

Meeting of Federal Open Market Committee

July 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, July 18, 1978, at 9:15 a.m.

PRESENT: Mr. Miller, Chairman  
Mr. Volcker, Vice Chairman  
Mr. Baughman  
Mr. Coldwell  
Mr. Eastburn  
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. Altmann, Deputy Secretary  
Mr. Bernard, Assistant Secretary  
Mr. O'Connell, General Counsel  
Mr. Axilrod, Economist

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

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Mr. Pardee, Deputy Manager for Foreign  
Operations

Mr. Sternlight, Deputy Manager for Domestic  
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. Czerwinski, First Vice President,  
Federal Reserve Bank of Kansas City

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

Messrs. Brandt, Fousek, and Keran, Vice  
Presidents, Federal Reserve Banks of  
Atlanta, New York, and San Francisco,  
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 June 20,  
1978, were approved.

By unanimous vote, System open market transactions in  
foreign currencies during the period June 20 through July 17,  
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 in the period August 2 through August 29, 1978, was authorized.

With Messrs. Jackson and Partee dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the second quarter of 1978 to the second 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 8-1/2 to 11-1/2 per cent.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 20 through July 17, 1978, were ratified.

With Messrs. Baughman, 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 growth in economic activity has slowed in recent months. Following substantial gains in March and April, increases in industrial production and nonfarm payroll employment moderated in May and June and retail sales changed little. In June, however, the unemployment rate dropped 0.4 of a percentage point to 5.7 per cent. Average producer prices rose somewhat less rapidly in May and June than earlier in 1978, but

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over the first half of this year prices increased at a considerably faster rate than they had on the average during 1977. The advance in the index of average hourly earnings also moderated in May and June but was at a somewhat faster pace over the first half of 1978 than during 1977.

Since mid-June the trade-weighted value of the dollar against major foreign currencies has declined further to its lowest level of the year. The U. S. trade deficit in May was lower than the very high rate of the first 4 months of the year.

Growth in M-1 moderated in May and June, but reflecting the extraordinarily rapid pace in April, growth from the first to the second quarter was relatively high. Growth in M-2 and M-3 has been moderate over recent months. In June inflows of small-denomination time deposits to commercial banks and other thrift institutions picked up, following introduction of the new 6-month certificate. Market interest rates have risen further in recent weeks. On June 30 an increase in Federal Reserve discount rates from 7 to 7-1/4 per cent was announced.

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. The Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the second quarter of 1978 to the second 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 8-1/2 to 11-1/2 per cent. These ranges are subject to reconsideration at any time as conditions warrant.

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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 at maintaining the weekly-average Federal funds rate within the range of 7-3/4 to 8 per cent. In deciding on the 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 July-August period of M-1 and M-2 and the following ranges of tolerance: 4 to 8 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 close to or beyond the upper or lower limits 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.

The Committee took note of the present state of de facto suspension of paragraph 2 of the Authorization for Domestic Open Market Operations as a consequence of the expiration, on April 30, 1978, of the underlying statutory authority contained in a provision of Section 14(b) of the Federal Reserve Act.

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It was agreed that the next meeting of the Committee would be held on Tuesday, August 15, 1978, beginning at 9:30 a.m.

The meeting adjourned.

A handwritten signature in cursive script, reading "A. H. L. Brown, Jr.", is written over a horizontal line.

Secretary