

Meeting of the Federal Open Market Committee

August 12, 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, August 12, 1980, at 9:30 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

Messrs. Black, Corrigan, and Ford, Presidents
of the Federal Reserve Banks of Richmond,
Minneapolis, and Atlanta, respectively

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Petersen, General Counsel
Mr. Holmes, Adviser for Market Operations

Messrs. Balbach, J. Davis, R. Davis, Ettin,
Henry, Keir, Kichline, and Zeisel,
Associate Economists

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

Mr. Sternlight, Manager for Domestic
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

Messrs. Gemmill and Siegman, Associate
Directors, 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. Deck, Staff Assistant, Open Market
Secretariat, Board of Governors

Messrs. Czerwinski and Doyle, First Vice
Presidents, Federal Reserve Banks of
Kansas City and Chicago, respectively

Messrs. Boehne, Brandt, Burns, Eisenmenger,
and Scheld, Senior Vice Presidents,
Federal Reserve Banks of Philadelphia,
Atlanta, Dallas, Boston, and Chicago,
respectively

Messrs. Bisignano, Broaddus, Cacy, Danforth,
and Ms. Nichols, Vice Presidents,
Federal Reserve Banks of San Francisco,
Richmond, Kansas City, Minneapolis, and
Chicago, respectively

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
March 7, 1980, May 6, 1980, and July 9, 1980, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period July 9 through August
11, 1980, were ratified.

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Renewal for further periods of three months of System drawings on the German Federal Bank and the Bank of France maturing August 25 through September 18, 1980, was noted without objection.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period July 9 through August 11, 1980, 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 the decline in economic activity, which was marked in the second quarter as a whole, has been moderating. While industrial production and nonfarm payroll employment continued to decline sharply in June, total retail sales advanced after four months of substantial decreases, and housing starts rose from a depressed level. In July retail sales advanced further; nonfarm payroll employment declined, but not so sharply as during the second quarter, and the unemployment rate edged up from 7.7 to 7.8 percent. The overall rise in prices of goods and services moderated in the second quarter, in large part owing to a lessening of the rapid rise in energy items. Over the first seven months of the year, the rise in the index of average hourly earnings was somewhat faster than the pace recorded in 1979.

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The weighted average value of the dollar in exchange markets has risen somewhat since late July, after having fluctuated in a narrow range earlier in the month. A reduced U.S. foreign trade deficit in June brought the average for the second quarter well below the average for the first quarter.

Monetary expansion remained rapid in July, although not so rapid as in June. The recent resurgence brought growth of M-1A closer to and that of M-1B about to the lower bounds of the Committee's ranges for the year from the fourth quarter of 1979 to the fourth quarter of 1980. However, the rate of growth for M-2 was near the upper bound of its range. Market interest rates have risen considerably further in recent weeks.

Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, 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 $3\frac{1}{2}$ to 6 percent, 4 to $6\frac{1}{2}$ percent, 6 to 9 percent, and $6\frac{1}{2}$ to $9\frac{1}{2}$ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of $\frac{1}{2}$ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

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 $6\frac{1}{2}$ percent, 9 percent, and 12 percent respectively,

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provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8 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, September 16, 1980, beginning at 9:30 a.m.

The meeting adjourned.

Secretary