Economic Insights

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

Topic summaries:

- **Four Funerals and a Wedding, Redux**

  ALate last December we described a broad, top-down overview that suggested a cyclical reflation began early in 2016 and would continue this year and into 2018. Recent data clearly support those conclusions so far.

- **Revisiting Peak Momentum:**

  The first phase of that reflation impulse is likely over. Annual inflation is peaking and there is little room for further upside in confidence. The next phase of reflation may soon be underway, as deflation ends in Europe and Japan, and U.S. wages gain steam.

- **Making Confidence Great Again:**

  Central bank policies are diverging around the world, but one similarity is an emerging confidence that the global upturn is indeed for real. The public agrees. This all suggests that investors should expect higher interest rates later this year.

- **Asset Allocation: Cyclical Consolidation:**

  The market continues its back and forth, which we think will give way eventually to another move higher in stocks. The world's underlying economic fundamentals stay robust and are improving in Europe and Japan. Capital spending and continued profit growth should propel the next upturn.

For the month of April 2017

Four Funerals and a Wedding, Redux

At the end of December, we outlined a broad, top-down overview that described the current state of the global economy and how it came to be. We called the narrative "Four Funerals and a Wedding." We update that storyline to see if it still fits and look at where we might go from here.

The funerals:

To review, we described two very long trends that died with a really ugly aftermath. The first was a huge investment boom in China and emerging markets that began in earnest after the World Trade Organization (WTO) was founded in 1995. The second was a very long cycle of ever-rising debt in Europe and the United States. Both were a huge boost to growth during the upcycle and a lot of fun while they lasted. But, the fallout was especially nasty: enormous excess capacity from the former and financial crises from the latter; from both, deflation, lasting economic quagmire, and very slow growth. The third funeral was a hoped-for end of middle-class wage and salary stagnation in developed countries after 1990. It occurred as hundreds of millions of low-wage, underemployed workers joined the world labor force, competing with middle-class workers after the WTO reduced global trade barriers.

Then, just as the first trend boosted the world's capacity to produce goods and services, the other two slashed developed countries' ability and desire to buy the excess. Exploding supply and shrinking demand created a fourth period of nine years from mid-2007 of incessant financial crises, ultra-slow growth, hyperactive central banks, zero interest rates, dread of deflation, and lingering panic of relapse into recession, depression, or worse. It lasted so long, people thought it was permanent: a new normal, secular stagnation. But, that was the last funeral, the belief that the long period of economic morass would be permanent. It wasn't and it's over.

> If first quarter numbers fall flat, we expect a sharp rebound in the second quarter, but are mindful of the downside risk of peak momentum.
>
> Bob Baur • Chief Global Economist, Principal Global Investors

The wedding:

What replaced the morass was a synchronized global expansion that is now clearly underway, a new era, a marriage of better growth and mild inflation. It began late in the first quarter last year and gradually accelerated during 2016. Stock and bond markets joined the wedding celebration as cyclical issues (those that benefit most from faster growth) wildly outperformed the broad indices, and yields on long-term U.S. treasury bonds surged up from their July low.

What propelled the upturn? The end of the five-year plunge in commodity prices as oil prices rebounded strongly from their February 2016 trough, and other commodity prices bounced from earlier lows. The excess inventory built during the 2015 global slowdown was gradually worked off. Chinese officials added fiscal stimulus and fears of an ultra-hard landing faded away. Central banks in Europe and Japan implemented more monetary easing. The Federal Reserve (Fed) stopped its rate hike plans and spoke soothingly. Profits turned higher as nominal growth picked up. U.S. consumers never wavered with 2.6% spending growth in 2015 and 3.1% in 2016, above their prior pace.

Data ever since last summer clearly validated the synchronized upturn in global growth. The last two weekly *Insights* discussed whether, after the sizeable rally over the last year, stock markets were consolidating for another leg higher or gradually forming a top. We voted consolidation. But, integral to that question is another concept we revisit in the next section.

Revisiting Peak Momentum

In past *Insights*, we described the concept of a peak in momentum, i.e., has the burst of growth that began with the wedding already topped or is the best yet to come? For math nerds, it's about the second derivative: has the rate of change of growth maxed out and will soon start to fall? The answer matters because we may be past the peak of cyclical reflation. It's not that growth stops, it's that the pace slows.

We arrived at this point as oil and commodity prices hit bottom early last year. Prices rebounded, inflation, growth, and profits came back, the phenomenon of cyclical reflation. Now, the surge in year-over-year changes are fading as base effects max out; price rises in oil, iron ore, copper, and raw industrials have started to decline. This also shows up in broader inflation. Producer prices surged in China, moving from nearly five years of annual declines to a rise of over 7.5% in the last six months. As of February, U.S. headline inflation in consumer prices was 2.7% and the deflator of personal-consumption expenditures finally broke 2%. But March inflation numbers in Europe showed declines from February. Estimates of German and Eurozone headline inflation dropped to 1.6% from 2.2% and to 1.5% from 2.0%, respectively.

The second derivative:

What does the latest data say about further reflation or peak momentum? It's not completely clear. In the United States: the final estimate of fourth-quarter GDP was upwardly revised to 2.1% from 1.9% as consumer spending growth was bumped to 3.5% from 3.0% Net exports remained a big drag on overall growth, subtracting 1.82 percentage points. Inventories added a percentage point. Profits with inventory and capital adjustments jumped 9.3% over the prior year, but, they may have hit peak momentum. Profits bottomed in the fourth quarter of 2015 and incrementally higher annual gains may be harder to achieve.

Divergences remain between hard data (e.g., spending and trade) and soft data (e.g., business surveys and sentiment). Manufacturing surveys, ranging from Richmond to Chicago, stayed robust. The Conference Board's consumer confidence index hit the highest since 2000; the Michigan index edged lower, but remained near the cycle high. Pending-home sales surged 5.5% and capital spending is trending sharply up. However, weird seasonal adjustment snags plus weak data in January and February suggest first-quarter GDP growth might be only 1%. The super-warm winter and correlated low utility spending explains a lot of the weak consumer spending; still, real spending barely grew over two months. Later than expected tax refunds may be another reason. If first quarter numbers fall flat, we expect a sharp rebound in the second quarter, but are mindful of the downside risk of peak momentum. The table below contains selected U.S. forecasts.

Global growth rebounds:

Momentum could stay solid in Europe since business surveys were fantastic. Germany's manufacturing survey hit 58.3 and France's survey of services companies leapt to 58.5, both very healthy levels. Sentiment stays elevated: the German Ifo Index is the highest since 2011, French consumer confidence is steady, and Italian economic confidence is the best since 2015. Core inflation, ex food and energy, in the Eurozone fell to 0.7% over the prior year in March, but better growth prospects may propel it higher later this year.

The unemployment rate in Japan dropped to 2.8%, it's lowest level since 1994. Manufacturing surveys stayed solid and industrial production was up 2% month-over-month. Headline inflation moved up sharply over the last year, but the Bank of Japan's core-core inflation (ex-food, energy, and consumption tax) remained in a firm downtrend.

Reflation remains entrenched in China since growth stabilized at a good level. Industrial profits surged 31.5% in January and February. The official survey of manufacturers rose to the highest level in five years. According to analysts at *ISI Evercore*, railway freight, airline passengers, vehicle sales, and container shipments all rose from January to February.

Has momentum peaked?

Probably so, at least in the United States. The first phase of reflationary impulse that started early last year is likely over; that's the message of the March pause in the stock market too. The rebound in commodity prices has slowed, headline inflation has eased, and sentiment indicators are so terrific, it's hard to see much upside. But, deflation is over, for the first time since 2010, no major country is encountering deflation in producer or consumer prices.

More reflation?

So, the question is whether there will be another leg higher in the economy. For the United States, the key is higher wages. Wage growth <u>is</u> accelerating, but slowly. The Conference Board asks respondents whether jobs are plentiful or hard to get; the net percentage plentiful reached another cycle high. Surveys of compensation and income are also at cycle highs. Wage gains in the 3% to 3.5% range should propel the next phase of reflation. Good wages support consumer spending by offsetting a bit more inflation. Sharper wage growth will also mean stronger capital spending. Rising labor costs are an incentive for businesses to increase spending on productivity-enhancing equipment, building, hardware, or software.

We expect wage growth to evolve in a manner that supports solid consumer spending growth in a 2.5% to 3% range or higher. Even if inflation peaks, manufacturing and investment activity will continue their recovery. Manufacturing output is up nearly 4% over three-months annualized; capital goods orders and shipments are very healthy. These dynamics suggest U.S. GDP growth will stay above trend this year.

Outside the United States, the next boost to reflation should come from winning the battle against deflation in Europe and Japan. The economic expansion in both regions are much younger than in the Unites States. While the Euro area unemployment rate has fallen substantially, it's still over 9%, so there is plenty of excess slack in the labor market. Solid business surveys and rising confidence suggest there is lots of room to the upside in both regions. Neither the Bank of Japan (BoJ) nor the European Central Bank (ECB) are likely to exit their extraordinary monetary policy very soon or very quickly. So, the upside has good odds.

U.S. Forecast Table	2015 (A)	2017 (E)	2018 (E)
Real GDP	+1.6%	+2.5%	+2.5%
Domestic Final Sales	+2.1%	+2.7%	+2.6%
U.S. Auto Sales (units)	17.5m (0.4%)	17.5m (0.2%)	17.7m (1.1%)
Industrial Production	-1.7%	0.8%	+0.7%
Housing Starts (million)	1,174 (5.6%)	1,275 (0.8%)	1,350 (5.9%)
After Tax Corporate Profits (National Income and Products Accounts	9.3%	+10%	+5%
Federal Budget Balance (Fiscal Years)	-$0.6t	-$0.6t	-$0.5t
Civilian Unemployment Rate	4.9%	4.6%	4.4%
CPI – Overall	+1.3%	+2.4%	+2.2%
CPI – ex Food & Energy	+2.2%	+2.2%	+2.3%
GDP Price Index	+1.3%	+2.2%	+2.3%

Sources are in the tables at the end of the commentary
A - Actual
E - Estimated

Making Confidence Great Again

There is a growing divergence in policy views among the world's central banks; but, the surging confidence displayed by consumers, businesses, and markets is rubbing off on them. At its latest meeting, the ECB said that risks were still tilted to the downside, but, for the first time in years, noted that the risks had "become less pronounced." ECB President Draghi expressed less potential urgency to ease further, even while maintaining very accommodative policy. The ECB added some flexibility, but, the BOJ stayed in full stimulus mode. Still, BOJ Governor Kuroda did highlight limited progress toward the bank's 2% inflation target, but not enough to justify policy change.

The Bank of England (BOE) also left policy intact, even though a rate hike was likely justified. One Committee member did vote to raise rates. UK negotiations with the European Union, now that a UK exit is official, will dominate the Bank's discussions for some time. The BOE did note that anticipation of lousy UK economic prospects as negotiations unfold were "difficult to reconcile with the ongoing resilience of most macroeconomic indicators." In China, economic growth is stable at a good level and the central bank raised rates, for at least the third time this year, on all short and mid-term liquidity instruments. The bank is trying to guard against currency outflows and restrain a very strong housing market.

Like other central banks, the Fed is taking their cue from markets to normalize policy. The growth upturn has made investors much more willing to accept rate hikes. With inflation and unemployment near target levels, profits and nominal growth surging, and confidence in the stratosphere, the Fed has become relaxed about downside risks. We look for two more rate increases in 2017 and discussion about the Fed's balance sheet to commence soon. Further policy moves in 2018 will depend on the stock market and the level of long-term yields.

Recent trends:

After rising from an all-time low last July of 1.36% to hit 2.6% last December, yields on 10-year U.S. treasury bonds stayed in a 2.3% to 2.6% range this year. Yields on 10-year German bunds bounced similarly last year but from a negative -0.19% yield and have also been range-bound from 0.2% to 0.5% this year. Yields on 10-year Japanese government bonds remain pegged between 0.0% and 0.1%. Both are keeping significant downward pressure on U.S. yields. Recent U.S. rate history is shown in the table below.

Interest Rates

	12/31/2013	12/31/2014	12/31/15	12/15/2016 (High)*	07/08/2016 (Low)*	3/31/2017 Current
2 year	0.38%	0.66%	1.05%	1.27%	0.61%	1.26%
10 year	3.03%	2.17%	2.27%	2.60%	1.36%	2.39%
10-2 spread	2.65%	1.51%	1.22%	1.33%	0.75%	1.13%
30 year	3.97%	2.75%	3.02%	3.16%	2.10%	3.01%

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

Interest rate outlook:

Despite prospects of weak first-quarter U.S. GDP, prospects for 2017 suggest stronger growth in the second quarter and beyond. With nominal GDP growth expected to be 4.5%, present yields of 2.4% on 10-year U.S. treasury bonds seem far too low. As the Fed appears willing to hike rates two more times this year, the path for long-bond yields should be firmly up.

However, there are forces that give investors pause in expecting higher rates. One is political risk in the U.S. capitol, epitomized by the failure of the House to reach a vote on health care legislation. That episode made investors doubt the administration's ability to implement a business-friendly agenda despite its willingness to do so. Further, the ECB, BOE, and BOJ will keep policy very accommodative for much of 2017, despite the clear pickup in growth over the last several months. Those low rates will exert downward pressure on U.S. yields.

Last, the long period of economic morass since mid-2007 created significant inertia on the part of investors and central banks against a belief in higher growth, inflation, and profits. Persistently positive economic data plus favorable election results in Europe will be necessary to change the prevailing attitude. We think those developments will fall into place, affording progress to higher yields. Our thoughts about yields for yearend 2017 and beyond are 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	2.75%-3.25%	3.0%-3.5%
2-10 Year Spread	1.0%-1.5%	1.0%

Asset Allocation: Cyclical Consolidation:

For the U.S. stock market, March was blah, a long, tiring pause. The S&P 500 and the Dow Jones 30 Industrials total return indices were both almost perfectly flat. Both had a fine quarter, however, up 5.5% and 4.6%, respectively. Most things European or in developing countries looked better. The MSCI Europe and MSCI Emerging Market indices were each up 3.6% and 2.4% for March and surged 6.5% and 11.2% for the quarter, both respectively.

As noted in a recent *Insights*, cyclical issues, those that benefit most from faster growth, did not outperform during March or the first quarter as they had in 2016, part of the broad market consolidation. For example, average growth stock performance was better than that of value stocks; small-cap stock returns were flat with those of large caps; and sector performance was not consistent with an accelerating or at least ongoing global upturn.

Can equities be great again?

Can equities be great again? Yes, we think so, but it will probably take more back and forth first. At root, most stock market moves depend on underlying economic fundamentals. And those rudiments are quite robust, and in places, still improving. The good March returns from emerging market stock and bond indices did not fit the pattern of cyclical consolidation. Why not? The stocks were likely pulled higher by the broadening global upturn, which reduced the risk of local recession and credit defaults. Emerging market bonds had good returns as developing country interest rates slid a bit or were flat during the first quarter and the improving economic data led to narrower credit yield spreads.

It's the same in Europe. Euro area stocks were on the leader boards of both the March and first quarter as economic data steadily improved, rising above expectations throughout the quarter. The progress was so clear that ECB President Draghi dispensed with his usual "we'll do whatever it takes" comments. Further, with the populist candidate Wilders underperforming his expected vote share in the Netherlands and the polls for Marine Le Pen edging lower in France, political risk seemed to be lessening.

The next move:

We think it will be up but maybe not for another month or two. It may take more obvious evidence of a pickup in capital spending. That is the missing ingredient in the whole expansion to date, but, there are several reasons to expect a sharp uptrend. First, nominal growth and profits are rebounding as noted above. Good earnings provide the confidence needed to expand as well as the funds to follow through.

Second, the coming robust growth in wages should propel productivity-enhancing investment to find more efficient ways to meet demand. As wages rise, simply hiring more people will not be easy in a tightening labor market, and it will surely be expensive. Further, capital spending has been weak for years and facilities are aging. In fact, outside of investment related to housing in the 2000s and shale, oil, and gas drilling during the commodity rush, capital spending has really been anemic ever since the tech bust in 2001. Last, the recent recovery in pricing power should lead to rising confidence in the economic outlook, a prerequisite for expansion, and it has been surging.

