

Meeting of Federal Open Market Committee

October 17, 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, October 17, 1978, at 9:15 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Baughman
Mr. Coldwell
Mr. Eastburn
Mr. Jackson
Mr. Partee
Mrs. Teeters
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. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist

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

Mr. Holmes, Manager, System Open Market
Account

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Mr. Sternlight, Deputy Manager for Domestic Operations
Mr. Pardee, Deputy Manager for Foreign Operations

Mr. Coyne, Assistant to the Board of Governors
Mr. Kalchbrenner, Associate Director, Division of Research and Statistics, Board of Governors
Mr. Henry, Associate Director, Division of International Finance, Board of Governors
Ms. Farar, Economist, Open Market Secretariat, Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat, Board of Governors

Mr. McIntosh, First Vice President, Federal Reserve Bank of Boston

Messrs. Balbach, Boehne, T. Davis, and Scheld, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Philadelphia, Kansas City, and Chicago, respectively

Messrs. Cox and Keran, Vice Presidents, Federal Reserve Banks of Atlanta 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 meeting of the Federal Open Market Committee held on September 19, 1978, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period September 19 through October 16, 1978, were ratified.

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By unanimous vote, renewal for further periods of 3 months of System drawings on the German Federal Bank maturing November 10 through December 1, 1978, was authorized.

Renewal for further periods of 3 months of System drawings on the Swiss National Bank maturing November 2 through November 30, 1978, was noted without objection.

By unanimous vote, the Committee authorized the Manager to undertake negotiations involving certain technical changes in the terms of the reciprocal currency arrangements maintained with foreign central banks, subject to final approval by the Foreign Currency Subcommittee.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period September 19 through October 16, 1978, were ratified.

With Messrs. Wallich, Willes, and Winn dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the third quarter of 1978 to the third quarter of 1979: M-2, 6-1/2 to 9 per cent; and M-3, 7-1/2 to 10 per cent. M-1 was expected to grow within a range of 2 to 6 per cent over the period, depending in part on the speed and extent of transfers from demand to

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savings deposits resulting from the introduction of the automatic transfer service. The associated range for bank credit is 8-1/2 to 11-1/2 per cent. Growth of M-1+ (M-1 plus savings deposits at commercial banks and NOW accounts) in a range of 5 to 7-1/2 per cent was thought to be generally consistent with the ranges of growth for the foregoing aggregates.

With Mrs. Teeters and 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 grew moderately in the third quarter, although the pace was somewhat below the average for the first two quarters of the year. In September, as in August, the dollar value of total retail sales rose considerably. Industrial production continued to expand while nonfarm payroll employment changed little. The unemployment rate edged up from 5.9 to 6.0 per cent. Average producer prices of finished goods rose substantially in September, as prices of foods increased sharply after having declined for 2 months. The advance in the index of average hourly earnings has been somewhat faster so far in 1978 than it had been on the average during 1977.

The trade-weighted value of the dollar against major foreign currencies has declined further since mid-September in frequently volatile exchange markets. The U. S. trade deficit fell sharply in August, reversing the jump recorded in July; for the 2 months the deficit was close to the rate for the second quarter.

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Growth in M-1, which had been rapid in August, accelerated in September. Inflows of the interest-bearing deposits included in M-2 and M-3 remained strong, and expansion in the broader aggregates also accelerated somewhat. Short-term market interest rates have risen further in recent weeks; long-term rates also have increased, but they remain below their July peaks. An increase in Federal Reserve discount rates from 7-3/4 to 8 per cent was announced on September 22; another increase to 8-1/2 per cent was announced on October 13.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions. In setting ranges for the monetary aggregates, the Committee recognized the uncertainties concerning the effects that the November 1 introduction of the automatic transfer service (ATS) would have on measures of the money supply, especially M-1. Against that background, the Committee agreed that appropriate monetary and financial conditions would be furthered by growth of M-2 and M-3 from the third quarter of 1978 to the third quarter of 1979 within ranges of 6-1/2 to 9 per cent and 7-1/2 to 10 per cent, respectively. The narrowly defined money supply (M-1) was expected to grow within a range of 2 to 6 per cent over the period, depending in part on the speed and extent of transfers from demand to savings deposits resulting from the introduction of ATS. The associated range for bank credit is 8-1/2 to 11-1/2 per cent. Growth of M-1+ (M-1 plus savings deposits at commercial banks and NOW accounts) in a range of 5 to 7-1/2 per cent was thought to be generally consistent with the ranges of growth for the foregoing aggregates. These ranges are subject to reconsideration at any time as conditions warrant.

In the short-run, the Committee seeks to achieve bank reserve and money market conditions that are

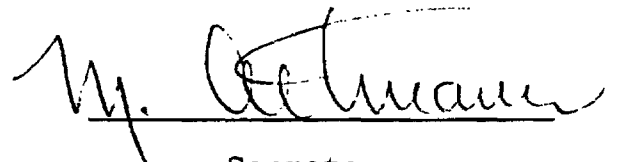
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broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to developing conditions in domestic and international financial markets more generally and to uncertainties associated with the introduction of ATS. Early in the period until the next regular meeting, System open market operations shall 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 8-3/4 to 9-1/4 per cent. In deciding on the specific objective for the Federal funds rate the Manager shall be guided mainly by a range of tolerance for growth in M-2 over the October-November period of 5-1/2 to 9-1/2 per cent, provided that growth of M-1 over that period does not exceed an annual rate of 6-1/2 per cent.

It was agreed that the next meeting of the Committee would be held on Tuesday, November 21, 1978, beginning at 9:30 a.m.

The meeting adjourned.

A handwritten signature in cursive script, appearing to read "M. Altman", written over a horizontal line.

Secretary