

FEDERAL RESERVE press release



For Use at 4:10 p.m.

April 25, 1980

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on March 18, 1980. This record also includes policy actions taken during the period between the meeting on March 18, and the next regularly scheduled meeting held on April 22.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on March 18, 1980

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services was continuing to grow in the first quarter of 1980 after having expanded at an annual rate of about 2 percent in the fourth quarter of 1979. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have accelerated in the current quarter from an average rate of about 10 percent during 1979.

Retail sales rose briskly in January, but advance data suggested a moderate decline in February. After adjustment for higher prices, the level in February was close to the average for the fourth quarter. Unit sales of new automobiles in the first two months of the year were considerably above the reduced pace in the fourth quarter.

The index of industrial production rose somewhat in both January and February after changing little during the fourth quarter, and returned to its peak level of March 1979. The rate of capacity utilization in manufacturing was unchanged in February at a level about 3 percentage points below its recent peak in March 1979.

Nonfarm payroll employment, which had expanded substantially in January, rose appreciably further in February, and the rate of unemployment fell 0.2 percentage point to 6.0 percent. Employment in manufacturing continued to change little.

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The latest Department of Commerce survey of business spending plans, taken in late January and February, suggested that expenditures for plant and equipment would increase about 11 percent from 1979 to 1980. Adjusted for price increases that were expected by businesses, the survey implied little change in real outlays.

In January housing starts declined further to an annual rate of about 1.4 million units. Since the third quarter of 1979, housing starts had fallen by more than 20 percent and residential building permits by nearly 25 percent. Sales of new single-family homes rose somewhat in January but remained well below their third-quarter level, while sales of existing single-family homes continued to decline.

Producer prices of finished goods rose at a greatly accelerated pace in January and February, and consumer prices also increased at a sharply higher rate in January. The advances reflected a continuing surge in prices of energy-related items and, with the exception of foods, widespread increases in prices of other items as well. During 1979 producer prices had risen 12-1/2 percent and consumer prices about 13-1/4 percent. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 7 percent over the January-February period, compared with a rise of about 8-1/2 percent during 1979.

In foreign exchange markets the dollar had been in strong demand since mid-February, largely in response to sharp increases in U.S. interest rates and, most recently, to the President's announcement of a series of measures designed to curb inflationary pressures in the U.S.

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economy. By the first part of March the trade-weighted value of the dollar against major foreign currencies had risen to around its high of late October 1979. By mid-March, the dollar had advanced further, to about 6 percent above its level at the time of the February meeting. Over the course of recent weeks foreign monetary authorities had intervened in heavy volume to support their currencies.

In January the U.S. foreign trade deficit increased sharply, despite some reduction in the volume and value of oil imports. Other imports rose substantially, while exports expanded at a reduced pace; agricultural exports were down somewhat from a high December level.

At its meeting on February 4-5, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth from December 1979 to March 1980 at an annual rate of about 4-1/2 percent for M-1A and about 5 percent for M-1B, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 11-1/2 to 15-1/2 percent. In the Committee's view this short-run policy should be consistent with growth in M-2, as newly defined, at an annual rate of about 6-1/2 percent over the first quarter.

Growth in M-1A and M-1B accelerated in February to annual rates of about 12 percent and 11-1/2 percent respectively from rates of about 3-1/2 percent and 4-1/4 percent in January. Growth in M-2 also quickened in February, to an annual rate of about 10-3/4 percent from 6-3/4 percent in January, reflecting in part the continued rapid expansion in money market mutual funds; and growth in M-3 was buoyed by increased issuance

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of large-denomination time deposits at commercial banks associated with rapid expansion of bank credit. In late February and the first part of March, growth of M-1A and M-1B subsided.

Reflecting the acceleration of monetary growth in February, the demand for bank reserves expanded substantially in relation to the supply of nonborrowed reserves and money market conditions tightened considerably. Effective February 15 Federal Reserve discount rates were raised from 12 percent to 13 percent. The federal funds rate rose from about 13-1/2 percent in the statement week ending February 13, the first full week after the Committee's meeting in early February, to almost 15 percent in the week ending February 20. On February 22 the Committee voted to raise the upper limit of the intermeeting range for the funds rate to 16-1/2 percent, and on March 7 it voted to raise the limit to 18 percent. The federal funds rate averaged about 16-1/2 percent in the week ending March 12, the last complete statement week before this meeting, and exceeded 17 percent on some days in early March. Member bank borrowings rose to an unusually high level of almost \$3-1/2 billion in the week ending March 12; in the preceding three weeks borrowings had averaged about \$2-1/4 billion.

Expansion of total credit outstanding at U.S. commercial banks strengthened in January and accelerated further in February. Growth was especially pronounced in business loans, and available reports indicated a surge in demands for loan commitments in the latter part of February and early March. The issuance of commercial paper by nonfinancial corporations strengthened markedly in December and continued very large in January and February.

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Interest rates rose sharply during the intermeeting period as inflationary expectations continued to worsen. Upward pressures on rates, especially on short-term rates, also reflected the constraint on the provision of bank reserves in relation to the demand for reserves and the increase in Federal Reserve Bank discount rates on February 15. Such pressures were reinforced in short-term markets by the sizable bank issuance of certificates of deposit and by large sales of Treasury bills by foreign official institutions to finance intervention in foreign exchange markets. Over the period, commercial banks raised their loan rate to prime business borrowers from 15-1/4 percent to 18-1/2 percent. In home mortgage markets, rates on new commitments advanced sharply further and lenders also tightened other lending terms.

On March 14 the President announced a broad program involving fiscal, energy, credit, and other measures that were designed to help curb inflationary forces in a manner that would also restore the basis for stable economic growth. Consistent with that program and with the continuing objective of the Federal Reserve System to restrain growth in money and credit during 1980, the Board of Governors announced the following actions on March 14 to reinforce the measures announced on October 6, 1979:

1. A voluntary special credit restraint program intended to curb the expansion in credit extensions by a variety of financial institutions.
2. A special deposit requirement of 15 percent for all lenders on increases in certain types of consumer credit.

3. An increase from 8 percent to 10 percent in the marginal reserve requirement on managed liabilities of large member banks and a reduction in the base upon which the reserve requirement is calculated.

4. A special deposit requirement of 10 percent on increases in managed liabilities of large nonmember banks.

5. A special deposit requirement of 15 percent on increases in total assets of money market mutual funds.

6. A surcharge of 3 percentage points on frequent borrowings from the Federal Reserve Banks by member banks with deposits of \$500 million or more.

In part because of the new program announced on March 14, projections of activity and prices at this time were subject to more uncertainty than usual. Staff projections prepared for this meeting suggested that real GNP probably would turn down in the second quarter and that the contraction in activity was likely to persist for a number of quarters and to be accompanied by a significant increase in the unemployment rate. The rise in average prices was projected to moderate from the accelerated pace in the first quarter but to remain rapid.

In the Committee's discussion of the economic situation, many of the members continued to stress the unusual uncertainties affecting economic forecasts, although the likelihood of some decline in activity over the rest of 1980 was broadly accepted. With respect to price prospects, it was suggested that the underlying inflation rate would not be reduced very much in the short run by the rather moderate contraction in activity generally being projected.

Contrary to widespread expectations, it was noted, expansion in some sectors of the economy had been strong enough in recent months to sustain overall output despite considerable weakness in the automobile and housing markets. For the period immediately ahead, the course

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of total output appeared to be dependent to a considerable degree on whether consumer expenditures for goods and services remained abnormally high in relation to disposable income or tended to decline. While the strength of investment activity and apparently balanced inventory behavior suggested a mild recession, the possibility was recognized that a recession, whenever it occurred, could be exacerbated by the accumulation of sizable amounts of debt, by businesses as well as consumers, at exceptionally high interest rates and by other developing strains in the financial system.

At its meeting on February 4-5, 1980, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3-1/2 to 6 percent; M-1B, 4 to 6-1/2 percent; M-2, 6 to 9 percent; and M-3, 6-1/2 to 9-1/2 percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any other time that conditions might warrant, and also that short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis indicating that growth of M-1A and M-1B over the first two months of the year had substantially exceeded the pace consistent with the objectives for the December-March period established by the Committee at its preceding meeting.

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Accordingly, extension of the first-quarter objectives for M-1A and M-1B through the second quarter, in keeping with the Committee's objectives for monetary growth over the whole year, would imply a considerable slowing of growth from February to June. The staff analysis also noted that monetary growth had subsided in recent weeks; available data indicated little if any growth of M-1A in March, even if growth resumed in the latter part of the month.

Growth of M-2 over the first half associated with extension of the earlier objectives for M-1A and M-1B would be more rapid than had been contemplated for the first quarter, but the projected rate nevertheless was well within the range established for the year as a whole. Owing to the public's response to the high market interest rates prevailing, expansion of money market mutual funds in the first two months of the year had been stronger than expected. Whether their expansion would remain relatively strong depended in part on the adjustments the funds made to the new special deposit requirement imposed on the increase in their assets.

In the Committee's discussion of policy for the period immediately ahead, most members favored essentially an extension through the second quarter of the objectives for the first quarter that had been established at the meeting in early February. Specifically, they favored annual rates of growth over the first half of the year of about 4-1/2 percent for M-1A and about 5 percent for M-1B, with an associated rate of about 7-3/4 percent for M-2. Such a policy was viewed as sufficiently restrictive, especially in light of its implication for a significant slowing of monetary growth over the

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period from February to June. However, some sentiment was also expressed for seeking slightly lower rates of growth over the first half, to underscore support for the new anti-inflation program by making clear that general credit restraint would not be relaxed.

Many members expressed concern about the possibility that a bulge in monetary growth in April, even if it followed little growth or a decline in March, would have an adverse impact on market psychology and on assessments of the likely success of the new program in helping to contain inflation. While favoring essentially an extension of the first-quarter objectives for monetary growth that had been established at the preceding meeting, they also advocated directing operations in the period immediately ahead toward working against any bulge that might be developing and assuring that excessive growth in April, should it occur, would be compensated for in succeeding months. These members in general felt that, in the process, they would be willing to tolerate somewhat less growth over the first half of the year than the annual rates of 4-1/2 percent for M-1A and 5 percent for M-1B that represented an extension of the first-quarter objectives.

Members differed in their views concerning the range to be specified for the weekly average federal funds rate during the period before the next meeting of the Committee. Sentiment was expressed for a number of variations: retaining the widened range of 11-1/2 to 18 percent existing since the Committee's vote on March 7 to raise the upper limit; restoring the range to the more customary 4 percentage points by

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raising the lower limit to 14 percent; and raising the upper limit to 20 percent, with no change in the lower limit or with an increase in that limit to 13-1/2 or 14 percent. It was observed, in this connection, that the Committee had, and frequently used, established procedures for changing specifications during periods between meetings when circumstances seemed to warrant such changes.

The suggestion was made that the language of the domestic policy directive take account of the new voluntary special credit restraint program. That might be done by including a reference in the operational paragraphs to an expectation of an appropriate slowing of growth in bank credit in the months ahead.

At the conclusion of the discussion, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth over the first half of 1980 at annual rates of 4-1/2 percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 13 to 20 percent. Consistent with this short-run policy, in the Committee's view, M-2 should grow at an annual rate of about 7-3/4 percent over the first half, and expansion of bank credit should slow in the months ahead to a pace compatible with growth over the year as a whole within the range of 6 to 9 percent agreed upon. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to

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notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real output of goods and services continued to grow in the first quarter of 1980 and that the rise in prices accelerated. In February retail sales declined moderately, but the decrease followed an exceptionally large increase in January. Industrial production expanded somewhat in both months, after a period of little change, and nonfarm payroll employment continued to rise. The unemployment rate edged down in February to 6.0 percent. Private housing starts declined further in January and were more than one-fifth below the rate in the third quarter of last year. The rise in producer prices of finished goods and in consumer prices was more rapid in the first month or two of 1980 than in 1979, despite some easing in prices of foods. Over the first two months of 1980 the rise in the index of average hourly earnings was somewhat below the rapid pace recorded in 1979.

The dollar has been in strong demand in exchange markets since mid-February, largely in response to rising U.S. interest rates; by early March the trade-weighted value of the dollar against major foreign currencies had returned to about the level reached at the end of last October, and since then, it has risen further. Intervention by foreign monetary authorities to support their currencies was very heavy in February and the first half of March. The U.S. foreign trade deficit rose sharply in January, although the volume and value of imports of petroleum were somewhat reduced.

Growth of M-1A and M-1B, which had remained moderate in January, accelerated sharply in February, and growth of M-2 also quickened. In recent weeks, however, monetary growth has subsided. Expansion of commercial bank credit picked up in the first two months of this year from the reduced pace in the fourth quarter of

1979. Market interest rates have risen substantially in recent weeks. An increase in Federal Reserve discount rates from 12 to 13 percent was announced early on February 15, effective immediately.

On March 14 the President announced a broad program of fiscal, energy, credit, and other measures designed to moderate and reduce inflationary forces in a manner that can also lay the groundwork for a return to stable economic growth. Consistent with that objective and with the continuing intent of the Federal Reserve System to restrain growth in money and credit during 1980, the Board of Governors took the following actions to reinforce the effectiveness of the measures announced in October 1979: (1) A special credit restraint program; (2) A special deposit requirement for all lenders on increases in certain types of consumer credit; (3) An increase in the marginal reserve requirement on managed liabilities of large member banks; (4) A special deposit requirement on increases in managed liabilities of large non-member banks; (5) A special deposit requirement on increases in total assets of money market mutual funds; (6) A surcharge of 3 percentage points on frequent borrowings of large member banks from Federal Reserve Banks.

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. At its meeting on February 4-5, 1980, 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 3-1/2 to 6, 4 to 6-1/2, 6 to 9, and 6-1/2 to 9-1/2 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 half of 1980 at an annual rate of 4-1/2 percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the period before the next regular

meeting the weekly average federal funds rate remains within a range of 13 to 20 percent. The Committee believes that, consistent with this short-run policy, M-2 should grow at an annual rate of about 7-3/4 percent over the first half and expansion of bank credit should slow in the months ahead to a pace compatible with growth over the year as a whole within the range agreed upon.

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.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Winn, and Timlen. Vote against this action: Mr. Wallich. (Mr. Timlen voted as alternate member.)

Mr. Wallich dissented from this action because he favored pursuit of a more restrictive policy for the period immediately ahead to assure maintenance of firm general credit restraint, especially as a means of buttressing the new anti-inflation program.

2. Review of continuing authorizations

This being the first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1980, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against these actions: None. (Mr. Timlen voted as alternate member.)

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the lending of U.S. government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager for Domestic Operations that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to annual review.

3. Authorization for foreign currency operations

The Committee reaffirmed the authorization for foreign currency operations, with a technical modification. In paragraph 6, the title "Manager for Foreign Operations" was substituted for "Manager" the first time the latter appeared, in recognition that positions and titles relating to management of the System Open Market Account had been changed

since the Committee had last conducted its annual review of its continuing authorizations and directives.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

Pursuant to paragraph 3 of the authorization for foreign currency operations, the Committee expressly authorized the Federal Reserve Bank of New York, for the System Open Market Account, to enter into contracts to purchase foreign exchange at specified rates that reflected market rates of late February and early March when contract discussions were initiated and simultaneously to transfer the foreign exchange so acquired directly to the Exchange Stabilization Fund (ESF) at those same rates.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

4. Agreement with Treasury to warehouse foreign currencies

At its meeting on January 17-18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies--that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed in December 1978, that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to \$5 billion of eligible

foreign currencies for periods of up to 12 months. In view of the U.S. program of issuing notes denominated in foreign currencies, the Committee voted at this meeting to reaffirm the agreement to warehouse up to \$5 billion of foreign currencies and to drop the 12-month limitation on the period such currencies could be warehoused. It was understood that the basic agreement would be subject to annual review.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

5. Authorization for domestic open market operations

On April 16, 1980, the Committee voted to increase from \$3 billion to \$4-1/2 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on April 22, 1980.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. Absent and not voting: Mr. Solomon. (Mr. Timlen voted as alternate for Mr. Solomon.)

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the March meeting, large-scale purchases of securities had been undertaken to

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counter the effects on member bank reserves of a decline in float, an increase in currency in circulation, and a rise in required reserves associated with the System actions announced on March 14. As a result, the leeway for further purchases had been reduced to less than \$200 million. It appeared likely that additional purchases would be required because projections indicated a need for further reserve-providing operations in the week ahead.