

Meeting of Federal Open Market Committee

May 16, 1978

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 16, 1978, at 9:30 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Baughman
Mr. Coldwell
Mr. Eastburn
Mr. Gardner
Mr. Jackson
Mr. Partee
Mr. Wallich
Mr. Willes
Mr. Winn

Messrs. Balles, Black, Kimbrel, and Mayo,
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. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Axilrod, Economist

Messrs. Burns, J. Davis, Ettin, Kaminow,
Keir, Kichline, Paulus, Truman, and
Zeisel, Associate Economists

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Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Sternlight, Deputy Manager for
Domestic Operations

Mr. Coyne, Assistant to the Board of
Governors

Mr. Henry, Associate Director, Division
of International Finance, Board of
Governors

Mr. Kalchbrenner, Associate Director,
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. T. Davis, Eisenmenger, Parthemos,
and Scheld, Senior Vice Presidents,
Federal Reserve Banks of Kansas City,
Boston, Richmond, and Chicago,
respectively

Messrs. Brandt, Burns, Fousek, Karnosky,
and Keran, Vice Presidents, Federal
Reserve Banks of Atlanta, Dallas,
New York, St. Louis, and San Francisco,
respectively

Ms. Lovett, Securities Trading Officer,
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at
the meetings of the Federal Open Market Committee held on
April 18 and May 5, 1978, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period April 18 through
May 15, 1978, were ratified.

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Renewal for further periods of 3 months of System drawings on the German Federal Bank maturing in the period May 29 through June 29, 1978, was noted without objection.

Pursuant to paragraph 1D of the Authorization for Foreign Currency Operations, the Committee, by unanimous vote, expressly authorized an over-all open position in foreign currencies of \$2.0 billion, effective immediately.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period April 18 through May 15, 1978, were ratified.

With Mr. Willes 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 output of goods and services is growing at a rapid rate in the current quarter, after having declined somewhat in the first quarter when activity was adversely affected by the unusually severe weather and the lengthy strike in coal mining. In April retail sales, industrial production, and non-farm payroll employment increased substantially further and the unemployment rate declined from 6.2 to 6.0 per cent. The pace of the rise in wholesale prices remained rapid, reflecting mainly further large increases in farm products and processed foods. The index of average hourly earnings continued to

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advance at about the fast pace that it had on the average during the first quarter.

The trade-weighted value of the dollar against major foreign currencies has risen over the past 4 weeks to the level prevailing at the beginning of the year. The trade deficit in the first quarter widened substantially from the already large deficit recorded in the final quarter of 1977.

M-1, which had grown moderately in the first quarter, rose sharply in April. Growth in M-2 and M-3 also stepped up but much less than growth in M-1, because inflows of the interest-bearing deposits included in these aggregates remained slow. Market interest rates have increased in recent weeks. On May 11 an increase in Federal Reserve discount rates from 6-1/2 to 7 per cent was announced.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions.

At its meeting on April 18, 1978, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of 4 to 6-1/2 per cent, 6-1/2 to 9 per cent, and 7-1/2 to 10 per cent, respectively, from the first quarter of 1978 to the first quarter of 1979 appears to be consistent with these objectives. The associated range for bank credit is 7-1/2 to 10-1/2 per cent. These ranges are subject to reconsideration at any time as conditions warrant.

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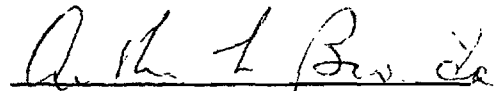
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The Committee seeks to encourage near-term rates of growth in M-1 and M-2 on a path believed to be reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, at present, the ranges of tolerance for the annual growth rates over the May-June period will be 3 to 8 per cent for M-1 and 4 to 9 per cent for M-2. In the judgment of the Committee such growth rates are likely to be associated with a weekly-average Federal funds rate slightly above the current level. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period will deviate significantly from the midpoints of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 7-1/4 to 7-3/4 per cent. In the conduct of day-to-day operations, account shall be taken of emerging financial market conditions.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, the Manager 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 Tuesday, June 20, 1978, beginning at 9:30 a.m.

The meeting adjourned.



Secretary