

Meeting of Federal Open Market Committee

July 11, 1979

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 Wednesday, July 11, 1979, beginning at 9:00 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Kimbrel
Mr. Mayo
Mr. Partee
Mr. Rice
Mrs. Teeters
Mr. Wallich

Messrs. Guffey, Morris, Roos, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Baughman, Eastburn, and Willes, Presidents of the Federal Reserve Banks of Dallas, Philadelphia, 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

Messrs. Brandt, Ettin, Henry, Keir, Keran, Kichline, Parthemos, Scheld, Truman, and Zeisel, Associate Economists

Mr. Sternlight, Deputy Manager for Domestic Operations
Mr. Pardee, Deputy Manager for Foreign Operations

Mr. Coyne, Assistant to the Board of Governors

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Messrs. Kalchbrenner and Siegman, Associate Directors, Divisions of Research and Statistics and International Finance, respectively, Board of Governors
Mr. Prell 1/, Associate Research Division Officer, 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

Messrs. Balbach, Boehne, J. Davis, Eisenmenger, and Fousek, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Philadelphia, Cleveland, Boston, and New York, respectively

Messrs. Burns, Danforth, and T. Davis, Vice Presidents, Federal Reserve Banks of Dallas, Minneapolis, and Kansas City, respectively

Ms. Clarkin, Securities Trading Officer, 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 May 22, 1979, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period May 22 through July 10, 1979, were ratified.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period May 22 through July 10, 1978, were ratified.

1/ Mr. Prell entered the meeting following the votes to ratify System open market transactions and left following the vote to adopt the domestic policy directive.

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With Mr. Wallich dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1978 to the fourth quarter of 1979: M-1, 1-1/2 to 4-1/2 percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for bank credit is 7-1/2 to 10-1/2 percent.

By unanimous vote, the Committee agreed that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth of M-1, M-2, and M-3, and of commercial bank credit, might be within the ranges adopted for 1979, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts.

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 output of goods and services declined somewhat in the second quarter, as slackening in demands was intensified by reduced supplies and sharply higher prices of motor fuels. During the quarter, the dollar value of retail sales declined, and in real terms, sales in June were substantially below last December. Growth in nonfarm payroll employment slowed during the quarter to a pace considerably below the preceding six months, but the unemployment rate in June, at 5.6 percent, was somewhat lower than earlier in the year. Industrial production recovered in May, after having declined in April in large part because of a work stoppage.

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Over the first half of this year, broad measures of prices increased at a much faster pace than during 1978, although producer prices of foods declined in the second quarter. The rise in the index of average hourly earnings has slowed in recent months.

Downward pressure on the dollar in foreign exchange markets emerged in mid-June after several months of strength, and since then the trade-weighted value of the dollar against major foreign currencies has declined about 3 percent. The U.S. trade deficit for April and May combined widened somewhat from the first-quarter rate.

M-1 expanded sharply in June, after having increased little in May, and M-2 and M-3 also grew rapidly. Inflows of interest-bearing deposits included in M-2 grew rapidly in June, as net flows into money market certificates at commercial banks expanded further and savings deposits increased for the first time since last September. At nonbank thrift institutions, inflows of deposits picked up from the sharply reduced pace in May. On a quarterly average basis, M-1 grew at an annual rate of about 7-1/2 percent in the second quarter, compared with a decline at a rate of about 2 percent in the first quarter; M-2 and M-3 grew at rates of about 8-1/2 percent and 7-3/4 percent respectively in the second quarter, compared with rates of about 1-3/4 percent and 4-3/4 percent in the first quarter. Market interest rates in general have declined substantially over the past several weeks, but mortgage interest rates have risen further.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee 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-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1-1/2 to 4-1/2 percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the

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Committee also agreed that actual growth in M-1 might vary in relation to its range to the extent of any deviation from that estimate. The associated range for bank credit is 7-1/2 to 10-1/2 percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short-run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9-3/4 to 10-1/2 percent. In deciding on the specific objective for the federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the July-August period of M-1 and M-2 and the following ranges of tolerance: 2-1/2 to 6-1/2 percent for M-1 and 6-1/2 to 10-1/2 percent for M-2. If, with approximately equal weight given to M-1 and M-2, their rates of growth appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

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It was agreed that the next meeting of the Committee would be held on Tuesday, August 14, 1979, beginning at 9:30 a.m.

The meeting adjourned.

Secretary