The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 3 to 7 percent and 2-1/2 to 6-1/2 percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progess toward price stability, movements in their velocities, and developments in the economy and financial markets.

economic activity is continuing to expand despite weakness in the industrial sector. Total nonfarm payroll employment increased substantially in January after growing at a reduced pace on average in previous months; a surge in the service-producing sector and a weather-related rebound in construction were only partly offset by a large decline in the manufacturing sector. The civilian unemployment rate was unchanged at 5.3 percent. Partial data suggest that industrial production in January was appreciably below its average in the fourth quarter. Adjusted for inflation, strong gains in consumer spending on -20- services in the fourth quarter offset declines in consumer purchases of goods, especially motor vehicles. Unusually cold weather depressed housing starts appreciably in December, and residential construction in the fourth quarter was little changed from its third-quarter level. Business capital spending, adjusted for inflation, declined in the fourth quarter as a result of lower expenditures on motor vehicles and strike activity in the aircraft industry; spending on other types of capital goods was strong, however, and new orders for equipment picked up toward the end of the year. The nominal U.S. merchandise trade deficit widened in October-November from the third-quarter rate. Consumer prices had risen somewhat more rapidly toward the end of 1989, and prices of food and energy apparently increased substantially further in January. The latest data on labor compensation suggest no significant change in prevailing trends. Interest rates have risen in intermediate- and long-term debt markets since the Committee meeting on December 18-19; in short-term markets, the federal funds rate has declined, and other short-term rates show mixed changes over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period; most of the depreciation was against the German mark and related European currencies, and there was little change against the yen. Growth of M2 slowed in January, almost entirely reflecting a drop in transaction deposits. Growth of M3 also slowed in January as assets of thrift institutions and their associated funding needs apparently continued to contract. For the year 1989, M2 expanded at a rate a little below the middle of the Committee's annual range, and M3 grew at a rate slightly below the lower bound of its annual range. The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 3 to 7 percent and 2-1/2 to 6-1/2 percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue -21- to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets. In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from December through March at annual rates of about 7 and 3-1/2 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.