

Meeting of the Federal Open Market Committee

November 18, 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, November 18, 1980, 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, Baughman, and Eastburn, 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, Assistant General Counsel  
Mr. Axilrod, Economist  
Mr. Holmes, Adviser for Market Operations

Messrs. Balbach, J. Davis, T. Davis, Ettin, Henry,  
Kichline, Truman, and Zeisel, Associate Economists

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

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

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Mr. Coyne, Assistant to the Board of Governors  
Messrs. Prell and Siegman, Associate Directors, Divisions  
of Research and Statistics, and International Finance,  
respectively, Board of Governors

Mr. Beck, Senior Economist, Banking Section, Division of  
Research and Statistics, Board of Governors

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

Mrs. Deck, Staff Assistant, Open Market Secretariat,  
Board of Governors

Messrs. Boykin, Doyle, and McIntosh, First Vice Presidents,  
Federal Reserve Banks of Dallas, Chicago, and Boston,  
respectively

Messrs. Boehne, Brandt, Danforth, Keran, Parthemos, and  
Scheld, Senior Vice Presidents, Federal Reserve Banks  
of Philadelphia, Atlanta, Minneapolis, San Francisco,  
Richmond, and Chicago, respectively

Mr. Kubarych and Mrs. Nichols, Vice Presidents, Federal  
Reserve Banks of New York, and Chicago, respectively

Mr. Ozog, 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 October 21, 1980, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period October 21 through November 17, 1980 were  
ratified.

By unanimous vote, the Committee approved the renewal for further  
periods of up to one year of the following swap arrangements having the  
indicated amounts and maturity dates, subject to final approval by the  
Foreign Currency Subcommittee of changes in terms to eliminate risk-sharing  
provisions on System drawings and to provide for payment of interest on  
System drawings based on appropriate foreign interest rates rather than  
on the U. S. Treasury bill rate:

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<u>Foreign bank</u>	<u>Amount of arrangement (millions of \$ equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 mos.	12/4/80
National Bank of Belgium	1,000.0	"	12/19/80
Bank of Canada	2,000.0	"	12/29/80
National Bank of Denmark	250.0	"	12/29/80
Bank of England	3,000.0	"	12/4/80
Bank of France	2,000.0	"	12/29/80
German Federal Bank	6,000.0	"	12/29/80
Bank of Italy	3,000.0	"	12/29/80
Bank of Japan	5,000.0	"	12/4/80
Bank of Mexico	700.0	"	12/4/80
Netherlands Bank	500.0	"	12/29/80
Bank of Norway	250.0	"	12/4/80
Bank of Sweden 1/	500.0	"	12/4/80
Swiss National Bank	4,000.0	"	12/4/80
Bank for International Settlements--			
Swiss francs	600.0	"	12/4/80
Other authorized European currencies	1,250.0	"	12/4/80

1/ The action was taken with the understanding that the amount of the arrangement with the Bank of Sweden will automatically revert to \$300 million on May 23, 1981, in accordance with the Committee's action on May 21, 1980, to raise the amount to \$500 million, effective on May 23, 1980, for a period of one year.

Secretary's note: On December 1, and 17, 1980, the Foreign Currency Subcommittee approved provisions to effect the indicated changes in terms of the swap agreements, with a proviso that interest rates be based on instruments as closely comparable as possible to U. S. Treasury bills.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period October 21 through November 17, 1980, were ratified.

With Mrs. Teeters and Mr. Winn 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 is recovering further in the fourth quarter from the sharp contraction in the second quarter, while prices on the average continue to rise rapidly. In October industrial production and nonfarm payroll employment expanded substantially for the third consecutive month, and the unemployment rate remained around  $7\frac{1}{2}$  percent. The value of retail sales changed little, following four months of recovery. The rise in the index of average hourly earnings over the first ten months of 1980 was somewhat more rapid than in 1979.

The weighted average value of the dollar in exchange markets on balance has risen further over the past month. The U.S. trade deficit was essentially unchanged in September, and the rate in the third quarter was sharply lower than that in the first half.

Growth in M-1A and M-1B moderated further in October but was still relatively rapid; growth in M-2 accelerated slightly, reflecting a pickup in expansion of its non-transactions component. From the fourth quarter of 1979 to October, growth of M-1A was in the upper part of the range set by the Committee for growth over the year ending in the fourth quarter of 1980, while growth of M-1B and M-2 was somewhat above the upper limits of their ranges. Expansion in commercial bank credit was rapid in October, although not so rapid as in August and September. Market interest rates have risen sharply in recent weeks; average rates on new home mortgage commitments have continued upward. On November 14 the Board of Governors announced an increase in Federal Reserve discount rates from 11 to 12 percent and a surcharge of 2 percentage points on frequent borrowing of large member banks from Federal Reserve banks.

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. At its meeting in July, 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  $3\frac{1}{2}$  to 6 percent, 4 to  $6\frac{1}{2}$  percent, 6 to 9 percent, and  $6\frac{1}{2}$  to  $9\frac{1}{2}$  percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of  $\frac{1}{2}$  percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

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In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the period from September to December at annual rates of about  $2\frac{1}{2}$  percent, 5 percent, and  $7\frac{3}{4}$  percent respectively, 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 17 percent.

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 Friday, December 19, 1980, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary