FEDERAL RESERVE press release

For Use at 4:30 p.m. May 27, 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 March 28-29, 1983. This record also includes policy actions taken during the period between the meeting on March 28-29, 1983, and the next regularly scheduled meeting held on May 24, 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 March 28-29, 1983

1. Domestic policy directive

Based on partial information available for the first quarter, it appeared that real GNP rose moderately in the first three months of the year, following a decline at an annual rate of about 1 percent in the fourth quarter of 1982. The turnaround in economic activity reflected a considerable slowing in the pace of inventory liquidation. Meanwhile, private final sales in real terms, which had risen in the fourth quarter, continued to increase. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, slowed further.

Final sales were sustained by a marked strengthening in housing activity in early 1983. Private housing starts rose to an average annual rate of 1.7 million units in January and February, up nearly 40 percent from the pace in the fourth quarter. Newly issued permits for residential construction also rose substantially over the two-month period. Sales of new homes increased in January, the latest month for which data were available; although sales of existing homes dipped in February, they were appreciably higher in the first two months combined than in the fourth quarter.

Other elements of final sales were not quite so strong on balance as in the fourth quarter of last year. Personal consumption expenditures continued to expand in early 1983, but at a slower rate than in the previous quarter. The nominal value of retail sales fell in January and February, primarily reflecting declines in sales at automotive outlets, gasoline stations, and furniture and appliance stores, although sales at general merchandise and apparel stores rose appreciably from their level in the fourth quarter. Sales of new domestic automobiles continued at an annual rate of about 6.1 million units, the same as in the fourth quarter.

Spending for business fixed investment has remained weak in recent months. Shipments of nondefense capital goods fell sharply in January and edged down further in February, and new orders dropped appreciably in February after firming for several months. Outlays for nonresidential construction increased in January, but high vacancy rates for office buildings and the reduced drilling activity associated with declining oil prices apparently have damped such expenditures recently. The Department of Commerce survey taken in late January and February indicated that in 1983 business outlays for plant and equipment would decline about 1-3/4 percent in nominal terms, about the same as in 1982.

Nonfarm payroll employment rose about 150,000 on balance over January and February, after an extended period of declines. The month-to-month employment figures, which showed a substantial rise in January and a decline in February, were distorted by unusual weather patterns. But employment in manufacturing--particularly in the auto and related metals industries--increased in both months. The civilian unemployment rate was unchanged in February at 10.4 percent. Industrial production has risen at an annual rate of about 7-1/4 percent since its trough in November, less than the average pace in the early stages of previous cyclical recoveries.

The producer price index for finished goods fell nearly 1 percent over the first two months of the year, reflecting sharp declines in prices of energy-related items. The consumer price index was virtually unchanged over the period, as a substantial drop in prices of gasoline and other petroleum products was about offset by moderate increases in prices of most other commodities and services. Food prices have changed little thus far in 1983 and in February were only 2 percent above their level a year earlier.

The advance in the index of average hourly earnings has slowed further in recent months. With productivity apparently continuing to improve in early 1983, cost pressures in the nonfarm business sector have abated further.

In foreign exchange markets the trade-weighted value of the dollar had risen about 2 percent on balance since the Committee's meeting in February. The U.S. merchandise trade deficit declined marginally in January. Exports rose somewhat and total imports continued at about the fourth-quarter rate, as oil imports dropped sharply while non-oil imports strengthened.

At its meeting on February 8-9, 1983, the Committee established the following ranges for growth of the monetary aggregates: 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 shifts associated with new deposit 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 that the authority to pay interest on transaction accounts would not be extended beyond currently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8-1/2 to 11-1/2 percent.

At the February meeting, the Committee agreed that the near-term outlook for growth in the monetary aggregates remained subject to unusual uncertainties and that an appropriate assessment of such growth would need to take account of the distortions that might continue to be created by the introduction of new deposit accounts. Consequently, the Committee decided that open market operations in the period until this meeting should be directed toward maintaining the existing degree of restraint on reserve positions. It was agreed that lesser restraint would be acceptable in the context of appreciable slowing of growth in the monetary aggregates, to or below the paths implied by the long-term ranges.

M2 grew at an estimated annual rate of about 24 percent in February, only a little below the exceptional pace in January, as its growth continued to be greatly affected by shifts of funds from market instruments and other non-M2 sources into the new money market deposit accounts (MMDAs) included in M2. M3 grew at annual rates of about 12 and 13-1/2 percent in January and February respectively. However, growth in both of the broader aggregates appeared to have decelerated substantially during March. The deceleration reflected in part a marked slowing in the volume of funds shifted into MMDAs from market instruments and apparently also a moderation in the underlying growth of the nontransaction component of these aggregates. Growth in M1 accelerated to an extraordinary annual rate of about 22 percent in February, and, on the basis of preliminary data, was estimated to have remained rapid in March, though probably slowing somewhat from the February rate. An acceleration in growth of NOW accounts and a large increase in holdings of currency contributed to the expansion in M1. The income velocity of M1 apparently declined sharply in the first quarter, continuing the trend that became evident in the course of 1982.

Total and nonborrowed reserves declined appreciably in February, but turned up in March. The behavior of reserves did not reflect the strength in the aggregates largely because required reserves at member banks were lowered by shifts out of personal savings and small time deposits into nonreservable MMDAs and there was an associated runoff of large-denomination CDs. The monetary base grew considerably more than the reserve measures, owing to the rapid expansion of currency in circulation. Adjustment borrowing (including seasonal borrowing) fluctuated between $140 million and $600 million over the intermeeting period. Excess reserves were also volatile and were somewhat higher than usual on average; strong demands for excess reserves at times appeared to be related to slow responses by banks to reductions in reserve requirements. Federal funds continued to trade near the 8-1/2 percent discount rate over most of the intermeeting interval, though rising to around 8-3/4 percent in the week prior to this meeting.

Most short-term market interest rates rose about 3/8 percentage point over the intermeeting interval, while bond rates declined about 3/8 to 1/2 percentage point. The average rate on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations declined 20 basis points further. At the end of February, the prime rate charged by most commercial banks on short-term business loans was reduced by 1/2 percentage point to 10-1/2 percent.

Total credit outstanding at U.S. commercial banks, which had grown at an annual rate of about 6 percent in the fourth quarter of 1982, expanded at an average annual rate of about 10 percent over the first two months of this year. Banks acquired a sizable volume of securities, particularly Treasury securities, and also expanded their loans somewhat. Very preliminary data suggested that the total debt of domestic non-financial sectors was increasing in early 1983 at a rate near the lower end of the Committee's estimated range for the year. There was a sharp increase in the share of debt financed through depository institutions, which had experienced massive inflows of funds as a result of aggressive marketing of the newly authorized MMDAs.

Staff projections presented at this meeting indicated that real GNP would probably grow at a moderate pace throughout 1983, with unemployment remaining high. Private final purchases were projected to pick up somewhat in the latter half of the year, partly in response to the third phase of the tax cut. It was anticipated that the liquidation of business inventories would end by midyear and that some restocking of depleted inventories would occur in the second half. The rise in the average level of prices was expected to remain moderate, even as economic recovery proceeded over the balance of 1983, given the favorable outlook for oil prices and the prospects for continued limited increases in unit labor costs.

In the Committee's discussion of the economic situation and outlook, the members agreed that a recovery in economic activity appeared to be under way, although several commented that the evidence available thus far was too fragmentary to permit a firm evaluation of the strength of the upturn. While the staff projection of moderate growth for 1983 as a whole was cited as a reasonable expectation, members commented on the many uncertainties surrounding the economic outlook and expressed differing views regarding the direction of possible deviations from the staff projection.

Some members saw the staff projection as the middle of a plausible range of possible outcomes for 1983, given the outlook for fiscal and monetary policy. Several members believed, however, that the risks of a deviation were in the direction of a shortfall. These members stressed potential obstacles to a vigorous recovery. These included the possibility of further unsettlement in international and domestic financial markets, the outlook for poor export markets, and the prospects for continuing weakness in business investment, at least over the quarters immediately ahead, against the backdrop of low capacity utilization rates in industry and recent overbuilding of many types of commercial properties. Reference was also made to the retarding impact of relatively high real interest rates, and some members expressed the view that an appreciable rise in interest rates, if such a rise were to occur, could greatly inhibit the recovery in interest-sensitive sectors of the economy, such as housing and automobiles which had tended to lead the recovery thus far.

A differing view was expressed which stressed the possibility of a stronger recovery that, like many previous recoveries in the postwar period, would tend to gather momentum as it developed. In support of this view, it was noted that private final purchases had risen appreciably in the fourth and first quarters, and such purchases could strengthen markedly further in reaction to the federal tax cut at midyear and anticipated improvement in business spending. Moreover, cutbacks in inventories had been unusually pronounced during the recession, so that gains in consumer spending would tend to be translated directly into increased production.

