

Meeting of the Federal Open Market Committee

February 2-3, 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., starting on Monday, February 2, 1981, at 10:00 a.m. and continuing on Tuesday, February 3, 1981, at 9:30 a.m.

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

Messrs. Balles, Boehne, Boykin, Mayo, and Timlen, 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. Mannion 1/, Assistant General Counsel
Mr. Axilrod, Economist

Messrs. Balbach, J. Davis, R. Davis 2/, T. Davis, Eisenmenger, Ettin, Henry, Keir, Kichline, Truman, and Zeisel, Associate Economists

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

1/ Attended Tuesday session only.

2/ Attended Monday session only.

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

Mr. Allison 3/, Secretary, Office of the Secretary,
Board of Governors

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. Enzler 3/, Senior Deputy Associate Director, Division
of Research and Statistics, Board of Governors

Mr. Lindsey 3/, Assistant Director, Division of Research
and Statistics, Board of Governors

Messrs. Beck and Simpson 3/, Senior Economists, Banking
Section, Division of Research and Statistics,
Board of Governors

Mr. Johnson 3/, Economist, Government Finance Section,
Division of Research and Statistics, Board of Governors

Mrs. Steele, Economist, Open Market Secretariat, Board
of Governors

Messrs. Burns, Danforth, Fousek, Keran, Koch, and Scheld,
Senior Vice Presidents, Federal Reserve Banks of
Dallas, Minneapolis, New York, San Francisco,
Atlanta, and Chicago, respectively

Messrs. Broaddus, Mullineaux, Mrs. Nichols, and Mr. Siren,
Vice Presidents, Federal Reserve Banks of Richmond,
Philadelphia, Chicago, and Boston, respectively

Mr. Meek, Monetary Adviser, Federal Reserve Bank of New
York

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on December 18-19, 1980, were approved.

The following actions took place on Tuesday, February 3, 1981.

By unanimous vote, System open market transactions in foreign
currencies during the period December 19, 1980, through February 2, 1981, were
ratified.

3/ Attended part of Monday session.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period December 19, 1980, through February 2, 1981, were ratified.

With Mr. Wallich dissenting, the Committee adopted the following ranges for rates of growth in the monetary aggregates for the period from the fourth quarter of 1980 to the fourth quarter of 1981, abstracting from the impact of introduction of NOW accounts on a nationwide basis: M-1A, 3 to 5-1/2 percent; M-1B, 3-1/2 to 6 percent; M-2, 6 to 9 percent; and M-3, 6-1/2 to 9-1/2 percent. The associated range for bank credit was 6 to 9 percent.

With Mrs. Teeters and 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 real GNP expanded substantially in the fourth quarter of 1980 and that prices on the average continued to rise rapidly. In December industrial production and nonfarm payroll employment expanded further, and the unemployment rate was essentially unchanged at about 7-1/2 percent. Retail sales declined, however, following a sizable gain over the preceding six months. Housing starts were about unchanged for the third month. Over the last few months of 1980, the rise in the index of average hourly earnings was at about the rapid pace recorded earlier in the year.

The weighted average value of the dollar in exchange markets has risen further over the past six weeks. The U.S. trade deficit in the final quarter of 1980 widened from the exceptionally low rate in the third quarter but remained substantially less than the rate in the first half.

M-1A and M-1B declined sharply in December; in January, after adjustment of the actual figures for the estimated effects of shifts into NOW accounts, these aggregates recovered in part. Growth in M-2 slowed markedly in December but accelerated in January. Some

moderation of the expansion in commercial bank credit in December and early January was accompanied by stepped-up financing of nonfinancial businesses through issuance of commercial paper and longer-term debt instruments. Market interest rates have declined on balance from their highs of mid-December.

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. 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 5-1/2 percent, 3-1/2 to 6 percent, 6 to 9 percent, and 6-1/2 to 9-1/2 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 growth in M-1A and M-1B from December to March at annual rates of 5 to 6 percent and in M-2 at a rate of about 8 percent, abstracting from the impact of flows into NOW accounts. These rates are associated with growth of M-1A, M-1B, and M-2 from the fourth quarter of 1980 to the first quarter of 1981 at annual rates of about 2 percent, 2-3/4 percent, and 7 percent respectively. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1A and M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. If it appears during the period before the next meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent are likely to be inconsistent with the monetary and related reserve paths, 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 31, 1981, beginning at 9:30 a.m.

The meeting adjourned.

Secretary