

Meeting of Federal Open Market Committee

August 15, 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, August 15, 1978, at 9:30 a.m.

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

Messrs. Balles, Kimbrel, and Mayo, Alternate
Members of the Federal Open Market
Committee

Mr. Morris, President of the Federal Reserve
Bank of Boston

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Axilrod, Economist

Messrs. Burns, J. Davis, R. Davis, Ettin,
Kaminow, Keir, Truman, and Zeisel,
Associate Economists

Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Sternlight, Deputy Manager for Domestic
Operations

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Mr. Coyne, Assistant to the Board of
Governors
Mr. Kalchbrenner, Associate Director,
Division of Research and Statistics,
Board of Governors
Mr. Siegman, 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

Messrs. Czerwinski, Moriarty, and Rankin,
First Vice Presidents, Federal
Reserve Banks of Kansas City, St.
Louis, and Richmond, respectively

Messrs. T. Davis, Eisenmenger, and Scheld,
Senior Vice Presidents, Federal
Reserve Banks of Kansas City, Boston,
and Chicago, respectively

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

Mr. Burger, Assistant Vice President,
Federal Reserve Bank of St. Louis

Mr. Duprey, Senior Economist, Federal
Reserve Bank of Minneapolis

Ms. Tschinkel, Adviser, Federal Reserve
Bank of New York

By unanimous vote, Murray Altmann was elected
Secretary of the Federal Open Market Committee to serve until
the election of his successor at the first meeting of the
Committee after February 28, 1979, with the understanding that

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in the event of the discontinuance of his official connection with the Board of Governors, he would cease to have any official connection with the Federal Open Market Committee.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on July 18, 1978, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period July 18 through August 14, 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 September 1 through September 29, 1978, was noted without objection.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period July 18 through August 14, 1978, were ratified.

With Messrs. Partee and Willes 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:

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The information reviewed at this meeting suggests that real output of goods and services is growing moderately in the current quarter, although the pace is a little less than the average for the first two quarters of the year. In July retail sales remained at about the advanced level reached in April. Industrial production and nonfarm payroll employment continued to expand at lower rates than in the early spring months. The unemployment rate, which had dropped 0.4 of a percentage point in June, jumped 0.5 of a percentage point in July to 6.2 per cent, about the average rate in the first 5 months of the year. Average prices of goods and services have continued to rise rapidly, although producer prices of foods and foodstuffs declined in July. The advance in the index of average hourly earnings has been somewhat faster so far in 1978 than it had been on the average during 1977.

Since mid-July the trade-weighted value of the dollar against major foreign currencies has declined sharply further. The U. S. trade deficit was lower in the second quarter than the very high rate of the first quarter.

Growth in M-1 remained moderate in July. Inflows of the interest-bearing deposits included in M-2 and M-3 picked up, owing to substantial flows into large-denomination time deposits at banks and into the new money market certificates at nonbank thrift institutions. Nevertheless, expansion in the broader aggregates also remained moderate in July. Most market interest rates have declined appreciably on balance 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 July 18, 1978, 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.

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 domestic and international financial markets more generally. Early in the period until the next regular meeting, System open market operations shall be directed at attaining a weekly-average Federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly-average Federal funds rate within the range of 7-3/4 to 8-1/4 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 August-September 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 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.

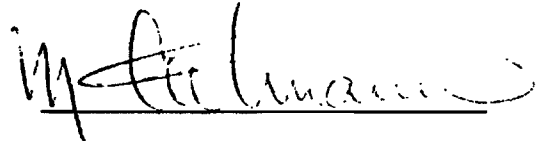
If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager is promptly to notify the Chairman who will then decide 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, September 19, 1978, beginning at 9:30 a.m.

The meeting adjourned.

A handwritten signature in cursive script, appearing to read "M. A. L...", is written over a horizontal line.

Secretary