

Meeting of Federal Open Market Committee

September 19, 1978

MINUTES OF ACTION

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, September 19, 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
Mrs. Teeters
Mr. Wallich
Mr. Willes
Mr. Winn

Messrs. Balles, Black, Kimbrel, Mayo, and Timlen,
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. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist

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

Mr. Holmes, Manager, System Open Market
Account

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Mr. Pardee, Deputy Manager for Foreign
Operations

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. Balbach, T. Davis, Eisenmenger,
Parthemos, and Scheld, Senior Vice
Presidents, Federal Reserve Banks of
St. Louis, 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

Ms. Clarkin, Securities Trading Officer,
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at
the meetings of the Federal Open Market Committee held on
August 15, and September 8, 1978, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period August 15 through
September 18, 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 on October 5, 1978, was authorized.

Renewal for a further period of 3 months of a System drawing on the Swiss National Bank maturing on October 5, 1978, was noted without objection.

By unanimous vote, System use of the "swap" line with the German Federal Bank beyond October 5, 1978, was authorized, the line with that Bank having been in continuous use since October 5, 1977.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period August 15 through September 18, 1978, were ratified.

By unanimous vote, the limit on System holdings of U. S. government and Federal agency securities specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations was raised from \$3 billion to \$4 billion, effective immediately, for the period ending with the close of business October 17, 1978.

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With Messrs. Wallich 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:

The information reviewed at this meeting suggests that real output of goods and services has grown moderately in the current quarter, although the pace is somewhat below the average for the first two quarters of the year. In August the dollar value of total retail sales rose, after having declined in July, but remained close to the level reached in April. Industrial production continued to expand at about the moderate pace of the preceding 3 months, and nonfarm payroll employment rose somewhat further. The unemployment rate declined from 6.2 to 5.9 per cent, slightly below the average rate in the first 7 months of the year. Since mid-year average prices of goods and services have risen less rapidly than earlier, in large part because of declines in prices of foods. 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.

After a sharp decline in early August, the trade-weighted value of the dollar against major foreign currencies has recovered against a background of uncertain conditions in exchange markets. In late August it was announced that the U. S. trade deficit had increased sharply in July.

Growth in M-1 picked up in August to about the average rate in the first two quarters of the year. Inflows of the interest-bearing deposits included in M-2 and M-3 also accelerated somewhat, and expansion in the broader aggregates was relatively rapid. Short-term market interest rates have risen appreciably since mid-August, but longer-term rates

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generally have edged down further. On August 18 an increase in Federal Reserve discount rates from 7-1/4 to 7-3/4 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. 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 8-1/4 to 8-3/4 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 September-October period of M-1 and M-2 and the following ranges of tolerance: 5 to 9 per cent for M-1 and 6-1/2 to 10-1/2 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.

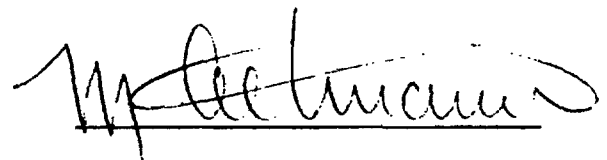
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If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager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

It was agreed that the next meeting of the Committee would be held on Tuesday, October 17, 1978, beginning at 9:30 a.m.

The meeting adjourned.

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

Secretary