Principal Global Investors

# Economic Insights

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

## Topic summaries:

- **Brother, can you spare a dime?**

  Wages in U.S. payrolls need help. Wage growth is missing and too slow for the low unemployment rate. Businesses may still be cautious and uncertain of a pickup in revenue or pricing power to push wage gains higher.

- **Only the second derivative has stalled:**

  The synchronized world expansion keeps rolling along, even though it's no longer accelerating.

- **Markets debate normal Fed policy:**

  The Fed is tightening policy and raising rates, yet long-term U.S. yields keep slipping. What gives? Will yields ever rise above 2.5%? We think so, but have been disappointed so far

- **Asset allocation: summer doldrums:**

  June is a time of vacations and low trading volumes. It makes sense to expect some profit-taking. If the reflation trade returns, the stock market rally could extend somewhat farther, but the end of the long investment cycle is likely approaching.

## For the month of June 2017

## "Brother, can you spare a dime"…in wage growth?

No, it isn't Bing Crosby or Rudy Vallee singing about needing money during the Great Depression. We just needed another dime in wages in Friday's U.S. payroll report. Ten more cents would have made average hourly earnings (AHE) 2.9% higher than May of last year, starting the acceleration in wage growth for which we have been not-so-patiently waiting. AHE have stayed 2.7% above the prior year on a smoothed basis for months, but now have edged down to 2.6% in May. It's the Case of the Missing Wage Growth. Economists are trying to figure out if it's hiding, if it's been ambushed, or, like Godot, if it's merely late to arrive.

At 4.3%, the U.S. unemployment rate is the lowest in sixteen years. In theory, with fewer and fewer workers to fill positions, firms should be forced to pay higher wages. The last time the unemployment rate was 4.3% (May 2001), AHE for nonsupervisory and production employees was 4.0%. Even worse, wage growth, across a broad range of surveys, had been slowly trending up, but stalled recently at 2.5%.

### Labor demand:

Several other job measures suggest the labor market is tightening . Initial claims for unemployment compensation are at historic lows. The number of unemployed workers per job opening is also the lowest on record, with data back to 2000. The National Federation of Independent Businesses' optimism survey showed 34% of businesses have positions that were "hard to fill." The Federal Reserve's Beige Book reports labor shortages across many regions of the country. One report said the state of Maine even released some non-violent offenders from prison to help during the state's heavy tourist season.

> **It's understandable that wage gains might be minuscule in the euro area, since 9.3% unemployment suggests there's still lots of labor market slack. But Japan? The unemployment rate there is a tiny 2.8%, the lowest since June 1998!**
>
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If positions are so hard to fill, why aren't companies paying up? That is the demand side of the missing wage mystery. Companies may be cautious to raise wages because economic growth isn't fast enough; they fear a lack of demand and too little pricing power. Revenue growth may not justify the higher wages, or firms can't pass on the higher wage costs to customers.

Another issue may be productivity growth. Productivity, or output per hour of work, has been growing achingly slow this cycle. Companies may be thinking, why should we pay more when output is not growing very much? But, this may lead to a bigger problem: If sluggish productivity growth implies listless wage growth, then workers are cheap relative to investing in productivity-enhancing equipment. So, the labor market could stall in a vicious self-reinforcing circle of meager productivity and wage growth.

## Labor supply:

The other lingering question: how close is the United States to full employment? Faster wage growth should be the tell-tale sign that the economy has reached full employment. If wage growth is still lackluster, that suggests there are people on the sidelines ready to return to work. That may be, but whatever slack exists is quickly being absorbed. The widest measure of unemployment at 8.4% is near last cycle's low. More broadly, compared to the trough of the last cycle, there are about 1.2 million more people that want a job, but haven't looked for work recently . But, the flow of people into the labor force has slowed over the last year. In addition, the current slowdown in payroll growth may be signaling that the labor market is simply reaching capacity. So, the unemployment rate may have room to fall further. That should, at long last, provide more space for wages to accelerate. We await that faster wage growth, which may give companies an incentive to increase capital spending.

## Worldwide:

Wage growth is missing in other developed countries, too. It's understandable that wage gains might be miniscule in the euro area, since 9.3% unemployment suggests there's still a lot of labor market slack. But Japan? The unemployment rate there is a tiny 2.8%, the lowest since June 1998! Moreover, the number of job openings per potential job applicant is a huge 1.48, the highest since February 1974 and above the Japanese bubble period at the end of the 1980s.

Even so, increases in wages have been anemic in Japan. JP Morgan reports that monthly wages per worker were up only 0.4% in February over the prior year, up 0.3% in January, up 0.4% in the fourth quarter, but fell 0.4% in March from last year. Core scheduled earnings, which may better capture the underlying trend, is, at best, flat to up 0.2% over last year. These slow wage gains can't be because profits are slacking. As Evercore ISI notes, corporate first-quarter profits are up 5.4% from the prior quarter and up 27.6% from the prior year to a new record high.

## So, why slow gains?

Wage growth is likely being held back by business's caution in the face of poor pricing power and modest expectations of faster economic or revenue growth, even though confidence is soaring. With feeble wage growth, an extra employee might be cheaper than capital spending to improve productivity. We still think that will change, and look for a pickup in wage growth, just like we expect faster economic growth. The former likely depends on the latter. Right now we feel like Vladimir and Estragon waiting for Godot. We await better wage gains and faster economic growth, but, just like Godot, they are, so far, nowhere to be found.

# Only the second derivative has stalled

The synchronized world economic upturn keeps moving, but it's no longer accelerating. That has pundits and investors worried. They should lose the worry and not sweat it; growth is just fine. Eurozone business surveys for May stayed at six-year highs; unemployment continues to fall; second-quarter growth could exceed the upwardly revised 2% last quarter. The Japanese economy expanded in the first quarter, the fifth consecutive advance for the longest such run in a decade or so. With strong recent industrial production, the second quarter could also surpass the first. Data for China's economy softened a bit in April from the harsh reports of the first quarter, but there seems little to be alarmed by. Even currency has strengthened from the December lows; that wouldn't have happened if the weakness was spreading.

## Lowdown on the slowdown:

The U.S. economy hit stall speed in the first quarter, at 1.2% revised growth. It was likely as much a statistical artifact as a real slowdown, but the numbers are the numbers are the numbers. The measly job gains in May might have been a lagging response to whatever real drags there were last quarter, if any; other employment data have been much stronger. Home sales, housing starts, and light vehicle sales have been off their cycle highs, but are still within established uptrends. National and regional business surveys are a touch weaker, but stay mostly robust. Credit stress is falling. More recent reports suggest a rebound this quarter, especially in personal income and spending. And, we're optimistic about the rest of the year.

First-quarter U.S. data on capital spending showed an impressive rebound: business fixed investment up 11.4% annualized, the best in years. Consumer spending is bouncing from its moribund 0.6% first-quarter performance. All that's needed now for a virtuous economic circle is a pickup in wage gains (see above).

# Markets debate "normal" Fed policy

In the minutes of the May Fed meeting, members spoke openly of reducing monetary accommodation and moving policy toward normal. There was a detailed plan devoted to unwinding the Fed's huge bond portfolio that we described last week. Markets were unmoved. That was much different from June 2013, when a mild discussion by then-Fed Chair Bernanke of a possible reduction in the pace of bond purchases created a firestorm that sent interest rates up by nearly 1.4%, pushed stock prices down 7.5%, and forced the Fed to a mea culpa moment. Now, financial markets seem confident that Fed tightening won't be disruptive. Besides, economic growth is much stronger, Fed Chair Yellen will be ultra-gradual, transparent, and predictable; and neutral interest rates likely aren't much higher than current levels anyway.

Still, there are strong expectations of at least two more rate hikes this year, and high odds that the Fed's huge balance sheet will start to shrink early next year, yet yields on ten-year U.S. Treasury bonds have been slipping lower since the 2.63% top in March. What gives?

## Weak inflation:

It's all expectations. Inflation appears to have peaked recently around the world; oil and commodity prices have stalled or fallen; reflation has wavered; and even though global stock market indices keep hitting all-time highs, cyclical assets have underperformed. So, even with the Fed removing accommodation, fears of future inflation are being squashed, so long-term interest rates are skidding lower. First-quarter U.S. growth was disappointing; the payroll report was weak with few redeeming qualities; and yields on ten-year U.S. Treasury bonds fell another 0.06% on Friday to end the week at 2.16%

Downward pressure on yields spread very quickly as investors worried about political events in developed countries. Yields on ten-year German Bunds fell to 0.26%, with U.K. ten-year Gilt yields dropping to 1.04%. Ten-year Japanese government bond yields are still pegged at roughly zero, finishing May at 0.04%. Recent U.S. rate

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## Exhibit I

### Interest rates

| | 12/31/2013 | 12/31/2014 | 12/31/2015 | 3/13/2017 (High)* | 7/08/2016 (Low)* | 5/31/2017 Current |
|---|---|---|---|---|---|---|
| 2 year | 0.38% | 0.66% | 1.05% | 1.37% | 0.61% | 1.28% |
| 10 year | 3.03% | 2.17% | 2.27% | 2.63% | 1.36% | 2.20% |
| 10-2 spread | 2.65% | 1.51% | 1.22% | 1.26% | 0.75% | 0.92% |
| 30 year | 3.97% | 2.75% | 3.02% | 3.21% | 2.10% | 2.86% |

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

## Interest rate outlook:

Both the Fed and investor consensus expect a sharp pickup in economic activity this quarter and for the rest of the year. Even the sluggish first-quarter gross domestic product (GDP) was revised up 0.5% to 1.2%. The problem was that the GDP deflator (price index) was revised down to 2.2% above the prior year, a signal that inflation may undershoot expectations because of l ower energy prices and strong international competition on a broad range of goods. The Fed's favorite inflation indicator, the year-over -year change in the personal consumption expenditures core deflator (ex food and energy), was up just 1.7% in April.

Several forces keep the downward pressure on U.S. yields. One is political uncertainty. The heavy focus on problems in the Trump White House: investigations around alleged Russian influence in the election, staff disorganization, and changing priorities suggest legislation that could boost economic growth might be stalled. Polls for the special U.K. election are unexpectedly narrow for Prime Minister May. Brexit negotiations seem to be taking an increasingly hard line. North Korea remains belligerent, and terrorist attacks continue. It's no wonder U.S. yields are low.

Further, extremely low yields in Europe, Japan, and the United Kingdom keep a lid on U.S. yields.  Those super-low yields encourage international investors to buy higher-yielding U.S. bonds for extra return; and whenever U.S. yields move up a bit, more funds flow to the United States, forcing U.S. rates down again.

Finally, this expansion has been one of deflation fears, slow wage gains and growth, and inflation disappointments. So, businesses may need to see solid validation that faster economic and revenue growth is actually coming before raising capital spending, borrowing new funds, and expecting higher interest rates. And, investors may need to see accelerating wage gains before raising inflation expectations to more reasonable levels. We think that's all coming, but have been disappointed so far.

Now, however, growth in both the Eurozone and Japan is surpassing expectations. By September, the European Central Bank (ECB) will surely have to discuss slowing its bond purchases and removing some accommodation. A similar debate in Japan should raise the Bank of Japan's 0% peg on ten-year Japanese government bonds. That would push yields higher in both regions, releasing some of the downward pressure on U.S. yields.

With little disruption expected from further Fed tightening, a likely long-lived U.S. expansion, expected better wage growth, and a rebound of U.S. growth, the rest of 2017 long-term U.S. yields should turn higher. We still think Godot is coming, but that's not how Beckett's play ends. Our outlook for U.S. yields at year-end  2017 and 2018 remains up and is shown in Exhibit II.

## Exhibit II:

| 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: summer doldrums

The reflation trade of 2016 was a wonder to behold. From the low on February 11, the S&P 500 Index advanced in price over 22%. Cyclical assets, i.e., those stocks, sectors, and indices that would benefit the most from faster growth, wildly outperformed defensive assets. Large and small U.S. value stocks beat their growth counterparts by 9.5% and 12.0% respectively. Small cap stocks soared over large caps by 18.9%. Energy, basic materials, financial, and industrial sectors trounced defensive sectors like health care, consumer staples, and utilities. Emerging market stocks rebounded solidly. As credit stress eased in the energy space, most credit indices had great returns even as interest rates surged. Barclays U.S. high yield index returned 23.5% from the February low.

Reflation means the economy reflates; growth picks up to above trend; inflation returns however modestly; deflation worries dissipate; expectations of future inflation bounce; interest rates rise toward more normal levels. Most of that reflation trade ended and reversed with the new year, even as the synchronized world upturn marched on. The consensus now seems to believe that inflation will not pick back up after a few months of undershooting expectations. After all, oil prices stay under pressure; U.S. fiscal stimulus and tax reform seem a faraway goal; China's economy has passed the best days of its fiscal stimulus; and world growth momentum has faded.

