 percent for M2, and 6-1/2 to 9-1/2 percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated that it was tentatively planning to continue the current ranges for 1983 but that it would review that decision carefully in the light of developments over the remainder of 1982.

Specification of the behavior of M1 over the balance of the year remains subject to substantial uncertainty because of special circumstances in connection with the reinvestment of funds from maturing all savers certificates and the public's response to the new account directly competitive with money market funds mandated by recent legislation. The difficulties in interpretation of M1 continue to suggest that much less than usual weight be placed on movements in that aggregate during the current quarter.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) of around 9-1/2 percent at an annual rate from September to December. Somewhat slower growth, bringing those aggregates around the upper part of the ranges set for the year, would be acceptable and desirable in a context of declining interest rates. Should economic and financial uncertainties lead to exceptional liquidity demands, somewhat more rapid growth in the broader aggregates would be tolerated. 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.

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It was agreed that the next meeting of the Committee would be held on Tuesday, December 21, 1982, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary