

Meeting of the Federal Open Market Committee

July 9, 1980

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, July 9, 1980, at 9:15 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Gramley
Mr. Morris
Mr. Partee
Mr. Rice
Mr. Roos
Mr. Schultz
Mr. Solomon
Mrs. Teeters
Mr. Wallich
Mr. Winn

Messrs. Balles, Baughman, Eastburn, and Mayo,
Alternate Members of the Federal Open
Market Committee

Mr. Black, President of the Federal Reserve
Bank of Richmond

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Petersen, General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist
Mr. Holmes, Adviser for Market Operations

Messrs. Balbach, J. Davis, T. Davis,
Keir, Kichline, Truman, and Zeisel,
Associate Economists

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

Mr. Coyne, Assistant to the Board of
Governors

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

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

Mr. Beck, Senior Economist, Banking Section,
Division of Research and Statistics,
Board of Governors

Mrs. Steele, Economist, Open Market
Secretariat, Board of Governors

Mrs. Scanlon, Economist, Division of
Research and Statistics, Board of
Governors 1/

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

Messrs. Czerwinski, Forrestal, Gainor,
and Monhollon, First Vice Presidents,
Federal Reserve Banks of Kansas
City, Atlanta, Minneapolis, and
Richmond, respectively

Messrs. Brandt, Burns, Corrigan, Danforth,
Fousek, Keran, Parthemos, and Scheld,
Senior Vice Presidents, Federal Reserve
Banks of Atlanta, Dallas, New York,
Minneapolis, New York, San Francisco,
Richmond, and Chicago, respectively

Mr. Meek, Monetary Adviser, Federal Reserve
Bank of New York

Messrs. McNees, Mullineaux, and Ms. Nichols,
Vice Presidents, Federal Reserve Banks
of Boston, Philadelphia, and Chicago,
respectively

Ms. Lovett, Securities Trading Officer,
Federal Reserve Bank of New York

1/ Entered the meeting following the ratification of System
open market transactions in Government securities, agency
obligations and bankers acceptances.

7/9/80

- 3 -

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on May 20, 1980, were approved.

Renewal for further periods of three months of System drawings on the German Federal Bank maturing July 21 through August 18, 1980, was noted without objection.

By unanimous vote, System open market transactions in foreign currencies during the period May 20 through July 8, 1980, were ratified.

By unanimous vote, the limit on changes in System holdings of U. S. government and federal agency securities specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations was set at \$4 billion, effective immediately, for the period ending with the close of business August 12, 1980.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period May 20 through July 8, 1980, were ratified.

With Mr. Wallich dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1979 to the fourth quarter of 1980: M-1A, 3-1/2 to 6 percent; M-1B, 4 to 6-1/2 percent; M-2, 6 to 9; and M-3, 6-1/2 to 9-1/2 percent. The associated range for bank credit is 6 to 9 percent.

7/9/80

- 4 -

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 a marked contraction in real GNP in the second quarter. In May total retail sales declined substantially for the fourth consecutive month, and housing starts, industrial production, and nonfarm payroll employment continued to decline. Employment fell sharply further in June; however, the unemployment rate edged down from 7.8 to 7.7 percent, following large increases in April and May. The overall rise in prices of goods and services has moderated in recent months, in large part owing to a lessening of the rapid rise in energy items. Over the first six months of the year, the rise in the index of average hourly earnings was moderately faster than the pace recorded in 1979.

The downward pressure on the dollar in exchange markets that emerged in early April abated in mid-June, and then was resumed in early July. The average U.S. foreign trade deficit for April and May was well below the average for the first quarter, reflecting reduced oil and non-oil imports.

Monetary expansion was rapid in June, following weakness earlier in the spring. Over the first half of the year growth of M-1A and M-1B fell short of the rates consistent with the Committee's ranges for the year from the fourth quarter of 1979 to the fourth quarter of 1980; the rate of growth for M-2 was just above the lower bound of its range. Outstanding bank loans to business declined substantially during the second quarter following a large increase in the first quarter. Market interest rates declined considerably further in late May and the first half of June, but

7/9/80

- 5 -

since then most rates have retraced part of the decline. Reductions in Federal Reserve discount rates from 13 to 11 percent in equal steps were announced on May 28 and June 12.

Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agrees that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3-1/2 to 6 percent, 4 to 6-1/2 percent, 6 to 9 percent, and 6-1/2 to 9-1/2 percent respectively. The associated range for bank credit is 6 to 9 percent.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the third quarter of 1980 at annual rates of about 7 percent, 8 percent, and 8 percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8-1/2 to 14 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 12, 1980, beginning at 9:30 a.m.

The meeting adjourned.

Secretary