financial conditions that will foster price stability, promote a resumption of sustainable growth in output, 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 2-1/2 to 6-1/2 percent and 1 to 5 percent, respectively, measured from the fourth quarter of 1990 to the fourth quarter of 1991. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress its growth relative to spending and total credit. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

The information reviewed at this meeting suggests further weakening in economic activity. Total nonfarm payroll employment fell sharply further in December and January, reflecting widespread job losses that were especially pronounced in manufacturing and construction; the civilian unemployment rate rose to 6.2 percent in January. Industrial output declined markedly in the fourth quarter, in part because of sizable cutbacks in the production of motor vehicles, and partial data suggest a further drop in January. Consumer spending has remained soft. Advance indicators of business capital spending point to considerable weakness in investment in coming months. Residential construction has declined substantially further in recent months. The nominal U.S. merchandise trade deficit narrowed in November, as the value of imports declined more than that of exports; the average deficit for October and November exceeded that for the third quarter. Increases in consumer prices -22- moderated and producer prices changed little in November and December, largely as a result of a softening in energy prices. The latest data suggest some further deceleration in wages and overall labor costs. Short-term interest rates have fallen considerably since the Committee meeting on December 18, while rates in longer-term markets are unchanged to down slightly. The Board of Governors approved a reduction in the discount rate from 7 to 6-1/2 percent on December 18 and a further reduction to 6 percent on February 1. In foreign exchange markets, the tradeweighted value of the dollar in terms of the other G-10 currencies has declined somewhat on balance over the intermeeting period. Growth of M2 remained sluggish in December and January; expansion of M3 picked up in January from the very slow pace of recent months. For the year 1990, M2 and M3 expanded at rates in the lower portions of the Committee's ranges for the year. Expansion of total domestic nonfinancial debt appears to have been near the midpoint of its monitoring range for the year. The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote a resumption of sustainable growth in output, 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 2-1/2 to 6-1/2 percent and 1 to 5 percent, respectively, measured from the fourth quarter of 1990 to the fourth quarter of 1991. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress its growth relative to spending and total credit. The behavior of the monetary aggregates will continue 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. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and -23- domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of both M2 and M3 over the period from December through March at annual rates of about 3-1/2 to 4 percent.