

Meeting of Federal Open Market Committee

January 8-9, 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., starting on Tuesday, January 8, 1980, at 3:30 p.m. and continuing on Wednesday, January 9, 1980, at 9:15 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, 1/ General Counsel  
Mr. Oltman, Deputy General Counsel  
Mr. Mannion, Assistant General Counsel  
Mr. Axilrod, Economist  
Mr. Holmes, Adviser for Market Operations

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

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

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1/ Entered the meeting prior to the action to adopt the domestic policy directive.

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

Mr. Coyne, Assistant to the Board of Governors  
Messrs. Kalchbrenner and Prell, Associate  
Directors, Division of Research and Statistics,  
Board of Governors

Mr. Siegman, Associate Director, Division of  
International Finance, Board of Governors  
Messrs. Beck and Simpson, 2/ Senior Economists,  
Banking Section, Division of Research and  
Statistics, Board of Governors

Ms. Farar, Economist, Open Market Secretariat,  
Board of Governors

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

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

Messrs. Balbach, Burns, Corrigan, J. Davis, T. Davis,  
Eisenmenger, and Fousek, Senior Vice Presidents,  
Federal Reserve Banks of St. Louis, Dallas, New  
York, Cleveland, Kansas City, Boston, and New York,  
respectively

Messrs. Danforth and Mullineaux, Vice Presidents,  
Federal Reserve Banks of Minneapolis and  
Philadelphia, 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 November 20, 1979, were  
approved.

The following actions were taken on Wednesday, January 9, 1980.

By unanimous vote, System open market transactions in Govern-  
ment securities, agency obligations, and bankers acceptances during the  
period November 20, 1979 through January 8, 1980, were ratified.

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2/ Attended Tuesday session only.

By unanimous vote, System open market transactions in foreign currencies during the period November 20, 1979 through January 8, 1980, were ratified.

Renewal for further periods of three months of System drawings on the German Federal Bank maturing January 21 through February 14, 1980, was noted without objection.

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 expanded somewhat further in the final quarter of 1979 and that prices on the average continued to rise rapidly. In November retail sales strengthened and nonfarm payroll employment rose considerably further, but industrial production declined somewhat and private housing starts fell. The unemployment rate edged down from 6.0 to 5.8 percent. Producer prices of finished goods and consumer prices continued to rise rapidly, in part because of the spreading effects of earlier increases in energy costs. Over recent months the rise in the index of average hourly earnings has remained close to the rapid pace during 1978.

The trade-weighted value of the dollar against major foreign currencies has depreciated about 3 percent since mid-November, reflecting in large part the mid-East situation as well as a firming of monetary conditions in a number of foreign countries. The U.S. foreign trade deficit in October and November on the average was slightly below the rate for the third quarter.

Growth of the major monetary aggregates, which had slowed in October, remained at reduced rates in the final months of 1979. From the fourth quarter of 1978 to the fourth quarter of 1979 M-1 grew 5-1/2 percent, M-2 about 8-1/4 percent, and M-3 about 8 percent. Most market interest rates have declined somewhat on balance since the Committee's meeting in late November.

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. It appeared that expansion of ATS and NOW accounts would dampen growth of M-1 by about 1-1/2 percentage points over the year, half as much as assumed early in the year; thus after allowance for the deviation from the earlier estimate, the equivalent range for M-1 was 3 to 6 percent. The associated range for bank credit was 7-1/2 to 10-1/2 percent. The Committee anticipated 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. Ranges for 1980 will be reconsidered at the meeting of the Committee scheduled for early February.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first quarter of 1980 at an annual rate between 4 and 5 percent for M-1 and on the order of 7 percent for M-2, 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, transfer to the National Archives of the FOMC memoranda of discussion for 1974, on the basis described in a memorandum from the Secretariat dated December 5, 1979, was authorized.

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It was agreed that the next meeting of the Committee would be held on Tuesday, February 5, 1980, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary