

Meeting of the Federal Open Market Committee

July 16-17, 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, July 16, 1984, at 3:00 p.m., and continuing on Tuesday, July 17, 1984, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Solomon, Vice Chairman  
Mr. Boehne  
Mr. Boykin  
Mr. Corrigan  
Mr. Gramley  
Mrs. Horn  
Mr. Martin  
Mr. Partee  
Mr. Rice  
Ms. Seger  
Mr. Wallich

Messrs. Balles, Black, Forrestal, and Keehn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roberts, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director and Secretary  
Mr. Bernard, Assistant Secretary  
Mrs. Steele, Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Kichline, Economist  
Mr. Truman, Economist (International)

Messrs. Burns, J. Davis, R. Davis, Kohn, Lang, Prell, Stern, and Zeisel, Associate Economists

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

Mr. Coyne, Assistant to the Board of Governors  
Mr. Roberts, Assistant to the Chairman, Board of Governors  
Mr. Promisel, Senior Associate Director, Division of  
International Finance, Board of Governors  
Mr. Gemmill,<sup>1/</sup> Staff Adviser, Division of International  
Finance, Board of Governors  
Messrs. Madigan <sup>2/</sup> and Rosine,<sup>2/</sup> Economists, Division of  
Research and Statistics, Board of Governors  
Mrs. Low, Open Market Secretariat Assistant,  
Board of Governors

Messrs. T. Davis, Keran, Scheld, and Ms. Tschinkel,  
Senior Vice Presidents, Federal Reserve Banks of  
Kansas City, San Francisco, Chicago, and Atlanta,  
respectively

Messrs. Broaddus, Burger, Fieleke, and Meek, Vice Presidents,  
Federal Reserve Banks of Richmond, St. Louis, Boston,  
and New York, respectively

Ms. Meulendyke, 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 May 21-22, 1984, were approved.

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

By unanimous vote, System open market transactions in foreign  
currencies during the period May 22 through July 16, 1984, were ratified.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
May 22 through July 16, 1984, were ratified.

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<sup>1/</sup> Attended Monday session only.

<sup>2/</sup> Attended portion of meeting on Monday and Tuesday related to  
consideration of the Committee's longer-run objectives for  
monetary and credit aggregates.

By unanimous vote, the following longer-run policy for 1984 was reaffirmed by the Committee:

The Committee agreed at this meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 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 associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth.

By unanimous vote, the following longer-run policy for 1985 was adopted by the Committee:

For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8-1/2 percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

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.

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 the expansion in economic activity is continuing at a strong pace, but there are indications of moderation in some sectors. In May and June, industrial production and retail sales expanded further, though at a somewhat slower pace than earlier in the year. Nonfarm payroll employment rose substantially further in both months and the civilian unemployment rate fell to 7.1 percent in June. Housing starts declined in May to a rate appreciably below the average in the first four months of 1984. Information on outlays and spending plans continues to suggest strength in business fixed investment. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.

M1 grew rapidly in May and June after having changed little in April, while M2 continued to expand moderately. M3 growth slowed somewhat in June but was relatively strong over the second quarter. From the fourth quarter of 1983 through June, M1 grew at a rate somewhat below the upper limit of the Committee's range for 1984; M2 increased at a rate a little below the midpoint of its longer-run range, while M3 expanded at a rate above the upper limit of its range. Total domestic non-financial debt continued to grow in the second quarter at a pace above the Committee's monitoring range for the year, reflecting very large government borrowing along with strong private credit growth. Interest rates have fluctuated considerably since the May meeting of the Committee. Financial markets were affected by concerns arising from international debt problems. On balance, rates on private short-term securities rose further, while rates on Treasury bills were about unchanged; in long-term debt markets, rates on most private obligations changed little while those on Treasury bonds declined.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has risen considerably further since mid-May to a level above its peak in early January. The merchandise trade deficit rose further in April-May compared with the first quarter; an increase in oil and non-oil imports exceeded a slight rise in exports.

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 at this meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 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 associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8-1/2 percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

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 existing pressures on reserve positions. This action is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 5-1/2, 7-1/2, and 9 percent respectively during the period from June to September. Somewhat greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. In either case, such a change would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market

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conditions, and the rate of credit growth. 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 8 to 12 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 21, 1984.

The meeting adjourned.

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Secretary