

12/19-20/77

Meeting of Federal Open Market Committee

December 19-20, 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, December 19-20, 1977, beginning at 4:00 p.m. on Monday.

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. O'Connell, General Counsel
Mr. Axilrod, Economist

Except as noted, the following attended the Tuesday session only:

Messrs. Balbach, R. Davis, T. Davis,
Eisenmenger, Ettin, Reynolds, Scheld
Truman, and Zeisel, Associate
Economists

Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Sternlight, 1/ Deputy Manager for
Domestic Operations

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

Messrs. Coyne 1/ 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. Boehne and J. Davis, Senior Vice
Presidents, Federal Reserve Banks of
Philadelphia and Cleveland, respectively

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

Mr. Duprey, Senior Economist, Federal
Reserve Bank of Minneapolis

Mr. Ozog, Manager, Securities Department,
Federal Reserve Bank of New York

Note: All of the following actions were taken on
Tuesday, December 20, 1977.

1/ Attended Monday and Tuesday sessions.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on November 15, 1977, were approved.

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

Renewal for further periods of 3 months of System drawings on the German Federal Bank maturing in the period January 5-26, 1978, was noted without objection.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period November 15 through December 19, 1977, were approved, ratified, and confirmed.

With Mr. Roos 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 real output of goods and services is growing in the current quarter at about the pace in the third quarter. The dollar value of total retail sales, which had increased sharply in October, rose considerably further in November. Industrial production continued to expand, and employment increased substantially.

However, the unemployment rate, at 6.9 per cent, remained in the narrow range prevailing since April. The wholesale price index for all commodities rose sharply in November for the second successive month, reflecting another large increase in average prices of farm products and foods. However, the rise in average prices of industrial commodities was less rapid than in the preceding 2 months. The index of average hourly earnings has advanced at a somewhat faster pace so far this year than it had on the average during 1976.

The dollar has been under considerable pressure in foreign exchange markets in recent weeks, and its trade-weighted value against major foreign currencies has declined more than 3 per cent further since mid-November. In October the U. S. foreign trade deficit widened sharply, primarily as a result of the dock strike at many U. S. ports.

M-1--which had expanded substantially in October--declined slightly in November, and M-2 increased relatively little. The total of savings deposits and small-denomination time deposits at commercial banks declined somewhat, but growth in large-denomination time deposits accelerated sharply further as credit demands remained strong. Inflows to nonbank thrift institutions slowed further in November. Market interest rates have changed relatively little since mid-November.

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 December-January period at annual rates within ranges of 2-1/2 to 8-1/2 per cent and 6 to 10 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. 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.

12/19-20/77

- 6 -

It was agreed that the next meeting of the Committee would be held on Tuesday, January 17, 1978, beginning at 9:30 a.m.

The meeting adjourned.

Secretary