

Meeting of Federal Open Market Committee

November 20, 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, November 20, 1979, beginning at 9:30 a.m.

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

Messrs. Guffey, Morris, Roos, Timlen, 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. Mannion, 1/ Assistant General Counsel
Mr. Axilrod, Economist
Mr. Holmes, Adviser for Market Operations

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

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

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

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

Mr. Coyne, Assistant to the Board of
Governors

Messrs. Gemmill and Kalchbrenner, Associate
Directors, Division of International
Finance and Division of Research and
Statistics, respectively, Board of
Governors

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

Mr. Beck, Senior Economist, Banking Section,
Division of Research and Statistics,
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, Boehne, Burns, J. Davis,
Eisenmenger, and Fousek, Senior Vice
Presidents, Federal Reserve Banks of
St. Louis, Philadelphia, Dallas,
Cleveland, Boston, and New York,
respectively

Messrs. Bakstansky, Broaddus, Corrigan,
and T. Davis, Vice Presidents,
Federal Reserve Banks of New York,
Richmond, New York, and Kansas
City, respectively

Mr. Bisignano, Director of Economic Analysis,
Federal Reserve Bank of San Francisco

Mr. Miller, Assistant Vice President, Federal
Reserve Bank of Minneapolis

Mr. Ozog, Manager, Securities Department,
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at
the meetings of the Federal Open Market Committee held on
September 18 and October 6, 1979, were approved.

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By unanimous vote, System open market transactions in foreign currencies during the periods September 18 through October 5 and October 6 through November 19, 1979, were ratified.

Renewal for further periods of three months of System drawings on the German Federal Bank maturing December 7 through 28, 1979, was noted without objection.

By unanimous vote, the Committee approved the renewal for further periods of up to one year of the following swap arrangements, having the indicated amounts and maturity dates:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of \$ equilavent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 mos.	12/4/79
Bank of England	3,000.0	"	12/4/79
Bank of Japan	5,000.0	"	12/4/79
Bank of Mexico	700.0	"	12/4/79
Bank of Norway	250.0	"	12/4/79
Bank of Sweden	300.0	"	12/4/79
Swiss National Bank	4,000.0	"	12/4/79
Bank for International Settlements--			
Swiss francs	600.0	"	12/4/79
Other authorized European currencies	1,250.0	"	12/4/79
National Bank of Belgium	1,000.0	"	12/20/79
National Bank of Denmark	250.0	"	12/28/79
German Federal Bank	6,000.0	"	12/28/79
Bank of France	2,000.0	"	12/28/79
Netherlands Bank	500.0	"	12/28/79
Bank of Canada	2,000.0	"	12/28/79
Bank of Italy	3,000.0	"	12/28/79

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By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the periods September 18 through October 5 and October 6 through November 19, 1979, were ratified.

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 suggests that real output of goods and services is declining in the current quarter, after the third-quarter rebound, and that prices on the average are continuing to rise rapidly. Retail sales, which had expanded sharply during the third quarter in both constant and current dollars, dropped in October. Industrial production remained near its midyear level. Nonfarm payroll employment rose considerably, after three months of little growth, but the unemployment rate increased from 5.8 to 6.0 percent. Producer prices of finished goods continued to rise rapidly in October, in part because of further sharp increases in energy items and the spreading effects of earlier increases in energy costs. The rise in the index of average hourly earnings during the first 10 months of the year was close to the rapid pace during 1978.

On October 6 the Federal Reserve announced a series of complementary actions directed toward assuring control over the expansion of money and bank credit and toward curbing speculative excesses in commodity and financial markets, including foreign exchange markets. The actions included an increase in Federal Reserve Bank discount rates from 11 percent to 12 percent; establishment of a marginal reserve requirement on increases in the total of managed liabilities of member banks, Edge corporations, and U. S. agencies and branches of foreign banks; and a shift in the conduct of open market operations to an approach placing greater emphasis in day-to-day operations on the supply of bank reserves and less emphasis on confining short-term fluctuations in the federal funds rate.

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Following the announcement on October 6, the downward pressure on the dollar in the exchange markets that had developed in September was reversed, and by the end of October the trade-weighted value of the dollar against major foreign currencies had risen about 3-1/2 percent. In mid-November, however, the value of the dollar declined, reflecting in part developments concerning Iran. The U. S. foreign trade deficit increased in September as the cost of oil imports rose, but the deficit was somewhat lower for the third quarter as a whole than for the second quarter.

Growth of M-1, which had accelerated in September and was exceptionally rapid in the third quarter as a whole, slowed sharply in October to an annual rate of 2-1/2 percent. Expansion of interest-bearing deposits included in M-2 remained strong, as a rise in net flows into time deposits at commercial banks in response to increased yields offset a contraction in savings deposits. Inflows of deposits at nonbank thrift institutions slowed somewhat. Flows into money market mutual funds accelerated. Growth of commercial bank credit moderated in October; nevertheless, banks increased their reliance on the negotiable, large-denomination CD's and other managed liabilities that became subject to the marginal reserve requirement in the statement week beginning October 11. Both short- and long-term market interest rates have risen sharply on balance since the early October announcement of the System's policy actions, although most recently rates have declined; mortgage interest rates have increased substantially further.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, 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. At its meeting on July 11, 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 same ranges

that had been established in February. The range for M-1 had been established originally on the basis of an assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year. It now appears that expansion of such accounts will dampen growth by about 1-1/2 percentage points over the year; thus after allowance for the deviation from the earlier estimate, the equivalent range for M-1 is now 3 to 6 percent. The associated range for bank credit is 7-1/2 to 10-1/2 percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to restrain expansion of reserve aggregates to a pace consistent with deceleration in growth of M-1, M-2, and M-3 in the fourth quarter of 1979 to rates that would hold growth of these monetary aggregates over the whole period from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's longer-run ranges, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11-1/2 to 15-1/2 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.

By unanimous vote, responsibility for making determinations with respect to appeals of denial of access to Committee records, under the provisions of 271.4(d) of the

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Committee's Rules Regarding Availability of Information, was delegated to Mr. Schultz, and in his absence, to Mr. Coldwell.

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

The meeting adjourned.

Secretary