

# FEDERAL RESERVE press release



For Use at 4:30 p.m.

August 26, 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 July 12-13, 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 July 12-13, 1983

Domestic policy directive

The information reviewed at this meeting suggested that the economic recovery was proceeding at a strengthened pace. The latest data suggested that growth in real GNP may have been even more rapid in the second quarter than the 6-1/2 percent preliminary estimate of the Commerce Department, and it appeared that relatively strong growth would be sustained into the current quarter. Expenditures for consumer goods were especially large, and a swing in business inventories from liquidation to accumulation seemed to be developing more rapidly than anticipated earlier.

The dollar value of retail sales advanced appreciably in May, marking the third consecutive monthly increase. Outlays at general merchandise outlets and at furniture and appliance stores were brisk, but sizable expenditures on autos and automotive products continued to be an important factor in the strength of retail sales. Sales of new domestic automobiles rose to a rate of 7.2 million units in June, the strongest monthly selling pace in nearly two years. Survey reports of marked improvement in consumer confidence accompanied the vigorous recent gains in consumer spending.

Total private housing starts increased considerably in May to an annual rate of nearly 1.8 million units, following small declines during the two preceding months. Starts in May were about 40 percent above their average level in the fourth quarter of 1982. Other indicators of housing activity also exhibited strength: newly issued permits for residential buildings

rose further in May as did combined sales of new and existing homes. Both measures were more than 30 percent above the average levels in the fourth quarter of last year.

With inventories depleted and sales strong, businesses have been meeting demands out of current production and appear to have started rebuilding stocks in some lines. The index of industrial production rose 1.1 percent in May to a level 7 percent above its trough six months earlier, and available data, including the statistics on employment and hours worked in manufacturing, suggested another sizable gain in output in June. As in other recent months, gains in output and employment occurred across a broad range of industries. Nonfarm payroll employment rose nearly 350,000 in June, after an increase of about 300,000 in May. The civilian unemployment rate declined to 10.0 percent in June, down 0.8 percentage point from its peak in December.

Data on new orders and shipments continued to indicate improvement in the demand for business equipment. Production of business equipment, which had contracted sharply in 1982 and had continued to decline during the first quarter of this year, rose substantially in May for the second month in a row.

The producer price index for finished goods (PPI) and the consumer price index (CPI) increased 0.3 percent and 0.5 percent respectively in May, largely reflecting a sharp rise in energy prices at both the producer and the consumer levels. Exclusion of the volatile energy components would have resulted in no change in the PPI and nearly a halving of the increase in the CPI. During the first five months of 1983, the PPI declined at an annual rate

of about 2-1/4 percent and the CPI increased at an annual rate of 3 percent. Over the same period, the index of average hourly earnings for private nonfarm production workers rose at an annual rate of 4-1/2 percent, compared with an increase of 6 percent for the year 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose more than 2-1/2 percent in late May and early June to a record level; subsequently it had fluctuated in a narrow range. Reflecting the strength of the economy and the persistently high level of the dollar, the U.S. foreign trade deficit increased sharply in the April-May period from its reduced first-quarter rate; exports declined and both oil and non-oil imports rose.

At its meeting on May 24, 1983, the Committee had decided that open market operations in the period until this meeting should be directed at increasing only slightly the degree of restraint on reserve positions. That action had been taken against the background of growth in M2 and M3 remaining within their long-term ranges and slightly below the annual rates of 9 and 8 percent, respectively, established earlier for the quarter, M1 growing substantially above anticipated levels for some time, and evidence of an acceleration in the rate of business recovery. The Committee had agreed that lesser restraint on reserve positions would be appropriate in the context of more pronounced slowing of growth in the broader monetary aggregates relative to the paths implied by the long-term ranges and deceleration of M1, or of indications of a weakening in the pace of economic recovery. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

Growth in M2 and M3 accelerated in May and continued relatively strong in June, with both aggregates expanding at an estimated annual rate of about 10

percent. For the March-to-June period both M2 and M3 grew at an annual rate of about 8-1/2 percent, a bit below the quarterly objective established for M2 and a bit above that for M3. Relative to the longer-run ranges, M2 by June was somewhat above the midpoint of its range and M3 was around the upper limit of its range for the year.

M1, which had surged to an annual rate of growth of about 26 percent in May, expanded at a rate of around 10-1/2 percent in June. From the fourth quarter of 1982 to June, M1 grew at an annual rate of about 13-3/4 percent, considerably above the Committee's tentative range of 4 to 8 percent for the year.

Though the pace of expansion in debt of domestic nonfinancial sectors over the first half of the year was estimated to have remained within the Committee's annual range of 8-1/2 to 11-1/2 percent, growth in debt appeared to have been more rapid in the second than in the first quarter. This development reflected an acceleration in borrowing by the U.S. Treasury as well as a pick-up in private credit demand. Total credit outstanding at U.S. commercial banks expanded at an annual rate of nearly 10 percent in June and in the second quarter as a whole. Sizable acquisitions of Treasury securities continued to make the major contribution to the expansion in bank credit in June, but real estate lending strengthened further and business loans registered their first significant increase since January.

Strong demands for money were associated with relatively rapid expansion in total reserves in June, but growth in nonborrowed reserves (plus extended credit at the discount window) was considerably slower than the increase in total reserves. With open market operations holding back on the supply of reserves, depository institutions increased their short-term

borrowing at the discount window and sought reserves more actively in the federal funds market. Adjustment borrowing from the Federal Reserve discount window (including seasonal borrowing) rose to about \$680 million in June and rose further in the first part of July; borrowing temporarily bulged to over \$1 billion in the reserve statement week that encompassed the midyear bank statement date and the July 4 holiday period. The federal funds rate traded in a range of 8-3/4 to 9 percent for most of the period, but most recently the rate had moved up into the 9 to 9-1/8 percent range; somewhat higher rates were temporarily associated with the management of reserve positions over the midyear statement date and the holiday period.

Other short-term market rates rose about 3/4 to 1 percentage point during the intermeeting period, reflecting in part responses to the modest tightening of reserve market conditions that was under way and apparently also some anticipatory reaction to the strength of incoming data on the monetary aggregates and economic activity. Most long-term interest rates on taxable securities increased about 3/4 percentage point over the period, while yields on tax-exempt issues were little changed on balance. Average rates on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations also rose about 3/4 percentage point.

Given the momentum in economic activity that appeared to be in train, the staff projections presented at this meeting indicated that growth in real GNP in the second half of the year would be somewhat higher than had been anticipated earlier. Final purchases in private domestic sectors, buoyed by expenditures for consumer goods, were expected to be maintained at a relatively strong pace in the latter half of the year and businesses were expected to

be adding appreciably to inventories. A gradual decline in the unemployment rate was anticipated over the balance of the year, and a further decline was expected in 1984 in association with continued, though more moderate, economic recovery. Upward price pressures were expected to be relatively modest over the projection horizon, assuming that inflationary expectations remained damped, with related restraint on wage and price policies of labor and business.

In their review of the economic situation and outlook, the members focused on evidence of the economy's strong forward momentum and the prospects for continuing sizable gains in real GNP during the months immediately ahead. Consumer spending, which along with housing has played a major role in fostering the recovery, was likely to be sustained by the further reduction in personal income taxes at midyear. Most of the members agreed, however, that economic activity would probably expand at a more moderate pace later in the year and in 1984. Spending for business inventories was expected to become a less expansive factor as the recovery proceeded, and the outlook for exports remained relatively weak. The members also referred to a number of potential threats to the recovery, including financial strains related to the debt problems of numerous developing countries and the adverse impact of continuing large federal deficits in the absence of measures to reduce them.

While the expansive fiscal policy added to purchasing power and supported consumption, members were concerned that the need to finance large Treasury borrowing in a period when private credit demands were accelerating would put increasing upward pressure on interest rates and curtail the availability of financing to private borrowers. Sectors heavily dependent on credit, such as housing and business investment, would be particularly affected, as would small

businesses. The view was expressed that the restraining impact on private credit demands and economic activity of even current relatively high interest rates -- which seemed especially high in real terms -- could well be underestimated, and a view was expressed that a decline in interest rates from present levels would probably be needed to prolong the recovery during 1984.

Members generally continued to regard the near-term outlook for prices as favorable, and it was observed that wage increases remained quite moderate. However, several members saw acceleration in the rate of increase in prices as a likely prospect for 1984. Reference was made to a number of developments that were potentially unfavorable, including possible increases in prices of key farm products as a consequence of governmental policies to reduce farm supplies, and pressures stemming from rising prices of imports if the foreign exchange value of the dollar were to weaken, as many observers anticipated. It was also pointed out that actual price increases would be sensitive to expectations as conditioned by fiscal and monetary policy developments.

The individual members of the Committee had prepared specific projections of economic activity and prices for this meeting. With regard to growth in real GNP, the projections had as their central tendency a range of 5 to 5-3/4 percent for 1983 and 4 to 4-1/2 percent for 1984, measured from fourth quarter to fourth quarter. Most of the members projected a rise in the implicit GNP deflator in a range of 4-1/4 to 4-3/4 percent during 1983 and 4-1/4 to 5 percent during 1984. The rate of unemployment was expected to decline gradually over the projection period, with most members anticipating an average rate of about 9-1/2 percent in the fourth quarter of 1983 and 8-1/4 to 8-3/4 percent in the fourth quarter of 1984.



At its meeting on May 24, the Committee had reviewed the growth ranges for the monetary and credit aggregates that it had established in February for the year 1983 and had decided not to change those ranges but to review them further at this meeting. For the broader monetary aggregates, on which the Committee had agreed to place principal weight, the ranges included annual growth rates of 7 to 10 percent for M2, measured from February-March 1983 to the fourth quarter of 1983, and 6-1/2 to 9-1/2 percent for M3, measured from the fourth quarter of 1982 to the fourth quarter of 1983. The range for monitoring M1 was set at 4 to 8 percent and an associated range for total domestic nonfinancial debt was estimated at 8-1/2 to 11-1/2 percent, both for the period from the fourth quarter of 1982 to the fourth quarter of 1983.

At this meeting the Committee reviewed its target ranges for 1983 and established tentative ranges for 1984 in light of the basic objectives of encouraging sustained economic recovery while fostering continued progress toward price stability and promoting a sustainable pattern of international transactions. In setting these ranges, the Committee recognized that the relationships among the money and credit aggregates and nominal GNP in the period ahead were subject to considerable uncertainty. It was therefore understood that the significance to be attached to movements in the various aggregates in the implementation of policy would depend on continuing appraisal of evidence about the strength of the economic recovery, the performance of prices, and emerging conditions in domestic and international financial markets.

In the Committee's discussion, all of the members supported a proposal to retain the 1983 ranges for growth in M2 and M3 established in February. Recent experience suggested that actual growth of M2 and especially of M3 might

be in the upper half of their respective ranges for the year rather than near the midpoints as anticipated earlier. The members noted that the massive shifts of funds into M2 stemming from the introduction of money market deposit accounts and the much more limited shifts relating to the new Super NOW accounts had abated about as anticipated; and they assumed that these accounts, along with the further deregulation of interest rates on time deposits scheduled for October 1, would have relatively little impact on growth of the broader aggregates over the balance of 1983 and in 1984.

The members differed only marginally with regard to the appropriate ranges that should be established for growth in M2 and M3 in 1984. Most favored a reduction of 1/2 percentage point from the 1983 ranges, but in the course of the discussion two members expressed a preference for retaining the 1983 ranges. One member believed that the prospective relationship between M2 and nominal GNP was subject to a very high degree of uncertainty and that therefore no specific target should be set for that aggregate at this time.

In the view of most members, the establishment of lower ranges for 1984 would be consistent with the Committee's objective of providing adequate monetary growth to support continued economic recovery while encouraging progress toward reasonable price stability. It was recognized, however, that attainment of these broad economic objectives would be greatly facilitated by complementary governmental policies, notably further actions to reduce future federal deficits. Members who preferred to retain the current M2 and M3 ranges for 1984 were concerned that lower ranges might prove to be more restrictive than was desirable and, given the uncertainties that were involved, they preferred not to reduce the ranges unless there were substantial evidence that inflationary pressures

were reviving. In the view of most members, however, modest and timely action to curb monetary growth would enhance, rather than reduce, prospects for sustaining the economic recovery and for lower interest rates over time in the context of diminishing inflationary pressures.

A majority of the members also supported a proposal to retain for 1983 the associated range for total domestic nonfinancial debt that had been set earlier but to reduce that range by 1/2 percentage point for 1984. Some sentiment was expressed in favor of a reduction of 1 percentage point for 1984 on the ground that the range contemplated by the majority was a little high in relation to the central tendency of the members' projections of nominal GNP; in the past, growth in this aggregate had tended to approximate growth in nominal GNP. However, a majority of the members concluded that allowance should be made for expansion in total debt in 1984 in excess of nominal GNP growth. Such a development would be consistent with this year's experience and might be connected with the relatively rapid expansion in federal debt.

The members discussed at considerable length what longer-run ranges to establish for M1 and what weight the Committee should attach to that aggregate in the implementation of monetary policy. The income velocity of M1--the ratio of nominal GNP to M1--had deviated substantially from normal cyclical patterns since the beginning of 1982. It had declined more sharply and longer than usual during the recent recession and had failed to rebound as quickly as in the past with the onset of recovery. A number of factors apparently contributed to this unusual behavior, including for a time precautionary demands for highly liquid balances by the public in the face of various economic and financial uncertainties. Over the last several months, the behavior of M1 velocity seemed

to reflect the greater sensitivity of this aggregate to declines in market interest rates probably resulting from the much increased share of interest-bearing NOW accounts in the total. NOW accounts, which may serve as a savings vehicle as well as fulfilling transactions needs, have been the most rapidly growing component of M1 since they were introduced on a nationwide basis at the beginning of 1981. Regular NOW accounts bear a ceiling rate of 5-1/4 percent. The sharp drop in market rates during the second half of 1982 made the opportunity cost of holding NOW accounts relatively small and, with a lag, increased the demand for them. It was noted, though, that the recent expansion in M1, with currency and demand deposits showing strength as well, probably also reflected growing transaction needs relating to the recovery in economic activity.

Against this background, a key uncertainty confronting the Committee was whether M1 velocity in the future would exhibit characteristics more in line with earlier postwar experience. Recent evidence seemed to suggest that the decline in M1 velocity was ending, as might be expected as the lagged upward effect on demand from earlier declines in interest rates wore off and as business and consumer attitudes became more optimistic.

While acknowledging the major uncertainties that existed, a majority of the members nonetheless believed that a monitoring range should be retained for M1. In this view M1 would continue to be given reduced weight in the formulation of monetary policy and primary emphasis would continue to be placed on the broader aggregates. A few members, however, preferred to suspend the targeting of M1 at this time because they viewed its prospective behavior as too uncertain to permit the establishment of a meaningful range. A subsidiary

reason cited in support of this view was the difficulty of communicating a proper assessment of the reduced role of M1 to outside observers so long as the Committee continued to set a specific range. One result was a tendency for participants in financial markets to attach undue importance to weekly fluctuations in M1 data, with the consequence that on occasion published figures had a needlessly unsettling impact on financial markets.

In reviewing the M1 range for 1983, members discussed whether that range should continue to be based on the fourth quarter of 1982 or rebased on the second quarter of 1983 in view of the probability of a prospective change in the behavior of velocity. If the fourth quarter of 1982 were continued as a base, M1 growth would need to be sharply curtailed to the point of little or no growth for the rest of the year; alternatively, the M1 range for the year would need to be raised substantially from the current 4 to 8 percent, given the rapid expansion during the first half of the year, to allow for any significant further growth in the second half. If instead M1 were rebased on the second quarter, or perhaps on June, some members were concerned that this could be misconstrued as an indication that the Committee was now weighing M1 more heavily in the formulation of monetary policy. However, most members favored rebasing the M1 range for 1983 on the second quarter to help make it clear that the rapid growth in M1 over the past several quarters was related to special circumstances and that the Committee expected and wished to see slower growth in the future. Such an approach, it was stressed, did not in itself imply placing more weight on M1 relative to the other aggregates in policy implementation.

The members who preferred to continue setting a longer-run range for M1 generally also agreed that it should encompass growth rates close to, or below,

the Committee members' outlook for expansion in nominal GNP. At one extreme the M1 range could allow for very little change, or perhaps only a minor increase, in M1 velocity to accommodate the possibility that the demand for M1 would remain stronger than it had been in the earlier postwar period, given income and interest rates. At the other extreme such a range could allow for a fairly sizable increase in M1 velocity; however, given the ongoing changes in the composition of M1, it was recognized that the increase could be somewhat less than experienced in previous cyclical expansions.

Discussion of specific ranges for M1 centered on 5 to 9 percent or 4 to 8 percent for the second half of 1983 and the year 1984, although one member preferred a lower range for 1984. Most of the members indicated that they could accept a proposal to establish a range for growth in M1 of 5 to 9 percent for the period from the second quarter of 1983 to the fourth quarter of 1983 and a tentative range of 4 to 8 percent for the period from the fourth quarter of 1983 to the fourth quarter of 1984. It was understood that growth within the lower portions of those ranges would be appropriate if the velocity of M1 tended toward a relatively normal cyclical increase as the recovery proceeded; growth in the upper portions of the ranges would be acceptable if the upturn in M1 velocity remained relatively weak. If there should occur an unexpectedly rapid increase or a decline in M1 velocity, the Committee would reassess the ranges; it would in any event review the tentative range for 1984 early in the year in the light of economic and financial conditions prevailing then.

In implementing policy, the Committee agreed that primary emphasis would continue to be placed on the broader aggregates. The behavior of M1

would be monitored, with any increase in the weight placed on that aggregate dependent on evidence that its velocity behavior was assuming a more predictable pattern. Expansion in total nonfinancial domestic debt would also be monitored in assessing the behavior of the monetary aggregates and the general stance of monetary policy.

At the conclusion of its discussion the Committee voted for the following longer-run policy:

The Committee reaffirmed the longer-run ranges established earlier for growth in M2 and M3 for 1983. 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 in 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. 1/

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich.  
Vote against this action: Mr. Morris.

Mr. Morris dissented from this action because he did not believe that target ranges should be set for M1 and M2. Because of financial innovations, these aggregates in his view are no longer predictably related to nominal GNP -- an essential characteristic of an intermediate target for monetary policy. Thus, the Committee should turn to broader financial aggregates, specifically M3, total liquid assets, and total domestic nonfinancial debt as targets for monetary policy.

1/ The Board's Midyear Monetary Policy Report pursuant to the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act) was transmitted to the Congress on July 20, 1983.

In the Committee's discussion of a policy course for the short run, most of the members indicated that they could support a slight further increase in the degree of reserve restraint. In the context of an economy that was much stronger than expected, these members believed that such a policy would provide some insurance against the possible need for a considerably greater degree of restraint later to maintain control on inflation and growth in money and credit. For the third quarter, the members expected this policy to be associated with considerable moderation in the growth of the monetary aggregates, especially M1, although they recognized the substantial uncertainties that governed the short-run performance of the monetary aggregates, again especially that of M1.

