

10/17-18/77

Meeting of Federal Open Market Committee

October 17-18, 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 Monday and Tuesday, October 17-18, 1977, beginning at 3:00 p.m. on Monday.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Coldwell
Mr. Gardner 1/
Mr. Guffey
Mr. Jackson
Mr. Lilly
Mr. Mayo
Mr. Morris
Mr. Partee
Mr. Roos
Mr. Wallich

Messrs. Balles, Baughman, 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, R. Davis, T. Davis, Ettin,
Kichline, Reynolds, Scheld, Truman,
and Zeisel, Associate Economists

1/ Attended Tuesday session only.

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
Mr. Kalchbrenner 2/, Associate Director,
Division of Research and Statistics,
Board of Governors
Mrs. Farar, Economist, Open Market Secretariat,
Board of Governors
Mrs. Deck, Staff Assistant, Open Market
Secretariat, Board of Governors

Messrs. McIntosh, Moriarty, and Smoot,
First Vice Presidents, Federal Reserve
Banks of Boston, St. Louis, and
Philadelphia, respectively
Mr. J. Davis 1/, Senior Vice President,
Federal Reserve Bank of Cleveland

Messrs. Broaddus, Burns, Cox, Kaminow, and
Keran, Vice Presidents, Federal Reserve
Banks of Richmond, Dallas, Atlanta,
Philadelphia, and San Francisco,
respectively
Mr. Sandberg, Assistant Vice President,
Federal Reserve Bank of New York
Mr. Kareken, Economic Adviser, Federal
Reserve Bank of Minneapolis

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

Note: The following actions were taken on Tuesday,
October 18, 1977.

1/ Attended Tuesday session only.

2/ Attended part of Tuesday session only.

By unanimous vote, System open market transactions in foreign currencies during the period September 20 through October 17, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period September 20 through October 17, 1977, were approved, ratified, and confirmed.

By unanimous vote, the Committee amended paragraph 2 of the Authorization for Domestic Open Market Operations to lower the dollar limit on Federal Reserve Bank holdings of special short-term certificates of indebtedness purchased directly from the Treasury from \$3 billion to \$2 billion, effective immediately.

With Mr. Wallich dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the third quarter of 1977 to the third quarter of 1978: M-1, 4 to 6-1/2 per cent; M-2, 6-1/2 to 9 per cent; and M-3, 8 to 10-1/2 per cent.

With Mr. Morris 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 growth in real output of goods and services slowed in the third quarter, mainly because of a reduction in the rate of inventory accumulation. In September industrial production expanded, returning to about the level reached in July, and employment increased substantially. The unemployment rate edged down to 6.9 per cent, but remained near the level prevailing since April. The dollar value of total retail sales declined after having risen appreciably in July and August. The wholesale price index for all commodities, which had declined on balance since May, advanced in September; average prices of farm products and foods changed little following 3 months of sharp decreases, and average prices of industrial commodities rose more than in the immediately preceding months. So far this year the index of average hourly earnings has advanced at about the same pace as it had on the average during 1976.

Pressure on the dollar in foreign exchange markets emerged at the end of September, and the dollar has declined against most major foreign currencies and particularly against the Japanese yen. In August the U.S. foreign trade deficit widened; the July-August average was somewhat above the second-quarter rate.

M-1 and M-2 expanded somewhat more in September than in August, and increased substantially further in early October. Inflows to banks of time and savings deposits increased little in September from the reduced rate in August, while inflows to nonbank thrift institutions remained strong. Short-term interest rates have risen further in recent weeks, and yields on longer-term market securities have increased.

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 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 6-1/2 per cent, so long as M-1 and M-2 appear to be growing over the October-November period at annual rates within ranges of 3 to 8 per cent and 5-1/2 to 9-1/2 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 6-1/4 to 6-3/4 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, November 15, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary