FEDERAL RESERVE press release

For Use at 4:30 p.m. December 23, 1983

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on November 14-15, 1983.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS OF
THE FEDERAL OPEN MARKET COMMITTEE

Meeting Held on November 14-15, 1983

1. Domestic policy directive

The information reviewed at this meeting suggested that real GNP was growing at a relatively rapid rate in the current quarter, although the pace of expansion appeared to have moderated from the annual rates of about 9-3/4 percent and nearly 8 percent reported by the Commerce Department for the second and third quarters respectively. Renewed strength in personal consumption expenditures and a substantial further increase in inventory accumulation were expected to contribute to the continued expansion in economic activity. Meanwhile, price and wage increases generally have remained moderate, although there has been some pickup in recent months in average wage costs and in nonfood consumer prices.

The index of industrial production, which had risen 1.3 percent in both August and September, increased 0.8 percent further in October. Output of business equipment rose sharply, while production of consumer durable goods and construction supplies edged up slightly further, following very large increases in the second and third quarters. By October the index had risen about 14-3/4 percent from its trough in November 1982 to a level slightly above the previous peak in July 1981.

Nonfarm payroll employment, adjusted for strike activity, rose about 330,000 in October, about the same as the average monthly increase in the preceding five months. Employment gains were particularly marked in manufacturing and service industries, and employment in retail trade and construction also continued to strengthen. The civilian unemployment rate fell 0.5 percentage point to 8.8 percent, two percentage points below its peak in December 1982.

The nominal value of retail sales, after changing little on balance during the summer months, rose about 1-1/4 percent in both September and October. Outlays at apparel stores and furniture and appliance outlets rose substantially in October, and sales at automotive outlets increased markedly in both months. Sales of new domestic automobiles picked up to an average annual rate of 7 million units in the two months, and sales of imported cars surged in October, apparently in response to the increased availability of popular Japanese models. Consumers remained optimistic about the near-term outlook, according to recent surveys of consumer confidence. Moreover, recent data indicated marked gains in consumers' real disposable incomes, reflecting substantial increases in nominal personal income augmented by the midyear tax cut and a continued moderate rate of increase in the average level of prices.

Following a surge in August, private housing starts fell to an annual rate of 1.65 million units in September, close to their average in the second quarter. Newly issued permits for residential construction also fell in September, marking the second consecutive monthly decline. Sales of existing homes remained at about the reduced July-August pace, while sales of new homes rose after three months of decline.

Business spending for capital goods has remained strong. Outlays for producers' durable equipment, which had increased at an annual rate of about 20 percent in real terms in the second quarter, rose at a rate of nearly 16 percent in the third quarter. Recent data on new orders and shipments indicated further strength in the demand for business equipment. Investment in nonresidential structures rose at an annual rate of about 12 percent in the third quarter, after declines earlier in the year.

The producer price index for finished goods rose 0.3 percent in October, about the same as in other recent months. Most of the October increase was attributable to higher prices for consumer foods; prices of energy-related items and of finished consumer goods other than foods were little changed. Thus far in 1983 the index had increased at an annual rate of less than 1 percent. The consumer price index rose 0.5 percent in September, following advances of 0.4 percent in the preceding two months. Consumer prices had changed little early in the year and over the first nine months of 1983 had increased at an annual rate of about 3-3/4 percent. The index of average hourly earnings rose somewhat more in September and October than in previous months but the index has risen more slowly this year than in 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen a little more than 1 percent since early October. The eruption of political and military conflicts in a number of locations around the world was a factor in the dollar's strength, as some investors viewed the dollar as a "safe haven" during the period of heightened international tensions. The rise was also associated in part with some widening of the differential between U.S. and key foreign interest rates. The U.S. foreign trade deficit increased considerably in the third quarter as imports, especially of petroleum, rose faster than exports.

At its meeting on October 4, 1983, the Committee had decided that in the short run, open market operations should be directed toward maintaining the slightly reduced reserve restraint that had been sought in the weeks just prior to that meeting. This policy was expected to be associated with growth of both M2 and M3 at an annual rate of around 8-1/2 percent for the period from September to December. The members had agreed that the need for greater or lesser restraint on reserve conditions should be evaluated against the background of developments relating to the strength of the economic recovery, the outlook for inflation, and conditions in domestic and international financial markets. Depending on such developments, lesser restraint would be acceptable in the event of a significant shortfall in the growth of the aggregates, while somewhat greater restraint would be acceptable in the context of more rapid growth in the aggregates. The Committee anticipated that M1 growth at an annual rate of around 7 percent from September to December would be consistent with its fourth-quarter objectives for the broader aggregates, and that expansion in total nonfinancial debt would remain within the range of 8-1/2 to 11-1/2 percent established for the year. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

In October, both M2 and M3 grew at annual rates close to the 8-1/2 percent pace sought by the Committee for the September-to-December period: growth in M2, after slowing substantially over the summer months, accelerated to an estimated annual rate of about 9 percent, while growth in M3 was at an estimated annual rate of about 8-1/4 percent. On the other hand, expansion in M1, at an annual rate of about 1-1/2 percent, remained low. Through

October, M2 was at a level in the lower portion of the Committee's range for 1983 and M3 was in the upper portion of its range. M1 was in the lower portion of the Committee's monitoring range for the second half of the year.

Growth in the debt of domestic nonfinancial sectors was estimated to have slowed somewhat in October, but it remained well within the Committee's monitoring range for the year. Growth in funds raised by private sectors apparently moderated, while funds raised by the federal government continued relatively large. Expansion in credit at U.S. commercial banks increased at an estimated annual rate of about 10 percent in October, considerably faster than in September and close to the average pace for the year to date. The acceleration in October reflected primarily a substantial increase in banks' acquisitions of U.S. Treasury securities but also strong growth in consumer loans. Borrowing by businesses remained moderate, as funds generated internally covered the bulk of financing needs; such borrowing continued to be concentrated in the short-term area.

Total reserves contracted somewhat in October, but growth of nonborrowed reserves (including extended credit at the discount window) picked up. Adjustment plus seasonal borrowing averaged $630 million during the five statement weeks ending November 9, somewhat below the level that had prevailed during most weeks in the previous intermeeting interval.

Interest rates generally fluctuated in a narrow range over the intermeeting period. Federal funds traded mainly around 9-3/8 percent, down from earlier weeks. Other short-term rates were up marginally on balance over the intermeeting period. Most long-term rates rose somewhat, apparently in response to indications of continued strength in economic activity and to uncertainties about the prospective pattern of Treasury financing as passage of legislation to raise the debt ceiling was delayed. In contrast, average rates on new commitments for fixed-rate conventional home mortgage loans declined about 20 basis points and the ceiling rate on regular FHA/VA mortgage loans was reduced 1/2 percentage point to 12-1/2 percent.

The staff projections presented at this meeting indicated that growth in real GNP would slow from the rapid rate of recent quarters to a more moderate pace during 1984. A key element in the expected slowdown was a projection of lessened stimulus from inventory rebuilding and housing activity; growth in consumer spending was also projected to slow somewhat. On the other hand, business fixed investment was expected to accelerate and the foreign sector was expected to be less of a damping factor over the course of 1984 than over 1983. A decline in the unemployment rate was anticipated over the projection period, and upward pressures on prices were expected to remain generally moderate.

In the Committee's discussion of the economic situation and outlook, members commented that the economic expansion had remained stronger than generally anticipated. Reports from around the country suggested increasingly widespread optimism about business conditions and a high degree of consumer confidence. While all the members expected the rate of economic growth to moderate over the year ahead, there were some differences of view with regard to the timing and likely extent of the slowdown. Some members anticipated that the slowdown might be appreciably less than projected by the staff, with unfavorable implications for inflationary pressures and the ultimate sustainability of the expansion. In support of this view, reference was made to the favorable conditions for a surge in business fixed investment created by the momentum of the expansion. In addition, it was pointed out that a highly stimulative fiscal policy remained in prospect for 1984. Thus, while the expansionary impact of housing and inventory accumulation could be expected to wane during the second year of the recovery, vigorous growth in fixed investment expenditures in conjunction with the prospective federal deficit might well sustain relatively rapid expansion in overall economic activity during the year ahead. It was also suggested that, at least for the near term, consumer spending and inventory accumulation might provide more stimulus to the economy than was generally anticipated.

Other members placed more emphasis on some elements of potential weakness in the economic outlook. It was pointed out that there was as yet no firm evidence that business fixed investment would prove to be exceptionally strong during 1984. Indeed, such investment might continue to be held down by the persistence of weak demand for the output of some traditional producers of capital equipment, and, more generally, by relatively high interest rates in the context of massive Treasury debt financings. International developments might also continue to exert a retarding impact on the domestic economy, especially if the dollar failed to depreciate as many observers expected and if the economies of foreign countries remained relatively sluggish, thereby limiting export markets for U.S. products while encouraging foreign firms to compete aggressively in U.S. markets. Reference was also made to the possibility that problems related to the international debt situation could have adverse consequences for U.S. financial markets and economic activity.

With regard to the prospects for prices, several members questioned whether further progress could be made in containing inflationary pressures if the rate of economic expansion did not slow to a more moderate pace over the year ahead. One member observed that by late 1984, capacity utilization rates could reach levels that would tend to generate inflationary cost pressures even if unemployment were still high relative to earlier expansion periods. On the other hand, some members felt that there was little current evidence that price and wage pressures or inflationary expectations were worsening. One member also noted that the economy was still operating well below capacity and that further significant improvements in productivity, along with competitive pressures from world markets, were likely to restrain inflation during 1984.

In the Committee's discussion of policy for the period immediately ahead, all of the members found acceptable a policy directed toward maintaining the existing degree of reserve restraint. In the view of some, however, an argument could be made in favor of a small, precautionary step in the direction of firming in light of the continuing strength of the economic expansion and the associated danger of a resurgence of inflationary pressures during the year ahead. While acknowledging the risks of inflation in a rapidly expanding economy combined with large budget deficits and the relatively rapid monetary growth earlier in the year, most members saw sufficient uncertainties in the outlook to counsel against any change in reserve pressures at this time. Some members were also concerned that under the prevailing circumstances even a modest increase in restraint on reserves might have a disproportionate impact on domestic and international financial markets. The result could be an increase in domestic interest rates large enough to have damaging consequences for housing and other interest-sensitive sectors of the economy and to intensify greatly the pressures on countries with severe external debt problems.

According to a staff analysis, a policy of maintaining the present degree of restraint on reserve conditions was likely to be associated with growth in M2 and M3 at rates that were consistent with the objectives that the Committee had set previously for the fourth quarter and for the year as a whole. Such a policy might also result in an acceleration in the growth of M1 over the last two months of the year, primarily in response to increasing needs for transaction balances in a rapidly expanding economy. Given the limited growth of M1 in October, however, its expansion for the entire fourth quarter was likely to be below the growth rate of around 7 percent anticipated earlier. The staff also indicated that the demand for transaction balances remained subject to a great deal of uncertainty, and that transaction needs related to strengthened business activity could continue to be met for a time, at least in part, out of balances that had been built up earlier, including NOW accounts.

One member indicated a preference for giving increased weight to M1 in the formulation of monetary policy and commented that its slow growth, should it persist, could threaten the sustainability of the economic expansion. Other members commented that the deceleration of M1 growth in recent months had to be evaluated against the background of unusually rapid expansion in the latter part of 1982 and the first half of 1983. It was also pointed out that the broader monetary aggregates emphasized by the Committee had been growing in line with the Committes's objectives.

All the members indicated that they could support a directive that called for maintaining the current degree of restraint on reserve positions over the near term, but they also agreed that the directive should continue to allow for some leeway to adjust the degree of reserve pressure during the intermeeting period. In this connection, a number of members were in favor of being particularly sensitive to evidence of continued unexpected strength in the economy and the related potential for greater price and wage pressures, should growth in the monetary aggregates appear to be exceeding expectations.

At the conclusion of the discussion the Committee decided that no change should be made at this time in the degree of restraint on reserve positions. The members anticipated that such a policy would continue to be associated with growth of both M2 and M3 at an annual rate of around 8-1/2 percent for the period from September to December. The members also agreed that the need for greater or lesser restraint on reserve conditions should be evaluated against the background of developments relating to the strength of the economic recovery, the outlook for inflation, and conditions in domestic and international financial markets. Depending upon such developments over the weeks ahead, greater restraint would be acceptable in the event of more rapid growth in the broader monetary aggregates, while lesser restraint would be acceptable in the context of a significant shortfall in such growth. The Committee anticipated that, given the relatively slow growth of M1 in October, its expansion at an annual rate of around 5 to 6 percent from September to December would be consistent with the fourth-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range of 8-1/2 to 11-1/2 percent established for the year. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent.

At the conclusion of the discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real GNP is growing at a relatively rapid pace in the current quarter, although the rate of expansion appears to have moderated since the spring and summer. In October, industrial production increased appreciably, following large gains in previous months. Nonfarm payroll employment rose substantially further, and the civilian unemployment rate declined 1/2 percentage point to 8.8 percent. After changing little on balance during the summer months, retail sales strengthened in September and October. Housing starts and permits declined in September while home sales rose somewhat. Recent data on new orders and shipments indicate further strength in the demand for business equipment. Producer and consumer prices have continued to increase at about the same pace as in other recent months. The index of average hourly earnings rose somewhat more in September and October than in previous months, but over the first ten months of the year the index has risen more slowly than in 1982.
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> The foreign exchange value of the dollar has risen since early October against a trade-weighted average of major foreign currencies. The U.S. foreign trade deficit increased considerably in the third quarter, with imports, especially of petroleum, rising faster than exports.
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> After slowing substantially over the summer months, growth in M2 accelerated in October, while M3 continued to expand at a moderate rate. Through October, M2 was at a level in the lower portion of

the Committee's range for 1983 and M3 in the upper portion of its range. M1 continued to grow at a sluggish pace in October and was in the lower portion of the Committee's monitoring range for the second half of the year. Longer-term market rates have risen somewhat on balance since early October, and short-term rates generally have fluctuated in a narrow range.

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 a sustainable pattern of international transactions. At its meeting in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of the monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts may be reflected in some changes in the historical trends in velocity.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6-1/2 to 9-1/2 percent for M2 and 6 to 9 percent for M3. The Committee considered that growth of M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 percent from the fourth quarter of 1983 to the fourth quarter of 1984, would be consistent with the ranges for the broader aggregates. The associated range for total domestic nonfinancial debt was reaffirmed at 8-1/2 to 11-1/2 percent for 1983 and tentatively set at 8 to 11 percent for 1984.

In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on the behavior of the broader monetary aggregates. The behavior of M1 and total domestic nonfinancial debt will be monitored, with the degree of weight placed on M1 over time dependent on evidence that velocity characteristics are resuming more predictable patterns. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

The Committee seeks in the short run to maintain the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8-1/2 percent from September to December, consistent with the targets established for these aggregates for the year. Depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more rapidly; lesser restraint might be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations. Given the relatively slow growth in October, the Committee anticipates that M1 growth at an annual rate of around 5 to 6 percent from September to December will be consistent with its fourth-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range established for the year. 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.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $4 billion to $5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, for the intermeeting period ending with the close of business on December 20, 1983.

> Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that projections for the upcoming intermeeting period indicated a substantial need for additions to reserves relating to a seasonal increase in currency in circulation. Accordingly, the need for net purchases of U.S. government and federal agency securities during the intermeeting interval was considered likely to exceed the standard $4 billion limit on intermeeting changes in holdings of such securities.