Members referred to the favorable outlook for prices in 1983, partly associated with an improved trend in productivity and reduced wage-cost pressures, but some members also commented that the longer-run outlook for inflation and for a sustainable recovery would be influenced greatly by progress in holding down future federal deficits and by success in achieving the Committee's objectives for monetary growth. It was noted that the effects of an expansionary federal budget would be offset to some extent by efforts of state and local governments to curb expenditures and to raise taxes. On balance, however, it appeared that markets remained apprehensive about the outlook for the federal budget, and that concern was reflected in continued pressures on interest rates, especially in long-term debt markets.

In discussing a policy course for the weeks immediately ahead, Committee members recognized that substantial uncertainties affected both the economic outlook and the interpretation of the monetary aggregates. Concern was expressed about the implications of the rapid growth in the monetary aggregates, particularly if it should continue. However, it was also noted that the rapid expansion of recent months, given the distortions related to various institutional changes, probably did not have the significance for future economic and price developments that it might have had in the past. It was generally recognized that much of the recent growth in the broad aggregates, especially M2, reflected shifts of investment preferences by individuals away from market instruments toward the new MMDAs, given the very attractive rates being offered on the accounts by depository institutions in a highly competitive environment. Note was also taken of the marked slowing in monetary growth that appeared to be in train for March, and of a staff analysis suggesting that underlying growth of the broad aggregates--as well as growth in M1--might be moderate in the months ahead as the lagged effects of earlier declines in market interest rates dissipated. With respect to M1, most members felt that persistence of its unusual sharp decline in velocity early this year cast doubt on the aggregate as a principal guide for policy at this time; however, a view was also expressed in favor of giving M1 more weight in the formulation of the Committee's policy.

In evaluating the overall financial situation, it was also pointed out that the strength of the aggregates needed to be judged in the context of the apparently moderate expansion of domestic nonfinancial debt and of the relatively high level of real interest rates. With the economic recovery still in its early and fragile stages, the view was expressed that strong upward pressures on interest rates would involve an unacceptable risk of unduly retarding, and perhaps aborting, the recovery. The view was also expressed that a sustainable recovery might not develop at the present levels of nominal and real interest rates. On the other hand, no member expressed sentiment for a substantial easing in the existing degree of reserve restraint in the absence of clear evidence of a pronounced slowing in monetary growth or of indications that the economic recovery was faltering.

While a few members indicated a preference for leaning in the direction of slightly more, or slightly less, restraint on reserve positions in the period immediately ahead--depending on their assessment of the economic outlook, credit conditions, and the monetary aggregates--all of the members found acceptable a policy calling for maintaining generally the current degree of reserve restraint, pending the availability of further evidence on the behavior of the monetary aggregates and on the economic situation. The members anticipated that such a policy course would be consistent with substantial slowing in the growth of M2 and M3 to annual rates of about 9 percent and 8 percent respectively over the period from March to June; these growth rates assumed that shifts of funds into the new deposit accounts from market instruments would have only a relatively small further impact on the broad aggregates--perhaps no more than a percentage point or so in the case of M2. The Committee also expected that M1 growth at an annual rate of about 6 to 7 percent over the three-month period would be associated with its objectives for the broader aggregates, assuming basically no distortion in M1 on balance from the newly introduced accounts. Should these assumptions about distortions from the new accounts prove to be incorrect, it was understood that appropriate adjustments would have to be made in the monetary growth objectives.

The Committee members agreed that lesser restraint on reserve positions would be acceptable in the context of more pronounced slowing in the growth of the monetary aggregates, after taking account of any distortions relating to the introduction of new deposit accounts, or of evidence of a weakening in the pace of the economic recovery. If monetary expansion proved to be appreciably higher than expected, without being clearly explained by the effects of ongoing institutional changes, it was understood that the Committee would consult about the desirability under the prevailing circumstances of any substantial further restraint on bank reserve positions. It was further understood that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would be retained 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 information reviewed at this meeting suggests that real GNP rose moderately in the first quarter, after a decline in the fourth quarter; the turnaround reflects a considerable slowing in inventory liquidation. Private final sales apparently increased only slightly less than in the fourth quarter with housing activity strengthening further. Business fixed investment has remained weak. Nonfarm payroll employment rose on balance in January and February, after an extended period of declines; the civilian unemployment rate was unchanged in February at 10.4 percent. In early 1983 the rise in average prices and the advance in the index of average hourly earnings have slowed further.
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> The weighted average value of the dollar against major foreign currencies rose somewhat on balance between early February and late March. The U.S. merchandise trade deficit declined marginally in January.
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> M2 continued to grow at an exceptional rate in February and M3 also expanded at a rapid pace, but growth in both of the broader aggregates appears to be decelerating substantially in March. The deceleration reflects in part the marked slowing in growth of money market deposit accounts (MMDAs) in recent weeks and apparently also a moderation in the underlying growth of these aggregates, abstracting from shifts from market instruments. M1 has expanded rapidly since late January, largely reflecting accelerated growth in NOW accounts. Growth in debt of domestic nonfinancial sectors appears to have been moderate

in the first quarter. Short-term interest rates have risen somewhat since early February while long-term rates, including mortgage rates, have declined.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of 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 current impact of new deposit accounts on growth rates 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. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid build-up of money market deposit accounts, has distorted growth in that aggregate during the first quarter.

In establishing growth ranges 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 has subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges will be reviewed in the spring and altered, if appropriate, in the light of evidence at that time.

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 is 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.

In implementing monetary policy, the Committee agreed that substantial weight would be placed on behavior of the broader monetary aggregates, expecting that distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. 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.

For the short run, the Committee seeks to maintain generally the existing degree of restraint on reserve positions, anticipating that would be consistent with a slowing from March to June in growth of M2 and M3 to annual rates of about 9 and 8 percent, respectively. The Committee expects that M1 growth at an annual rate of about 6 to 7 percent would be consistent with its objectives for the broader aggregates. Lesser restraint would be acceptable in the context of more pronounced slowing of growth in the monetary aggregates relative to the paths implied by the long-term ranges (taking account of the distortions relating to the introduction of new accounts), or indications of a weakening in the pace of economic recovery. 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, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

2. Review of continuing authorizations

The Committee followed its customary practice of reviewing all of its continuing authorizations and directives at this first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1983. The Committee reaffirmed the authorization for foreign currency operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters and Mr. Wallich. Votes against these actions: None.

3. Authorization for domestic open market operations

On the recommendation of the Manager for Domestic Operations, System Open Market Account, the Committee amended paragraph 1(a) of the authorization for domestic open market operations to raise from $3 billion to $4 billion the limit on intermeeting changes in System account holdings of U.S. government and federal agency securities. The Manager noted that in recent years the Committee had found it necessary to authorize temporary increases in the limit with greater frequency because of the longer intervals between Committee meetings and the increased size of the net variation in market factors affecting reserves. In 1981 and 1982, such temporary increases had been authorized in half of the intermeeting periods. A permanent increase in the limit to $4 billion would reduce the number of occasions requiring special Committee action, while still calling to the

Committee's attention needs for particularly large changes. The Committee concurred in the Manager's view that such an increase would be appropriate.

The Committee also approved the deletion of paragraph 2 of the authorization which had authorized, under certain conditions, the direct lending of securities held in the System account to the U.S. Treasury and the purchase of special short-term certificates of indebtedness directly from the Treasury. Paragraph 2 had been in a state of de facto suspension since June 1981 when the statutory authority on which it was based expired. In the past, the Congress had enacted the legislation for limited periods and occasionally had allowed it to lapse prior to its renewal. Since no legislation to renew the authority was under consideration, the Committee concurred in a staff recommendation to delete paragraph 2 and renumber the remaining paragraphs in the authorization.1/

Accordingly, effective March 28, 1983, the authorization for domestic open market operations was amended to read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U. S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System

1/ The following conforming amendments to other Committee documents were also approved: deletion of section 270.4(d) of the Regulation Relating to Open Market Operations of Federal Reserve Banks and redesignation of the remaining paragraph as 270.4(d); and deletion of paragraph 2 of the Resolution of Federal Open Market Committee Authorizing Certain Actions by Federal Reserve Banks during an Emergency, and renumbering of remaining paragraphs.

Open Market Account at market prices, and, for such Account, to exchange maturing U. S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U. S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $4.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U. S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U. S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U. S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U. S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Votes for these actions:
Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against these actions: None.

Subsequently, on May 9-10, 1983, members of the Committee voted to increase from $4 billion to $5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective May 10 for the period ending with the close of business on May 24, 1983.

Votes for this action:
Messrs. Volcker, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate for Mr. Solomon.)

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the March meeting, large net purchases of securities had been undertaken to meet reserve needs due to increases in currency in circulation and required reserves, reducing the leeway for further purchases over the intermeeting interval to slightly under $1 billion. It appeared likely that purchases in excess of that leeway would be required over the remainder of the intermeeting period.

4. Agreement with Treasury to warehouse foreign currencies

At its meeting on January 17-18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies--that is, to make spot purchases of foreign currencies from the Exchange Stabilization Fund (ESF) and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to $5 billion of eligible foreign currencies. At this meeting the Committee reaffirmed the agreement on the terms adopted on March 18, 1980, with the understanding that it would be subject to annual review.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.