FEDERAL RESERVE
press release

For Use at 4:00 p.m. August 19, 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 July 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 July 19, 1977

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services in the second quarter had been close to the pace in the first quarter, indicated by estimates of the Commerce Department to have been at an annual rate of 6.9 per cent. The rise in average prices--as measured by the fixed-weighted price index for gross domestic business product--appeared to have been somewhat faster than the annual rate of 6.5 per cent estimated for the first quarter, owing in large part to substantial increases in prices of foods. Staff projections suggested that the rate of growth in real GNP would be less rapid in the second half of 1977 than in the first and that it would slow somewhat further into 1978. The projections also suggested that the rate of increase in prices would moderate from that in the first half but would remain high.

In the second quarter, according to the latest staff estimates for the expenditure components of real GNP, growth in personal consumption expenditures had slowed appreciably from the high rate in the first quarter. Moreover, expansion in business fixed investment had been substantially below the rapid pace in the first quarter, reflecting recovery from strikes. On the other hand, residential construction activity had expanded very sharply, in part because of recovery from the effects of severe winter weather in the first quarter; State and local government purchases of goods and services had turned up; and the rate of business inventory accumulation had increased considerably further.

Staff projections for the second half of the year were virtually the same as those made a month earlier. They suggested that growth in consumption expenditures would slow somewhat further and that the pace of expansion in residential construction would moderate. At the same time, however, it was expected that increases in Federal purchases of goods and services would be substantial; that growth in State and local government purchases would be sustained at a high rate; that expansion of business investment would remain relatively strong; and that the rate of inventory accumulation would rise further, although by much less than in the first half.

In June industrial production rose 0.7 per cent, following gains of 0.7 and 1.0 per cent in April and May, respectively. Much of the June advance was accounted for by increases in output of automotive products--following 2 months of declines--and in production of business equipment and durable goods materials. Output of nondurable consumer goods and of nondurable goods materials changed little. Over the period from March to June, when the over-all index rose 2-1/2 per cent, output of business equipment expanded about 5 per cent and production of consumer goods about 1-1/4 per cent.

The rate of capacity utilization for the materials-producing industries remained near 83 per cent in June, compared with about 81-1/2 per cent in March. For durable goods materials and nondurable goods materials, respectively, the rates were about 80-1/2 and 87-1/2 per cent in June, compared with 78 and 87 per cent in March.

Expansion in employment moderated in June. Payroll employment in nonfarm establishments rose by 135,000 persons, less than half the average monthly increase in the preceding

5 months. Employment in manufacturing--after vigorous expansion earlier in the year--declined slightly in June, reflecting reductions in a number of nondurable goods industries. The unemployment rate rose from 6.9 to 7.1 per cent, reflecting an increase in the number of persons seeking part-time jobs--mainly teenagers and adult women. The civilian labor force continued to grow at a rapid pace. Since December 1976, when the unemployment rate was 7.8 per cent, the civilian labor force had risen by about 1-3/4 million persons. Teenagers and adult women accounted for about three-fourths of that increase.

Personal income expanded considerably less in April and May than in the preceding 2 months when increases had been especially large owing to the rebound in wage and salary payments from the weather-reduced level in January and to large increases in transfer payments. Wage and salary payments rose about 1 per cent in both April and May, close to the average monthly increase for the first quarter. For June the employment statistics suggested a smaller increase in wage and salary payments.

Retail sales in June remained at about the level reached in March; however, the total for the second quarter was about 2 per cent above the first-quarter level. In June sales declined at general merchandise stores for the second consecutive month and fell sharply at apparel stores, but they rose appreciably at furniture and appliance stores and continued to expand at food stores. Sales of new automobiles--at an advanced annual rate of 11.8 million units--were close to the level of April and May and about 5 per cent above the average for the first quarter.

The book value of inventories in manufacturing and trade rose sharply in May, and the rate of increase over the first 2 months of the second quarter was moderately higher than that for the first quarter. In manufacturing, the rate of increase over the April-May period was almost twice as fast as in the first quarter, and for nondurable goods industries alone it was more than three times as fast.

The number of private housing units started in June had not been made public by the time of this meeting. In April and May starts were at an annual rate of about 1.9 million units--about 10 per cent above the average for both the first quarter of 1977 and the fourth quarter of 1976. Sales of new homes declined in May for the third consecutive month and were 16 per cent below the advanced rate for the first quarter. However, sales of existing homes rose in May to a near-record rate that was 7 per cent above the first-quarter average.

New orders for nondefense capital goods were unchanged in May, after having expanded about 6 per cent on balance over the preceding 4 months. Shipments of such goods continued to change little in May, and unfilled orders rose further to a level nearly 4 per cent higher than at the end of 1976. Contract awards for commercial and industrial buildings--as measured in terms of floor space--fluctuated widely during the first 5 months of 1977, but the April-May average was about 3-1/2 per cent higher than the average for the first quarter.

As had been reported before the June meeting of the Committee, the latest Commerce Department survey of business plans suggested that in the third and fourth quarters of 1977 increases in spending for plant and equipment would be small--perhaps no more than the rise in prices for such goods. According to the survey, businesses would spend 12.3 per cent more for plant and equipment in 1977 than they had in 1976.

The index of average hourly earnings for private nonfarm production workers rose at an annual rate of 3.7 per cent in June.

The rate of advance over the first 6 months of 1977 was 6.7 per cent, compared with an increase of 6.9 per cent during 1976. Over the first half of 1977, however, relatively greater growth of employment in higher-wage industries and an increase in hours of overtime had resulted in a faster rate of advance in actual average hourly earnings than in the index, which is adjusted to exclude the effects of fluctuations in overtime in manufacturing and also the effects of changes in the proportion of workers in high-wage and low-wage industries.

The wholesale price index declined in June, after having risen much less in May than in the preceding 3 months. Average prices for farm products fell sharply further in June, and those for processed foods also declined. As in May, average prices of industrial commodities rose appreciably less than in earlier months of 1977.

The consumer price index rose 0.6 per cent in May--a little less than in April and the same as in March. Retail prices of foods increased 0.7 per cent in May--about half as much as in April--while commodities other than foods and services rose 0.4 per cent and 0.7 per cent, respectively.

The average value of the dollar against leading foreign currencies declined by more than 1 per cent over the inter-meeting period, following more than a year of relative stability. Over the 4-week period, moreover, foreign central banks intervened in the exchange markets to purchase, on balance, a substantial amount of dollars. The downward pressure on the dollar intensified at the end of June when public statements by some government officials fostered market expectations that the currencies of countries with large surpluses in their current accounts would appreciate. Declines in the dollar, which occurred against almost all major currencies, were especially marked against the Japanese yen, the German mark, and the Swiss franc.

The U.S. foreign trade deficit diminished somewhat in May from the high average during the preceding 4 months. In May imports of petroleum declined, and exports of agricultural commodities increased sharply, reflecting chiefly a rise in exports of soybeans. Exports of nonagricultural commodities were virtually unchanged; since the third quarter of 1976 they had been stable, on balance, in association with only moderate expansion in economic activity in major industrial countries marked by sluggishness in capital investment.

At U.S. commercial banks, growth in total credit slowed somewhat further in June and was slightly below the average for the first 5 months of the year. The slowing in June reflected declines in net acquisitions of Treasury and other securities. Growth of real estate loans accelerated to a near-record pace, and growth of most other major categories of loans was substantial. However, nonbank financial institutions reduced their outstanding bank loans, as they raised a record volume of funds in the commercial paper market.

Business credit demands--which had fallen off in May--rebounded in June, apparently in part because of borrowing by corporations to finance a record amount of Federal income tax payments due at midmonth. Business loans at banks and the outstanding volume of commercial paper issued by nonfinancial corporations both expanded at relatively high rates. Over the first half of the year, growth in business loans (excluding bankers acceptances) and in outstanding commercial paper was substantially faster than over the fourth quarter of 1976.

The narrowly defined money stock (M-1), after having risen at an exceptionally rapid rate in April and having increased little in May, grew at a moderate pace in June. On a quarterly-average basis, M-1 grew at an annual rate of 8.5 per cent in the second quarter, compared with 4.2 per cent in the first quarter.

Growth in the more broadly defined measures of money (M-2 and M-3) also was moderate in June. Inflows to banks of the time and savings deposits included in M-2 picked up somewhat, after having slackened for a number of months, and inflows to nonbank thrift institutions remained sizable. On a quarterly-average basis, M-2 and M-3, respectively, grew at annual rates of 9.2 and 10.0 per cent in the second quarter, compared with 9.9 and 11.3 per cent in the first quarter.

At its June meeting the Committee had decided that operations in the period immediately ahead should be directed toward maintaining about the prevailing money market conditions, as represented by a weekly-average Federal funds rate of 5-3/8 per cent, provided that M-1 and M-2 appeared to be growing over the June-July period at annual rates within ranges of 2-1/2 to 6-1/2 per cent and 6 to 10 per cent, respectively. Throughout the inter-meeting period, incoming data suggested that over the June-July period M-1 and M-2 would grow at rates within those ranges.