So, the consensus has become more cautious, even as stock indices make new highs on excellent breadth, i.e., more stocks advancing than declining each day. Growth worries abound, but growth is there and in good shape - just no acceleration. So, investors have piled into what are thought to be defensive growth stocks like the "FANGs": Facebook, Amazon, Netflix, and Google, the values of which in total are up over 30% this year. Reflation assets faltered. Year–to-date , cyclical stocks like value and small caps have given back much, most, or all of last year's outperformance. Returns of last year's best sectors have been poor to atrocious given the nice 7.7% price return of the S&P 500 Index since the end of December.

## A critical period:

June is the beginning of the summer doldrums, when vacations begin and trading volumes decline, and it makes sense to expect some profit-taking. Still, with financial conditions so benign, profits rebounding, and world growth quite robust, it's a little hard to imagine more than a minor setback in equity markets.

However, the end of this great, long investment cycle from March 2009 is likely approaching; it may be in the next two or three quarters. We'd like to see the reflation theme return; interest rates resume a mild advance; capital spending stay strong; value stocks outperform again; inflation pick back up modestly. We have expected that environment, but have been disappointed. If it came about, it could extend the cycle out further and encourage another run higher by stocks in the summer. Discretion is the better part of valor, as is said, so the faint of heart may want to book a few profits or turn a bit defensive. We think there's more rally left in the stock market, but the best is surely behind us.

**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 | 2.7% | 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 | 2.4% | 1.9% | 6.7% | 0.50% | 1.70% |
| | 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 | 1.8% | 2.6% | 4.9% | 0.25% | 1.40% |
| | 2018 F | 1.3% | 2.5% | 5.2% | 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 | 1.8% | 0.2% | 10.0% | 0.00% | 0.21% |
| | 2017 F | 1.9% | 1.6% | 9.4% | 0.00% | 0.50% |
| | 2018 F | 1.7% | 1.5% | 9.0% | 0.00% | 0.70% |
| 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% | 2.8% | -0.10% | 0.07% |
| | 2018 F | 1.0% | 0.8% | 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 | 2.5% | 2.1% | 5.8% | 1.45% | 3.00% |
| | 2018 F | 2.8% | 2.2% | 5.7% | 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 | 6.6% | 2.2% | | 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 % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-17 | Apr-17 | May-17 | Mar-17 | Apr-17 | May-17 | 2016 | 2017 F | 2018 F | 2016 | 2017 F | 2018 F |
| 1 Industrial Production Index (2007=100) | 104.1 | 105.1 | | 1.5% | 2.2% | | 103.1 | 104.1 | 105.4 | -1.2% | 1.0% | 1.2% |
| 2 Capacity Utilization Rate, Total Industry (1997=100) | 76.1 | 76.7 | | 0.9% | 1.5% | | 75.7 | 76.3 | 76.9 | -1.4% | 0.8% | 0.8% |
| 3 Total Private Housing Starts (SAAR) | 1,203 | 1,172 | | 6.6% | 0.7% | | 1,177 | 1,295 | 1,386 | 6.3% | 10.0% | 7.0% |
| 4 Total Light Vehicle Sales (YTD) | 4,013.9 | 5,426.8 | | -1.4% | -2.4% | | 17,465 | 17,320 | 17,490 | 0.4% | -0.8% | 1.0% |
| 5 Civilian Labor Force (thousands) | 160,201 | 160,213 | 159,784 | 0.6% | 0.8% | 0.8% | 159,186 | 160,724 | 162,513 | 1.3% | 0.96% | 1.11% |
| 6 Civilian Employment (thousands) | 153,000 | 153,156 | 152,923 | 1.1% | 1.4% | 1.2% | 151,437 | 153,680 | 155,962 | 1.7% | 1.5% | 1.5% |
| 7 Total Unemploment (thousands) | 7,202 | 7,056 | 6,861 | -9.7% | -10.8% | -7.9% | 7,750 | 7,044 | 6,551 | -6.5% | -9.1% | -7.0% |

| Indicator | Level | | | Y/Y % | | | Level | | | Y/Y % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q3-16 | Q4-16 | Q1-17 | Q3-16 | Q4-16 | Q1-17 | 2016 | 2017 F | 2018 F | 2016 | 2017 F | 2018 F |
| 8 After-Tax Corporate Profits (billions $, quarterly) | 1,679.4 | 1,741.2 | 1,735.8 | 4.3% | 22.3% | 12.0% | 1,652.0 | 1,770 | 1,867 | 4.3% | 8.0% | 6.0% |
| 9 Index of Hourly Compensation Non-farm Business (2009=100, quarterly) | 118.5 | 119.4 | 120.1 | 3.2% | 3.0% | 3.9% | 117.7 | 121.1 | 124.5 | 2.9% | 2.8% | 2.8% |

| Indicator | Annual | | | Monthly | | | Monthly | | | | Annual | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | Dec-16 | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | | 2017 F | 2018 F |
| 10 Consumer Price Index, All Urban Consumers Y/Y% | 1.6% | 0.1% | 1.3% | 2.1% | 2.5% | 2.8% | 2.4% | 2.2% | | | 2.2% | 2.2% |
| 11 Consumer Price Index, Ex. Food & Energy Y/Y% | 1.7% | 1.8% | 2.2% | 2.2% | 2.3% | 2.2% | 2.0% | 1.9% | | | 2.0% | 2.2% |
| 12 Non-farm Payroll Growth (thousands) | 2,998 | 2,713 | 2,240 | 155 | 216 | 232 | 50 | 174 | 138 | | | |
| 13 Unemployment Rate, All Workers | 6.2 | 5.3 | 4.9 | 4.7 | 4.8 | 4.7 | 4.5 | 4.4 | 4.3 | | 4.4 | 4.0 |
| 14 Unemployment Rate, All Workers, >15 Weeks | 3.0 | 2.3 | 2.0 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 | 1.8 | | - | - |
| 15 Unemployment Rate, Adult Men | 5.7 | 4.9 | 4.5 | 4.4 | 4.4 | 4.3 | 4.3 | 4.0 | 3.8 | | - | - |
| 16 Unemployment Rate, Adult Women | 5.6 | 4.8 | 4.4 | 4.3 | 4.4 | 4.3 | 4.0 | 4.1 | 4.0 | | - | - |
| 17 Unemployment Rate, Teenagers (16-19) | 19.5 | 16.9 | 15.7 | 14.7 | 15.0 | 15.0 | 13.7 | 14.7 | 14.3 | | - | - |

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 Actual | | 2nd QUARTER 17 Forecast | | 3rd QUARTER 17 Forecast | | 4th QUARTER 17 Forecast | | 2015 ACTUAL | | 2016 ACTUAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Real GDP** | **16,861.6** | **1.2%** | **17,003.7** | **3.4%** | **17,131.2** | **3.0%** | **17,260.6** | **3.1%** | **16,397.2** | **2.6%** | **16,662.1** | **1.6%** |
| **Personal Consumption Expenditures** | **11,688.5** | **0.6%** | **11,772.6** | **2.9%** | **11,859.0** | **3.0%** | **11,946.1** | **3.0%** | **11,214.7** | **3.2%** | **11,522.2** | **2.7%** |
| Durable Goods | 1,642.2 | -1.4% | 1,658.4 | 5.0% | 1,678.7 | 5.0% | 1,699.3 | 5.0% | 1,498.1 | 6.9% | 1,584.6 | 5.8% |
| Non-Durables | 2,530.6 | 1.2% | 2,549.4 | 3.5% | 2,568.3 | 3.0% | 2,587.3 | 3.0% | 2,439.3 | 2.6% | 2,500.5 | 2.5% |
| Services | 7,567.8 | 0.8% | 7,610.9 | 2.3% | 7,658.1 | 2.5% | 7,705.5 | 2.5% | 7,310.3 | 2.8% | 7,480.9 | 2.3% |
| **Gross Private Domestic Invest.** | **2,902.2** | **4.8%** | **2,942.1** | **5.6%** | **2,982.0** | **5.5%** | **3,022.4** | **5.5%** | **2,869.0** | **5.0%** | **2,824.6** | **-1.6%** |
| Bus. Fixed Invest. | 2,257.2 | 11.4% | 2,279.6 | 4.0% | 2,302.4 | 4.1% | 2,325.3 | 4.1% | 2,200.2 | 2.1% | 2,188.6 | -0.5% |
| Structures | 471.7 | 28.3% | 474.0 | 2.0% | 476.4 | 2.0% | 478.8 | 2.0% | 452.1 | -4.4% | 439.2 | -2.9% |
| Equipment | 1,055.4 | 7.2% | 1,068.4 | 5.0% | 1,081.5 | 5.0% | 1,094.7 | 5.0% | 1,072.5 | 3.5% | 1,041.4 | -2.9% |
| Intellectual Property Products | 732.0 | 6.7% | 739.2 | 4.0% | 746.5 | 4.0% | 753.9 | 4.0% | 680.0 | 4.8% | 711.9 | 4.7% |
| Residential Invest. | 615.5 | 13.7% | 627.5 | 8.0% | 639.6 | 8.0% | 652.1 | 8.0% | 564.5 | 11.7% | 592.0 | 4.9% |
| Change in Inventory | 4.3 | - | 35.0 | - | 40.0 | - | 45.0 | - | 84.0 | - | 22.0 | - |
| **Net Exports** | **-599.9** | **-** | **-607.7** | **-** | **-613.2** | **-** | **-617.9** | **-** | **-540.0** | **-** | **-563.0** | **-** |
| Exports | 2,168.0 | 5.9% | 2,184.1 | 3.0% | 2,198.7 | 2.7% | 2,213.4 | 2.7% | 2,120.6 | 0.1% | 2,128.2 | 0.4% |
| Imports | 2,767.9 | 3.8% | 2,791.8 | 3.5% | 2,811.8 | 2.9% | 2,831.3 | 2.8% | 2,660.6 | 4.6% | 2,691.2 | 1.1% |
| **Gov't Purchases of Goods & Services** | **2,899.3** | **-1.1%** | **2,897.1** | **-0.3%** | **2,903.7** | **0.9%** | **2,910.4** | **0.9%** | **2,883.7** | **1.8%** | **2,907.0** | **0.8%** |
| Federal | 1,115.2 | -2.1% | 1,114.8 | -0.2% | 1,117.0 | 0.8% | 1,119.2 | 0.8% | 1,113.9 | 0.0% | 1,120.5 | 0.6% |
| National Defense | 656.2 | -3.9% | 656.2 | 0.0% | 657.8 | 1.0% | 659.5 | 1.0% | 672.0 | -2.1% | 667.0 | -0.7% |
| Non-Defense | 458.0 | 0.6% | 458.6 | 0.5% | 459.1 | 0.5% | 459.7 | 0.5% | 441.3 | 3.3% | 452.7 | 2.6% |
| State & Local | 1,782.3 | -0.6% | 1,782.3 | 0.0% | 1,786.7 | 1.0% | 1,791.2 | 1.0% | 1,768.2 | 2.9% | 1,784.8 | 0.9% |
| Real Final Sales | 16,840.8 | 2.2% | 16,968.7 | 3.1% | 17,091.2 | 2.9% | 17,215.6 | 2.9% | 16,300.6 | 2.4% | 16,626.1 | 2.0% |
| Real Domestic Final Sales | 17,439.3 | 2.0% | 17,576.4 | 3.2% | 17,704.4 | 2.9% | 17,833.5 | 3.0% | 16,841.7 | 3.1% | 17,190.4 | 2.1% |
| y/y | 2.0% | | 2.5% | | 2.4% | | 2.7% | | | | | |

| | 1st QUARTER 18 Forecast | | 2nd QUARTER 18 Forecast | | 3rd QUARTER 18 Forecast | | 4th QUARTER 18 Forecast | | 2017 FORECAST | | 2018 FORECAST | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Real GDP** | **17,377.9** | **2.7%** | **17,490.7** | **2.6%** | **17,587.0** | **2.2%** | **17,655.4** | **1.6%** | **17,064.3** | **2.4%** | **17,527.8** | **2.7%** |
| **Personal Consumption Expenditures** | **12,029.8** | **2.8%** | **12,109.0** | **2.7%** | **12,182.7** | **2.5%** | **12,243.4** | **2.0%** | **11,816.5** | **2.6%** | **12,141.2** | **2.7%** |
| Durable Goods | 1,716.1 | 4.0% | 1,733.0 | 4.0% | 1,748.0 | 3.5% | 1,756.6 | 2.0% | 1,669.7 | 5.4% | 1,738.4 | 4.1% |
| Non-Durables | 2,606.5 | 3.0% | 2,622.7 | 2.5% | 2,638.9 | 2.5% | 2,652.0 | 2.0% | 2,558.9 | 2.3% | 2,630.0 | 2.8% |
| Services | 7,753.2 | 2.5% | 7,799.3 | 2.4% | 7,841.9 | 2.2% | 7,880.8 | 2.0% | 7,635.6 | 2.1% | 7,818.8 | 2.4% |
| **Gross Private Domestic Invest.** | **3,050.2** | **3.7%** | **3,077.6** | **3.6%** | **3,093.9** | **2.1%** | **3,096.9** | **0.4%** | **2,962.2** | **4.9%** | **3,079.7** | **4.0%** |
| Bus. Fixed Invest. | 2,348.6 | 4.1% | 2,369.4 | 3.6% | 2,385.8 | 2.8% | 2,397.1 | 1.9% | 2,291.1 | 4.7% | 2,375.2 | 3.7% |
| Structures | 481.1 | 2.0% | 483.5 | 2.0% | 485.9 | 2.0% | 485.9 | 0.0% | 475.2 | 8.2% | 484.1 | 1.9% |
| Equipment | 1,108.2 | 5.0% | 1,119.1 | 4.0% | 1,127.4 | 3.0% | 1,133.0 | 2.0% | 1,075.0 | 3.2% | 1,121.9 | 4.4% |
| Intellectual Property Products | 761.3 | 4.0% | 768.8 | 4.0% | 774.5 | 3.0% | 780.2 | 3.0% | 742.9 | 4.4% | 771.2 | 3.8% |
| Residential Invest. | 661.6 | 6.0% | 668.2 | 4.0% | 673.1 | 3.0% | 674.8 | 1.0% | 633.7 | 7.0% | 669.4 | 5.6% |
| Change in Inventory | 40.0 | - | 40.0 | - | 35.0 | - | 25.0 | - | 31.1 | - | 35.0 | - |
| **Net Exports** | **-623.1** | **-** | **-626.4** | **-** | **-627.5** | **-** | **-627.8** | **-** | **-609.7** | **-** | **-626.2** | **-** |
| Exports | 2,231.9 | 3.4% | 2,248.5 | 3.0% | 2,265.2 | 3.0% | 2,279.2 | 2.5% | 2,191.0 | 3.0% | 2,256.2 | 3.0% |
| Imports | 2,855.1 | 3.4% | 2,874.9 | 2.8% | 2,892.7 | 2.5% | 2,907.0 | 2.0% | 2,800.7 | 4.1% | 2,882.4 | 2.9% |
| **Gov't Purchases of Goods & Services** | **2,921.5** | **1.5%** | **2,931.0** | **1.3%** | **2,938.3** | **1.0%** | **2,943.3** | **0.7%** | **2,902.6** | **-0.2%** | **2,933.5** | **1.1%** |
| Federal | 1,123.6 | 1.6% | 1,126.4 | 1.0% | 1,129.2 | 1.0% | 1,132.0 | 1.0% | 1,116.5 | -0.3% | 1,127.8 | 1.0% |
| National Defense | 662.7 | 2.0% | 664.4 | 1.0% | 666.1 | 1.0% | 667.7 | 1.0% | 657.4 | -1.4% | 665.2 | 1.2% |
| Non-Defense | 460.9 | 1.0% | 462.0 | 1.0% | 463.2 | 1.0% | 464.3 | 1.0% | 458.9 | 1.4% | 462.6 | 0.8% |
| State & Local | 1,797.9 | 1.5% | 1,804.6 | 1.5% | 1,809.1 | 1.0% | 1,811.3 | 0.5% | 1,785.6 | 0.0% | 1,805.7 | 1.1% |
| Real Final Sales | 17,337.9 | 2.9% | 17,450.7 | 2.6% | 17,552.0 | 2.3% | 17,630.4 | 1.8% | 17,029.1 | 2.4% | 17,492.8 | 2.7% |
| Real Domestic Final Sales | 17,961.1 | 2.9% | 18,077.0 | 2.6% | 18,179.5 | 2.3% | 18,258.2 | 1.7% | 17,638.4 | 2.6% | 18,118.9 | 2.7% |
| y/y | 3.1% | | 2.9% | | 2.7% | | 2.3% | | | | | |

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

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