

Meeting of Federal Open Market Committee

February 4-5, 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 Monday, February 4, 1980, at 4:50 p.m. and continuing on Tuesday, February 5, 1980, at 9:00 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 and Willes, Presidents of the  
Federal Reserve Banks of Dallas and Minneapolis,  
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  
Mr. Holmes, Adviser for Market Operations

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

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

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

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

Mr. Smoot, First Vice President, Federal Reserve  
Bank of Philadelphia

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

Messrs. Broaddus, Danforth, Mullineaux, and Sandberg,  
Vice Presidents, Federal Reserve Banks of Richmond,  
Minneapolis, Philadelphia, and New York, respectively

By unanimous vote, System open market transactions in foreign  
currencies during the period January 9 through February 3, 1980, were  
ratified.

Renewal for further periods of three months of System drawings  
on the German Federal Bank maturing March 5 through March 28, 1980, was  
noted without objection.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on January 8-9, 1980, were approved.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period January 9 through February 3, 1980, were ratified.

The following actions were taken on Tuesday, February 5, 1980.

By unanimous vote, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1979 to the fourth quarter of 1980: M-1A,  $3\frac{1}{2}$  to 6 percent; M-1B, 4 to  $6\frac{1}{2}$  percent; M-2, 6 to 9 percent; and M-3,  $6\frac{1}{2}$  to  $9\frac{1}{2}$  percent. The associated range for bank credit is 6 to 9 percent.

With Messrs. Coldwell and 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 real output of goods and services expanded somewhat in the final quarter of 1979 and that prices on the average continued to rise rapidly. In December retail sales strengthened, industrial production edged up, and nonfarm payroll employment continued to rise, while private housing starts remained at the reduced level of November. Nonfarm payroll employment rose substantially further in January, but the unemployment rate rose from 5.9 to 6.2 percent. Producer prices of finished goods and consumer prices continued to rise rapidly toward the end of 1979, in part because of the spreading effects of earlier increases in energy costs. Over the past several months the rise in the index of average hourly earnings has remained close to the rapid pace recorded earlier in 1979.

The trade-weighted value of the dollar against major foreign currencies changed little in January, and exchange market pressures were relatively slight in spite of increased international political tensions. The U.S. foreign trade deficit rose in December, in large part because of an increase in imports of petroleum.

Growth of the major monetary aggregates, which had subsided in the final months of 1979, remained at reduced rates in January. Most market interest rates, especially long-term rates, have risen since the Committee's meeting in early January.

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. 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 3½ to 6, 4 to 6½, 6 to 9, and 6½ to 9½ 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 quarter of 1980 at an annual rate of about 4½ percent for M-1A and 5 percent for M-1B, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent. The Committee believes that, consistent with this short-run policy, M-2 as newly defined should grow at an annual rate of about 6½ percent over the first quarter.

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, March 18, 1980, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary