

Meeting of the Federal Open Market Committee

May 20, 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., on Tuesday, May 20, 1980, at 9:30 a.m.

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

Messrs. Baughman, Eastburn, and Mayo, Alternate Members of the Federal Open Market Committee

Messrs. Balles and Black, Presidents of the Federal Reserve Banks of San Francisco and Richmond, 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. Balbach, J. Davis, T. Davis, Ettin, Henry, Keir, Kichline, and Zeisel, Associate Economists

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

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

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. 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

Messrs. Forrestal, Gainor, and McIntosh,
First Vice Presidents, Federal Reserve
Banks of Atlanta, Minneapolis, and
Boston, respectively

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

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

Mr. Levin, Manager, Securities Department,
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
April 22, 1980, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period April 22 through May 19,
1980, were ratified.

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By unanimous vote, the amount of the reciprocal currency arrangement with the Bank of Sweden specified in paragraph 2 of the Authorization for Foreign Currency Operations was raised to \$500 million, effective May 23, 1980, for a period of one year, after which it will revert to its current level of \$300 million.

Renewal for further periods of three months of System drawings on the German Federal Bank and the Banque de France maturing July 14 through 18, 1980, was noted without objection.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period April 22 through May 19, 1980, were ratified.

With Messrs. Partee and Roos 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 a marked contraction in real GNP in the current quarter. In April the dollar value of total retail sales declined substantially for the third consecutive month. Industrial production and nonfarm payroll employment were curtailed sharply, and the unemployment rate rose from 6.2 to 7.0 percent. Private housing starts, which had declined throughout the first quarter to a relatively low rate, edged down further in April. The overall rise in prices of goods and services has remained rapid in recent months, although in

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April the rise in producer prices of finished goods was slowed by a large decrease in foods and by a lessening of the rapid rise in energy items. Over the first four months of the year, the rise in the index of average hourly earnings was somewhat less than the rapid pace recorded in 1979.

The downward pressure on the dollar in exchange markets that emerged in early April has continued over most of the past four weeks, in response primarily to the sharp decline in U. S. interest rates relative to foreign interest rates; the trade-weighted value of the dollar against major foreign currencies has declined about 3-1/2 percent. The U. S. foreign trade deficit was substantially larger in the first quarter of 1980 than in the preceding quarter, despite a considerable decline in March from the average in the preceding two months.

M-1A and M-1B contracted sharply further in April, and M-2 also declined. Commercial bank credit, both loans and investments, contracted in April after having slowed substantially in March. Over recent weeks, market interest rates have declined sharply further.

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 of M-1A, M-1B, and M-2 at rates high enough to promote achievement of the Committee's objectives for monetary growth over the year, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8-1/2 to 14 percent.

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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 Wednesday, July 9, 1980, beginning at 9:30 a.m.

The meeting adjourned.

Secretary