

4/18/78

Meeting of Federal Open Market Committee

April 18, 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, April 18, 1978, at 9:00 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Baughman
Mr. Coldwell
Mr. Eastburn
Mr. Gardner 1/
Mr. Jackson
Mr. Partee
Mr. Wallich
Mr. Willes
Mr. Winn

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

1/ Entered meeting at the point indicated.

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

Mr. Coyne, Assistant to the Board of Governors
Mr. Gemmill, Associate Director, Division of Inter-
national 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

Mr. Williams, First Vice President, Federal Reserve
Bank of San Francisco

Messrs. Balbach, Parthemos, and Scheld, Senior Vice
Presidents, Federal Reserve Banks of St. Louis,
Richmond, and Chicago, respectively

Messrs. Brandt, T. Davis, and Keran, Vice Presidents,
Federal Reserve Banks of Atlanta, Kansas City,
and San Francisco, respectively

Mr. McNees, Assistant Vice President, Federal Reserve
Bank of Boston

Mr. Ozog, Manager, Securities Department, 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 March 21, 1978, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period March 21 through April 17, 1978, were
ratified.

Renewal for further periods of 3 months of System drawings on the German Federal Bank and the Swiss National Bank maturing in the period May 2-22, 1978, was noted without objection.

Prior to the following action Mr. Gardner entered the meeting.

By unanimous vote, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the first quarter of 1978 to the first quarter of 1979: 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. The associated range for bank credit is 7-1/2 to 10-1/2 per cent.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period March 21 through April 17, 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 growth in real output of goods and services was small in the first quarter, owing in part to the unusually severe weather and the lengthy strike in coal mining, but that economic activity was rebounding in the latter part of the period. In March industrial production and non-farm payroll employment increased sharply further. The unemployment rate edged up from 6.1 to 6.2 per cent, as the civilian labor force expanded substantially. Retail sales recovered much more in February than had been reported earlier, and sales rose considerably further in March.

The pace of the rise in wholesale prices remained rapid, reflecting further large increases in farm products and processed foods. The index of average hourly earnings accelerated in the first quarter, largely because of the increase in minimum wages at the beginning of the year.

The trade-weighted value of the dollar against major foreign currencies declined sharply after the March 31 announcement of a very large increase in the U. S. foreign trade deficit for February. But over the past week the dollar has recovered to about its level of 4 weeks ago.

M-1, which had declined in February, rose moderately in March. Inflows to banks of time and savings deposits other than negotiable CD's and inflows to nonbank thrift institutions remained slow. Most market interest rates, especially longer-term rates, have increased somewhat on balance 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 resist inflationary pressures while encouraging continued moderate economic expansion and 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 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.

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, it expects the annual growth rates over the April-May period to be within ranges of 4 to 8-1/2 per cent for M-1 and 5-1/2 to 9-1/2 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

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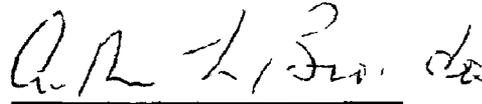
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the 2-month period will deviate significantly from the midpoints of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 6-3/4 to 7-1/2 per cent. In the conduct of day-to-day 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, May 16, 1978, beginning at 9:30 a.m.

The meeting adjourned.



Secretary