Principal Global Investors

Economic Insights

Commentary by Bob Baur, Robin Anderson, and the Economic Committee

Topic summaries:

- **The R-Words**

  Recession; yes, it denotes a nasty economic time, but it's not about today, it's about yesterday. Recession-lite may be a good way to describe the economic environment in late 2015 and early 2016. The good news is the new R-word; recession-lite turned into recovery, and that may be the best way to describe today.

- **Resetting Fed Policy:**

  The tone about rate hikes has changed at the Federal Reserve (Fed) since the New Year. Now even the doves expect to raise the fed funds rate "soon" because deflation seems over, economic data stays ebullient, and recession risks recede into the shadows. The March Fed meeting will likely occasion the next rate hike. Still, central banks will stay cautious and slow in responding to better growth and inflation at or near target.

- **Asset Allocation - Consolidation after the Melt-Up:**

  Markets have given most investors great returns so far in 2017; and the melt-up in stocks has created worries about a correction. We'd suggest consolidation is more likely since funds have started to return to stocks. Strong gains in earnings suggest much of the upturn since the U.S. election was based on fundamentals rather than optimism about U.S. tax and regulatory reform. There's likely still some upside.

For the month of March 2017

The R-Words

Recession; it follows an expansion as the economy encounters constraints, inflation rises, and the Fed hikes interest rates. A recovery follows a recession and begins a new era of better growth, mild inflation, and stock market gains. Even though this U.S. expansion is nearing the end of its eighth year, the economy has exhibited signs of near-recession and now recovery over the last year-and-a-half.

The U.S. and world economies continue to recover from near-recession territory in late 2015 and early 2016, as output sank, activity soured, and deflation fears soared from a super-strong dollar and plunge in commodity prices. That period was essentially "recession-lite" in the United States with business, manufacturing, and inventories all in significant trouble. The pressures of deflation and a soaring dollar ate into business pricing power, so revenues and profits fell sharply, something that usually only happens in recessions. Collapsing oil prices forced capital-intensive energy companies to stop spending, so business investment shriveled, another telltale sign of recession. Anemic demand created excess inventories and destocking was a huge drag on overall U.S. output. Exporters and manufacturers were hard-hit as the dollar surged nearly 25% from June 2014 to today. Manufacturing output fell year-over-year, which also typically happens only in recessions. The surging dollar meant a smaller supply of dollars, which translated into a liquidity squeeze for emerging-market companies and financial assets.

Despite the sector hits to energy, commodity, and exporting companies, the U.S. consumer benefited from a robust dollar and lower prices and remained strong enough to keep the "recession-lite" from turning into a real one.

Recovery:

The global economy pulled out of recession in the second quarter of 2016 and is now in the midst of a synchronized recovery. Deflation is out; reflation is in. Commodity and oil prices are up from their February 2016 lows. Consumer- and producer-price inflation are no longer negative and, in fact, are up sharply across the U.S., Europe, Japan, and

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>
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China. Better pricing power and faster nominal growth have helped corporate profits rebound sharply from China to the United States. Industrial activity is picking up around the world. Global manufacturing surveys have been surging upward. The dollar is still strengthening, but the post-election appreciation is based on growth prospects, not deflation or recession fears.

The latest data for the United States suggest that the recovery is well underway, although hard numbers, like consumer spending and industrial production, had a bit of a hiccup so far this year. Last month, the Conference Board Consumer Confidence index made another cycle high and hit its best level since way back in July 2001. That solid confidence hasn't shown up yet in better vehicle sales or better consumer spending. The manufacturing and service business surveys of purchasing managers from the Institute for Supply Management (ISM) were both above 57, a very strong number. Manufacturing output is slowly coming back, up 0.3% in January over the prior year. Core capital goods and orders, which typically track business investment, were down month-over-month, although the several month uptrend remains robust. Disappointing trade and inventories in January took tracking estimates of first-quarter U.S. GDP below 2%. We trimmed our own forecast to 2.4%, acknowledging that weakness, but knowing that inventory and trade are noisy and will likely be revised in a positive direction. The initial estimate of first-quarter U.S. GDP typically undershoots and is often upwardly revised later. The super-solid survey and confidence data may better reflect the underlying economy.

Rising tide lifts all boats:

Reflation and recovery are fully evident and widespread around the world. The JP Morgan GDP weighted index of country manufacturing surveys hit 52.9 in February, the highest on record is 53.9. Another sign of reflation: Japan's core CPI (ex food) increased year-over-year for the first time in over a year. Business surveys in the Eurozone are excellent and the composite hit a six-year high. Quarterly averages calculated by Bloomberg of Eurozone economic sentiment, German business and investor sentiment, and Markit composite business surveys all keep moving upward. The headline of the Eurozone consumer price index reached 2%, helping lower deflation fears. Business surveys in China stayed within recent positive ranges with the Caixin manufacturing survey at 51.7, and the official number at 51.6.

A look ahead:

The global economy is rebounding in synchronized fashion from recession-type conditions in 2015, we expect this upturn to continue, at least into part of 2018. Better U.S. growth and a recovery in manufacturing, trade, business investment, and inventories outside the United States are mutually supportive. Robust U.S. growth pulls the rest of the world along through the U.S. trade deficit and strong dollar. And the world growth rebound is part of the reason gains in U.S. real GDP should stay above trend this year.

For the U.S. expansion to push a notch faster, good consumer spending and a pickup in investment are needed. Both are likely on the way. Wage gains of 3% or more should be enough to support 3% growth in consumer spending, with some upside potential. And durable goods orders and shipments are already showing some green shoots of better capital spending, which could generate another round of good wage, job growth, and strength in consumer spending and profits. Our U.S. forecasts are at the end of the commentary. Outside the United States, strong survey responses point to potential upside surprises this year in Europe and Japan. China's reflationary surge in nominal GDP growth could peak this quarter or next, but with political transitions this year and 2018, real growth should be steady near 6.5%.

These forecasts are not without risks. Lower gas prices and ultralow interest rates were tailwinds to U.S. consumer spending, but those propellants are now turning into headwinds. And if average hourly earnings don't rise from the current 2.5% rate, even modestly higher inflation may deter spending. More inflation from rising commodity prices and a weak currency is already weighing on UK consumer spending. Further U.S. dollar strength could also drag U.S. exports down again. Lastly, fiscal stimulus provided a big boost to Chinese credit growth in 2016 and as that wanes, underlying activity may fade too. Elections in Europe and an uncertain political environment in the United States may ultimately be a drag on confidence. Still, the outlook for 2017 and beyond seems pretty good.

Resetting Fed Policy

Since the New Year, attitudes of both investors and Federal Reserve policy makers toward monetary policy have converged toward more rapid interest rate normalization. Why? First, fewer worries about deflation; U.S. inflation is up noticeably with January consumer prices up 2.5% over the prior year, versus a 2.1% jump in December. The deflator on personal consumption expenditures ex food and energy, the Fed's favorite gauge, rose 1.7% over the prior year in January and is approaching the Fed's 2% target. Second, incoming U.S. and world data show much better growth momentum, far fewer recession worries, and leading business surveys that suggest these better conditions will persist. Indeed, even though the second revision of fourth-quarter U.S. GDP did disappoint, it reflected strong purchases with real domestic final sales up a strong 2.6%.

Third, employment data stays excellent. The minutes of the last Fed meeting described the unemployment rate as "near most estimates" of full employment and expressed the view that labor market slack had diminished. The minutes also noted that wage gains had picked up, a further sign of improvement. So all these together have turned Fed officials' rhetoric decidedly hawkish and suggest the next rate hike will be in March. We agree and now expect three hikes this year, perhaps March, July, and December. After comments by Fed Chair Yellen and Vice Chair Fischer, market odds of a move in March rose from just 25% in early February to 94% today.

Interest rates: From the 1.37% July 2016 low on 10-year U.S. treasury bonds, yields moved steadily higher to 1.85% just prior to the U.S. election, then quickly ratcheted up to 2.6% in December. Since then, yields drifted lower to a range of 2.3% to 2.5% as investors assessed the Trump administration and pressure continued from ultra-low German and Japanese yields. The Bank of Japan is pegging the 10-year yields of Japanese government bonds near 0% and yields on 10-year German bunds stay below 0.5%. Recent and historical U.S. treasury yields are in the table below.

Interest Rates

	12/31/2014	12/31/2015	12/30/16	12/15/2016 (High)*	07/08/2016 (Low)*	02/28/2017 Current
2 year	0.66%	1.05%	1.19%	1.27%	0.61%	1.26%
10 year	2.17%	2.27%	2.44%	2.60%	1.36%	2.39%
10-2 spread	1.51%	1.22%	1.25%	1.33%	0.75%	1.13%
30 year	2.75%	3.02%	3.06%	3.16%	2.10%	3.00%

*Twelve month high and low, based on the 10-year Treasury bond over the prior 12 months
Source: Bloomberg

Interest rate outlook:

As noted above, a synchronized world recovery is clearly underway and still gaining vigor. So the road ahead is likely paved with better growth and modestly higher inflation. This surely suggests a trend toward higher interest rates. After all, with nominal U.S. growth in the 4% to 5% range, a 2.5% yield on 10-year U.S. treasury bonds seems much too low. In addition, budget priorities of the Trump administration may expand spending and enlarge the federal deficit. Particularly with spending on defense and infrastructure, putting some upward pressure on U.S. treasury yields.

However, a decade of painfully slow growth, zero interest rates, deflation anxiety, incessant financial crises, and worries about relapse into recession or worse induced many to believe that the long stagnation since 2008 was permanent. This implies significant inertia on the part of central bankers and investors to believe that interest rates will stay lower for longer. If indeed the world is moving out of that decade of economic morass, the transition to more aggressive policy, better growth, and mild inflation will take some time to become consensus. The European Central Bank and the Bank of Japan will be slow to accept that their battle with deflation may be over. So, the down-pressure on U.S. treasury yields from ultra-low rates in Europe and Japan will be slow to recede. U.S. treasury yields will likely not take the next leg higher until there are higher yields in Europe and Japan, probably by summer or early fall. But, with the world economic upturn still in force, it should only be a matter of time. Our forecast for future U.S. treasury yields is shown in the table below.

Interest Rates	Yearend 2017	Yearend 2018
Federal Funds	1.38%	1.88%
2-Year UST Yield	1.75%	2.0%-2.5%
10-Year UST Yield	3.0%-3.25%	3.0%-3.5%
2-10 Year Spread	1.25-1.75%	1.0%-1.5%

Asset Allocation: Consolidation After the Melt-Up

Market returns have been great for investors so far this year. After a nice 2.5% price gain in January, the S&P 500 Index added another 3.0% in February, for a 5.9% total return for the year with dividends reinvested. Reflation and stronger global growth kept most world equity indices in the green and moderately lower interest rates kept bond investors happy too. It's been a risk-on two months. The MSCI All Country World index was up 2% in price in February and 5.4% for two months. The MSCI Emerging Market index jumped a healthy 2.2% in February and a two-month price gain of 8.6%. Lower global interest rates pushed up bond prices, especially high yield and emerging market bonds. The Barclays global high yield index returned 2.3% over two months.

Consolidation, not correction:

Developed-country equity markets have been on a tear since the U.S. election on November 8th. The S&P 500, the Nikkei 225 in Japan, and the MSCI Developed Europe indices all rose in price over 10%: 10.5%, 11.3%, and 10.4%, respectively. Financials, especially bank stocks, were the best sector: the S&P 500 financial sector up 22.5% since the election and MSCI global financials up 9.4%. The surge has gone so far, happened so fast, and been so underestimated by the consensus that many are worried about a correction. It does make sense to expect some consolidation, especially until the tax and regulatory reform expected from the Trump administration actually begins to take shape. Funds are beginning to flow into the equity markets as expectations rise, so we doubt there will be much of a correction.

How much due to reform?

Another question often asked: how much of the big rally since the election is due to overly optimistic expectations for tax and regulatory reform, which could give way to a major disappointment and correction if the optimism is not realized? We think underlying economic fundamentals are improving, profits are rebounding, and growth is picking up such that well over half of the latest price moves are due to the recovery from “recession-lite.” Empirical Research Partners, a research boutique in New York, looked at other U.S. instances since 1952 when the ISM survey of manufacturing businesses surged as it has over the last several months. The stock market return during this latest ISM move was well in line with gains in those past times. They conclude that “the bulk of the market’s move can be attributed to the improving fundamentals.”

Further, S&P 500 Index reported earnings per share on a trailing 12-month basis through the fourth-quarter 2016 totaled $95.44[1] , up 10.2% over the prior year, the first year-over-year earnings rise in seven quarters. Operating earnings as calculated by Standard & Poor’s for the same 12 months through the fourth quarter were $106.60, up 6.1% for the first such rise in six quarters. These gains surely provided a good basis for a healthy stock market rally.

How far can it go?

Well, that’s the real question. We do think there’s more upside as U.S., German, and Japanese long-bond yields have not yet responded to the accumulating evidence of reflation. With inflation rising modestly and sovereign bond yields off their recent highs, real interest rates are retreating, affording stock prices another leg up. Analyst earnings estimates suggest that S&P earnings could rise over 20% in 2017. Since analysts are often too optimistic, even earnings gains approaching say 15% suggest the market could rally another 5% or 10%.

It’s possible this will be the last leg in the long upcycle since the S&P 500 Index low close of 676.53 on March 9, 2009. If so, it may be brought to an end by higher long-term interest rates. If yields on 10-year U.S. treasury bonds move into and stay in a range somewhat above 3%, that level would surely be a significant drag on the stock market. So, until there are signs of another surge in long-term interest rates, the odds would favor staying fully invested in stocks a while longer.

[1]This includes a small portion of estimates of earnings from a few companies that have not yet reported fourth quarter earnings.

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Table I: Global Economic Trends

			Real GDP	CPI	Unemployment Rate	Benchmark Rate EOP	10 yr. Treasury Rate EOP
	**US:**	**2014**	2.4%	1.6%	6.2%	0.25%	2.18%
		2015	2.4%	0.1%	5.3%	0.38%	2.27%
		2016	1.6%	1.3%	4.9%	0.62%	2.46%
		2017 F	2.5%	2.4%	4.5%	1.38%	3.00%
		2018 F	2.5%	2.2%	4.5%	1.88%	3.00%
	**Canada:**	**2014**	2.4%	1.9%	6.9%	0.75%	1.78%
		2015	1.1%	1.1%	6.9%	0.50%	1.39%
		2016	1.3%	1.4%	7.0%	0.50%	1.72%
		2017 F	1.9%	1.9%	6.9%	0.50%	2.00%
		2018 F	1.9%	2.0%	6.8%	0.75%	2.25%
	**UK:**	**2014**	3.0%	1.4%	6.3%	0.50%	1.75%
		2015	2.2%	0.0%	5.4%	0.50%	1.96%
		2016	1.8%	0.7%	4.9%	0.25%	1.24%
		2017 F	1.5%	2.2%	5.2%	0.25%	1.60%
		2018 F	1.5%	2.4%	5.4%	0.25%	1.75%
	**Eurozone:**	**2014**	1.1%	0.4%	11.6%	0.05%	0.54%
		2015	2.0%	0.0%	10.9%	0.05%	0.63%
		2016	1.7%	0.2%	10.0%	0.00%	0.21%
		2017 F	1.8%	1.6%	9.5%	0.00%	0.50%
		2018 F	1.6%	1.5%	9.2%	0.00%	0.75%
	**Japan:**	**2014**	-1.0%	2.7%	6.3%	0.10%	0.31%
		2015	0.6%	0.8%	3.4%	0.10%	0.26%
		2016	1.0%	-0.1%	3.1%	-0.10%	0.04%
		2017 F	1.4%	0.7%	3.0%	-0.10%	0.07%
		2018 F	1.0%	1.0%	3.0%	-0.10%	0.10%
	**Australia:**	**2014**	2.7%	2.5%	6.1%	2.50%	2.75%
		2015	2.4%	1.5%	6.1%	2.00%	2.88%
		2016	2.5%	1.3%	5.7%	1.50%	2.77%
		2017 F	2.6%	2.0%	5.7%	1.50%	3.00%
		2018 F	2.7%	2.2%	5.6%	1.70%	3.25%
		**2014**	7.3%	2.0%		5.60%	
	China:	**2015**	6.9%	1.4%		4.35%	
	Official	**2016**	6.7%	2.0%		4.25%	
	Statistics	**2017 F**	6.5%	2.0%		4.35%	
		2018 F	6.2%	2.4%		4.35%	

F - Forecast, EOP - End of Period

Source: International Monetary Fund, OECD & Sovereign Group, China NBS, Principal Global Investors

Table II: U.S. Economic Indicators

Indicator	Level			Y/Y			Level			Y/Y %		
	Nov-16	Dec-16	Jan-17	Nov-16	Dec-16	Jan-17	2016	2017 F	2018 F	2016	2017 F	2018 F
1 Industrial Production Index (2007=100)	104.2	104.8	104.6	-0.3%	0.7%	0.0%	104.2	105.1	106.3	-1.0%	1.0%	1.1%
2 Capacity Utilization Rate, Total Industry (1997=100)	75.2	75.6	75.3	-0.5	0.2	-0.4	75.4	76.2	76.5	1.6%	1.1%	0.4%
3 Total Private Housing Starts (SAAR)	1,149	1,279	1,246	-1.9%	10.3%	10.5%	1,176	1,300	1,380	6.1%	10.5%	6.2%
4 Total Light Vehicle Sales (YTD)	15,783.7	17,465.0	1,138.0	0.1%	0.4%	-1.7%	17,465	17,500	17,700	0.4%	1.4%	1.0%
5 Civilian Labor Force (thousands)	159,456	159,640	159,716	1.3%	1.1%	0.9%	159,186	160,691	162,790	1.3%	0.94%	1.30%
6 Civilian Employment (thousands)	152,048	152,111	152,081	1.8%	1.4%	1.0%	151,437	153,498	155,640	1.7%	1.3%	1.4%
7 Total Unemploment (thousands)	7,409	7,529	7,635	-6.7%	-5.0%	-2.5%	7,750	7,193	7,150	-6.5%	-7.0%	-0.6%
	Level			Y/Y %			Level			Y/Y %		
	Q1-16	Q2-16	Q3-16	Q1-16	Q2-16	Q3-16	2015	2016 F	2017 F	2015	2016 F	2017 F
8 After-Tax Corporate Profits (billions $, quarterly)	1,550.5	1,636.7	1,679.4	-5.3%	-1.7%	4.3%	1,583.8	1,610	1,692	-8.5%	1.7%	5.1%
9 Index of Hourly Compensation Non-farm Business (2009=100, quarterly)	155.6	117.3	118.4	2.4%	2.7%	3.0%	114.5	117.7	121.1	2.9%	2.8%	2.8%
	Annual			Monthly			Monthly				Annual	
	2014	2015	2016	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16	Jan-17		2017 F	2018 F
10 Consumer Price Index, All Urban Consumers Y/Y%	1.6%	0.1%	1.3%	1.1%	1.5%	1.6%	1.7%	2.1%	2.5%		2.4%	2.2%
11 Consumer Price Index, Ex. Food & Energy Y/Y%	1.7%	1.8%	2.2%	2.3%	2.2%	2.2%	2.1%	2.2%	2.3%		2.2%	2.1%
12 Non-farm Payroll Growth (thousands)	3,015	2,744	2,157	176	249	124	164	157	227			
13 Unemployment Rate, All Workers	6.2	5.3	4.9	4.9	4.9	4.8	4.6	4.7	4.8		4.5	4.5
14 Unemployment Rate, All Workers, >15 Weeks	3.0	2.3	2.0	1.9	2.0	2.0	1.8	1.9	1.9		-	-
15 Unemployment Rate, Adult Men	5.7	4.9	4.5	4.5	4.6	4.6	4.3	4.4	4.4		-	-
16 Unemployment Rate, Adult Women	5.6	4.8	4.4	4.5	4.4	4.3	4.2	4.3	4.4		-	-
17 Unemployment Rate, Teenagers (16-19)	19.5	16.9	15.7	15.6	15.9	15.6	15.2	14.7	15.0		-	-

Y/Y% - Year Over Year Percent, F - Forecast, SAAR - Seasonally Adjusted Annual Rate, YTD - Year to Date

Source: Federal Reserve Board, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, U.S. Dept. of Commerce, Principal Global Investors

