

Meeting of the Federal Open Market Committee

July 6-7, 1981

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., beginning on Monday, July 6, 1981, at 2:30 p.m. and continuing on Tuesday, July 7, 1981, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Boehne
Mr. Boykin
Mr. Corrigan
Mr. Gramley
Mr. Keehn
Mr. Partee
Mr. Rice
Mr. Schultz
Mrs. Teeters
Mr. Wallich

Messrs. Balles, Black, Ford, Timlen, and Winn, Alternate
Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roos, Presidents of the Federal
Reserve Banks of Kansas City, Boston, and St. Louis,
respectively

Mr. Axilrod, Staff Director
Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Kichline, Economist

Messrs. Burns, Danforth, R. Davis, Keir, Mullineaux,
Prell, Scheld, Truman, and Zeisel, Associate
Economists

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

Mr. Coyne, Assistant to the Board of Governors
Mr. Siegman, Associate Director, Division of International
Finance, Board of Governors
Mr. Lindsey, Assistant Director, Division of Research
and Statistics, Board of Governors
Mr. Johnson 1/, and Ms. Scanlon 1/, Economists, Division
of Research and Statistics, Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat,
Board of Governors

Messrs. J. Davis, T. Davis, Eisenmenger, Keran, and
Koch, Senior Vice Presidents, Federal Reserve Banks
of Cleveland, Kansas City, Boston, San Francisco,
and Atlanta, respectively

Messrs. Broaddus, Burger, and Syron, Vice Presidents,
Federal Reserve Banks of Richmond, St. Louis, and
Boston, respectively

Mr. Meek, Monetary Adviser, Federal Reserve Bank of
New York

Ms. Meulendyke, Research Officer, Federal Reserve Bank
of New York

By unanimous vote, Michael Bradfield was elected General Counsel of the Federal Open Market Committee to serve until the election of a successor at the first meeting of the Committee after February 28, 1982, with the understanding that in the event of the discontinuance of his official connection with the Board of Governors, he would cease to have any official connection with the Federal Open Market Committee.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on May 18, 1981, were approved.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period May 18 through July 6, 1981, were ratified.

1/ Mr. Johnson and Ms. Scanlon entered the meeting following the action to ratify system open market transactions in Government securities, agency obligations, and bankers acceptances and left the meeting prior to the adoption of the domestic policy directive.

By unanimous vote, the Committee reaffirmed the ranges for growth in the monetary aggregates for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had adopted at its meeting in early February 1981. These ranges, abstracting from the impact of NOW accounts on a nationwide basis, were 3 to 5-1/2 percent for M1-A, 3-1/2 to 6 percent for M1-B, 6 to 9 percent for M2, and 6-1/2 to 9-1/2 percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee recognized that a shortfall in M1-B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running somewhat above the upper ends of the ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M1-B for the year would be near the lower end of its range. At the same time, growth in the broader monetary aggregates might be high in their ranges.

With Mrs. Teeters dissenting, the Committee tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M1, M2, and M3 within ranges of 2-1/2 to 5-1/2 percent, 6 to 9 percent, and 6-1/2 to 9-1/2 percent, respectively would be appropriate.

With Mr. Partee 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 changed little in the second quarter, following the substantial expansion in the first quarter; prices on the average rose less rapidly than in the first quarter. The dollar value of total retail sales was virtually unchanged in May after having declined appreciably in April, and sales of new cars remained weak in June. Industrial production rose slightly on the average in April and May, while non-farm payroll employment continued to advance, after adjustment for strikes. In June strike-adjusted nonfarm employment declined appreciably; the unemployment rate was 7.3 percent, somewhat lower than in May but unchanged from earlier months of 1981. In May housing starts declined sharply. Over the first six months of 1981, the rise in the index of average hourly earnings was slightly less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies continued to rise through May and early June and then leveled off. In April-May the U.S. foreign trade deficit was somewhat above the first-quarter rate.

M1-B, adjusted for the estimated effects of shifts into NOW accounts, declined substantially in May and June following the sharp expansion in April, and growth in M2 slowed. The level of adjusted M1-B in the second quarter on the average was below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981; the level of M2 in the second quarter was slightly above the upper end of its range for the year. Since mid-May, on balance, short-term market interest rates have declined somewhat while long-term yields generally have changed little.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote sustained economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that these objectives would be furthered by growth of M1-A, M1-B, M2, and M3 from the fourth quarter of 1980 to the fourth quarter of 1981 within ranges of 3 to 5½ percent, 3½ to 6 percent, 6 to 9 percent, and 6½ to 9½ percent respectively, abstracting from the impact of introduction of NOW accounts on a nationwide basis. The Committee recognized that the shortfall in M1-B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates has been running somewhat above the upper ends of the ranges. The Committee reaffirmed its ranges for 1981, but in light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected

that growth in M1-B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates may be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M1, M2, and M3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth of M1-B from June to September at an annual rate of 7 percent after allowance for the impact of flows into NOW accounts (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter), provided that growth of M2 remains around the upper limit of, or moves within, its range for the year. It is recognized that shifts into NOW accounts will continue to distort measured growth in M1-B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 18, 1981, beginning at 9:30 a.m.

The meeting adjourned.

Secretary