

8/16/77

Meeting of Federal Open Market Committee

August 16, 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, August 16, 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. Bailes, Baughman, Eastburn, and Winn,  
Alternate Members of the Federal Open Market  
Committee

Mr. Kimbrel, President of the Federal Reserve Bank  
of Atlanta

Mr. Altmann, Deputy Secretary  
Mr. Bernard, Assistant Secretary  
Mr. O'Connell, General Counsel  
Mr. Axilrod, Economist  
Messrs. R. Davis, T. Davis, Eisenmenger, Kichline,  
Reynolds, Scheld, Truman, and Zeisel, Associate  
Economists

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  
Miss Klaput, Open Market Secretariat, Board of  
Governors

Messrs. Rankin and Van Nice, First Vice Presidents,  
Federal Reserve Banks of Richmond and  
Minneapolis, respectively  
Mr. J. Davis, Senior Vice President, Federal Reserve  
Bank of Cleveland  
Messrs. Brandt, Broaddus, Burns, Hoskins, Keran,  
and Karnosky, Vice Presidents, Federal Reserve  
Banks of Atlanta, Richmond, Dallas, Philadelphia,  
San Francisco, and St. Louis, respectively  
Mr. Kareken, Economic Adviser, Federal Reserve  
Bank of Minneapolis  
Mr. John Hill, Senior Economist, 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 July 19, 1977, were approved.

Secretary's Note: On August 5, 1977, by unanimous vote (with  
Messrs. Balles and Timlen voting as alternates for Messrs. Guffey and  
Volcker, respectively, and Messrs. Coldwell, Gardner, and Lilly absent),  
the Committee modified the inter-meeting range for the Federal funds  
rate specified in the next-to-last paragraph of the domestic policy  
directive issued on July 19, 1977, by increasing the upper limit from  
5-3/4 to 6 per cent.

By unanimous vote, System open market transactions in foreign currencies during the period July 19 through August 15, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and banker's acceptances during the period July 19 through August 15, 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 policy directive:

The information reviewed at this meeting suggests that real output of goods and services is growing less rapidly in the current quarter than in the second quarter. In July industrial output rose a little less than in June. The rise in payroll employment in non-farm establishments was substantial. According to the household survey data, total nonagricultural employment was unchanged and the unemployment rate edged down to 6.9 per cent, the same as in May. The dollar value of total retail sales rose somewhat, after 2 months of decline. The wholesale price index for all commodities was about unchanged in July; average prices of farm products and foods declined sharply further, and average prices of industrial commodities continued to rise at a more moderate pace than in the early months of 1977. The index of average hourly earnings has continued to advance at about the same pace that it had on the average during 1976.

The weighted average exchange rate for the dollar against leading foreign currencies has recovered more than 1 per cent from the low point reached in late July. In June the U.S. foreign trade deficit rose sharply, and the deficit was larger for the second quarter as a whole than for the first.

The increase in M-1 was exceptionally large in July. Inflows to banks of the time and savings deposits included in the broader monetary aggregates strengthened, and growth in M-2 and M-3 also accelerated sharply. Business short-term borrowing moderated from the rapid pace in June. Interest rates on short- and intermediate-term market instruments have risen appreciably in recent weeks, while yields on longer-term bonds have changed little.

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 July 19, 1977, the Committee agreed that growth of 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 August-September period to be within the ranges of 0 to 5 per cent for M-1 and 3 to 8 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 6 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 mid-points of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 5-3/4 to 6-1/4 per cent.

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, September 20, 1977, beginning at 9:30 a.m.

The meeting adjourned.

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Deputy Secretary