

Meeting of the Federal Open Market Committee

February 1-2, 1982

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., starting on Monday, February 1, 1982, at 2:30 p.m. and continuing on Tuesday, February 2, 1982, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Solomon, Vice Chairman  
Mr. Boehne  
Mr. Boykin  
Mr. Corrigan  
Mr. Gramley  
Mr. Keehn  
Mr. Partee  
Mr. Rice  
Mr. Schultz  
Mrs. Teeters  
Mr. Wallich

Messrs. Balles, Black, Ford, Timlen, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, 1/ and Roos, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director  
Mr. Altmann, Secretary  
Mr. Bernard, Assistant Secretary  
Mrs. Steele, Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Mannion, Assistant General Counsel  
Mr. Kichline, Economist

Messrs. Burns, Ettin, 2/ Mullineaux, Prell, Scheld, Truman, and Zeisel, Associate Economists

1/ Entered the meeting prior to the action to ratify System Open Market transactions in Government securities, agency obligations and bankers acceptances.

2/ Attended Tuesday session only.

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

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

Mr. McIntosh, 1/ First Vice President, Federal Reserve  
Bank of Boston

Mr. Coyne, Assistant to the Board of Governors

Mr. Siegman, Associate Director, Division of  
International Finance, Board of Governors

Mr. Promisel, 3/ Senior Deputy Associate Director, Division  
of International Finance, Board of Governors

Mr. Kohn, Deputy Associate Director, Division of Research  
and Statistics, Board of Governors

Messrs. Lindsey and Slifman, 3/ Assistant Directors, Division  
of Research and Statistics, Board of Governors

Mr. Johnson, 3/ Economist, Division of Research and  
Statistics, Board of Governors

Mrs. Deck, Staff Assistant, Open Market Secretariat,  
Board of Governors

Messrs. J. Davis, T. Davis, Fousek, Keran, 1/ Koch,  
and Stern, Senior Vice Presidents, Federal Reserve  
Banks of Cleveland, Kansas City, New York, San  
Francisco, Atlanta, and Minneapolis, respectively

Messrs. Broaddus, Soss, and Syron, Vice Presidents, Federal  
Reserve Banks of Richmond, New York, and Boston,  
respectively

Mr. Meek, Monetary Adviser, 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 December 21-22, 1981, were approved.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
December 22, 1981, through February 1, 1982, were ratified.

1/ Entered the meeting prior to the action to ratify System Open Market trans-  
actions in Government securities, agency obligations and bankers acceptances.

3/ Left the meeting prior to the action to adopt the domestic policy directive  
and returned prior to the action to establish longer-run ranges.

With Mrs. Teeters dissenting, the Committee adopted the following ranges for rates of growth in the monetary aggregates for the period from the fourth quarter of 1981 to the fourth quarter of 1982: M1, 2-1/2 to 5-1/2 percent; M2, 6 to 9 percent; and M3, 6-1/2 to 9-1/2 percent. The associated range for bank credit was 6 to 9 percent.

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 real GNP declined appreciably in the fourth quarter of 1981 and that prices on the average rose much less rapidly than over the first three quarters of the year. In December industrial production and nonfarm payroll employment declined sharply for the third consecutive month, and the unemployment rate rose an additional 0.5 percentage point to 8.9 percent. The nominal value of retail sales increased somewhat further, but the level was still below the average for the third quarter. Although housing starts expanded, they remained at a depressed level. The rise in the index of average hourly earnings was considerably less rapid over the fourth quarter of 1981 than on the average earlier in the year.

The weighted average value of the dollar against major foreign currencies rose substantially during January; foreign monetary authorities intervened considerably to resist the depreciation of their currencies. In the fourth quarter the U.S. foreign trade deficit increased from the rate in the previous two quarters.

M1 grew rapidly in December and January, reflecting in part rapid expansion in checkable deposits other than demand accounts. Growth of M2 also was substantial, owing to strength in the more liquid of the nontransaction components as well as in M1. Short-term market interest rates and bond yields on balance have risen further in recent weeks, and mortgage interest rates have also increased.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. The Committee agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2-1/2 to 5-1/2 percent, 6 to 9 percent, and 6-1/2 to 9-1/2 percent respectively. The associated range for bank credit was 6 to 9 percent.

The Committee seeks behavior of reserve aggregates over the balance of the quarter consistent with bringing M1 and M2 over time into their longer-run target ranges for the year. Taking account of the recent surge in growth of M1, the Committee seeks no further growth in M1 for the January-to-March period and growth in M2 at an annual rate of around 8 percent. Some decline in M1 would be associated with more rapid attainment of the longer-run range and would be acceptable in the context of reduced pressure in the money market. 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 12 to 16 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, March 30, 1982, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary