

Meeting of Federal Open Market Committee

December 19, 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, December 19, 1978, at 9:00 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. J. Davis, Keir, Kichline, Paulus,  
and Zeisel, Associate Economists

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Mr. Holmes, Manager, System Open Market  
Account

Mr. Sternlight, Deputy Manager for  
Domestic Operations

Mr. Pardee, Deputy Manager for Foreign  
Operations

Messrs. Coyne and Guenther 1/, Assistants  
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

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

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

Mr. Mullineaux, Research Officer, Federal  
Reserve Bank of Philadelphia

Mr. Levin, 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  
November 21, 1978, were approved.

1/ Entered the meeting at the point indicated.

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By unanimous vote, System open market transactions in foreign currencies during the period November 21 through December 18, 1978, were ratified.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period November 21 through December 18, 1978, were ratified.

With Mrs. Teeters and Mr. 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 current quarter real output of goods and services has picked up somewhat from the rate in the third quarter. In November, as in October, the dollar value of total retail sales expanded substantially. Industrial production and nonfarm payroll employment rose considerably further, and the unemployment rate remained at 5.8 per cent. Over recent months, broad measures of prices and the index of average hourly earnings have risen rapidly.

The trade-weighted value of the dollar against major foreign currencies declined sharply following OPEC's announcement on December 17 of increased oil prices for 1979, after having declined slightly over the previous few weeks, but it remains substantially above the low reached just prior to the actions taken on November 1 to strengthen the dollar. The U. S. trade deficit in October was at about the rate recorded in the second and third quarters.

M-1 declined in November, only in part because of shifts of funds from demand deposits to savings deposits after the introduction of the automatic transfer service (ATS) at the beginning of the month. Over the first 11 months of 1978, M-1 grew at an annual rate of about 7-1/4 per cent. Growth of M-2 and M-3 slackened further in November; they grew at rates of about 8-1/4 and 9-1/4 per cent, respectively, over the first 11 months of the year. Inflows of deposits to nonbank thrift institutions slowed in November, after having grown rapidly in the preceding 3 months. Market interest rates in general have risen further 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 October 17, 1978, in setting ranges for the monetary aggregates, the Committee recognized the uncertainties concerning the effects that the November 1 introduction of 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.

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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 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 10-1/2 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 December-January period of M-1 and M-2 and the following ranges of tolerance: 2 to 6 per cent for M-1 and 5 to 9 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 the midpoints of the indicated ranges, the objective for the funds rate shall be raised in an orderly fashion within its range; if their rates of growth appear to be approaching the lower limits of the indicated ranges, the funds rate shall be lowered in an orderly fashion within its range.

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.

By unanimous vote, renewal for further periods of 3 months of System drawings on the German Federal Bank maturing January 5, 1979, through February 15, 1979, was authorized.

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Renewals for further periods of 3 months of System drawings on the Bank of Japan and the Swiss National Bank maturing January 5, 1979, through February 15, 1979, were noted without objection.

Pursuant to paragraph 1D of the Authorization for Foreign Currency Operations the Committee, by unanimous vote, expressly authorized an over-all open position in all foreign currencies of \$8 billion, effective immediately.

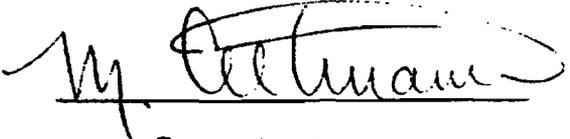
By unanimous vote, the Committee agreed to raise the amount of eligible foreign currencies that the Federal Reserve would be prepared to warehouse for the U. S. Treasury, or for the Exchange Stabilization Fund of the U. S. Treasury, to \$5 billion and to be prepared to warehouse such currencies for periods of up to 12 months.

Prior to the following action, Mr. Guenther entered the meeting.

By unanimous vote, transfer to the National Archives of the FOMC memoranda of discussion for 1973, on the basis described in a memorandum from the Secretariat dated December 6, 1978, was authorized.

It was agreed that the next meeting of the Committee would be held on Tuesday, February 6, 1979, beginning at 9:30 a.m.

The meeting adjourned.

  
Secretary