

Meeting of Federal Open Market Committee

September 18, 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 Tuesday, September 18, 1979, beginning at 9:30 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 Eastburn, Presidents of
the Federal Reserve Banks of Dallas and
Philadelphia, respectively

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Petersen, General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Axilrod, Economist
Mr. Holmes, Adviser for Market Operations

Messrs. Ettin, Henry, Keir, Keran, Kichline,
Parthemos, 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

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Mr. Coyne, Assistant to the Board of
Governors
Messrs. Gemmill and Kalchbrenner, Associate
Directors, Division of International
Finance and Division of Research and
Statistics, respectively, Board of Governors
Mr. Prell, Associate Research Division
Officer, Division of Research and
Statistics, Board of Governors
Ms. Farar, Economist, Open Market Secre-
tariat, Board of Governors
Mrs. Deck, Staff Assistant, Open Market
Secretariat, Board of Governors

Messrs. Forrestal, Gainor and Moriarty,
First Vice Presidents, Federal
Reserve Banks of Atlanta, Minneapolis,
and St. Louis, respectively

Messrs. Balbach, Boehne, Burns, T. Davis,
Eisenmenger, and Fousek, Senior Vice
Presidents, Federal Reserve Banks of
St. Louis, Philadelphia, Dallas, Kansas
City, Boston, and New York, respectively

Messrs. Corrigan and Danforth, Vice Presidents,
Federal Reserve Banks of New York and
Minneapolis, respectively

Ms. Lovett, 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 August
14, 1979, were approved.

By unanimous vote, System open market transactions in
foreign currencies during the period August 14 through September
17, 1979, were ratified.

Renewal for further periods of three months of System
drawings on the German Federal Bank maturing September 21
through October 26, 1979, was noted without objection.

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By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period August 14 through September 17, 1979, were ratified.

With Messrs. Balles, Black, Coldwell and Rice 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 in the third quarter real output of goods and services remained near the reduced level of the preceding quarter and that prices on the average continued to rise rapidly. In August, as in July, the dollar value of retail sales expanded moderately, but sales in real terms changed little and were substantially below those of last December. Industrial production dropped from the May-July level, largely because of sharp curtailments in output of motor vehicles and parts. Nonfarm payroll employment was unchanged; the unemployment rate rose from 5.7 percent to 6.0 percent, thus moving above the narrow range in which it had fluctuated since the beginning of the year. Producer prices of finished goods continued to rise rapidly in August, led by further large increases in energy items and a substantial advance in consumer foods following a significant decline over the preceding four months. The rise in the index of average hourly earnings over the first eight months of this year was moderately below the pace during 1978, but the increase in total hourly compensation in the nonfarm business sector has been about as rapid this year as last.

The dollar came under downward pressure in foreign exchange markets in the last days of August and the early days of September, but its trade-weighted value against major foreign currencies

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has changed little on balance since mid-August. The U. S. trade deficit in July was sharply reduced from the average in the first half of the year.

Growth of M-1, M-2, and M-3 was relatively rapid in August and early September, although not so rapid as in June and July. Market interest rates have risen appreciably over recent weeks. An increase in Federal Reserve discount rates from 10 to 10-1/2 percent was announced on August 16.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, 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 July 11, 1979, 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 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 developing conditions in

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foreign exchange and domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at attaining a weekly average federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 11-1/4 to 11-3/4 percent. In deciding on the specific objective for the federal funds rate the Manager for Domestic Operations shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the September-October period of M-1 and M-2 and the following ranges of tolerance: 3 to 8 percent for M-1 and 6-1/2 to 10-1/2 percent for M-2. If rates of growth of M-1 and M-2, given approximately equal weight, 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 beyond the upper or lower limits 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 shall promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

It was agreed that the authorization for the lending of Government securities from the System Open Market Account, contained in paragraph 3 of the Authorization for Domestic Open Market Operations, should be retained at this time, subject to review in six months.

It was agreed that the next meeting of the Committee would be held on Tuesday, October 16, 1979, beginning at 9:30 a.m.

The meeting adjourned.

Secretary