Baseline Economic Forecasts for 2017-2018, by Quarter

Baseline Forecasts

A. Growth in Real GDP - Qtr-Qtr (% Change, Annualized):

	1st QUARTER 17 Forecast		2nd QUARTER 17 Forecast		3rd QUARTER 17 Forecast		4th QUARTER 17 Forecast		2015 ACTUAL		2016 FORECAST	
Real GDP	**16,905.6**	**2.4%**	**17,020.6**	**2.7%**	**17,135.5**	**2.7%**	**17,249.1**	**2.7%**	**16,397.2**	**2.6%**	**16,659.8**	**1.6%**
Personal Consumption Expenditures	**11,753.0**	**3.4%**	**11,829.5**	**2.6%**	**11,906.5**	**2.6%**	**11,984.0**	**2.6%**	**11,214.7**	**3.2%**	**11,518.5**	**2.7%**
Durable Goods	1,660.8	3.0%	1,677.2	4.0%	1,693.7	4.0%	1,710.4	4.0%	1,498.1	6.9%	1,584.7	5.8%
Non-Durables	2,532.3	2.0%	2,551.1	3.0%	2,570.0	3.0%	2,589.1	3.0%	2,439.3	2.6%	2,499.7	2.5%
Services	7,574.9	1.8%	7,616.2	2.2%	7,657.8	2.2%	7,699.6	2.2%	7,310.3	2.8%	7,478.0	2.3%
Gross Private Domestic Invest.	**2,872.5**	**0.7%**	**2,906.6**	**4.8%**	**2,938.3**	**4.4%**	**2,968.1**	**4.1%**	**2,869.0**	**5.0%**	**2,824.4**	**-1.6%**
Bus. Fixed Invest.	2,224.9	4.7%	2,247.2	4.1%	2,269.8	4.1%	2,290.4	3.7%	2,200.2	2.1%	2,189.2	-0.5%
Structures	442.5	2.0%	444.7	2.0%	446.9	2.0%	446.9	0.0%	452.1	-4.4%	438.4	-3.0%
Equipment	1,049.7	5.0%	1,062.6	5.0%	1,075.6	5.0%	1,088.9	5.0%	1,072.5	3.5%	1,041.3	-2.9%
Intellectual Property Products	734.7	5.0%	741.9	4.0%	749.3	4.0%	756.6	4.0%	680.0	4.8%	713.3	4.9%
Residential Invest.	607.6	8.0%	619.4	8.0%	628.5	6.0%	637.7	6.0%	564.5	11.7%	592.0	4.9%
Change in Inventory	40.0	-	40.0	-	40.0	-	40.0	-	84.0	-	21.1	-
Net Exports	**-605.8**	**-**	**-610.3**	**-**	**-613.0**	**-**	**-615.8**	**-**	**-540.0**	**-**	**-561.7**	**-**
Exports	2,157.3	3.3%	2,173.3	3.0%	2,187.9	2.7%	2,202.5	2.7%	2,120.6	0.1%	2,128.8	0.4%
Imports	2,763.2	3.5%	2,783.7	3.0%	2,800.9	2.5%	2,818.2	2.5%	2,660.6	4.6%	2,690.4	1.1%
Gov't Purchases of Goods & Services	**2,915.1**	**0.9%**	**2,924.0**	**1.2%**	**2,932.9**	**1.2%**	**2,941.9**	**1.2%**	**2,883.7**	**1.8%**	**2,907.4**	**0.8%**
Federal	1,122.3	0.4%	1,124.5	0.8%	1,126.8	0.8%	1,129.0	0.8%	1,113.9	0.0%	1,120.5	0.6%
National Defense	664.5	1.0%	666.1	1.0%	667.8	1.0%	669.4	1.0%	672.0	-2.1%	667.0	-0.7%
Non-Defense	457.9	0.5%	458.4	0.5%	459.0	0.5%	459.6	0.5%	441.3	3.3%	452.7	2.6%
State & Local	1,792.8	1.5%	1,799.4	1.5%	1,806.2	1.5%	1,812.9	1.5%	1,768.2	2.9%	1,785.1	1.0%
Real Final Sales	16,865.6	3.0%	16,980.6	2.8%	17,095.5	2.7%	17,209.1	2.7%	16,300.6	2.4%	16,624.6	2.0%
Real Domestic Final Sales	17,471.4	3.1%	17,590.9	2.8%	17,708.5	2.7%	17,824.8	2.7%	16,841.7	3.1%	17,187.6	2.1%
y/y	2.3%		2.6%		2.4%		2.6%					

	1st QUARTER 18 Forecast		2nd QUARTER 18 Forecast		3rd QUARTER 18 Forecast		4th QUARTER 18 Forecast		2017 FORECAST		2018 FORECAST	
Real GDP	**17,366.2**	**2.7%**	**17,482.5**	**2.7%**	**17,570.6**	**2.0%**	**17,614.1**	**1.0%**	**17,077.7**	**2.5%**	**17,508.4**	**2.5%**
Personal Consumption Expenditures	**12,062.1**	**2.6%**	**12,140.7**	**2.6%**	**12,206.4**	**2.2%**	**12,257.4**	**1.7%**	**11,868.3**	**3.0%**	**12,166.6**	**2.5%**
Durable Goods	1,727.3	4.0%	1,744.3	4.0%	1,755.1	2.5%	1,763.8	2.0%	1,685.5	6.4%	1,747.6	3.7%
Non-Durables	2,608.3	3.0%	2,627.6	3.0%	2,643.9	2.5%	2,657.0	2.0%	2,560.6	2.4%	2,634.2	2.9%
Services	7,741.6	2.2%	7,783.8	2.2%	7,822.4	2.0%	7,851.6	1.5%	7,637.1	2.1%	7,799.8	2.1%
Gross Private Domestic Invest.	**3,000.5**	**4.4%**	**3,033.2**	**4.4%**	**3,051.6**	**2.4%**	**3,042.1**	**-1.2%**	**2,921.4**	**3.4%**	**3,031.9**	**3.8%**
Bus. Fixed Invest.	2,313.4	4.1%	2,336.7	4.1%	2,360.2	4.1%	2,370.7	1.8%	2,258.1	3.1%	2,345.3	3.9%
Structures	449.1	2.0%	451.3	2.0%	453.6	2.0%	453.6	0.0%	445.2	1.6%	451.9	1.5%
Equipment	1,102.2	5.0%	1,115.7	5.0%	1,129.4	5.0%	1,132.2	1.0%	1,069.2	2.7%	1,119.9	4.7%
Intellectual Property Products	764.1	4.0%	771.6	4.0%	779.2	4.0%	786.9	4.0%	745.6	4.5%	775.5	4.0%
Residential Invest.	647.0	6.0%	656.5	6.0%	661.4	3.0%	661.4	0.0%	623.3	5.3%	656.6	5.3%
Change in Inventory	40.0	-	40.0	-	30.0	-	10.0	-	40.0	-	30.0	-
Net Exports	**-618.7**	**-**	**-623.3**	**-**	**-624.4**	**-**	**-627.5**	**-**	**-611.2**	**-**	**-623.5**	**-**
Exports	2,220.4	3.3%	2,236.9	3.0%	2,253.5	3.0%	2,264.7	2.0%	2,180.3	2.4%	2,243.9	2.9%
Imports	2,839.1	3.0%	2,860.2	3.0%	2,877.9	2.5%	2,892.2	2.0%	2,791.5	3.8%	2,867.4	2.7%
Gov't Purchases of Goods & Services	**2,951.5**	**1.3%**	**2,961.1**	**1.3%**	**2,966.2**	**0.7%**	**2,971.3**	**0.7%**	**2,928.5**	**0.7%**	**2,962.5**	**1.2%**
Federal	1,131.8	1.0%	1,134.6	1.0%	1,137.5	1.0%	1,140.3	1.0%	1,125.7	0.5%	1,136.1	0.9%
National Defense	671.1	1.0%	672.8	1.0%	674.4	1.0%	676.1	1.0%	666.9	0.0%	673.6	1.0%
Non-Defense	460.7	1.0%	461.9	1.0%	463.0	1.0%	464.2	1.0%	458.7	1.3%	462.5	0.8%
State & Local	1,819.7	1.5%	1,826.4	1.5%	1,828.7	0.5%	1,831.0	0.5%	1,802.8	1.0%	1,826.5	1.3%
Real Final Sales	17,326.2	2.7%	17,442.5	2.7%	17,540.6	2.3%	17,604.1	1.5%	17,037.7	2.5%	17,478.4	2.6%
Real Domestic Final Sales	17,944.9	2.7%	18,065.8	2.7%	18,165.1	2.2%	18,231.7	1.5%	17,648.9	2.7%	18,101.9	2.6%
y/y	2.7%		2.7%		2.5%		2.1%					

Source: Historical Statistics - U.S. Dept. of Commerce, Bureau of Economic Analysis (http://www.bea.gov/bea/dn1.htm), Projections - Internal Estimates.