

Meeting of Federal Open Market Committee

February 6, 1979

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, February 6, 1979, at 9:00 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Baughman
Mr. Coldwell
Mr. Eastburn
Mr. Partee
Mrs. Teeters
Mr. Wallich
Mr. Willes
Mr. Mayo, Alternate

Messrs. Balles and Black, Alternate Members of
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. Guy, Deputy 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. Gemmill, Associate Director,
Division of International Finance,
Board of Governors

Ms. Farar, Economist, Open Market
Secretariat, Board of Governors

Ms. Belton, Secretary, Open Market
Secretariat, Board of Governors

Messrs. Fossum and MacDonald, First Vice
Presidents, Federal Reserve Banks
of Atlanta and Cleveland, respectively

Messrs. Balbach, Boehne, Brandt, T.
Davis, Eisenmenger, Keran,
Parthemos, and Scheld, Senior
Vice Presidents, Federal Reserve
Banks of St. Louis, Philadelphia,
Kansas City, Atlanta, Boston,
San Francisco, Richmond, and
Chicago, respectively

Mr. Meek, Monetary Adviser, 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
December 19, 1978, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period December 19, 1978,
through February 5, 1979, were ratified.

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By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period December 19, 1978, through February 5, 1979, were ratified.

With Messrs. Wallich and Willes dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1978 to the fourth quarter of 1979: M-1, 1-1/2 to 4-1/2 per cent; M-2, 5 to 8 per cent; and M-3, 6 to 9 per cent. The associated range for bank credit is 7-1/2 to 10-1/2 per cent.

With Mr. Coldwell 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 in the fourth quarter of 1978 growth in real output of goods and services picked up sharply from the reduced rate in the third quarter. In December, as in the preceding 2 months, the dollar value of total retail sales expanded substantially, and industrial production and nonfarm payroll employment rose considerably further. Employment continued to grow in January, and the unemployment rate, at 5.8 per cent, was virtually the same as in the final months of 1978. Over recent months, broad measures of prices and the index of average hourly earnings have continued to rise rapidly.

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The trade-weighted value of the dollar against major foreign currencies has tended upward since the turn of the year, returning to about its level in mid-December prior to the OPEC announcement of increased oil prices. The U. S. trade deficit in the fourth quarter of 1978 was at about the same rate as in the second and third quarters.

M-1 increased little in December and appears to have declined in January, in part because of the continuing effects of the introduction of the automatic transfer service (ATS) on November 1, and M-2 and M-3 grew at relatively slow rates. With market interest rates relatively high, inflows to banks of the interest-bearing deposits included in M-2 slowed sharply, and inflows of deposits to nonbank thrift institutions slackened further. Over the year from the fourth quarter of 1977 to the fourth quarter of 1978 M-1, M-2, and M-3 grew about 7-1/4, 8-1/2, and 9-1/2 per cent, respectively. Most market interest rates have declined on balance in recent weeks.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee 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. The Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1-1/2 to 4-1/2 per cent, 5 to 8 per cent, and 6 to 9 per cent, respectively. The associated range for bank credit is 7-1/2 to 10-1/2 per cent. These ranges will be reconsidered in July or at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting

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the foreign exchange value of the dollar and to developing conditions in domestic financial markets. In the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average Federal funds rate at about the current level, provided that over the February-March period the annual rates of growth of M-1 and M-2, given approximately equal weight, appear to be within ranges of 3 to 7 per cent and 5 to 9 per cent, respectively. If growth of M-1 and M-2 for the 2-month period appears to be outside the indicated limits, the Manager will promptly notify the Chairman, who will then consult with the Committee to determine whether the situation calls for supplementary instructions.

By unanimous vote, renewal for further periods of 3 months of System drawings on the German Federal Bank maturing February 23, 1979, through March 30, 1979, was authorized.

Renewal for further periods of 3 months of System drawings on the Swiss National Bank maturing February 23, 1979, through March 30, 1979, was noted without objection.

By unanimous vote, the limit on changes in System holdings of U. S. government and Federal agency securities specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations was set at \$5 billion, effective immediately, for the period ending with the close of business March 20, 1979.

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It was agreed that the next meeting of the Committee would be held on Tuesday, March 20, 1979, beginning at 9:30 a.m.

The meeting adjourned.

Secretary