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Meeting of Federal Open Market Committee

November 15, 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, November 15, 1977, 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,
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 and Parthemos, Senior Vice Presidents, Federal Reserve Banks of Cleveland and Richmond, respectively

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

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

Mrs. Tschinkel, Adviser, 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 October 17-18, 1977, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period October 18 through November 14, 1977, were approved, ratified, and confirmed.

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By unanimous vote, the Committee approved the renewal for further periods of up to one year of the following swap arrangements, having the indicated amounts and maturity dates:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>	<u>Term (months)</u>	<u>Maturity date</u>
Austrian National Bank	\$ 250.0	12 months	12/2/78
Bank of England	3,000.0	"	12/2/78
Bank of Japan	2,000.0	"	12/2/78
Bank of Mexico	360.0	"	12/2/78
Bank of Norway	250.0	"	12/2/78
Bank of Sweden	300.0	"	12/2/78
Swiss National Bank	1,400.0	"	12/2/78
Bank for International Settlements--			
Swiss francs	600.0	"	12/2/78
Other authorized			
European currencies	1,250.0	"	12/2/78
National Bank of Belgium	1,000.0	"	12/20/78
National Bank of Denmark	250.0	"	12/29/78
German Federal Bank	2,000.0	"	12/29/78
Bank of France	2,000.0	"	12/29/78
Netherlands Bank	500.0	"	12/29/78
Bank of Canada	2,000.0	"	12/29/78
Bank of Italy	3,000.0	"	12/30/78

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period October 18 through November 14, 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 domestic policy directive:

The information reviewed at this meeting suggests that growth in real output of goods and services is picking up in the current quarter from the reduced pace in the third quarter. The dollar value of total retail sales, which had been unchanged in September, rose substantially in October. Industrial production and employment increased somewhat. The unemployment rate, at 7.0 per cent, remained in the narrow range prevailing since April. The wholesale price index for all commodities rose sharply in October, as average prices of farm products and foods increased after having declined appreciably over the preceding 4 months. Prices of industrial commodities rose at about the average rate of the preceding 12 months. The index of average hourly earnings increased sharply in September and has advanced at a somewhat faster pace so far this year than it had on the average during 1976.

The trade-weighted value of the dollar against major foreign currencies has declined further since mid-October. In September the U. S. foreign trade deficit was reduced somewhat, in part as a result of temporary factors.

M-1 and M-2 increased substantially in October, but growth slowed sharply in early November. In October inflows to banks of the total of savings deposits and small-denomination time deposits fell off, but banks expanded the outstanding volume of large-denomination CD's substantially as credit demands strengthened.

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Inflows to nonbank thrift institutions slowed somewhat in October from the strong pace of the preceding 2 months. Following a substantial rise in member bank borrowings, Federal Reserve discount rates were increased from 5-3/4 to 6 per cent in late October. Market interest rates have fluctuated moderately since mid-October and most recently have tended to decline.

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 October 18, 1977, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of 4 to 6-1/2 per cent, 6-1/2 to 9 per cent, and 8 to 10-1/2 per cent, respectively, from the third quarter of 1977 to the third 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 the current level, so long as M-1 and M-2 appear to be growing over the November-December period at annual rates within ranges of 1 to 7 per cent and 5 to 9 per cent, respectively. If, giving approximately equal weight to M-1 and M-2, it appears that growth

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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 6-1/4 to 6-3/4 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, December 20, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary