

Meeting of the Federal Open Market Committee

February 12-13, 1985

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 12, 1985, at 2:30 p.m. and continuing on Wednesday, February 13, 1985, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Corrigan, Vice Chairman
Mr. Boehne
Mr. Boykin
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 and Morris, Presidents of the Federal
Reserve Banks of Kansas City and Boston,
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. Burns, J. Davis, Kohn, Lang, Lindsey,
Prell, Siegman, and Stern, Associate Economists

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

Messrs. Gainor and Garbarini, First Vice Presidents, Federal
Reserve Banks of Minneapolis and St. Louis, respectively

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

Messrs. Balbach, Bisignano, T. Davis, Parthemos, Scheld,
and Ms. Tschinkel, Senior Vice Presidents, Federal
Reserve Banks of St. Louis, San Francisco, Kansas City,
Richmond, Chicago, and Atlanta, respectively

Ms. Clarkin, Messrs. Judd and McNees, Vice Presidents,
Federal Reserve Banks of New York, San Francisco, and
Boston, respectively

By unanimous vote, E. Gerald Corrigan was elected to serve as
Vice Chairman of the Committee until the first meeting of the Committee after
February 28, 1985.

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on December 17-18, 1984, were approved.

By unanimous vote, System open market transactions in foreign currencies
during the period December 18, 1984 through February 12, 1985, were ratified.

By unanimous vote, System open market transactions in Government
securities and agency obligations during the period December 18, 1984, through
February 12, 1985, were ratified.

1/ Attended portion of meeting on Tuesday and Wednesday related to
consideration of the Committee's longer-run objectives for monetary
and credit aggregates.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise from \$4 billion to \$6 billion the dollar limit on intermeeting changes in System account holdings of U. S. government and federal agency securities for the intermeeting period ending on March 26, 1985.

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

With Messrs. Boehne, Martin, and Wallich dissenting, 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 at this meeting to establish ranges for monetary growth of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9-1/2 percent for M3 for the period from the fourth quarter of 1984 to the fourth quarter of 1985. The associated range for total domestic nonfinancial debt was set at 9 to 12 percent for the year 1985. The Committee agreed that growth in the monetary aggregates in the upper part of their ranges for 1985 may be appropriate, depending on developments with respect to velocity and provided that inflationary pressures remain subdued.

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 suggests that real GNP expanded at a moderate pace in the fourth quarter, reflecting some strengthening in late 1984 after several months of considerably reduced growth, and there was evidence of continued moderate expansion in early 1985. Total retail sales rose in January at about the same pace as the average for November and December, while the decline in housing starts appears to have ended. Industrial production and nonfarm payroll employment increased appreciably in the November-December period and nonfarm payroll employment rose substantially further in January. The civilian unemployment rate rose slightly in January to 7.4 percent. Information on business spending suggests less rapid expansion in outlays for fixed investment, following exceptional growth earlier; businesses also appear to have made substantial progress in adjusting their inventories. During 1984 broad measures of prices generally increased at rates close to those recorded in 1983, and the index of average hourly earnings rose somewhat more slowly.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has continued to appreciate strongly since mid-December. After the announcement on January 17 by the G-5 Ministers of Finance and Central Bank Governors regarding coordinated intervention in exchange markets, and subsequent operations, the dollar's rise moderated somewhat. The merchandise trade deficit declined sharply in December and for the fourth quarter as a whole, primarily because of a large drop in imports from the high rate in the third quarter. Nevertheless, the deficit for the full year 1984 was substantially higher than in 1983.

After growing little on balance since early summer, M1 expanded at a rapid pace in late 1984 and early 1985. The broader aggregates also expanded rapidly in recent months. For the period from the fourth quarter of 1983 to the fourth quarter of 1984, M1 grew at a rate of about 5-1/4 percent, somewhat below the midpoint of the Committee's range for the year, and M2 increased at a rate of about 7-3/4 percent, a bit above the midpoint of its longer-run range. Both M3 and total domestic nonfinancial debt expanded at rates above the Committee's ranges for the

year, reflecting very large government borrowing and strong private credit growth, boosted in part by the unusual size of merger-related credit activity. Short-term interest rates have risen somewhat on balance since the December meeting of the Committee, but long-term rates are about unchanged to a little lower. On December 21, the Federal Reserve approved a reduction in the discount rate from 8-1/2 to 8 percent.

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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 implementation of policy for the immediate future, taking account of the progress against inflation, remaining uncertainties in the business outlook, and the strength of the dollar in the exchange markets, the Committee seeks to maintain reserve conditions characteristic of recent weeks. Should growth in M1 appear to be exceeding an annual rate of around 8 percent and M2 and M3 a rate of around 10 to 11 percent during the period from December to March, modest increases in reserve pressures would be sought, particularly if business activity is rising at a satisfactory rate and exchange market pressures diminish. Lesser restraint on reserve positions would be acceptable in the event of substantially slower growth in the monetary aggregates, particularly in the context of sluggish growth

in economic activity and continued strength of the dollar in foreign exchange markets. 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 26, 1985.

The meeting adjourned.

Secretary