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Meeting of Federal Open Market Committee

January 17, 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, January 17, 1978, at 9:00 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Coldwell
Mr. Gardner
Mr. Guffey
Mr. Lilly
Mr. Mayo
Mr. Morris
Mr. Partee
Mr. Roos
Mr. Wallich

Messrs. Balles, Baughman, Eastburn, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Black, Kimbrel, and Willes, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and Minneapolis, respectively

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

Messrs. Balbach, T. Davis, Kichline, Scheld, Truman, and Zeisel, Associate Economists

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Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Sternlight, Deputy Manager for Domestic
Operations

Messrs. Coyne and Keir, Assistants to the Board of
Governors

Mrs. Farar, Economist, Open Market Secretariat,
Board of Governors

Mrs. Deck, Staff Assistant, Open Market Secretariat,
Board of Governors

Mr. McIntosh, First Vice President, Federal Reserve
Bank of Boston

Messrs. Boehne, J. Davis, and Parthemos, Senior
Vice Presidents, Federal Reserve Banks of
Philadelphia, Cleveland, and Richmond,
respectively

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

Mr. Kareken, Economic Adviser, Federal Reserve
Bank of Minneapolis

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

Secretary's Note: On January 6, 1978, pursuant to paragraph
1D of the Authorization for Foreign Currency Operations, the Committee,
with Mr. Jackson absent and not voting, expressly authorized an over-all
open position in foreign currencies of \$1.5 billion, effective immediately.

Secretary's Note: On January 9, 1978, the Committee, with Messrs.
Lilly, Morris, and Partee dissenting and Mr. Jackson absent and not voting,

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modified the domestic policy directive adopted at its meeting of December 19-20, 1977, by raising the range for the Federal funds rate to 6-1/2 to 7 per cent and by instructing the Manager to raise the rate to 6-3/4 per cent over the next few days.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on December 19-20, 1977, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period December 20, 1977, through January 16, 1978, were approved, ratified, and confirmed.

Renewal for further periods of 3 months of System drawings on the German Federal Bank maturing in the period February 2-24, 1978, was 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 foreign currencies of \$1.75 billion, effective immediately.

By unanimous vote, transfer to the National Archives of the FOMC memoranda of discussion for 1972, on the basis described in a memorandum from the Secretariat dated December 12, 1977, was authorized.

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By unanimous vote, the Committee amended the Authorization for Domestic Open Market Operations by the addition of the following new paragraph 4, effective immediately:

4. *In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, (a) for System Open Market Account, to sell U. S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U. S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.*

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period December 20, 1977, through January 16, 1978, were approved, ratified, and confirmed.

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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:

The information reviewed at this meetings suggests that growth in real output of goods and services in the fourth quarter was close to the pace in the third quarter. The dollar value of total retail sales declined in December, but the gain from the third to the fourth quarter was substantial. Industrial production expanded somewhat further in December, although the rise was limited by a strike in coal mining. Employment increased appreciably, and the unemployment rate declined from 6.7 per cent to 6.4 per cent. The wholesale price index for all commodities rose considerably less in December than in the preceding 2 months, reflecting a much smaller increase in average prices of farm products and foods. Prices of industrial commodities advanced at about the average pace in the preceding 2 months. The index of average hourly earnings advanced slightly faster during 1977 than it had during 1976.

Exchange market pressure on the dollar has continued in recent weeks. On January 4 it was announced that the Exchange Stabilization Fund would be utilized actively together with the swap network operated by the Federal Reserve System to help reestablish order in the foreign exchange markets. On January 6 an increase in Federal Reserve discount rates from 6 to 6-1/2 per cent was announced. The trade-weighted value of the dollar against major foreign currencies declined about 2-1/2 per cent further from mid-December to the early days of January but subsequently recovered about 1-3/4 per cent.

M-1--which had declined slightly in November--rose in December. Growth in M-2 remained relatively slow, as inflows to banks of time and savings deposits other than negotiable CD's were sharply curtailed. Inflows to non-bank thrift institutions slowed somewhat further. Market interest rates edged up in late December, and rates--particularly for short-term securities--rose substantially further in the early weeks of January.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will encourage continued economic expansion and help resist inflationary pressures, while contributing to a sustainable pattern of international transactions.

At its meeting on October 18, 1977, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of 4 to 6-1/2 per cent, 6-1/2 to 9 per cent, and 8 to 10-1/2 per cent, respectively, from the third quarter of 1977 to the third quarter of 1978 appears to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant.

At this time, the Committee seeks to maintain about the prevailing money market conditions during the period immediately ahead, provided that monetary aggregates appear to be growing at approximately the rates currently expected, which are believed to be on a path reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, the Committee seeks to maintain the weekly-average Federal funds rate at about the current level, so long as M-1 and M-2 appear to be growing over the January-February period at annual rates within ranges of 2-1/2 to 7-1/2 per cent and 5 to 9 per cent, respectively. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period are approaching or moving beyond the limits of the indicated ranges, the operational objective for the weekly-average Federal funds rate shall be modified in an orderly fashion within a range of 6-1/2 to 7 per cent. In the conduct of day-to-day operations, account shall be taken of emerging financial market conditions, including the unsettled conditions in foreign exchange markets.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, 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 Wednesday, February 22, 1978, beginning at 9:30 a.m.

The meeting adjourned.

A handwritten signature in cursive script, appearing to read "G. W. L. Smith", is written above a horizontal line.

Secretary