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Meeting of Federal Open Market Committee

February 28, 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, February 28, 1978, at 9:00 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Coldwell
Mr. Guffey
Mr. Jackson
Mr. Mayo
Mr. Morris
Mr. Partee
Mr. Roos
Mr. Wallich

Messrs. Balles, Baughman, Eastburn, and Winn,
Alternate Members of the Federal Open
Market Committee

Messrs. Black, Kimbrel, and Willes, Presidents
of the Federal Reserve Banks of Richmond,
Atlanta, and Minneapolis, respectively

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. Axilrod, Economist

Messrs. Balbach, R. Davis, T. Davis,
Eisenmenger, Kichline, Scheld,
Truman, and Zeisel, Associate
Economists

Mr. Holmes, Manager, System Open Market
Account
Mr. Pardee, Deputy Manager for Foreign
Operations
Mr. Sternlight, Deputy Manager for Domestic
Operations

Messrs. Coyne and Keir, Assistants to the
Board of Governors
Mr. Wallace 1/, Staff Director for Federal
Reserve Bank Activities, Board of
Governors
Mrs. Farar, Economist, Open Market
Secretariat, Board of Governors
Mrs. Deck, Staff Assistant, Open Market
Secretariat, Board of Governors

Messrs. Boehne, J. Davis, and Parthemos,
Senior Vice Presidents, Federal
Reserve Banks of Philadelphia,
Cleveland, and Richmond, respectively

Mr. Brandt, Vice President, Federal
Reserve Bank of Atlanta

Mr. Kareken, Economic Adviser, Federal
Reserve Bank of Minneapolis

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
January 17, 1978, were approved.

The report of examination of the System Open Market
Account, made by the Board's Office of Staff Director for
Federal Reserve Bank Activities as of the close of business
October 28, 1977, was accepted.

1/ Left the meeting at the point indicated.

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Following the preceding actions, Mr. Wallace left the meeting.

By unanimous vote, System open market transactions in foreign currencies during the period January 17 through February 27, 1978, were ratified.

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.

Renewal for further periods of 3 months of System drawings on the German Federal Bank maturing in the period March 5-31, 1978, was noted without objection.

By unanimous vote, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1977 to the fourth quarter of 1978: M-1, 4 to 6-1/2 per cent; M-2, 6-1/2 to 9 per cent; and M-3, 7-1/2 to 10 per cent.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period January 17 through February 27, 1978, were ratified.

By unanimous vote, 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 retail sales, industrial production, and housing starts were adversely affected in January by unusually severe weather. It appears, however, that there has been little change in the underlying economic situation. Employment increased further in January and the unemployment rate edged down from 6.4 to 6.3 per cent. Both the consumer price index and the wholesale price index rose substantially. The index of average hourly earnings advanced sharply, as higher minimum wages became effective at the beginning of the year.

After a period of calm, the dollar came under renewed downward pressure around mid-February, and its trade-weighted value against major foreign currencies has declined about 1-1/2 per cent. The Swiss franc and the German mark have registered the most pronounced appreciations against the dollar.

M-1 expanded appreciably in January but declined somewhat in early February. Growth in M-2 picked up in January, reflecting some strengthening in inflows to banks of time and savings deposits other than negotiable CD's. Inflows to nonbank thrift institutions continued to slow. Market interest rates have changed little in recent weeks.

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 encourage continued economic expansion and help resist inflationary pressures, while contributing to a sustainable pattern of international transactions.

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 fourth quarter of 1977 to the fourth quarter of 1978 appears to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant.

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At this time, the Committee seeks to maintain about the prevailing money market conditions during the period immediately ahead, provided that monetary aggregates appear to be growing at approximately the rates currently expected, which are believed to be on a path reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, the Committee seeks to maintain the weekly-average Federal funds rate at about the current level, so long as M-1 and M-2 appear to be growing over the February-March period at annual rates within ranges of 1 to 6 per cent and 4-1/2 to 8-1/2 per cent, respectively. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period are approaching or moving beyond the limits of the indicated ranges, the operational objective for the weekly-average Federal funds rate shall be modified in an orderly fashion within a range of 6-1/2 to 7 per cent. In the conduct of day-to-day operations, account shall be taken of emerging financial market conditions, including the conditions in foreign exchange markets.

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, March 21, 1978, beginning at 9:30 a.m.

The meeting adjourned.

A handwritten signature in cursive script, appearing to read "A. H. Z. B. da", written in dark ink.

Secretary