We remain optimistic about another leg up in the equity market. Interest rates remain low; central banks are accommodating the global upturn; a pickup in profit growth will keep valuations near current levels or lower; reflation does not appear to be fading; and the public is just starting to move funds into equities. What's not to like? It's surely too early to be talking about a stock market peak.

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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	2.4%	2.4%	4.5%	1.38%	3.00%
	2018 F	2.6%	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	1.4%	1.4%	7.0%	0.50%	1.72%
	2017 F	2.1%	2.1%	6.8%	0.50%	1.75%
	2018 F	2.0%	2.0%	6.6%	0.75%	2.00%
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	2.0%	2.6%	5.0%	0.25%	1.40%
	2018 F	1.5%	2.5%	5.3%	0.25%	1.60%
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%	1.7%	9.4%	0.00%	0.60%
	2018 F	1.7%	1.6%	9.1%	0.00%	0.80%
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	1.3%	0.6%	3.0%	-0.10%	0.07%
	2018 F	1.0%	0.9%	2.9%	-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%	2.1%	5.7%	1.50%	3.00%
	2018 F	2.9%	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 Dec-16	Level Jan-17	Level Feb-17	Y/Y Nov-16	Y/Y Dec-16	Y/Y Feb-17	Level 2016	Level 2017 F	Level 2018 F	Y/Y % 2016	Y/Y % 2017 F	Y/Y % 2018 F
1 Industrial Production Index (2007=100)	104.8	104.7	104.7	0.7%	0.2%	0.3%	104.2	105.0	106.1	-1.0%	0.8%	1.0%
2 Capacity Utilization Rate, Total Industry (1997=100)	75.6	75.5	75.4	0.2	-0.2	-0.2	75.4	76.0	76.5	-1.7%	0.8%	0.7%
3 Total Private Housing Starts (SAAR)	1,275	1,251	1,288	9.9%	10.9%	6.2%	1,174	1,275	1,350	5.6%	8.6%	5.9%
4 Total Light Vehicle Sales (YTD)	17,465.0	1,138.0	2,463.5	0.4%	-1.7%	-1.4%	17,465	17,500	17,700	0.4%	0.2%	1.1%
5 Civilian Labor Force (thousands)	159,640	159,716	160,056	1.1%	0.9%	0.7%	159,186	160,691	162,790	1.3%	0.94%	1.30%
6 Civilian Employment (thousands)	152,111	152,081	152,528	1.4%	1.0%	1.0%	151,437	153,498	155,640	1.7%	1.3%	1.4%
7 Total Unemploment (thousands)	7,529	7,635	7,528	-5.0%	-2.5%	-4.0%	7,750	7,321	7,147	-5.5%	-5.8%	-2.4%

Indicator	Level Q2-16	Level Q3-16	Level Q4-16	Y/Y % Q2-16	Y/Y % Q3-16	Y/Y % Q4-16	Level 2016	Level 2017 F	Level 2018 F	Y/Y % 2016	Y/Y % 2017 F	Y/Y % 2018 F
8 After-Tax Corporate Profits (billions $, quarterly)	1,636.7	1,679.4	1,741.2	-1.7%	4.3%	22.3%	1,652.0	1,770	1,867	4.3%	7.1%	5.5%
9 Index of Hourly Compensation Non-farm Business (2009=100, quarterly)	117.3	118.5	119.4	2.8%	3.2%	3.0%	117.7	121.1	124.5	2.9%	2.8%	2.8%

Indicator	Annual 2014	Annual 2015	Annual 2016	Monthly Sept-16	Monthly Oct-16	Monthly Nov-16	Monthly Dec-16	Monthly Jan-17	Monthly Feb-17	Annual 2017 F	Annual 2018 F
10 Consumer Price Index, All Urban Consumers Y/Y%	1.6%	0.1%	1.3%	1.5%	1.6%	1.7%	2.1%	2.5%	2.8%	2.4%	2.2%
11 Consumer Price Index, Ex. Food & Energy Y/Y%	1.7%	1.8%	2.2%	2.2%	2.2%	2.1%	2.2%	2.3%	2.2%	2.2%	2.3%
12 Non-farm Payroll Growth (thousands)	3,015	2,744	2,157	249	124	164	155	238	235		
13 Unemployment Rate, All Workers	6.2	5.3	4.9	4.9	4.8	4.6	4.7	4.8	4.7	4.6	4.4
14 Unemployment Rate, All Workers, >15 Weeks	3.0	2.3	2.0	2.0	2.0	1.8	1.9	1.9	1.8	-	-
15 Unemployment Rate, Adult Men	5.7	4.9	4.5	4.6	4.6	4.3	4.4	4.4	4.3	-	-
16 Unemployment Rate, Adult Women	5.6	4.8	4.4	4.4	4.3	4.2	4.3	4.4	4.3	-	-
17 Unemployment Rate, Teenagers (16-19)	19.5	16.9	15.7	15.9	15.6	15.2	14.7	15.0	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

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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	**16,891.5**	**1.9%**	**17,009.5**	**2.8%**	**17,129.0**	**2.8%**	**17,238.8**	**2.6%**	**16,397.2**	**2.6%**	**16,662.1**	**1.6%**
Personal Consumption Expenditures	**11,706.5**	**1.3%**	**11,791.5**	**2.9%**	**11,878.2**	**3.0%**	**11,961.4**	**2.8%**	**11,214.7**	**3.2%**	**11,522.2**	**2.7%**
Durable Goods	1,652.3	1.0%	1,668.6	4.0%	1,689.1	5.0%	1,705.7	4.0%	1,498.1	6.9%	1,584.6	5.8%
Non-Durables	2,529.1	1.0%	2,550.9	3.5%	2,569.8	3.0%	2,588.9	3.0%	2,439.3	2.6%	2,500.5	2.5%
Services	7,579.2	1.4%	7,626.1	2.5%	7,673.4	2.5%	7,720.9	2.5%	7,310.3	2.8%	7,480.9	2.3%
Gross Private Domestic Invest.	**2,876.2**	**1.1%**	**2,910.4**	**4.8%**	**2,942.0**	**4.4%**	**2,966.8**	**3.4%**	**2,869.0**	**5.0%**	**2,824.6**	**-1.6%**
Bus. Fixed Invest.	2,218.1	3.9%	2,240.3	4.1%	2,262.8	4.1%	2,283.3	3.7%	2,200.2	2.1%	2,188.6	-0.5%
Structures	445.4	2.0%	447.6	2.0%	449.8	2.0%	449.8	0.0%	452.1	-4.4%	439.2	-2.9%
Equipment	1,047.4	4.0%	1,060.3	5.0%	1,073.3	5.0%	1,086.5	5.0%	1,072.5	3.5%	1,041.4	-2.9%
Intellectual Property Products	727.3	4.0%	734.5	4.0%	741.7	4.0%	749.0	4.0%	680.0	4.8%	711.9	4.7%
Residential Invest.	613.1	12.0%	625.0	8.0%	634.2	6.0%	643.5	6.0%	564.5	11.7%	592.0	4.9%
Change in Inventory	45.0	-	45.0	-	45.0	-	40.0	-	84.0	-	22.0	-
Net Exports	**-612.8**	**-**	**-620.8**	**-**	**-626.3**	**-**	**-631.1**	**-**	**-540.0**	**-**	**-563.0**	**-**
Exports	2,153.3	3.0%	2,169.2	3.0%	2,183.7	2.7%	2,198.3	2.7%	2,120.6	0.1%	2,128.2	0.4%
Imports	2,766.1	3.5%	2,790.0	3.5%	2,810.0	2.9%	2,829.5	2.8%	2,660.6	4.6%	2,691.2	1.1%
Gov't Purchases of Goods & Services	**2,911.7**	**0.6%**	**2,918.3**	**0.9%**	**2,925.0**	**0.9%**	**2,931.8**	**0.9%**	**2,883.7**	**1.8%**	**2,907.0**	**0.8%**
Federal	1,122.3	0.5%	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	1,789.3	1.0%	1,793.8	1.0%	1,798.3	1.0%	1,802.7	1.0%	1,768.2	2.9%	1,784.8	0.9%
Real Final Sales	16,846.5	2.4%	16,964.5	2.8%	17,084.0	2.8%	17,198.8	2.7%	16,300.6	2.4%	16,626.1	2.0%
Real Domestic Final Sales	17,459.4	2.5%	17,585.3	2.9%	17,710.2	2.9%	17,829.9	2.7%	16,841.7	3.1%	17,190.4	2.1%
y/y	2.2%		2.6%		2.4%		2.5%					

	1st QUARTER 18 Forecast		2nd QUARTER 18 Forecast		3rd QUARTER 18 Forecast		4th QUARTER 18 Forecast		2017 FORECAST		2018 FORECAST	
Real GDP	**17,360.1**	**2.8%**	**17,479.5**	**2.8%**	**17,572.0**	**2.1%**	**17,627.1**	**1.3%**	**17,067.2**	**2.4%**	**17,509.7**	**2.6%**
Personal Consumption Expenditures	**12,047.3**	**2.9%**	**12,131.9**	**2.8%**	**12,199.9**	**2.3%**	**12,251.0**	**1.7%**	**11,834.4**	**2.7%**	**12,157.5**	**2.7%**
Durable Goods	1,724.6	4.5%	1,743.7	4.5%	1,756.6	3.0%	1,765.3	2.0%	1,678.9	6.0%	1,747.5	4.1%
Non-Durables	2,608.1	3.0%	2,627.5	3.0%	2,643.7	2.5%	2,656.8	2.0%	2,559.7	2.4%	2,634.0	2.9%
Services	7,768.7	2.5%	7,814.9	2.4%	7,853.7	2.0%	7,882.9	1.5%	7,649.9	2.3%	7,830.0	2.4%
Gross Private Domestic Invest.	**2,999.2**	**4.4%**	**3,032.0**	**4.4%**	**3,050.3**	**2.4%**	**3,052.4**	**0.3%**	**2,923.9**	**3.5%**	**3,033.5**	**3.7%**
Bus. Fixed Invest.	2,306.2	4.1%	2,329.4	4.1%	2,352.9	4.1%	2,363.3	1.8%	2,251.1	2.9%	2,338.0	3.9%
Structures	452.1	2.0%	454.3	2.0%	456.6	2.0%	456.6	0.0%	448.2	2.1%	454.9	1.5%
Equipment	1,099.8	5.0%	1,113.3	5.0%	1,127.0	5.0%	1,129.8	1.0%	1,066.9	2.4%	1,117.4	4.7%
Intellectual Property Products	756.4	4.0%	763.8	4.0%	771.4	4.0%	779.0	4.0%	738.1	3.7%	767.6	4.0%
Residential Invest.	653.0	6.0%	662.5	6.0%	667.5	3.0%	669.1	1.0%	629.0	6.2%	663.0	5.4%
Change in Inventory	40.0	-	40.0	-	30.0	-	20.0	-	43.8	-	32.5	-
Net Exports	**-637.7**	**-**	**-645.2**	**-**	**-646.4**	**-**	**-649.7**	**-**	**-622.8**	**-**	**-644.7**	**-**
Exports	2,216.2	3.3%	2,232.7	3.0%	2,249.2	3.0%	2,260.4	2.0%	2,176.1	2.3%	2,239.6	2.9%
Imports	2,853.9	3.5%	2,877.9	3.4%	2,895.7	2.5%	2,910.0	2.0%	2,798.9	4.0%	2,884.4	3.1%
Gov't Purchases of Goods & Services	**2,941.3**	**1.3%**	**2,950.9**	**1.3%**	**2,958.2**	**1.0%**	**2,963.3**	**0.7%**	**2,921.7**	**0.5%**	**2,953.4**	**1.1%**
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	1,809.5	1.5%	1,816.2	1.5%	1,820.7	1.0%	1,823.0	0.5%	1,796.0	0.6%	1,817.4	1.2%
Real Final Sales	17,320.1	2.9%	17,439.5	2.8%	17,542.0	2.4%	17,607.1	1.5%	17,023.5	2.4%	17,477.2	2.7%
Real Domestic Final Sales	17,957.8	2.9%	18,084.7	2.9%	18,188.4	2.3%	18,256.7	1.5%	17,646.2	2.7%	18,121.9	2.7%
y/y	2.8%		2.8%		2.6%		2.3%					

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