

Meeting of the Federal Open Market Committee

December 17-18, 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, December 17, 1984, at 3:00 p.m. and continuing on Tuesday, December 18, 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 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, R. Davis, Kohn, Lang, Lindsey, Prell, Siegman, Stern, and Zeisel, 1/ Associate Economists

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

1/ Attended Tuesday session only.

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
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Garbarini, First Vice President, Federal Reserve
Bank of St. Louis

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

Mr. Broaddus, Vice President, Federal Reserve Bank of
Richmond

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 November 7, 1984, were approved.

By unanimous vote, the Committee approved the renewal for further periods of one year of all of the Committee's reciprocal currency ("swap") arrangements.

By unanimous vote, System open market transactions in Government securities and agency obligations during the period November 7 through December 17, 1984, were ratified.

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 February 13, 1985.

With Messrs. Gramley and Solomon 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 indicates a mixed pattern of developments but on balance suggests that economic activity is continuing to expand in the current quarter at a rate approximating the considerably reduced pace recorded in the third quarter. Nonfarm payroll employment rose substantially further outside of manufacturing in November, and the civilian unemployment rate fell from 7.4 to 7.2 percent. After two months of decline industrial production increased somewhat in November, largely reflecting a rebound in auto production from strike-reduced levels. Retail sales registered a large gain in November after changing little in October. Information on outlays suggests substantially slower expansion in business fixed investment, following exceptionally rapid growth earlier. Since the beginning of the year, broad measures of prices generally have continued to rise at rates close to, or somewhat above, those recorded in 1983, and the index of average hourly earnings has risen somewhat more slowly.

Growth of the monetary aggregates strengthened markedly in November. The November expansion in M1 offset the decline in October, and this aggregate has grown little on balance since early summer; from the fourth quarter of 1983 through November, M1 grew at a rate in the lower half of the Committee's range for 1984. Growth in the broader aggregates was especially rapid in November, bringing M2 to the midpoint of its longer-run range and M3 a bit further above the upper limit of its range. Expansion in total domestic non-financial debt is continuing above the Committee's monitoring range for the year, reflecting very large government borrowing and strong private credit growth. Interest rates have fallen further since the November meeting of the Committee, with the largest declines concentrated in short-term markets. On November 21, the Federal Reserve approved a reduction in the discount rate from 9 to 8-1/2 percent.

Since early November the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has appreciated substantially, reversing most of the previous decline from its mid-October peak. The merchandise trade deficit in October was significantly reduced from the rate in the third quarter, mainly reflecting a sharp decline in non-oil imports.

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 the July 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 evaluations of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the short run, the Committee seeks to reduce pressures on reserve positions consistent with growth of M1, M2, and M3 at annual rates of around 7, 9, and 9 percent, respectively, during the period from November to March. Somewhat more rapid growth of M1 would be acceptable in light of the currently estimated shortfall in growth for the fourth quarter relative to the Committee's expectations at the beginning of the

period, particularly in the context of sluggish growth in economic activity and continued strength of the dollar in exchange markets. Greater restraint on reserve positions might be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. 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-Wednesday, February 12-13, 1985.

The meeting adjourned.

Secretary's note: Advice was received of the election by the directors of the Federal Reserve Bank of New York of E. Gerald Corrigan as a member of the Federal Open Market Committee. It was noted that Mr. Corrigan was elected to serve from January 1, 1985 for the term ending February 28, 1985 and had executed his oath of office.

Secretary