One member expressed a preference for somewhat more tightening of reserve conditions over the weeks ahead, while another favored no change from the existing degree of restraint. In the view of several members, a slight further tightening by the Committee need not itself be reflected in sizable further changes in interest rates generally, given the increases that had already occurred. It was recognized, however, that actual movements in market rates would depend importantly on economic and financial developments in the weeks ahead, including the performance of the monetary aggregates, the outlook for the budget, and emerging private credit demands against the background of a rapidly expanding economy. It was also suggested that such an approach to short-run policy would improve prospects for the development of conditions that would permit some easing in the degree of reserve restraint later.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored a slight increase in the degree of reserve



restraint for the near term. It was anticipated that such a policy course would be associated with growth of M2 and M3 at annual rates of about 8-1/2 and 8 percent respectively for the period from June to September. Primary weight would be placed on the performance of these broader monetary aggregates in evaluating the conduct of open market operations. The members agreed that lesser restraint on reserve conditions would be acceptable in the event of a significant shortfall in the growth of the aggregates over the period ahead, while somewhat greater restraint would be acceptable in the context of more rapid growth in the aggregates. It was understood that the need for greater or lesser reserve restraint would also be evaluated on the basis of available evidence about trends in economic activity and prices and conditions in domestic and international financial markets, including foreign exchange markets. The Committee anticipated that its third-quarter objectives for the broader aggregates would be consistent with a deceleration in M1 growth to an annual rate of around 7 percent from June to September, 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 its discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The rapid growth in real GNP in the second quarter and other information reviewed at this meeting suggest that the economic recovery is proceeding at a strengthened pace. Expenditures on consumption and housing expanded substantially in the second quarter and businesses apparently began to add to inventories after a period of sharp liquidation. Nonfarm payroll employment rose considerably in May and June and the civilian unemployment rate declined to 10.0 percent in June. Industrial

production continued to rise markedly in May and partial data suggest a sizable gain in June. Data on new orders and shipments continued to indicate improvement in the demand for business equipment. In May housing starts increased substantially following small declines earlier and retail sales rose appreciably further. Average prices and the index of average hourly earnings have risen at a reduced pace in the first five months of 1983.

The weighted average value of the dollar against major foreign currencies rose substantially in late May and the first half of June and subsequently has fluctuated in a narrow range. Reflecting the strength of the U.S. economy and the persistent high level of the dollar, the U.S. foreign trade deficit increased sharply in April-May from its reduced first-quarter rate; exports declined and both oil and nonoil imports rose.

Strong growth in the broader aggregates in May and June raised M2 to a level somewhat above the midpoint of the Committee's range for 1983 and M3 to around the upper limit of its range. M1 grew very rapidly over both months and was well above its range for the year. Growth in debt of domestic nonfinancial sectors appears to have picked up in the second quarter. Interest rates have risen appreciably since early May.

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 February the Committee established growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives. The Committee recognized that the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the impact of new deposit accounts on growth ranges of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity.

In establishing growth ranges last February for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts had subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. With these understandings, the Committee established the following growth ranges: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; 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, which appeared to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent was established for M1 assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances was not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8-1/2 to 11-1/2 percent. These ranges were reviewed at the May meeting and left unchanged, pending further review in July.

At this meeting, the Committee reaffirmed the longer-run ranges established earlier for growth in M2 and M3 for 1983. 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 in 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 increase slightly further the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of about 8-1/2 and 8 percent respectively from June to September, consistent with the targets established for these aggregates for the year. Depending on evidence about the strength of economic recovery and other factors bearing on the business and inflation outlook, lesser restraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be acceptable should the aggregates expand more rapidly. The Committee anticipates that a deceleration in M1 growth to an annual rate of around 7 percent from June to September will be consistent with its third-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, and Roberts. Votes against this action: Mrs. Teeters and Mr. Wallich.

Mrs. Teeters dissented from this action because she preferred to direct open market operations toward maintaining the existing degree of reserve restraint. In her view the additional upward pressure on interest rates from further restraint on reserve positions was unnecessary and would retard activity in interest-sensitive sectors of the economy and threaten the sustainability of the recovery.

Mr. Wallich dissented from this action because he favored a directive calling for somewhat greater reserve restraint. In his judgment, such a policy course would contribute to better control of the monetary aggregates and, given

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the strong momentum of the economy, would be more likely to prove consistent with the Committee's longer-run objectives of fostering sustained economic recovery while curbing inflation.