Meeting of the Federal Open Market Committee

October 2, 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 Tuesday, October 2, 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. Black, Forrestal, and Keehn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roberts, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director and Secretary

Mr. Bernard, Assistant Secretary

Mrs. Steele, Deputy Assistant Secretary

Mr. Bradfield, General Counsel

Mr. Kichline, Economist

Mr. Truman, Economist (International)

Messrs. Burns, J. Davis, R. Davis, Kohn, Lang, Lindsey, 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

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

Mr. Griffith, First Vice President, Federal Reserve Bank of San Francisco

Messrs. T. Davis, Keran, Scheld, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of Kansas City, San Francisco, Chicago, and Atlanta, respectively

Messrs. Broaddus, Burger, Ms. Clarkin, and Mr. Fieleke, Vice Presidents, Federal Reserve Banks of Richmond, St. Louis, New York, and Boston, respectively

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on August 21, 1984, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period August 21 through October 1, 1984, were ratified.

By unanimous vote, System open market transactions in Government securities and agency obligations during the period August 21 through October 1, 1984, were ratified.

With Messrs. Martin and Rice and Ms. Seger 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 suggests that the expansion in economic activity slowed appreciably in the third quarter from a strong pace earlier in the year. In August, industrial production rose only slightly and gains in nonfarm payroll employment

moderated further; retail sales and housing starts declined for the second month in a row. The civilian unemployment rate was unchanged in August at 7.5 percent. Information on outlays and spending plans suggests slower expansion in business fixed investment, following exceptionally rapid growth in recent quarters. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.

In August the monetary aggregates expanded at relatively slow rates, but data available for September suggested some strengthening. From the fourth quarter of 1983 through September, M1 apparently grew at a rate close to the midpoint of the Committee's range for 1984, M2 at a rate somewhat below the midpoint of its longer-run range, and M3 at a rate near the upper limit of its range. Growth in total domestic nonfinancial debt appears to be continuing at a pace above the Committee's monitoring range for the year, reflecting large government borrowing along with relatively strong private credit growth. Interest rates generally have fallen somewhat further since the August meeting of the Committee.

Over the past month, the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has fluctuated widely under often volatile market conditions, reaching a new high in the latter part of September; since then the dollar has declined somewhat. The merchandise trade deficit rose sharply to a record high rate in the July-August period.

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 evaluation of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the short run, the Committee seeks to maintain the lesser degree of restraint on reserve positions sought in recent weeks. This action is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 6, 7-1/2, and 9 percent, respectively, during the period from September to December. A somewhat further lessening of restraint on reserve positions would be acceptable in the event of significantly slower growth in the monetary aggregates, evaluated in relation to the strength of business expansion and inflationary pressures, domestic and international financial market conditions, and the rate of credit growth. Conversely, greater restraint 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 8 to 12 percent.

It was agreed that the next meeting of the Committee would be held on Wednesday, November 7, 1984.

The meeting adjourned.

Secretary