

Meeting of Federal Open Market Committee

June 20, 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, June 20, 1978, at 9:15 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. 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. Bernard, Assistant Secretary
Mr. O'Connell, 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
Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Sternlight, Deputy Manager for Domestic
Operations

1/ Entered the meeting at the point indicated.

Mr. Kalchbrenner, Associate Director,
Division of Research and Statistics,
Board of Governors

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

Mr. O'Brien, Special Assistant to the Board
of Governors

Mr. Smith, 2/ Chief, Financial Markets Section,
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

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

Messrs. Brandt and Broaddus, Vice Presidents,
Federal Reserve Banks of Atlanta and Richmond,
respectively

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 May 16, 1978, were approved.

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

By unanimous vote, renewal for further periods of 3 months of
System drawings on the German Federal Bank maturing in the period July 3
through July 26, 1978, was authorized.

2/ Left the meeting at the point indicated.

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 \$1.5 billion, effective immediately.

By unanimous vote, the Committee amended the Procedural Instructions governing foreign currency operations to read as follows:

PROCEDURAL INSTRUCTIONS

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation which would result in a change in the System's over-all open position in foreign currencies exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

B. Any operation which would result in a change in the System's net position in a single foreign currency exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

C. Any operation which might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1B.

D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation which would result in a change in the System's over-all open position in foreign currencies exceeding \$500 million since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

By unanimous vote, the Committee amended paragraph 1D of the Authorization for Foreign Currency Operations to read as follows:

To maintain an over-all open position in all foreign currencies not exceeding \$1.0 billion, unless a larger position is expressly authorized by the Committee. For this purpose, the over-all open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign. 3/ 4/

3/ Effective December 28, 1976, the Federal Open Market Committee authorized the Federal Reserve Bank of New York to maintain an over-all open position in foreign currencies exceeding the figure of \$1 billion specified in this paragraph by an amount equal to the remaining forward commitment associated with the System's outstanding 1971 Swiss franc swap drawings.

4/ Earlier in this meeting, the Committee authorized an over-all open position in foreign currencies of \$1.5 billion (excluding the authorization relating to outstanding 1971 Swiss franc swap drawings cited in the preceding footnote).

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Following the preceding actions Mr. Smith left the meeting.

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

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

With Messrs. Willes and Winn 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 has grown rapidly on the average in the current quarter as activity rebounded from the effects of the unusually severe winter weather and the lengthy coal strike, but the rate of advance most recently appears to be slowing. Following substantial gains in March and April, increases in industrial production and nonfarm payroll employment moderated in May and retail sales changed little. The unemployment rate edged up from 6.0 to 6.1 per cent in association with a large increase in the civilian labor force. Average wholesale prices rose somewhat less rapidly in May than earlier in 1978, reflecting smaller reported increases in farm products and processed foods. So far this year prices have increased at a considerably faster rate than they had on average during 1977. The index of average hourly earnings also has increased at a somewhat faster pace so far in 1978 than during 1977.

Since the end of May the trade-weighted value of the dollar against major foreign currencies has declined about 2 per cent, but it remains above its early-April low. The trade deficit in April was down somewhat from its very high first-quarter rate.

Growth in M-1 moderated in May from the extraordinarily rapid pace in April, and as a result growth in M-2 and M-3 also slowed. Inflows of the interest-bearing deposits included in M-2 picked up somewhat as commercial banks increased their reliance on large-denomination time deposits to finance an unusually sharp increase in business loans. Market interest rates have risen somewhat further in recent weeks.

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. At its meeting on April 18, 1978, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the first quarter of 1978 to the first quarter of 1979 at rates 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. 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.

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 developing conditions in financial markets more generally. During the period until the next regular meeting, System open market operations shall be directed initially at attaining a weekly-average Federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly Federal funds rate within the range of 7-1/2 to 8 per cent. In deciding on his specific objective for the Federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the June-July period of M-1 and M-2 and the following ranges of tolerance: 5 to 10 per cent for M-1 and 6 to 10 per cent for M-2. If, giving approximately equal weight to M-1 and M-2, their rates of growth appear to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate shall be raised or lowered in an orderly fashion within its range.


If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

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It was agreed that the next meeting of the Committee would be held on Tuesday, July 18, 1978, beginning at 9:30 a.m.

The meeting adjourned.


Secretary