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Meeting of Federal Open Market Committee

September 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 Tuesday, September 20, 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, Eisenmenger,  
Ettin, Kichline, Reynolds, Scheld, and  
Truman, 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  
Miss Klaput, Open Market Secretariat, Board  
of Governors

Messrs. J. Davis and Parthemos, Senior Vice  
Presidents, Federal Reserve Banks of  
Cleveland 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  
Mr. Kareken, Economic Adviser, Federal  
Reserve Bank of Minneapolis  
Ms. Clarkin, Securities Trading Officer,  
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 August 16,  
1977, were approved.

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

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

With Messrs. Lilly, Morris, Roos, and Wallich 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 less rapidly in the current quarter than in the second quarter. In August industrial output declined by about as much as it had risen in July. Employment increased moderately but the labor force rose more and the unemployment rate edged up to 7.1 per cent, the same as in June. The dollar value of total retail sales, which had turned up in July, rose appreciably in August. The wholesale price index for all commodities was about unchanged; average prices of farm products and foods declined sharply for the third successive month, and average prices of industrial commodities continued to rise at a more moderate pace than in the early months of 1977. So far this year the index of average hourly earnings has advanced at about the same pace as it had on the average during 1976.

The weighted average exchange rate for the dollar against leading foreign currencies has recovered further in recent weeks, returning to the level of late June. In July the U. S. foreign trade deficit was at about the second-quarter rate, and there were sizable net inflows of foreign private and official capital.

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Growth in M-1 and M-2 slowed in August from the exceptionally rapid rates in July. Expansion of both demand deposits and time and savings deposits at banks slackened. Growth in M-3 also slowed, although inflows to nonbank thrift institutions remained strong. Business short-term borrowing increased somewhat from the reduced pace in July, but remained below the volume of preceding months. Short-term interest rates, which had risen appreciably in early August, most recently have advanced somewhat further. Yields on longer-term market securities, however, have changed little on balance in recent months. Federal Reserve discount rates were increased from 5-1/4 to 5-3/4 per cent in late August and early September, and member bank borrowings receded from the high levels of the latter part of August.

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 July 19, 1977, the Committee agreed that growth of 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 September-October period to be within the ranges of 2 to 7 per cent for M-1 and 4 to 8 per cent for M-2. In the judgment of the Committee such growth rates

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are likely to be associated with a weekly-average Federal funds rate of about 6-1/4 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 mid-points of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of .6 to 6-1/2 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, October 18, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary's Note:

On September 30, 1977, Committee members voted to increase from \$2 billion to \$3 billion the limit on Federal Reserve Bank holdings of special short-term certificates of indebtedness purchased directly from the Treasury specified in paragraph 2 of the Authorization for Domestic Open Market Operations, effective immediately.

Votes for this action: Messrs. Burns, Coldwell, Gardner, Guffey, Jackson, Lilly, Mayo, Partee, Roos, Wallich, Eastburn and Timlen. Votes against this action: None. (Messrs. Eastburn and Timlen voted as alternates for Messrs. Morris and Volcker, respectively.)

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Secretary