

Meeting of the Federal Open Market Committee

April 22, 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 Tuesday, April 22, 1980, at 9:30 a.m.

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

Messrs. Baughman, Eastburn, Mayo, and Willes,
Alternative Members of the Federal Open
Market Committee

Messrs. Balles and Black, Presidents of the
Federal Reserve Banks of San Francisco
and Richmond, 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. Balbach, J. Davis, R. Davis, T. Davis,
Eisenmenger, Ettin, Henry, Keir, Kichline,
Truman, and Zeisel, Associate Economists

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

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Mr. Coyne, Assistant to the Board of Governors
Mr. Prell, Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Gemmill, Associate Director, Division of
International Finance, Board of Governors
Mr. Beck, Senior Economist, 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

Messrs. Boehne, Brandt, Burns, Corrigan, Keran,
and Scheld, Senior Vice Presidents, Federal
Reserve Banks of Philadelphia, Atlanta,
Dallas, New York, San Francisco, and Chicago,
respectively

Messrs. Broaddus and Danforth, Vice Presidents,
Federal Reserve Banks of Richmond and
Minneapolis, respectively

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

By unanimous vote, the minutes of actions take at the meeting
of the Federal Open Market Committee held on March 18, 1980, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period March 18 through April 21, 1980, were ratified.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
March 18 through April 21, 1980, were ratified.

With Mr. 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 that economic activity turned down in the latter part of the first quarter of 1980, although for the quarter as a whole real GNP expanded somewhat further and the rise in prices accelerated. Retail sales in real terms declined sharply in February and March, after having increased in January. In March industrial production and nonfarm payroll employment declined, and the unemployment rate edged up to 6.2 percent. Private housing starts declined throughout the first quarter, to a rate in March about two-fifths below that in the third quarter of last year. The rise in producer prices of finished goods and in consumer prices was considerably more rapid during the first three months of 1980 than in 1979. Over the first quarter, the rise in the index of average hourly earnings was somewhat above the rapid pace recorded in 1979.

The strong demand for the dollar in exchange markets that began in mid-February persisted through early April. Some selling pressure developed in the second week of April as market participants reacted to indications that U.S. interest rates might have peaked, but the trade-weighted value of the dollar against major foreign currencies remained well above its level of early February. The U.S. foreign trade deficit rose further in February.

M-1A and M-1B, which had expanded sharply in February, contracted in March and early April; M-2 increased relatively little in March. From December to March, M-1A and M-1B grew at annual rates of about 4 percent and 4-1/2 percent respectively, and M-2 grew at a rate of 7 percent. Expansion of commercial bank credit slowed substantially in March from the accelerated pace earlier in the year. Since mid-March, most market interest rates on balance have declined considerably.

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. At its

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meeting on February 4-5, 1980, the Committee agreed 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, 4 to 6-1/2, 6 to 9, and 6-1/2 to 9-1/2 percent respectively. The associated range for bank credit was 6 to 9 percent.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first half of 1980 at an annual rate of 4-1/2 percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 13 to 19 percent. The Committee believes that, to be consistent with this short-run policy, M-2 should grow at an annual rate of about 6-3/4 percent over the first half and that bank credit should grow in the months ahead at a pace compatible with growth over the year as a whole within the range agreed upon.

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, May 20, 1980, beginning at 9:30 a.m.

The meeting adjourned.

Secretary