

Meeting of Federal Open Market Committee

April 17, 1979

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 17, 1979, beginning at 9:30 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Kimbrel
Mr. Mayo
Mr. Partee
Mrs. Teeters
Mr. Wallich

Messrs. Guffey, Roos, and Winn, Alternate
Members of the Federal Open Market
Committee

Messrs. Baughman and Willes, Presidents of the
Federal Reserve Banks of Dallas and
Minneapolis, respectively

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Petersen, General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist

Messrs. Brandt, R. Davis, Ettin, Henry,
Keir, Keran, Kichline, Parthemos,
Scheld, Truman, and Zeisel, Associate
Economists

Mr. Holmes, Manager System Open Market
Account
Mr. Sternlight, Deputy Manager for
Domestic Operations

4/17/79

- 2 -

Mr. Coyne, Assistant to the Board of
Governors

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

Mr. Gemmill, 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. McIntosh and Smoot, First Vice
Presidents, Federal Reserve Banks
of Boston and Philadelphia,
respectively

Messrs. Balbach, Boehne, J. Davis,
and Eisenmenger, Senior Vice
Presidents, Federal Reserve
Banks of St. Louis, Philadelphia,
Cleveland, and Boston, respectively

Messrs. Burns, Danforth, and T. Davis,
Vice Presidents, Federal Reserve
Banks of Dallas, Minneapolis, and
Kansas City, respectively

Mr. Levin, Manager, Securities Department,
Federal Reserve Bank of New York

Mr. John Morton, Economist, Division of
International Finance, Board of
Governors

By unanimous vote, the minutes of actions taken at
the meeting of the Federal Open Market Committee held on
March 20, 1979, were approved.

4/17/79

- 3 -

By unanimous vote, System open market transactions in foreign currencies during the period March 20 through April 16, 1979, were ratified.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period March 20 through April 16, 1979, were ratified.

With Messrs. Coldwell, Volcker, and Wallich 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 in the first quarter of 1979 growth in real output of goods and services slowed substantially from the rapid rate in the last quarter of 1978, while the rise in prices accelerated. In March the dollar value of total retail sales, industrial production, and nonfarm payroll employment expanded considerably, but part of the strength was attributable to recovery from the effects of severe weather in the preceding two months. For the first quarter as a whole, retail sales in real terms declined somewhat, following a sharp increase in the fourth quarter of 1978, and the advance in industrial output slowed appreciably. Growth in employment remained strong in the quarter, however, and the unemployment rate in March, at 5.7 percent, was virtually

4/17/79

- 4 -

unchanged from its level in late 1978 and the first two months of 1979. Over recent months, broad measures of prices have increased at a faster pace than during 1978, and the index of average hourly earnings has continued to rise rapidly.

The trade-weighted value of the dollar against major foreign currencies has risen over the past four weeks, with the dollar showing particular strength against the yen, the Swiss franc, and the mark. The U. S. trade deficit in February was about half the size of the large deficit in January, but the average for the two months was above the monthly average in the fourth quarter of 1978.

M-1 increased slightly in March after having declined in both January and February. With market interest rates continuing high, inflows of the interest-bearing deposits included in M-2 and M-3 remained at reduced levels, despite substantial flows into money market certificates at both commercial banks and nonbank thrift institutions, and the broader monetary aggregates continued to grow at relatively slow rates. From the fourth quarter of 1978 to the first quarter of 1979, M-1 declined at an annual rate of about 2-1/2 percent, in part because of the effects of the growth of the automatic transfer service, and M-2 and M-3 grew at rates of about 1-1/2 percent and 4-1/2 percent, respectively. The behavior of all three monetary aggregates was affected by shifts of funds from deposits to money market mutual funds and other liquid assets. Since mid-March, market interest rates generally have risen somewhat, on balance.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade, and payments, and prices, it is the policy of the Federal

4/17/79

- 5 -

Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging 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 fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1-1/2 to 4-1/2 percent, 5 to 8 percent, and 6 to 9 percent, respectively. The associated range for bank credit is 7-1/2 to 10-1/2 percent. These ranges will be reconsidered in July or 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 the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9-3/4 to 10-1/2 percent. 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 April-May period of M-1 and M-2 and the following ranges of tolerance: 4 to 8 percent for M-1 and 4 to 8-1/2 percent for M-2. If, with approximately equal weight given 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 is to 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

4/17/79

- 6 -

for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

By unanimous vote, System renewal for further periods of 3 months of System drawings on the German Federal Bank maturing in the period May 7-9, 1979, was noted without objection.

Following the preceding action, Mr. Morton entered the meeting.

It was agreed that the next meeting of the Committee would be held on Tuesday, May 22, 1979, beginning a 9:30 a.m.

The meeting adjourned.

Secretary