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Meeting of Federal Open Market Committee

July 19, 1977

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, July 19, 1977, beginning at 9:00 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Coldwell
Mr. Gardner
Mr. Guffey
Mr. Jackson
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. Tuttle, Assistant General Counsel
Mr. Axilrod, Economist
Messrs. Balbach, T. Davis, Eisenmenger,
Ettin, Kichline, Reynolds, Scheld,
Truman, and Zeisel, Associate Economists

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

Mr. Hudson, Assistant to the Chairman,
Board of Governors
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

Messrs. J. Davis and Parthemos, Senior
Vice Presidents, Federal Reserve Banks
of Cleveland and Richmond, respectively
Messrs. Brandt, Fousek, Green, and Kaminow,
Vice Presidents, Federal Reserve Banks
of Atlanta, New York, Dallas, and
Philadelphia, respectively
Mr. Bisignano, Assistant Vice President,
Federal Reserve Bank of San Francisco
Mr. Kareken, Economic Adviser, Federal
Reserve Bank of Minneapolis
Miss Lovett, Securities Trading Officer,
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 June 21,
1977, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period June 21 through July 18,
1977, were approved, ratified, and confirmed.

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With Messrs. Coldwell, Jackson, and Roos dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the second quarter of 1977 to the second quarter of 1978: M-1, 4 to 6-1/2 per cent; M-2, 7 to 9-1/2 per cent; and M-3, 8-1/2 to 11 per cent.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 21 through July 18, 1977, were approved, ratified, and confirmed.

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 meeting suggests that real output of goods and services grew in the second quarter at about the rapid rate of the first quarter. In June industrial output continued to expand at a substantial pace. The rise in employment moderated, and the unemployment rate edged up from 6.9 to 7.1 per cent. Total retail sales remained at about the level reached in March; for the second quarter as a whole, however, sales were moderately above the first-quarter level. The wholesale price index for all commodities declined in June, owing to sharp decreases among farm products and foods; as in May, average prices of industrial commodities rose appreciably less than in earlier months of 1977. The index of average hourly earnings rose over the first half of the year at about the same pace that it had on the average during 1976.

The average value of the dollar against leading foreign currencies has declined more than 1 per cent over the past month; the declines were especially marked against the Japanese, German, and Swiss currencies. In May the U. S. foreign

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trade deficit diminished somewhat from the high rate in the first 4 months of the year.

M-1, after rising at an exceptionally rapid rate in April, increased little in May and grew at a moderate pace in June. Growth in M-2 and M-3 also was moderate in June. Inflows to banks of the time and savings deposits included in M-2 picked up somewhat, after having slackened for a number of months, and inflows to nonbank thrift institutions remained sizable. Business short-term borrowing expanded sharply in June. Market interest rates in general have changed little in recent weeks.

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.

Growth in M-1, M-2, and M-3 within ranges of 4 to 6-1/2 per cent, 7 to 9-1/2 per cent, and 8-1/2 to 11 per cent, respectively, from the second quarter of 1977 to the second quarter of 1978 appears to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant.

The Committee seeks to encourage near-term rates of growth in M-1 and M-2 on a path believed to be reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, at present, it expects the annual growth rates over the July-August period to be within the ranges of 3-1/2 to 7-1/2 per cent for M-1 and 6-1/2 to 10-1/2 per cent for M-2. In the judgment of the Committee such growth rates are likely to be associated with a weekly-average Federal funds rate of about 5-3/8 per cent. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period will deviate significantly from the midpoints of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 5-1/4 to 5-3/4 per cent.

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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.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 16, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary