

Meeting of the Federal Open Market Committee

May 18, 1981

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 Monday, May 18, 1981 at 9:30 a.m.

PRESENT: Mr. Volcker 1/, Chairman
Mr. Solomon, Vice Chairman
Mr. Boehne
Mr. Boykin
Mr. Corrigan
Mr. Gramley
Mr. Partee
Mr. Rice
Mr. Schultz
Mrs. Teeters
Mr. Wallich

Messrs. Balles, Black, Ford and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roos, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director
Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Oltman, Deputy General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Kichline, Economist

Messrs. Burns, Danforth, Ettin, Keir, Prell, Scheld, 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

1/ Left the meeting following the action to approve the minutes and returned prior to the action to ratify System open market transactions in Government securities, agency obligations, and bankers acceptances.

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Mr. Coyne, Assistant to the Board of Governors
Mr. Gemmill, Associate Director, Division of International
Finance, Board of Governors
Mr. Lindsey, Assistant Director, Division of Research
and Statistics, Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat,
Board of Governors

Mr. Doyle, First Vice President, Federal Reserve
Bank of Chicago

Messrs. Balbach, J. Davis, Fousek, Koch, and Parthemos
Senior Vice Presidents, Federal Reserve Banks
of St. Louis, Cleveland, New York, Atlanta,
and Richmond, respectively

Messrs. Bisignano, Cacy, Fieleke, Sandberg, and Syron,
Vice Presidents, Federal Reserve Banks of San
Francisco, Kansas City, Boston, New York, and
Boston, respectively

Mr. Lang, Research Officer, Federal Reserve Bank of
Philadelphia

By unanimous vote, the minutes of actions taken at the meetings
of the Federal Open Market Committee held on March 31, 1981 and May 6, 1981,
were approved.

The report of examination of the System Open Market Account, made
by the Board's Division of Federal Reserve Bank Operations as of the close of
business November 21, 1980, was accepted.

By unanimous vote, System open market transactions in Government
securities, agency obligations, and bankers acceptances during the period
March 31 through May 17, 1981, 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 GNP will grow much less rapidly in the current quarter, following the substantial expansion in the first quarter; prices on the average have continued to rise rapidly, although somewhat less so most recently than earlier in the year. The dollar value of total retail sales increased slightly further in March, but it declined appreciably in April when sales of new cars fell in response to the ending of price concessions. Industrial production rose moderately in both months, while nonfarm payroll employment changed little, after adjustment for strikes, and the unemployment rate was stable at 7.3 percent. In March housing starts remained at a reduced pace. Over the first four months of 1981, the rise in the index of average hourly earnings was slightly less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies has risen steadily since the end of March to its highest level in three and a half years. The U.S. trade deficit declined sharply in March, bringing the first-quarter deficit to a level well below the 1980 average.

Growth in M-1B, adjusted for the estimated effects of shifts into NOW accounts, accelerated sharply in April and growth in M-2 remained rapid. Since March, both short-term and long-term market interest rates have risen substantially. On May 4 the Board of Governors announced an increase in Federal Reserve discount rates from 13 to 14 percent and an increase in the surcharge from 3 to 4 percentage points on frequent borrowings of large institutions.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early February, 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 1980 to the fourth quarter of 1981 within ranges of 3 to 5½ percent, 3½ to 6 percent, 6 to 9 percent, and 6½ to 9½ percent respectively, abstracting from the impact of introduction of NOW accounts on a nationwide basis. The associated range for bank credit was 6 to 9 percent. These ranges will be reconsidered as conditions warrant.

In the short run the Committee seeks behavior of reserve aggregates consistent with a substantial deceleration of growth in M-1B from April to June to an annual rate of 3 percent or lower, after allowance for the impact of flows into NOW accounts, and with growth in M-2 at an annual rate of about 6 percent.

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The shortfall in growth of M-1B from the two-month rate specified above would be acceptable, in light of the rapid growth in April and the objective adopted by the Committee on March 31 for growth from March to June at an annual rate of $5\frac{1}{2}$ percent or somewhat less. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 16 to 22 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, July 7, 1981, beginning at 9:30 a.m.

The meeting adjourned.

Secretary