

Meeting of Federal Open Market Committee

November 21, 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, November 21, 1978, at 8:00 a.m.

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

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

11/21/78

- 2 -

Mr. Holmes, Manager, System Open Market Account

Mr. Sternlight, Deputy Manager for Domestic Operations

Mr. Pardee, Deputy Manager for Foreign Operations

Mr. Wallace, 1/ Staff Director for Federal Reserve Bank Activities, Board of Governors

Mr. Coyne, Assistant to the Board of Governors

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

Messrs. Gemmill and Siegman, Associate Directors, 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, Parthemos, Scheld, and Sims, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Philadelphia, Kansas City, Boston, Richmond, Chicago, and San Francisco, respectively

Mr. Brandt, Vice President, Federal Reserve Bank of Atlanta

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 October 17, 1978, were approved.

1/ Left the meeting at the point indicated.

11/21/78

- 3 -

The report of examination of the System Open Market Account, made by the Board's Office of Staff Director for Federal Reserve Bank Activities as of the close of business September 8, 1978, was accepted.

Mr. Wallace left the meeting prior to the following action.

By unanimous vote, System open market transactions in foreign currencies during the period October 17 through November 20, 1978, were ratified.

By unanimous vote, renewal for further periods of 3 months of System drawings on the German Federal Bank maturing December 15 through 29, 1978, was authorized.

Renewal for further periods of 3 months of System drawings on the Swiss National Bank maturing December 15 through 29, 1978, was noted without objection.

By unanimous vote, the Committee approved the renewal for further periods of up to one year of the following swap arrangements, having the indicated amounts and maturity dates:

11/21/78

- 4 -

<u>Foreign bank</u>	<u>Amount of arrangement (Millions of dollars equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250	12 mos.	12/4/79
National Bank of Belgium	1,000	"	12/20/79
Bank of Canada	2,000	"	12/29/79
National Bank of Denmark	250	"	12/29/79
Bank of England	3,000	"	12/4/79
Bank of France	2,000	"	12/29/79
German Federal Bank	6,000	"	12/29/79
Bank of Italy	3,000	"	12/29/79
Bank of Japan	5,000	"	12/4/79
Bank of Mexico	360	"	12/4/79
Netherlands Bank	500	"	12/29/79
Bank of Norway	250	"	12/4/79
Bank of Sweden	300	"	12/4/79
Swiss National Bank	4,000	"	12/4/79
Bank for International Settlements:			
Dollars against Swiss francs	600	"	12/4/79
Dollars against authorized European currencies other than Swiss francs	1,250	"	12/4/79

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

By unanimous vote, 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:

11/21/78

- 5 -

The information reviewed at this meeting suggests that in the current quarter real output of goods and services is continuing to grow moderately. In October industrial production expanded further, nonfarm payroll employment rose considerably, and the unemployment rate declined from 6.0 to 5.8 per cent. Following 2 months of gains, the dollar value of total retail sales declined somewhat to a level slightly above the average in the third quarter. Average producer prices of finished goods rose substantially in October, as in September, in part because of further large increases in prices of foods. The advance in the index of average hourly earnings has been somewhat faster so far in 1978 than it was on the average during 1977. In late October the Government announced a new program aimed at moderating increases in prices and wages.

On November 1 a broad program to strengthen the dollar in foreign exchange markets and thereby to counter continuing domestic inflationary pressures was announced. The program included an increase in Federal Reserve discount rates from 8-1/2 to 9-1/2 per cent, establishment of a supplementary reserve requirement of 2 per cent against member bank time deposits in denominations of \$100,000 or more, increases in Federal Reserve reciprocal currency arrangements with certain central banks, and other measures to mobilize key foreign currencies.

The trade-weighted value of the dollar against major foreign currencies declined rapidly during the last week of October, but following the actions taken to strengthen the dollar, it rose sharply to a level somewhat above that in early October. The U. S. trade deficit was about the same in the third quarter as in the second quarter.

Growth in M-1, which had been rapid in August and September, slowed markedly in October, and growth in M-2 and M-3 also moderated. Inflows of the interest-bearing deposits included in the broader aggregates slowed somewhat, although sales of 6-month money market

11/21/78

- 6 -

certificates at both commercial banks and nonbank thrift institutions expanded to record levels. Short-term market interest rates have risen substantially further since mid-October. Bond rates also have increased on balance, although they have declined appreciably since November 1; mortgage interest rates have continued to rise.

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 October 17, 1978, in setting ranges for the monetary aggregates, the Committee recognized the uncertainties concerning the effects that the November 1 introduction of the automatic transfer service (ATS) would have on measures of the money supply, especially M-1. Against that background, the Committee agreed that appropriate monetary and financial conditions would be furthered by growth of M-2 and M-3 from the third quarter of 1978 to the third quarter of 1979 within ranges of 6-1/2 to 9 per cent and 7-1/2 to 10 per cent, respectively. The narrowly defined money supply (M-1) was expected to grow within a range of 2 to 6 per cent over the period, depending in part on the speed and extent of transfers from demand to savings deposits resulting from the introduction of ATS. The associated range for bank credit is 8-1/2 to 11-1/2 per cent. Growth of M-1+ (M-1 plus savings deposits at commercial banks and NOW accounts) in a range of 5 to 7-1/2 per cent was thought to be generally consistent with the ranges of growth for the foregoing aggregates. 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 the program for supporting the foreign exchange value of the dollar, to developing conditions in domestic financial markets, and to uncertainties associated with the introduction of ATS. Early in the period before the next regular meeting, System open market operations are to 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 9-3/4 to 10 per cent. In deciding on the specific objective for the Federal funds rate, the Manager is to be guided mainly by a range of tolerance for the annual rate of growth over the November-December period of 6 to 9-1/2 per cent in M-2, provided that the rate of growth in M-1 does not appear to exceed 5 per cent.

The objective for the funds rate is to be raised or lowered within its range if the rate of growth of M-2 appears to be close to or beyond the upper or lower limit of its range. Weight is to be given to M-1 if it appears to be growing at a rate close to or above its limit.

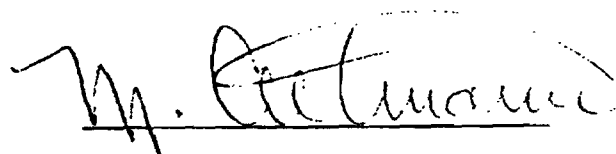
If the rates of growth in the aggregates appear to be falling outside the limits of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation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

11/21/78

- 8 -

It was agreed that the next meeting of the Committee would be held on Tuesday, December 19, 1978, beginning at 9:30 a.m.

The meeting adjourned.


Secretary