

Meeting of Federal Open Market Committee

April 19, 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, April 19, 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. 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, R. Davis, T. Davis, Ettin,
Kichline, Reynolds, Scheld, Truman,
and Zeisel, Associate Economists

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

Messrs. Brandt, Broaddus, Burns, and
Keran, Vice Presidents, Federal
Reserve Banks of Atlanta, Richmond,
Dallas, and San Francisco,
respectively

Mr. Sandberg, 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
March 15, 1977, were approved.

By unanimous vote, System open market transactions
in foreign currencies during the period March 15 through
April 18, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions
in Government securities, agency obligations, and bankers'
acceptances during the period March 15 through April 18,
1977, were approved, ratified, and confirmed.

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With Mr. Partee dissenting, the Committee adopted the following ranges for rates of growth in monetary aggregates for 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.

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 increased in the first quarter from the reduced pace in the fourth quarter of 1976. In March industrial output, retail sales, and employment expanded substantially further. Although the labor force also increased sharply, the unemployment rate declined from 7.5 to 7.3 per cent. The wholesale price index for all commodities again rose substantially; increases were particularly sharp among farm products and foods, and there were sizable advances for many industrial commodities. The index of average wage rates rose in the first quarter of 1977 at a somewhat faster pace than it had on the average during 1976, reflecting largely an increase in the minimum wage.

The average value of the dollar against leading foreign currencies has declined somewhat over the past month, returning to about the level at the beginning of the year. Demand for the Japanese yen and the U.K.

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pound intensified. The U. S. foreign trade deficit continued large in February.

M-1 grew at a moderate pace in March but increased substantially in early April. At banks and thrift institutions, inflows of time and savings deposits other than large-denomination CD's continued to slacken in March. Market interest rates declined considerably in mid-April, after having changed little since mid-March.

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, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

Growth in 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 April-May period to be within the ranges of 6 to 10 per cent for M-1 and 8 to 12 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 4-3/4 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 midpoints of the indicated ranges, the

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operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 4-1/2 to 5-1/4 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.

Secretary's Note: On May 6, 1977, by unanimous vote (with Mr. Winn voting as alternate for Mr. Mayo), the Committee modified the intermeeting range for the Federal funds rate specified in the next to last paragraph of the domestic policy directive issued on April 19, 1977, by increasing the upper limit from 5-1/4 to 5-1/2 per cent.

It was agreed that the next meeting of the Committee would be held on Tuesday, May 17, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary