

Meeting of Federal Open Market Committee

June 21, 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, June 21, 1977, beginning at 9:00 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 and Willes, Presidents of the
Federal Reserve Banks of Richmond and
Minneapolis, respectively

Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Guy, Deputy General Counsel
Messrs. Balbach, R. Davis, T. Davis,
Kichline, Scheld, Truman, and
Zeisel, Associate Economists

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Mr. Holmes, Manager System Open Market Account

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

Mr. Keir, Assistant to the Board of Governors

Mr. O'Brien, Special Assistant to the Board of Governors

Mr. Gemmill, Associate Director, Division of International Finance, Board of Governors

Mrs. Farar, Economist, Open Market Secretariat, Board of Governors

Mrs. Deck, Staff Assistant, Open Market Secretariat, Board of Governors

Messrs. Fossum and Smoot, First Vice Presidents, Federal Reserve Banks of Atlanta and Philadelphia, respectively

Messrs. Boehne, J. Davis, and Eisenmenger, Senior Vice Presidents, Federal Reserve Banks of Philadelphia, Cleveland, and Boston, respectively

Messrs. Brandt, Broaddus, Burns, Sims, and Willey, Vice Presidents, Federal Reserve Banks of Atlanta, Richmond, Dallas, San Francisco, and New York, respectively

Mr. Meek, Monetary Adviser, Federal Reserve Bank of New York

Mr. Kareken, Economic Adviser, Federal Reserve Bank of Minneapolis

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

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on May 17, 1977, were approved.

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

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With Mr. Coldwell 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 has grown in the current quarter at about the rapid rate of the first quarter. In May industrial output and employment continued to expand at a substantial pace, and the unemployment rate edged down from 7.0 to 6.9 per cent. Total retail sales increased from the advanced March-April level. The rise in the wholesale price index for all commodities slowed substantially in May, as average prices of farm products and foods changed little after having increased sharply for three consecutive months; average prices of industrial commodities also rose less than in other recent months.

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 was nearly as large in April as in March.

M-1 increased only slightly in May, after rising at an exceptionally rapid rate in April. Reflecting mainly the behavior of M-1, growth in M-2 and M-3 also slowed sharply. Inflows to banks of time and savings deposits other than large-denomination CD's continued to slacken, but inflows to nonbank thrift institutions remained sizable. Business short-term borrowing moderated from the sharply increased pace of April, and corporate borrowing in the capital markets was reduced further. Short-term market interest rates have changed little on balance in recent weeks, while longer-term yields have declined.

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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 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.

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 5-3/8 per cent, so long as M-1 and M-2 appear 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. 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 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.

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Prior to the following action Chairman Burns left the meeting and Vice Chairman Volcker assumed the chair for the remainder of the meeting.

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

It was agreed that the next meeting of the Committee would be held on Tuesday, July 19, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Deputy Secretary