Accordingly, the Manager of the System Open Market Account sought to maintain the Federal funds rate around 5-3/8 per cent.

In association with the stability in the Federal funds rate, market interest rates in general changed little during the inter-meeting period despite some increase in over-all credit demands. Rates on Treasury bills edged up--although the Treasury continued to redeem bills in its regular auctions--as the market apparently began to adjust to the anticipated near-term cessation of large redemptions. Changes in rates on private short-term instruments and on longer-term issues were small.

Treasury public sales and redemptions of securities were about in balance during the inter-meeting interval. For the second quarter as a whole, the Treasury made net repayments of marketable securities of $5 billion, in contrast with net borrowings of $14 billion during the first quarter. It was anticipated that the Treasury would raise a substantial amount of new money in conjunction with its mid-August refunding of $3.3 billion of maturing securities held by the public; it was expected that the terms of the financing would be announced on July 27.

In the corporate bond market the volume of new securities offered to the public increased in June, reflecting a relatively large volume of new issues by public utilities and financial concerns. For the second quarter as a whole, however, offerings were below the volume for the previous quarter, and those by industrial corporations were at the lowest level in more than 3 years.

Offerings of State and local government bonds rose to a record in June, raising the second-quarter volume to an unprecedented $13.4 billion, following $10.7 billion in the first quarter. As in other recent months, demands for these securities were strong from property-casualty insurance companies, commercial banks, and individuals--both directly and through municipal bond investment companies.

The volume of mortgage lending remained large in June at commercial banks as well as at savings and loan associations. Estimates for the second quarter indicated an acceleration from the high rate for the first quarter. While issues of GNMA-guaranteed, mortgage-backed securities declined from the strong first-quarter pace, net acquisitions of mortgages by FNMA expanded substantially. Average interest rates on new commitments for conventional home mortgages continued to edge higher in late June and early July, and yields in the secondary mortgage market changed little on balance.

In their discussion of the economic situation, members of the Committee agreed with the general outlines of the staff projections, which were described as presenting a fairly optimistic picture of prospective developments. Despite the broad consensus on the outlook, several members suggested that expansion in some sectors of demand might prove to be less strong than expected by the staff and that growth in real GNP was more likely to fall short of than to exceed the projected rates.

With respect to the immediate situation, attention was called to the rate at which inventories had accumulated in some sectors. The view was expressed that a minor adjustment of inventories--similar to although smaller than the one in the latter part of 1976--had been under way for the past 2 months or so and had already affected production and employment in nondurable goods industries. It was observed that businesses appeared to adjust inventory imbalances more promptly now than they had in the past; that such minor adjustments tended to forestall the development of a need for major adjustment; and that the adjustment that appeared to be in process was healthy in that it would serve to make the business expansion more sustainable. A question was raised as to whether the staff projections for the very near term adequately reflected the adjustment in inventories that appeared to be under way.

Questions were also raised about the staff projections for sales of new automobiles and for residential construction. It was suggested that auto sales might be reduced from the advanced level of recent months by two influences: one, increases in prices, not only for domestic models but also for imports because of the substantial appreciations of the Japanese yen and the German mark against the dollar; and two, the high level of consumer debt. With respect to residential construction, two members felt that the expansion in that sector might slow sooner than projected; in support of this view, it was suggested that the rise in prices for new homes had diminished the ability of consumers to buy them.

Despite the questions about certain aspects of the staff projections, a number of reasons were advanced for viewing the prospective course of economic activity with some confidence: The trend of retail sales was basically upward--even though sales had leveled off on a high plateau in recent months--and the minor inventory imbalance was being corrected; any falling off in sales of automobiles that might develop was likely to be accompanied--as often in the past--by more rapid growth in sales of consumer nondurable goods; the expansion in business capital expenditures was gaining momentum; and purchases of goods and services by State and local governments would be a source of increasing strength in over-all activity. It was suggested, moreover, that a gradual slowing of growth in real GNP toward its long-term trend was desirable as rates of resource utilization approached their practical limits.

Although the outlook for plant and equipment expenditures was viewed as favorable, concern was expressed that the lag in growth of productive facilities so far in this business expansion might result in the development of pressures against available capacity while the unemployment rate was still relatively high.

At the same time, it was noted that economists in general believed that the unemployment rate consistent with the goal of full employment was appreciably higher now than it had been some years earlier. The observation was made that the unemployment rate had remained comparatively high despite the extraordinary growth in employment so far in this business expansion mainly because women--and to a lesser extent, teenagers--had entered the labor force in unusually large numbers. It was suggested that many women sought part-time jobs--in some cases because of the effects of inflation--and that even though businesses had been adapting to this change in the labor market, the increase in the number of part-time jobs available had been far from sufficient.

