FEDERAL RESERVE

press release

For Use at 4:00 p.m. May 20, 1977

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on April 19, 1977.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on April 19, 1977

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services in the first quarter of 1977 had increased from the pace in the fourth quarter of 1976--now indicated by revised estimates of the Commerce Department to have been at an annual rate of 2.6 per cent, compared with 3.9 per cent in the third quarter and 4.5 per cent in the second. The rise in average prices--as measured by the fixed-weighted index for gross domestic business product--appeared to have been appreciably faster than the annual rate of 4.9 per cent estimated for the fourth quarter of last year, in part because of the adverse effects of severe winter weather on prices of foods.

According to staff estimates, growth in real GNP had been at a slightly higher rate in the first quarter than had been projected a month earlier. It now appeared that the expansion in consumer purchases of goods and services was substantially stronger than had been anticipated; that the gain in business outlays for equipment was larger; and that the rebound in business inventory investment from the sharply reduced rate in the fourth quarter of 1976 was greater. On the other hand, growth in construction outlays slowed somewhat more than had been expected, and the deterioration in net exports was more pronounced.

The staff projections for subsequent quarters incorporated revised assumptions for fiscal policy, as a result of the President's announcement on April 14 of changes in his package of measures designed to stimulate growth in economic activity. The revised assumptions excluded rebates of Federal income taxes and related payments and any increase in the business investment tax credit. It was still assumed that personal income taxes would be reduced and that Federal spending for job-creating programs and for public works would be expanded. No assumptions were made with respect to the administration's energy program, which was to be the subject of an address by the President to the Congress on April 20.

Growth in real GNP over the next few quarters was still projected to be substantial, reflecting strength in consumer demands and expansion of business investment in both fixed capital and inventories. The projections continued to suggest that the rise in the fixed-weighted price index for gross business product would be less rapid in the quarters immediately ahead than in the first quarter, when it had accelerated because of the adverse effects of severe weather. Upward price pressures over the next several quarters were nonetheless expected to be somewhat greater than had been anticipated earlier, partly because of further deterioration in the outlook for prices of some foods and partly because of the prospect of another increase in the minimum wage soon after midyear.

In March economic activity continued to gain in strength. Industrial production--which had risen 1 per cent in February, recovering to the December level--expanded about 1-1/2 per cent further in March. About one-third of the gain was attributable to a substantial rise in production of motor vehicles, but increases in output were widespread among other types of consumer durable goods and business equipment and among construction supplies and materials. For the first quarter as a whole, industrial production expanded almost twice as much as in the preceding quarter, despite the adverse effects of the weather in January and early February.

Rates of capacity utilization rose in March to about 82 per cent in manufacturing as a whole and to about 81 per cent in the materials-producing industries. However, these utilization rates were still 6 and 10 percentage points, respectively, below the peaks in the previous business expansion, when capacity constraints in a number of materials-producing industries limited growth in output.

Private housing starts, following their weather-related drop in January, rebounded in February and rose sharply further in March to an annual rate of about 2.1 million units--the highest rate in nearly 4 years. For the first quarter as a whole, starts about equaled the total for the fourth quarter of 1976 and remained more than one-tenth above that for the third quarter.

Developments in the labor market in recent months reflected the strengthening in economic activity. Payroll employment in nonfarm establishments rose sharply in March, after having increased considerably in each of the preceding

4 months. Employment gains in March were widespread by industry and were particularly large in the manufacturing, construction, and service-producing industries. The labor force also increased sharply further in March; nevertheless, the unemployment rate declined from 7.5 to 7.3 per cent, returning to the January level.

Personal income, which had changed little in January, rose substantially in February. The rise was concentrated in wage and salary disbursements and for the most part reflected further gains in employment and recovery in the average length of the workweek from the adverse effects of the weather in January. The gain in employment in March suggested that wage and salary payments continued to grow at a rapid pace.

Expansion in retail sales had been quite strong recently. Sales for February had been revised upward, and in March they rose substantially further, reflecting widespread increases among types of retail outlets.

Sales of new domestic and foreign automobiles surged upward in March to an annual rate of about 12-1/4 million units, compared with rates of about 10-3/4 million in February and

10 million in the fourth quarter of 1976. The rate in March was the highest since the spring of 1973, and it suggested improvement in consumer confidence and a strong underlying demand for automobiles stemming in part from postponed replacement needs. The gains were impressive for foreign as well as for domestic models; sales of foreign models reached a new record annual rate of 2 million units.

Business capital outlays appeared to have strengthened in the first 2 months of 1977, although much of the improvement reflected recovery in shipments of trucks, automobiles, and farm equipment from the effects of strikes in the fourth quarter of 1976. The value of private nonresidential construction put in place rebounded in February, but it remained below the peak attained last September.

New orders for nondefense capital goods--which, according to revised data, had risen somewhat more in January than had been reported earlier--declined in February. However, the average for the 2 months was significantly higher than the monthly average for the fourth quarter of 1976. Unfilled orders for such goods edged up over the January-February period. Contract awards for commercial and industrial buildings--measured in terms of floor space--declined in February, and the average for the first 2 months of 1977 was unchanged from that for the fourth quarter of 1976. The Commerce Department had reported in mid-March that businesses were planning to spend 11.7 per cent more for plant and equipment in 1977 than in 1976.

The index of average hourly earnings for private nonfarm production workers rose at an annual rate of about 5 per cent in March. Indexes for January and February had been revised upward appreciably, however, with the result that the rise over the 3 months was at an annual rate of 7-1/2 per cent--somewhat faster than the pace during 1976. Much of the acceleration in the first quarter was attributable to an increase in the minimum wage at the beginning of 1977, which had affected rates of pay in the service and trade industries in particular.

The wholesale price index--which had risen 0.9 per cent in February, after having increased 0.6 per cent on the average in the preceding 5 months--rose 1.1 per cent in March, the largest monthly increase since late 1975. Average prices of farm products and foods rose 2.1 per cent in March, reflecting especially sharp increases for coffee, cocoa, tea, soybeans, fresh fruits and vegetables, and sugar. Average prices of industrial commodities rose 0.8 per cent--somewhat more than in the immediately preceding months--reflecting large increases for metals and metal products, transportation equipment, textiles and apparel, and fuels and power.

The consumer price index went up 1.0 per cent in February, compared with 0.8 per cent in January and with 0.4 per cent on the average during the second half of 1976. Retail prices of foods rose sharply in February, led by increases in fresh fruits and vegetables and coffee. Among nonfood items, substantial increases were reported for fuel oil, gasoline, and used cars.

The average value of the dollar against leading foreign currencies had declined about 1/2 per cent since mid-March, returning to about its level at the beginning of the year. The depreciation of the dollar in the recent period was accounted for mainly by an appreciation of the Japanese yen, which rose 4 per cent in response to intensified demands for that currency. Demands also intensified for the U.K. pound, but exchange market intervention by the Bank of England kept the pound from appreciating. The average value of the currencies associated in the European "snake" arrangement changed little against the dollar.

The U.S. foreign trade deficit remained large in February, and the average for the first 2 months of the year was sharply higher than that for the fourth quarter of 1976. In the January-February period, as compared with the fourth quarter, the value of imports of foods rose sharply--as more coffee entered the country at higher prices--and imports of a variety of other consumer goods increased. The overall value of exports declined slightly; exports of agricultural commodities were sustained--as their average unit values advanced while the physical quantity declined--but exports of other goods declined somewhat. Since the middle of 1976 exports of nonagricultural commodities had shown little net growth, reflecting sluggishness in the economies of other major industrial countries.

At U.S. banks, growth in total credit was somewhat less rapid in March than in February. Total loans expanded at an accelerated pace, but holdings of Treasury securities increased much less than in February and holdings of other securities declined. Over the first quarter, expansion in total bank credit was greater than in any other quarter in 2-1/2 years.

Business credit demands remained generally strong. Business loans at banks rose during March at about the average rate for the preceding 5 months. At the same time the outstanding volume of commercial paper issued by nonfinancial corporations declined, as such corporations relied to a greater extent than in other recent months on internal sources of funds and on the proceeds of the sizable amount of securities sold in the capital market during the month.

