

Meeting of the Federal Open Market Committee

November 5, 1986

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 Wednesday, November 5, 1986, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Corrigan, Vice Chairman 1/
Mr. Angell
Mr. Guffey
Mr. Heller
Mrs. Horn
Mr. Johnson
Mr. Melzer
Mr. Morris
Mr. Rice
Ms. Seger

Messrs. Boehne, Boykin, Keehn, and Stern, Alternate Members of the Federal Open Market Committee

Messrs. Black, Forrestal, and Parry, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Truman, Economist (International)

Messrs. Balbach, J. Davis, R. Davis, T. Davis, Kohn, Ms. Munnell, Messrs. Prell and Siegman, Associate Economists

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

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

1/ Entered the meeting after action to approve minutes for meeting of September 23, 1986.

11/5/86

-2-

Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Roberts, Assistant to the Chairman, Board of Governors
Mr. Gemmill, Staff Adviser, Division of International
Finance, Board of Governors
Mrs. Loney, Economist, Office of the Staff Director for
Monetary and Financial Policy, Board of Governors
Messrs. Simpson and Slifman, Deputy Associate Directors,
Division of Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Messrs. Broaddus, Rolnick, Rosenblum, and Ms. Tschinkel,
Senior Vice Presidents, Federal Reserve Banks of
Richmond, Minneapolis, Dallas, and Atlanta,
respectively

Mr. Beebe and Ms. Clarkin, Vice Presidents, Federal Reserve
Banks of San Francisco and New York, respectively

Ms. Gonczy, Assistant Vice President, Federal Reserve Bank
of Chicago

Mr. Meyer, Research Officer, Federal Reserve Bank of
Philadelphia

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on September 23, 1986, were approved.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period September 23, 1986,
through November 4, 1986, were ratified.

By unanimous vote, the Committee authorized the renewal for further
periods of one year of the System's reciprocal currency ("swap") arrangements
having the amounts and maturity dates indicated below:

11/5/86

-3-

<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/ 3/86
National Bank of Belgium	1,000.0	"	12/17/86
Bank of Canada	2,000.0	"	12/26/86
National Bank of Denmark	250.0	"	12/29/86
Bank of England	3,000.0	"	12/ 3/86
Bank of France	2,000.0	"	12/26/86
German Federal Bank	6,000.0	"	12/26/86
Bank of Italy	3,000.0	"	12/26/86
Bank of Japan	5,000.0	"	12/ 3/86
Bank of Mexico	700.0	"	12/ 3/86
Netherlands Bank	500.0	"	12/26/86
Bank of Norway	250.0	"	12/ 3/86
Bank of Sweden	300.0	"	12/ 3/86
Swiss National Bank	4,000.0	"	12/ 3/86
Bank for International Settlements--			
Swiss francs	600.0	"	12/ 3/86
Other authorized European currencies	1,250.0	"	12/ 3/86

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 indicates that economic activity grew at a moderate pace in the third quarter. In September total nonfarm payroll employment grew somewhat further, although employment in manufacturing fell after changing little in August. The civilian unemployment rate moved back up to 7.0 percent in September, close to its average level earlier in the year. Industrial production rose slightly further in September and posted a moderate gain over the third quarter. Consumer spending has remained strong in recent months, with gains in retail sales in August and especially in September paced by a sharp rise in auto sales. Housing starts fell in September, but residential investment increased further in the third quarter as a whole. Business capital spending appears to have remained sluggish; equipment spending picked up in the third quarter and new orders were strong in

September, but outlays for nonresidential construction continued to decline. Real net exports of goods and services dropped further in the third quarter, reflecting in large part a surge in the volume of oil imports. Increases in labor compensation have slowed over the course of the year, while broad measures of prices have firmed somewhat recently due to developments in food and energy markets.

Growth of M2 moderated further in September, but appears to have picked up in October, while growth of M3 has tended to slow. Expansion of these two aggregates for the year through September has been at the upper end of their respective ranges established by the Committee for 1986. Growth of M1 slowed in the September-October period from the very rapid pace experienced since early spring. Expansion in total domestic nonfinancial debt remains appreciably above the Committee's monitoring range for 1986. Most interest rates have declined somewhat since the September 23 meeting of the Committee. Although the trade-weighted value of the dollar against major foreign currencies continued to decline for several weeks after the September meeting, it subsequently recovered and has risen somewhat on balance.

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, 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 established in February for growth of 6 to 9 percent for both M2 and M3, measured from the fourth quarter of 1985 to the fourth quarter of 1986. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate is subject to substantial uncertainties in relation to economic activity and prices, depending among other things on the responsiveness of M1 growth to changes in interest rates. In light of these uncertainties and of the substantial decline in velocity in the first half of the year, the Committee decided that growth of M1 in excess of the previously established 3 to 8 percent range for 1986 would be acceptable. Acceptable growth of M1 over the remainder of the year will depend on the behavior of velocity, growth in the other monetary aggregates, developments in the economy and financial markets, and price pressures. Given its rapid growth in the early part of the year, the Committee

11/5/86

-5-

recognized that the increase in total domestic non-financial debt in 1986 may exceed its monitoring range of 8 to 11 percent, but felt an increase in that range would provide an inappropriate benchmark for evaluating longer-term trends in that aggregate.

For 1987 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1986 to the fourth quarter of 1987, of 5-1/2 to 8-1/2 percent for M2 and M3. While a range of 3 to 8 percent for M1 in 1987 would appear appropriate in the light of most historical experience, the Committee recognized that the exceptional uncertainties surrounding the behavior of M1 velocity over the more recent period would require careful appraisal of the target range at the beginning of 1987. The associated range for growth in total domestic nonfinancial debt was provisionally set at 8 to 11 percent for 1987.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from September to December at annual rates of 7 to 9 percent. While growth in M1 over the same period is expected to moderate from its exceptional pace during the previous several months, growth in this aggregate will continue to be judged in the light of the behavior of M2 and M3 and other factors. Slightly greater reserve restraint or slightly lesser reserve restraint might be acceptable depending on the behavior of the aggregates, taking into account the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 4 to 8 percent.

It was agreed that the next meeting of the Committee would be held on December 15-16, 1986.

The meeting adjourned.

Assistant Secretary