Some members commented on pending legislation to increase the minimum wage. The view was expressed that an increase in the minimum tended to raise the whole structure of wages and that it had adverse effects on employment, particularly of teenagers, and on prices.

Finally, some members of the Committee expressed concern about the possible effects of developments abroad on the U.S.

economy. Specifically, they observed that in some major countries the outlook for economic activity did not appear to be particularly strong and that continued sluggishness abroad had adverse implications for the U.S. trade balance, already heavily in deficit.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At its April meeting the Committee had specified the following ranges for growth over 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. 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 second quarter of 1977 to the second quarter of 1978.

In the discussion of the ranges for growth in the aggregates over the year ahead, most members of the Committee expressed the belief that a small downward adjustment should be made. All but one of these members supported a proposal to reduce the lower limit of the range for M-1 by 1/2 of a percentage point while retaining the existing ranges for M-2 and M-3; one member favored small reductions in the ranges for M-2 and M-3 as well as the 1/2-point decrease in the lower limit of the range for M-1. Other Committee members advocated more of a downward adjustment in the ranges; specifically, they favored a reduction of 1/2 of a percentage point in both the upper and the lower limits of the range for M-1, and these members in general favored some decrease in the ranges for M-2 and M-3 as well.

In support of the proposal to make some downward adjustment, several Committee members suggested that it would be desirable to take another step in the gradual process of bringing the longer-run ranges for growth in the monetary aggregates down to rates compatible with general price stability. Moreover, it was observed that the annual rate of growth in M-1 from the first to the second quarter of 1977 had exceeded the range adopted by the Committee at its meeting in April; that despite the gradual reduction of projected ranges of growth for the aggregates during the past 2 years, no meaningful reduction had as yet occurred in actual rates of growth; that the outlook for growth in real GNP was relatively good; and that the rate of inflation had intensified somewhat during the first half of 1977.

One member of the Committee favored a reduction of 1/2 of a percentage point in the upper, as well as the lower, limit of the range for M-1 while retaining the existing ranges for M-2 and M-3, with the objective of realigning the ranges in view of the increasing importance of new means of payment as substitutes for demand deposits. Other members argued, on the other hand, that any downward adjustment in the range for M-1 should be limited to the lower limit. It was noted that while second-quarter growth for that aggregate had been relatively high, growth in the first quarter had been low in relation to the Committee's longer-run range. In view of prospective developments--including, specifically, increases in prices attributable to such exogenous forces as increases in energy costs and in the minimum wage--it was suggested that a reduction of 1/2 of a percentage point in the upper as well as in the lower limit of the range for M-1 might run the risk of undesirable pressures in financial markets, a principal effect of which would be to slow growth in real GNP more than projected.

Three members of the Committee advocated a reduction of 1/2 of a percentage point in both limits of the range for M-1 and also some reduction in the ranges for the broader monetary aggregates. Their reasons for this position are contained in the statements of dissent below.

At the conclusion of its discussion the Committee decided to reduce the lower limit of the range for M-1 by 1/2 of a percentage point and to retain the existing ranges for M-2 and M-3. The ranges thus were 4 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 commercial bank credit was 7 to 10 per cent.[1/] 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.

1/ At this meeting the Committee decided to replace the bank credit proxy with a broader measure of all commercial bank credit. In recent years the proxy--which is based solely on data for member banks--has become increasingly less representative of total bank credit, in part because of the growth in importance of nonmember banks and in part because the proxy does not include certain borrowings by banks from the nonbank public.

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

Mr. Coldwell dissented from this action because he thought that liquidity was high; that less rapid growth in real GNP was now necessary in order to sustain the expansion later on; and that action to reduce the rate of growth in the aggregates might lessen upward pressures on prices, improve the U.S. foreign trade position, and strengthen the dollar. Mr. Jackson dissented because he believed that it was important to reduce the upper limit of the range for M-1 so that the Committee would take action to avoid a higher rate of growth, and that it was a logical consequence of that position to favor reductions also in the ranges for the broader aggregates. Mr. Roos, who also dissented, held the view that the retention of the existing upper limit of the range for M-1 following the overshoot of growth in that aggregate from the first to the second quarter of 1977 might result in too rapid monetary growth over the five-quarter period ending in the second quarter of 1978 and therefore lead to a probable acceleration of the rate of inflation.

As to policy for the period immediately ahead, members of the Committee did not differ greatly in their preferences for ranges of growth for the monetary aggregates over the July-August period. Most of them favored ranges of 3-1/2 to 7-1/2 per cent and 6-1/2 to 10-1/2 per cent for the annual rates of growth in M-1 and M-2, respectively. One member suggested that the Committee specify somewhat wider ranges around the same midpoints of those ranges because of greater-than-usual uncertainty about projections of monetary growth for the period just ahead. Also, some sentiment was expressed for slightly higher, and some for slightly lower, ranges.

All members favored a return to basing decisions for open market operations in the period immediately ahead primarily on the behavior of the monetary aggregates. At its meeting in June the Committee had decided to give greater weight than usual to money market conditions in conducting operations in the period until this meeting.

Almost all members favored directing operations initially toward the objective of maintaining the Federal funds rate at its current level of 5-3/8 per cent, but a few members suggested that operations be directed toward achieving a slightly higher rate within a short time. With respect to the degree of leeway for operations during the inter-meeting period should the aggregates appear to be deviating significantly from the mid-points of the specified ranges, most members advocated retaining the range for the Federal funds rate of 5-1/4 to 5-3/4 per cent that had been specified at the two preceding meetings. A few members suggested that it would be appropriate to specify a wider range for the funds rate in association with the return to conducting operations on the basis of the behavior of the monetary aggregates; ranges of 5-1/4 to 6 per cent, 5 to 6 per cent, and 5 to 5-3/4 per cent were suggested.

At the conclusion of the discussion the Committee decided that growth in M-1 and M-2 over the July-August period at annual rates within ranges of 3-1/2 to 7-1/2 per cent and

6-1/2 to 10-1/2 per cent, respectively, would be appropriate. It was understood that in assessing the behavior of the aggregates, the Manager should 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 5-3/8 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 5-1/4 to 5-3/4 per cent.[1/] 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 real output of goods and services grew in the second quarter at about the rapid rate of the first quarter. In June industrial output continued to expand at a substantial pace. The

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1/ Subsequently, as described on pages 27-28, the Committee modified the range by increasing the upper limit to 6 per cent.

rise in employment moderated, and the unemployment rate edged up from 6.9 to 7.1 per cent. Total retail sales remained at about the level reached in March; for the second quarter as a whole, however, sales were moderately above the first-quarter level. The wholesale price index for all commodities declined in June, owing to sharp decreases among farm products and foods; as in May, average prices of industrial commodities rose appreciably less than in earlier months of 1977. The index of average hourly earnings rose over the first half of the year at about the same pace that it had on the average during 1976.

The average value of the dollar against leading foreign currencies has declined more than 1 per cent over the past month; the declines were especially marked against the Japanese, German, and Swiss currencies. In May the U.S. foreign trade deficit diminished somewhat from the high rate in the first 4 months of the year.

M-1, after rising at an exceptionally rapid rate in April, increased little in May and grew at a moderate pace in June. Growth in M-2 and M-3 also was moderate in June. Inflows to banks of time and savings deposits included in M-2 picked up somewhat, after having slackened for a number of months, and inflows to nonbank thrift institutions remained sizable. Business short-term borrowing expanded sharply in June. Market interest rates in general have changed little 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.

Growth in 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 July-August period to be within the ranges of 3-1/2 to 7-1/2 per cent for M-1 and 6-1/2 to 10-1/2 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.

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 August 4, nearly final estimates indicated that in July M-1 had grown at an annual rate of about 18-1/2 per cent and M-2 at a rate of about 16-1/2 per cent. For the July-August period staff projections suggested that the annual rates of growth for both aggregates would be well above the upper limits of the ranges specified by the Committee in the next-to-last paragraph of the domestic policy directive issued at the July meeting.

The Federal funds rate had averaged 5.80 per cent in the statement week ended August 3, up from 5.45 per cent in the week ended July 27 and 5.35 per cent in the preceding 3 weeks. The Manager of the System Open Market Account was currently aiming at a funds rate of 5-3/4 per cent, the upper limit of the inter-meeting range specified in the directive.

Against that background, Chairman Burns recommended on August 4 that the upper limit of the range for the Federal funds rate be increased to 6 per cent so that the Manager might have some additional leeway for operations, while continuing to take account of the current Treasury financing and financial market developments. He further recommended that this additional leeway be used very gradually, and only in the event that the aggregates continued to register values far beyond the Committee's objectives.

On August 5, 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 July 19, 1977, by increasing the upper limit from 5-3/4 to 6 per cent.

Votes for this action: Messrs. Burns, Jackson, Mayo, Morris, Partee, Roos, Wallich, Balles, and Timlen. Absent and not voting: Messrs. Coldwell, Gardner, Guffey, Lilly, and Volcker. (Messrs. Balles and Timlen voted as alternates for Messrs. Guffey and Volcker, respectively.)