

Meeting of the Federal Open Market Committee

September 16, 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, September 16, 1980, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Gramley
Mr. Guffey
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. Oltman, Deputy General Counsel
Mr. Axilrod, Economist
Mr. Holmes, Adviser for Market Operations

Messrs. Balbach, J. Davis, T. Davis,
Eisenmenger, Ettin, Henry, Kichline,
and Truman, 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
Mr. Siegman, Associate Director, 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

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

Ms. Nichols and Mr. Sandberg, Vice
Presidents, Federal Reserve Banks
of Chicago and New York, respectively

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

By unanimous vote, the minutes of actions taken at
the meeting of the Federal Open Market Committee held on
August 12, 1980, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period August 12 through
September 15, 1980, were ratified.

Renewal for further periods of three months of System
drawings on the German Federal Bank and the Bank of France
maturing September 30 through October 28, 1980, was noted
without objection.

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By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period August 12 through September 15, 1980, were ratified.

With Messrs. Guffey, Roos, Wallich, and Winn 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 the decline in economic activity has moderated in the third quarter following a sharp contraction in the second quarter. Industrial production and nonfarm payroll employment expanded in August after several months of decline; the unemployment rate edged down from 7.8 to 7.6 percent; and total retail sales advanced considerably further. In July housing starts rose slightly, following a substantial rebound in June, and were well above the depressed levels of the preceding three months. Producer prices of finished goods rose rapidly in July and August, after increasing at a sharply reduced pace in the second quarter; the recent advance reflected mainly a surge in food prices. Over the first eight months of the year, the rise in the index of average hourly earnings was somewhat faster than the pace recorded in 1979.

The weighted average value of the dollar in exchange markets has declined somewhat over the past five weeks. The U.S. trade deficit in July was significantly lower than the monthly average in the second quarter, reflecting a sharp decline in petroleum imports.

M-1A and M-1B grew at record rates in August, while growth in M-2 moderated from an exceptionally rapid pace in June and July. For the year through August growth of M-1A was in the lower half and growth of M-1B in the upper half of their respective ranges set by the Committee for the year from the fourth quarter of 1979 to the fourth

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quarter of 1980, while growth in M-2 was somewhat above the upper limit of its range. Market interest rates have fluctuated widely since mid-August and on balance short-term rates have risen considerably while long-term rates have increased moderately.

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 August to December period at annual rates of about 4 percent, $6\frac{1}{2}$ percent, and $8\frac{1}{2}$ percent respectively, 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.

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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 Committee's Rules Regarding Availability of Information was delegated, in the absence of Mr. Schultz, to Mr. Partee.

It was agreed that the next meeting of the Committee would be held on Tuesday, October 21, 1980, beginning at 9:30 a.m.

The meeting adjourned.

Secretary