

Meeting of Federal Open Market Committee

May 22, 1979

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, May 22, 1979, beginning at 9:30 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Kimbrel
Mr. Mayo
Mr. Partee
Mrs. Teeters
Mr. Wallich

Messrs. Guffey, Morris, Roos, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Baughman, Eastburn, and Willes, Presidents of the Federal Reserve Banks of Dallas, Philadelphia, and Minneapolis, respectively

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Petersen, General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist

Messrs. Brandt, Ettin, Keir, Keran, Kichline, Scheld, Truman, and Zeisel, Associate Economists

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

Mr. Coyne, Assistant to the Board of Governors

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

Ms. Farar, Economist, Open Market Secre-
tariat, Board of Governors

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

Messrs. Balbach, J. Davis, Eisenmenger, and
Fousek, Senior Vice Presidents,
Federal Reserve Banks of St. Louis,
Cleveland, Boston, and New York,
respectively

Messrs. Broaddus, Burns, Danforth, T. Davis, Ms.
Greene, and Mr. Mullineaux, Vice Presidents,
Federal Reserve Banks of Richmond, Dallas,
Minneapolis, Kansas City, New York, and
Philadelphia, respectively

Mr. Ozog, Manager, Securities Department,
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
April 17, 1979, were approved.

By unanimous vote, System open market transactions in
foreign currencies during the period April 17 through May 21,
1979, were ratified.

By unanimous vote, System open market transactions in
Government securities, agency obligations, and bankers acceptances
during the period April 17 through May 21, 1979, were ratified.

With Messrs. Balles, Partee, and Wallich 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 a moderate pickup in growth of real output of goods and services in the current quarter from the sharply reduced pace in the first quarter, when public and private construction activity was adversely affected by unusually severe weather. In April, however, industrial production declined and growth in nonfarm payroll employment slowed, in large part owing to effects of a work stoppage in the trucking industry early in the month. The unemployment rate, at 5.8 percent, remained at about the level prevailing earlier in the year. The dollar value of total retail sales rose somewhat in April, although apparently by less than the increase in average prices. Over recent months, broad measures of prices have increased at a faster pace than during 1978, and the index of average hourly earnings has continued to rise rapidly.

Demand for the dollar has continued strong in exchange markets over the past five weeks, and the trade-weighted value of the dollar against major foreign currencies has risen further. The U. S. trade deficit declined further in March and was slightly lower in the first quarter as a whole than in the fourth quarter of 1978.

M-1 expanded sharply in April, after having declined in the first quarter, and M-2 and M-3 grew rapidly. The interest-bearing component of M-2 also grew rapidly, following several months of slow growth, as net flows into money market certificates at commercial banks increased while outflows of savings deposits slowed. At

nonbank thrift institutions, net flows into money market certificates moderated, and overall inflows of funds receded from the already reduced pace of the first quarter. Since mid-April, short-term market interest rates have changed little, on balance; most longer-term rates have increased.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee 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. At its meeting on February 6, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1-1/2 to 4-1/2 percent, 5 to 8 percent, and 6 to 9 percent respectively. The associated range for bank credit is 7-1/2 to 10-1/2 percent. These ranges will be reconsidered in July or at any time as conditions warrant.

In the short-run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9-3/4 to 10-1/2 percent. In deciding on the specific objective for the federal funds

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rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the May-June period of M-1 and M-2 and the following ranges of tolerance: 0 to 5 percent for M-1 and 4 to 8-1/2 percent for M-2. If, with approximately equal weight given to M-1 and M-2, their rates of growth appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly 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 Wednesday, July 11, 1979, beginning at 9:30 a.m.

The meeting adjourned.

Secretary