The narrowly defined money stock (M-1), which had increased little in February, rose at an annual rate of about 6 per cent in March. From the fourth quarter of 1976 to the first quarter of 1977, M-1 grew at a rate of about 4-3/4 per cent. Weekly data suggested that M-1 had expanded substantially in early April.

Reflecting the pick-up in growth of M-1, the annual rate of growth in M-2 increased to about 8-1/4 per cent in March from about 6-3/4 per cent in February. Inflows to banks of time and savings deposits other than large-denomination CD's continued to slacken in March, mainly because of a contraction in savings deposits held by State and local governments. Inflows of deposits to nonbank thrift institutions also continued to slow, but the rate of growth in M-3 edged up. From the fourth quarter of 1976 to the first quarter of 1977, M-2 and M-3 grew at rates of about 9-1/2 and 11 per cent, respectively.

At its March meeting the Committee had decided that growth in M-1 and M-2 over the March-April period at annual rates within ranges of 4-1/2 to 8-1/2 per cent and 7 to 11 per cent, respectively, would be appropriate. It had judged that these growth rates were likely to be associated with a weekly-average Federal funds rate in the area of 4-5/8 to 4-3/4 per cent. The Committee had agreed that if growth rates in the aggregates over the 2-month period appeared to be deviating significantly from the midpoints of the indicated ranges, the operational objective for the weekly-average Federal funds rate should be modified in an orderly fashion within a range of 4-1/4 to 5-1/4 per cent.

Over most of the interval between the March and April meetings, incoming data suggested that the 2-month growth rates for M-1 and M-2 would be well within their respective ranges. Consequently, the Manager of the System Open Market Account continued to aim for a Federal funds rate in the area of 4-5/8 to 4-3/4 per cent. Near the end of the period, however, it appeared that growth in M-1 would exceed the upper limit of its 2-month range and that growth in M-2 would be in the upper part of its range. In those circumstances, the Manager aimed for a Federal funds rate of around 4-3/4 per cent.

Market interest rates changed little over most of the inter-meeting period, but they generally moved lower late in the period when the President's intention to drop the tax rebates and related payments from his fiscal program became known. Yields on medium-term Treasury notes declined more than other rates, because market participants had anticipated that most of the Treasury borrowing in the second quarter to finance the rebates and related payments would follow the pattern of recent borrowings and would be concentrated in the medium-term area.

The Treasury raised $3.7 billion of new money in securities markets during March, largely through sales of 2- and 4-year notes. For the first quarter as a whole, the Treasury sold $14 billion of marketable securities--considerably less than the $20 billion to $23 billion it had projected in January. The difference was attributable to several factors: The Federal deficit in the first quarter was not so large as had been anticipated, chiefly because of a shortfall in outlays; the Treasury sold substantially more nonmarketable securities than had been expected--primarily to State and local governments undertaking advance refundings of their own securities; and the Treasury had drawn down its cash balance to a level at the end of March that was $3 billion below the amount projected in late January. In early April the Treasury sold $4.5 billion of short-dated cash-management bills in order to bridge a low point in its cash balance prior to the mid-April date for tax payments.

In the corporate bond market the volume of new securities offered publicly expanded more than seasonally during March, reflecting large offerings by utilities--for the most part telephone companies. For the first quarter of 1977 as a whole, however, offerings were about the same as those for the final quarter of 1976 and were below those for the first quarter of that year.

In the market for State and local government bonds, offerings of new issues reached a record of $4 billion in March, and the total for the first quarter substantially exceeded offerings in the final quarter of 1976. In March, however, investment interest from property-casualty insurance companies and from investment companies remained substantial, and yields on tax-exempt securities moved lower during the month and in early April, even before the withdrawal of the proposed rebate of Federal taxes. About one-third of the new issues in March were associated with advance refundings.

Interest rates on new commitments for primary conventional home mortgages at savings and loan associations rose somewhat during March and early April from recent lows in late February and early March, as demands for mortgages remained strong. In February outstanding commitments of savings and loan associations to acquire mortgage loans had returned to record levels after having edged down a little in January. Over the past two quarters the ratio of commitments to total cash inflows at these institutions had risen noticeably.

For the period immediately ahead, the principal new factor in the outlook for credit demands was the prospective shift in the position of the U.S. Treasury from a sizable net borrower to a temporary repayer of debt. At the same time, however, business demands for credit were still expected to expand as a result of continuing improvement in economic activity. Projections of consumer expenditures implied a continued high rate of growth in consumer credit outstanding, and expansion of mortgage debt was anticipated to remain large. State and local government borrowing was also expected to remain sizable.

In the discussion of the economy at this meeting, it was suggested that for some time the situation in general had been strengthening, and that--in the light of the housing starts figures for March, which had been released just the day before--residential construction activity might prove to be even stronger than had been projected by the staff. It was emphasized that developments were taking place in the sphere of governmental economic policy that could have important consequences for the course of economic activity and prices--including the recent changes in the administration's fiscal policy proposals, the President's announcement on April 15 of a series of measures aimed at controlling and reducing inflation, and the energy program to be presented to the Congress on the day after this meeting.

With respect to the consequences of the changes in fiscal policy, it was suggested that elimination of the proposal to raise the investment tax credit from 10 to 12 per cent was not of much significance, because an increase of 2 percentage points would have at best only a small effect on business fixed investment--especially in view of the rate at which prices of plant and equipment were rising. Insofar as an increase in the tax credit would add to investment outlays, the effect of its elimination was likely to be offset by another consequence of the changes in fiscal policy proposals: the favorable effect on interest rates to be expected from the reduction in the prospective Federal deficit. It was observed that business investment also would be encouraged by one of the measures proposed to reduce the rate of inflation--specifically, the development of procedures to speed up the issuance of construction permits by government agencies.

Withdrawal of the proposal for tax rebates was thought to be of considerable significance. Some members expected that this change, especially in conjunction with the measures aimed at reducing inflation, would contribute to improvement in business and consumer confidence and in that way would add strength to the economic outlook.

The details of the energy program had not yet been announced, but its probable major features had already been described in the press. It was observed that the program was extensive and complex; that its effects were difficult to appraise; and that uncertainties would be heightened during the long period that was likely to be consumed in legislating the actual measures. Although the need for such a program appeared clear, the suggestion was made that it could have some negative consequences for economic activity in the short run--chiefly, perhaps, if uncertainties led to a dampening of growth in business capital investment--and that over time it would tend to exert some upward pressure on prices.

Attention was drawn to other potentially troublesome aspects of the developing economic situation. Thus, one member commented that growth in nominal GNP over the quarters ahead at the rate indicated in the staff projections--which did not take the energy program into account--might well be accompanied by considerable strain in financial markets. Another member suggested that the economic expansion had become unbalanced in the sense that growth in business fixed investment had lagged that in other major sectors of demand. The question was raised whether in this expansion--in contrast with earlier ones--an acceleration in business capital outlays might not be delayed until capacity utilization reached a relatively high rate and shortages were developing. With respect to the degree of balance during this upswing, it was also pointed out that net exports had deteriorated sharply since 1975 and had exerted a drag on the expansion in over-all activity in this country.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At its January meeting the Committee had specified the following ranges for growth over the period from the fourth quarter of 1976 to the fourth quarter of 1977: M-1, 4-1/2 to 6-1/2 per cent; M-2, 7 to 10 per cent; and M-3, 8-1/2 to 11-1/2 per cent. The associated range for growth in the bank credit proxy was 7 to 10 per cent. The ranges being considered at this meeting were for the period from the first quarter of 1977 to the first quarter of 1978.

In the discussion of the ranges for growth in the aggregates over the year ahead, members of the Committee were almost unanimous in believing that a reduction of some kind would be appropriate at this time as another step toward the ultimate objective of achieving longer-run rates of monetary expansion consistent with general price stability. However, opinions differed as to the specific reduction to be made.

In advocating a further reduction in the longer-run ranges for monetary growth, a few members noted that the economic situation had strengthened over recent months and that less stimulus from monetary policy was required now, even though the administration's proposals for fiscal stimulus had been scaled down. At the same time, it was observed, inflationary forces appeared to have increased. One member expressed the view that advances in prices attributable to exogenous forces--such as an increase in the price of oil--should not be fully accommodated in establishing appropriate rates of monetary growth; but neither should they be wholly unaccommodated because that could create a high degree of monetary stringency.

In the current circumstances, it was observed, a further step in the gradual process of reducing the longer-run ranges would make a useful contribution to rebuilding confidence in economic prospects. It was suggested, moreover, that continuation of that process would be consistent with the President's announced objective of achieving a 2 percentage point reduction in the rate of inflation by the end of 1979.

In support of some reduction in the longer-run ranges, it was noted that from the first quarter of 1976 to the first quarter of 1977 growth in M-1--at 6.2 per cent--was more rapid than in any four-quarter period since April 1975 when the Committee had begun to adopt 1-year ranges, and that rates of growth for M-2 and M-3 had been relatively high as well. Over the most recent two quarters, growth in M-1--at an annual rate of about 5-3/4 per cent--had been well within its range, but growth in both M-2 and M-3 had been above the upper limits of their ranges.

Partly because of the uncertainties associated with the energy program, there was little sentiment for making more than small reductions in the longer-run ranges at this time. Most members were inclined to favor retaining the existing 4-1/2 to 6-1/2 per cent range for M-1 while reducing the upper limit--in some cases, both limits--of the ranges for M-2 and M-3 by 1/2 of a percentage point. In this connection, it was noted that growth in the interest-bearing deposits included in M-2 and M-3 had slackened in recent months. However, there also was some sentiment for reducing the lower limit of the range for M-1 by 1/2 of a percentage point--either alone or in combination with some reduction in the ranges for M-2 and M-3.

At the conclusion of its discussion the Committee arrived at a consensus calling for retention of the existing range for M-1 and reductions of 1/2 of a percentage point in the upper limits of the ranges for M-2 and M-3. The ranges thus were 4-1/2 to 6-1/2 per cent for M-1, 7 to 9-1/2 per cent for M-2, and 8-1/2 to 11 per cent for M-3. The associated range for the rate of growth in the bank credit proxy was 7 to 10 per cent. It was agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It was also understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for the year ahead.

> The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the first quarter of 1977 to the first quarter of 1978: M-1, 4-1/2 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.
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> > Votes for this action: Messrs. Burns, Volcker, Coldwell, Gardner, Guffey, Jackson, Lilly, Mayo, Morris, Roos, and Wallich. Vote against this action: Mr. Partee.

Mr. Partee--although he agreed in principle with the longer-term objective of reducing the ranges--dissented from this action because he opposed any adjustment at this particular juncture. He noted that the administration had just withdrawn its proposal for the tax rebate; that the forthcoming energy program, by raising the price structure, might tend to dampen economic expansion; and that very large increases in the velocity of the various monetary aggregates would have to occur over the next year if nominal GNP were to grow at the rate projected by the staff and good progress were thus to be made in reducing unemployment.

As to policy for the period immediately ahead, the Committee members were willing to tolerate growth in the monetary aggregates over the April-May period within ranges that were higher than those adopted for the year ahead because of the expectation that the forces contributing to rapid expansion in M-1 in early April would prove to be transitory and that the bulge in growth for the month as a whole would for the most part be offset by slower growth later on.

Members of the Committee did not differ greatly in their preferences for ranges of growth for the monetary aggregates over the April-May period. For M-1, most of them favored a range of 6 to 10 per cent, but a number expressed a preference for a slightly lower range--specifically, 5-1/2 to 9-1/2 per cent. For M-2, most members favored a range of 8 to 12 per cent; a few preferred 7-1/2 to 11-1/2 per cent.

Almost all of the members favored directing operations initially toward the objective of maintaining the Federal funds rate at its current level of about 4-3/4 per cent, but one or two members suggested that initial operations be directed toward achieving a slightly higher rate. With respect to the degree of leeway for operations during the inter-meeting period in the event that the aggregates appeared to be deviating significantly from the midpoints of the specified ranges, almost all of the members preferred to specify a range for the funds rate of 4-1/2 to 5-1/4 per cent. However, one expressed a preference for a range of 4-1/4 to 5-1/4 per cent and another for 4-1/2 to 5-1/2 per cent. The member who proposed the latter range also advocated directing operations toward moving the funds rate slowly toward 5 per cent even if the aggregates appeared to be growing at rates near the midpoints of their specified ranges, primarily because he thought that the recent acceleration in growth of M-1 might reflect fundamental forces to a greater extent than was generally assumed.

At the conclusion of the discussion the Committee decided that growth in M-1 and M-2 over the April-May period at annual rates within ranges of 6 to 10 per cent and 8 to 12 per cent, respectively, would be appropriate. It was understood that in assessing the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of M-1 and M-2.

In the judgment of the Committee, such growth rates of the aggregates were likely to be associated with a weekly-average Federal funds rate of about 4-3/4 per cent. The Committee agreed that if growth rates of the aggregates over the 2-month period appeared to be deviating significantly from the midpoints of the indicated ranges, the operational objective for the weekly-average Federal funds rate should be modified in an orderly fashion within a range of 4-1/2 to 5-1/4 per cent. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services increased in the first quarter from the reduced pace in the fourth quarter of 1976. In March industrial output, retail sales, and employment expanded substantially further. Although the labor force also increased sharply, the unemployment rate declined from 7.5 to 7.3 per cent. The wholesale price index for all commodities again rose substantially; increases were particularly sharp among farm products and foods, and there were sizable

advances for many industrial commodities. The index of average wage rates rose in the first quarter of 1977 at a somewhat faster pace than it had on the average during 1976, reflecting largely an increase in the minimum wage.

The average value of the dollar against leading foreign currencies has declined somewhat over the past month, returning to about the level at the beginning of the year. Demand for the Japanese yen and the U.K. pound intensified. The U.S. foreign trade deficit continued large in February.

M-1 grew at a moderate pace in March but increased substantially in early April. At banks and thrift institutions, inflows of time and savings deposits other than large-denomination CD's continued to slacken in March. Market interest rates declined considerably in mid-April, after having changed little since mid-March.

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, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

Growth in M-1, M-2, and M-3 within ranges of 4-1/2 to 6-1/2 per cent, 7 to 9-1/2 per cent, and 8-1/2 to 11 per cent, respectively, from the first quarter of 1977 to the first 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 April-May period to be within the ranges of 6 to 10 per cent for M-1 and 8 to 12 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 4-3/4 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 4-1/2 to 5-1/4 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.

Votes for this action: Messrs. Burns, Volcker, Coldwell, Gardner, Guffey, Jackson, Lilly, Mayo, Morris, Partee, Roos, and Wallich. Votes against this action: None.

Subsequent to the meeting, on May 5, nearly final estimates indicated that in April M-1 had grown at a record annual rate of 19.4 per cent and that M-2 had grown at the substantial rate of 13.0 per cent. For the April-May period staff projections suggested that the annual rate of growth in M-1 would be well above the upper limit of the 6 to 10 per cent range specified by the Committee in the next-to-last paragraph of the domestic policy directive issued at the April meeting. Growth in M-2 for the 2-month period was projected to be close to the midpoint of the Committee's range of 8 to 12 per cent for that aggregate.

The Federal funds rate had averaged 5.15 per cent in the statement week ended May 4, about 40 basis points above the average for the preceding 3 weeks. The Manager of the System Open Market Account was currently aiming at a funds rate of 5-1/4 per cent, the upper limit of the inter-meeting range specified in the directive.

Against that background, Chairman Burns recommended on May 5 that the upper limit of the range for the Federal funds rate be increased to 5-1/2 per cent, on the understanding that the Manager would use the additional leeway only if new data becoming available before the meeting scheduled for May 17 suggested that the aggregates were strengthening significantly further on balance.

On May 6, 1977, 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 April 19, 1977, by increasing the upper limit from 5-1/4 to 5-1/2 per cent.

Votes for this action: Messrs. Burns, Volcker, Coldwell, Gardner, Guffey, Jackson, Lilly, Morris, Partee, Roos, Wallich, and Winn. Votes against this action: None. Absent and not voting: Mr. Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)