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Meeting of Federal Open Market Committee

May 17, 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, May 17, 1977, beginning at 9:30 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. O'Connell, General Counsel
Mr. Axilrod, Economist
Messrs. Balbach, T. Davis, 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, Eisenmenger, and Parthemos, Senior Vice Presidents, Federal Reserve Banks of Cleveland, Boston, and Richmond, respectively

Messrs. Brandt, Burns, Fousek, Kaminow, and Keran, Vice Presidents, Federal Reserve Banks of Atlanta, Dallas, New York, Philadelphia, and San Francisco, respectively

Ms. Tschinkel, 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 April 19, 1977, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period April 19 through May 16, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period April 19 through May 16, 1977, were approved, ratified, and confirmed.

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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 at a rapid rate in the current quarter. In April industrial output and employment continued to expand at a substantial pace, and the unemployment rate declined from 7.3 to 7.0 per cent. Total retail sales remained at the advanced level reached in March. The wholesale price index for all commodities rose substantially in April for the third consecutive month; increases again were particularly sharp among farm products and foods, and they remained sizable for industrial commodities.

The average value of the dollar against leading foreign currencies has changed little on balance over the past month. The U. S. foreign trade deficit widened further in March; for the first quarter as a whole, the deficit was twice as large as for the preceding quarter.

The increase in M-1, which had been moderate in the first quarter, was exceptionally large in April. Inflows of the time and savings deposits included in the broader aggregates were slower than earlier in the year, but because of the rapid expansion in M-1, growth in M-2 and M-3 accelerated. Business short-term borrowing expanded sharply while corporate financing in the capital markets was reduced. Market interest rates have risen 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.

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At its meeting on April 19, 1977, the Committee agreed that growth of 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 May-June period to be within the ranges of 0 to 4 per cent for M-1 and 3-1/2 to 7-1/2 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.

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, June 21, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary