Economic Insights

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

Topic summaries:

- **Slow return to normal:**

  The nine years since the summer of 2007 were anything but normal: financial crises, stock market plunges, super-sluggish growth, a widespread fear of relapse, and – to top it all off – the lowest interest rates in recorded history. Robust world growth and rising confidence suggest that this turmoil has faded and transitioned to times that are more normal. If true, U.S. interest rates could begin a long, slow rise that would have significant implications for financial markets.

- **What today tells us about tomorrow:**

  Global growth improved in a synchronized fashion over the last 18 months. Reflation was in vogue last year as goods producers snapped back from a near recession. Reflation lost momentum this year. This was most clearly seen in China, which had been the driver of the recovery. But, activity quietly gathered steam in Europe and Japan, and now the world economy is in a robust expansion.

- **Synchronizing central banks:**

  The synchronized upturn is pushing central banks to consider reducing their monetary easing. We look for interest rates to gradually work higher and become more volatile.

- **Asset allocation: implications of normal:**

  Stock prices will likely have another rally phase over the next few months. But, if long-term interest rates do push upward toward 3% on ten-year U.S. Treasury bonds, global stock markets will encounter an enormous headwind.

For the month of July 2017

A slow return to normal

The nine years since the summer of 2007 were anything but normal. There was a nearly constant stream of financial crises: emanating first from the United States, then the Eurozone, and then from China's stock market meltdown and surprise devaluation. U.S. stock prices plunged 56.8% (S&P 500 Index), the worst collapse since the 1930s. Central banks went hyperactive, pushing interest rates to their lowest levels in recorded history. Negative interest rates became widespread, also an historical first. Growth stayed super-sluggish in the developed world and slowed markedly in emerging economies.

Through those years, a dread of relapse into recession or crisis was palpable. Households and businesses raised cash, curtailed spending, and prepared for the worst. Safehaven assets had the best returns as investors shed risk. The final debacle was a combination of a soaring U.S. dollar and plummeting oil prices that led to a near global recession in 2015.

It's over:

The broad overview is that that near-decade of economic turmoil likely ended in early 2016 with the low in commodity prices. The world is now in transition, making a slow return to something more normal.

So, what's "normal"? Economic growth is normal. As noted in the next section, growth has picked up over the last year in most of the world and is likely at or above potential, an occurrence more normal than not. For those who worry that the upturn is waning: yes, growth may no longer be accelerating, but it is ***not*** fading.

> **Confidence has returned, and the angst of the crisis years has faded. U.S. consumer and business sentiment has soared to the best levels of this cycle. Sentiment in the Eurozone is the highest in decades. Even in Japan, confidence is at or near the highs of the cycle.**
>
> Bob Baur • Chief Global Economist, Principal Global Investors

Confidence has returned, and the angst of the crisis years has faded. U.S. consumer and business sentiment has soared to the best levels of this cycle. Sentiment in the Eurozone is the highest in decades. Even in Japan, confidence is at or near the highs of the cycle. Capital spending is picking up; loan growth is improving; financial conditions are easing; job gains are excellent and unemployment is falling. All this more normal activity should extend the upturn.

What is likely not normal? Long-term interest rates in the developed world. With U.S. nominal growth approaching 4%, ten-year U.S. Treasury bonds yields at 2.3% make little sense. Yields that low suggest that bond purchasers believe that U.S. growth will shrivel, that a recession is lurking, that deflation is back, that central banks are making a mistake, that inflation will never return to target…or all of the above.

Normal rates?

If this really is a transition, what should U.S. interest rates be? That is today's key question. From a top-down perspective, long-maturity rates should approximate potential economic growth, essentially the sum of inflation plus productivity and labor force growth.

For the United States: inflation may eventually hit the 2% target; labor force growth is around 0.5%; long-term productivity growth is likely in the range of 1% to 1.5%. This suggests that a normal yield on long-term U.S. Treasury bonds should be 3.5% to 4%, well above current levels. Yes, the Fed's massive bond portfolio may be keeping yields too low, but even a range of 3% to 3.5% is above current yields.

Today, most investors would say either range is unthinkable. Yields have been so low for so long, and investors have been rewarded so much for betting on low or falling rates that such a turn seems impossible. Nine years of economic turmoil created an inertia of belief and extrapolation that is hard to change. But, what if that near-decade of morass really is fading, if a transition to more normal activity is underway? The current robust growth around the world, the fading of euro-area political risk and the still-improving business surveys in the Eurozone and Japan suggest investors should think through the implications of slowly rising U.S. interest rates. We do so in the last section.

What today tells us about tomorrow

Counting the beans:

To understand where the global economy is headed, it's important to know where it is today. We've tried to capture current trends by creating economic momentum indicators for the four big regions: China, the United States, the Eurozone, and Japan.

For China, we measure easy-to-understand statistics like commodity production, rail freight, and airline passengers. These may reflect activity better than official statistics for real gross domestic product (GDP).For the other three, we separately examine and aggregate hard data (i.e., industrial production and retail sales) and soft statistics (i.e., Purchasing Manager Indices (PMIs) and consumer confidence).

> **Exhibit 1:** China economic momentum

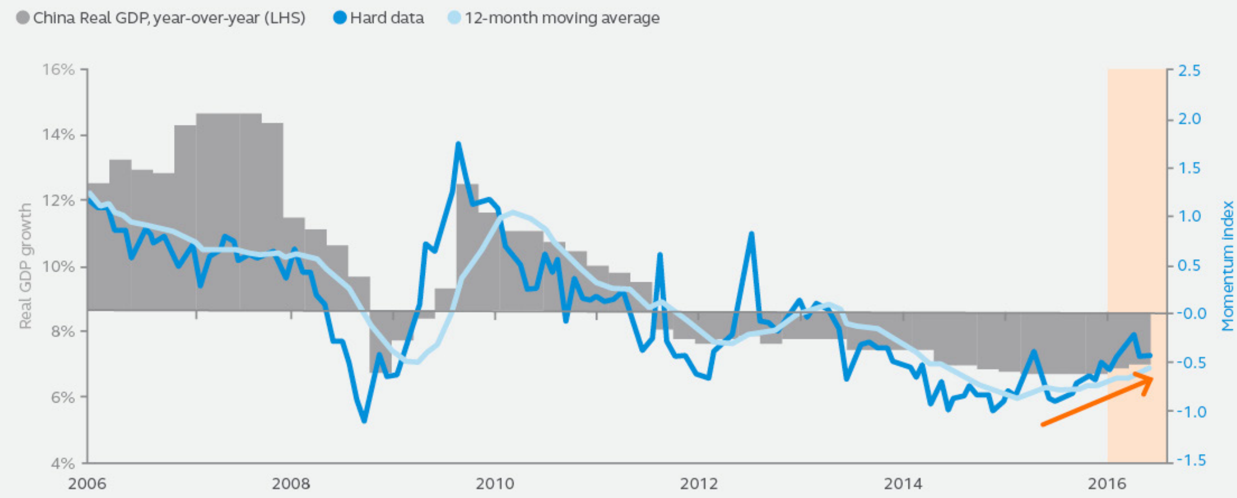

Chart sources: National Bureau of Statistics of China; Principal Global Investors

Chinese growth slowed sharply during the near-recession of 2015 and early 2016. It was likely the worst slowdown since the financial crisis, but GDP did not capture this decline, as can be noted in Exhibit 1. Activity rebounded last spring as a reflationary recovery took hold. Since the first quarter of 2017, growth lost a bit of steam as the bounce from very weak 2016 numbers faded. Investors worried that Beijing's recent clamp down on credit would stall the recovery. But, those fears have not been validated as yet; PMIs picked up in June and trade data has been excellent. Commodity-production growth has definitively eased, but electricity output plus freight and airline traffic are robust. We expect overall activity in China to be steady this year and into 2018 (see chart above).

Japanese activity has improved over the last year, as pictured in Exhibit 2. Nominal GDP growth has not declined since 2013. Industrial production and machine orders have rebounded, and retail sales are strong. Profits are picking up at a double-digit pace; the labor market is the best in decades. The manufacturing PMI has made record highs twice this year, but data only go back to 2014. The Bank of Japan's calculated gap between actual output and potential was the smallest since 2008. Robust activity has failed to inspire pricing power, and core inflation is still running well below 1%. We expect Japan's real GDP to grow close to 1.5% for the rest of this year (see chart below).

> **Exhibit 2:** Japan economic momentum

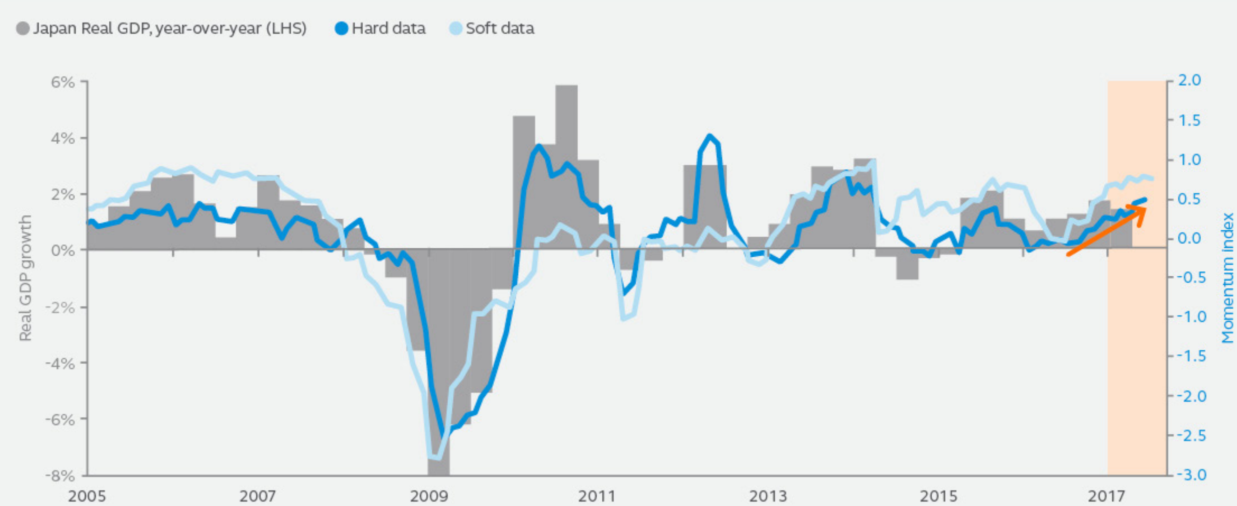

Chart sources: Bloomberg; Principal Global Investors

Exhibit 3: Eurozone economic momentum

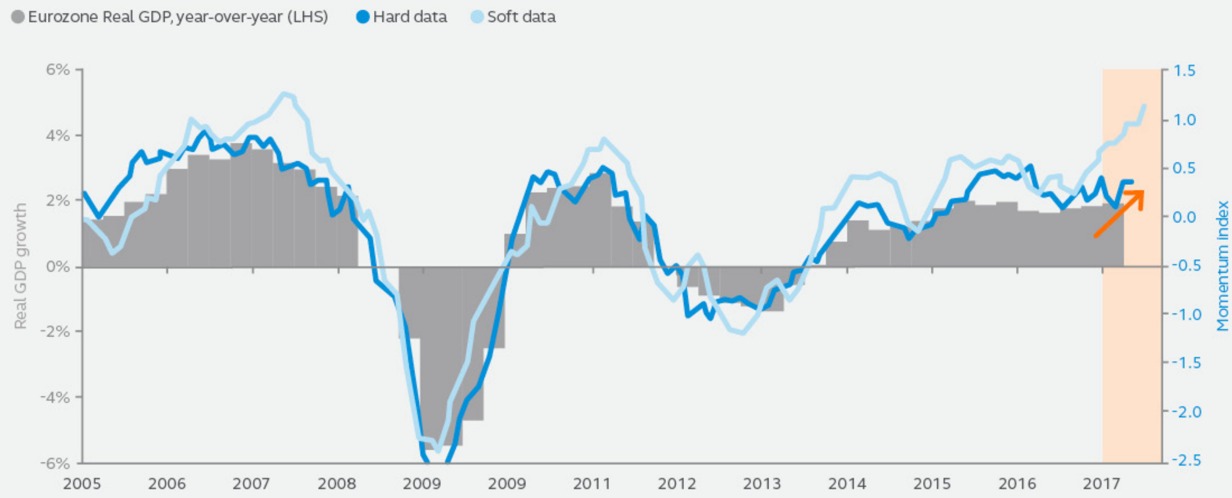

Chart sources: Bloomberg; EuroStat; Principal Global Investors

Exhibit 3 shows that euro-area soft data soared over the last few months. Investors, businesses, and consumers have cheered the fading political risk and better growth prospects. Some German measures are the best since reunification, but Italian and French sentiment is robust too. Hard data is picking up sharply too. German industrial production and factory orders have rebounded from contractionary territory. Retail sales are growing at a healthy 2.5% pace across the entire Eurozone. The unemployment rate dropped considerably since peaking in 2013. But, labor-market health varies considerably across countries. Spain's unemployment rate dropped to 17.7% from a peak of 26.3%; Germany's unemployment rate is currently 5.7%. As the recovery turns into a sustained expansion, unemployment should decline further. That should slowly boost underlying inflation and support domestic demand. We expect real GDP to grow between 2% and 2.5% this year (see chart above).

U.S. hard data rebounded from the first-quarter slump. Core retail sales (the number included in GDP) soared over 5% on a three-month annualized pace in May. Industrial production expanded 3.8%. Both manufacturing and non-manufacturing PMIs from the Institute for Supply Management (ISM) surprised to the upside in June. Fed regional surveys were also solid. Consumer confidence has edged lower from recent highs, but remains well above 2016 levels. Housing starts have lost some momentum, since the multifamily real estate cycle peaked; but, single-family sales are strong (see chart below).

Exhibit 4: United States economic momentum

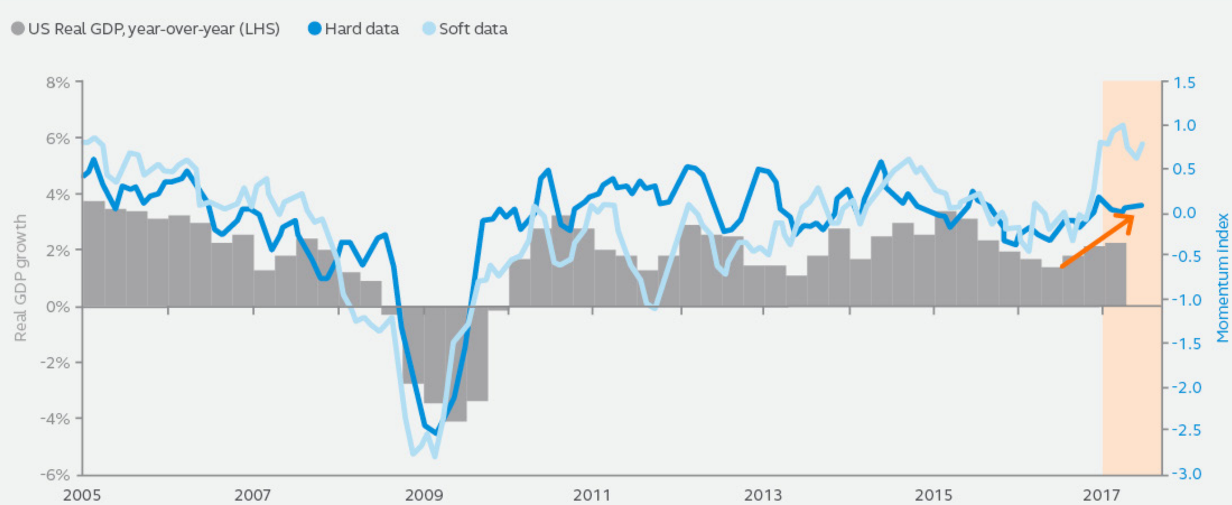

Chart sources: Bloomberg, Principal Global Investors

We think that U.S. real GDP growth has rebounded from the weak 1.4% first-quarter growth to around 3% in the second quarter. Inventories subtracted about 1% percent from growth, so even a small rise could have an outsized impact in the second quarter. For the year, the U.S. should grow slightly above trend, at 2.4%. Investment continues to recover from late-2015 and early-2016 weakness, especially in energy companies. There's still plenty of pent-up demand for single-family housing. A solid labor market and decent job gains should support consumer spending. Slumping auto sales are a puzzle and a contrary indicator to an otherwise bright growth picture. We present selected U.S. forecasts in Exhibit 5.

Exhibit 5: U.S. forecast tables	2016 Actual	2017 Estimated	2018 Estimated
Real GDP	+1.6%	+2.4%	+2.7%
Domestic Final Sales	+2.1%	+2.5%	+2.7%
U.S. Auto Sales (units)	17.5m (0.4%)	17.3m (-1.0%)	17.5m (1.0%)
Industrial Production	-1.2%	1.0%	+1.2%
Housing Starts (million)	1,117 (6.3%)	1,295 (10.0%)	1,386 (7.0%)
After Tax Corporate Profits (National Income and Products Accounts Basis)	4.3%	+8%	+6%
Federal Budget Balance (Fiscal Years)	-$0.6t	-$0.7t	-$0.6t
Civilian Unemployment Rate	4.9%	4.4%	4.0%
CPI – Overall	+1.3%	+2.1%	+2.2%
CPI – ex Food & Energy	+2.2%	+2.0%	+2.2%
GDP Price Index	+1.6%	+1.8%	+1.9%

› Overall:

Growth improved sharply, and in a synchronized fashion, over the last sixteen months. Reflation was the theme in 2016 as goods producers snapped back from what was for them a real recession. Consumer and producer prices rebounded. Reflation trades and prices lost momentum early in the year. The clearest evidence was in China, which was the biggest driver of the 2016 recovery. But, while investors were focused on fading reflation, activity quietly gathered steam in Europe and Japan. The United States recovered from its first quarter slump and developed countries are finally expanding in a sustained, coordinated fashion. The global expansion should last well into 2018.

Synchronizing central banks

The world economy is indeed in the midst of a synchronized economic upturn. With that upturn in mind, it makes sense that central bankers are now talking in a synchronized fashion about reducing the massive monetary accommodation put in place since the financial crises. That talk began June 27th when European Central Bank (ECB) President Draghi spoke positively about euro-area economic activity. With robust growth, no one should have been surprised.

› But, they were:

It takes a delicate balance by central bankers to communicate the eventual end of monetary accommodation, as Draghi discovered with a bond-market selloff on both sides of the Atlantic. His actual words: "As the economy continues to recover, a constant policy stance will become more accommodative, and the central bank can accompany the recovery by adjusting the parameters of its policy instruments…not in order to tighten the policy stance, but to keep it broadly unchanged." Other ECB officials rushed to say that investors had overreacted and Draghi's comments were meant to send a balanced message.

Draghi emphasized that "we need prudence" in making policy changes and must "remain gradual" as the economy picks up to ensure that "our stimulus accompanies the recovery amid uncertainties." Officials stressed that inflation remained subdued and that they clearly wanted to avoid pushing up rates and the currency, which could jeopardize economic growth. Despite the disclaimers, investors saw that policy support might soon start to fade and bond markets awakened to higher rates.

The Fed started it:

In addition to hiking the fed funds rate another 0.25% in June, the Federal Reserve unveiled a specific plan to shrink its huge portfolio of bonds. The ECB stayed silent about a plan to slow its pace of bond purchases at its last meeting. But, with all signs pointing to a robust Eurozone expansion, the timing of that discussion can't be too far away. With the Fed likely to announce the start of its portfolio shrinkage in September, the synchronized world upturn suggests the ECB may announce its plans in September or October as well.

With two major world banks about to act in the same policy direction, German and U.S. yields rose sharply during the last week of June. German ten-year yields more than doubled, reaching 0.56% on July 6th. Other sovereign yields pushed higher too; rates on ten-year British gilts surged to 1.31% at the end of June 30 from 1.0% or so earlier in the month. Even ten-year Japanese government bond yields jumped to 0.09% from 0.0% in April. Recent U.S. rate history is shown in Exhibit 6.

Exhibit 6: Interest rates

	12/31/2013	12/31/2014	12/31/15	03/13/2017 (High)*	07/08/2016 (Low)*	6/30/2017 Current
2 year	0.38%	0.66%	1.05%	1.37%	0.61%	1.38%
10 year	3.03%	2.17%	2.27%	2.63%	1.36%	2.30%
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%	2.84%

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

Interest rate outlook:

Can yields keep moving higher? Possibly. As noted in the first section, if the synchronized world expansion really is a transition to something more normal, rates should be under gradual upward pressure. We see several reasons for this to happen.

The first reason is higher rates on long-maturity bonds in Germany and Japan. Part of the recent downward pressure on U.S. yields has been the competitive ultra-low rates elsewhere. Just as the ECB shocked bond markets in the last few days, the Bank of Japan may also begin to discuss an exit plan for its super-accommodative policy later this year. Higher yields on other safe-haven bonds would allow U.S. rates to ratchet up.

Of course, yields won't rise much further unless inflation expectations increase, which would require a gradual lift in actual inflation. With core inflation weakening around the world over the last several months, the consensus says that's unlikely. We'd argue, however, that the next round of reflation is just underway, and that Fed Chair Yellen is correct that weak inflation is temporary. While wage growth has disappointed recently, U.S. and Japanese labor markets are tightening and we expect wage gains to rise. Further, capital spending is returning and businesses are likely to discover they have some pricing power. Gradual progress toward central bank inflation targets should put upward pressure on long yields.

The third reason to expect higher yields and a somewhat-steeper yield curve is implementation of the Fed's plan to shrink its bond portfolio, which currently tops US$4 billion. Since Yellen likely wants the plan to be well underway before her term ends in February, it's possible the Fed will announce a start date soon and delay the September rate hike until December, or even into next year. This might reverse "Operation Twist" and push long yields higher and edge short rates lower.

Much is already normal:

Many other parts of the world economy have returned to close-to-normal activity: solid global growth; strong and resilient consumer and business confidence; capital spending on the rise; loan growth picking up; good job gains and falling unemployment; easing financial conditions; robust consumer spending. It seems to make sense that interest rates might seek a more normal level too. Accordingly, we suggest that U.S. yields at year-end 2017 and year-end 2018 could notch their highest levels since 2014, as shown in Exhibit 7.

Exhibit 7: U.S. yields at year end

Interest Rates	Yearend 2017	Yearend 2018
Federal funds rate	1.13%-1.38%	1.62%-1.88%
2-Year UST Yield	1.75%	2.0%-2.25%
10-Year UST Yield	2.75%-3.0%	3.0%-3.25%
2-10 Year Spread	1.0%-1.25%	1.0%

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Asset allocation: implications of normal

June was a rather blasé month for investors. The big winners were U.S. banks, financials, and Dow Jones Transport stocks, up 8.5%, 6.3%, and 4.4% respectively. Japanese stocks had a decent June rally, up 2.8% on the Tokyo Stock Exchange. Emerging market stocks had another in a string of positive months. Euro-area equities underperformed, even though political risks faded after Macron's strong showing in France. Many commodities were lower for the month, but rallied hard during the last week. Higher interest rates at the end of June put bond investors in the red for the month. That said, with rates down for the quarter and credit spreads narrowing as default worries faded, bonds provided solid quarterly returns.

If rates stay flat:

The key to future stock returns is the direction of yields on U.S., German, and Japanese long-maturity sovereign bonds. If U.S. ten-year bond yields stay in the range of the last several months, say 2.25% to 2.5%, stock prices could follow solid earnings growth higher. The world expansion and earnings gains are expected to last well into 2018, even with some deceleration, so the equity rally might endure for another year.

If not:

However, as noted above, the odds seem rather low of long rates staying that range-bound when world economies are expanding smartly and central banks are removing policy support. So what happens if U.S. rates head toward our year-end range of 2.75% to 3% or above. Initially, stock prices and interest rates can surely rise together; earnings growth is robust and confidence has surged. We would expect that cyclical assets, which benefit the most from faster global growth and a slightly steeper yield curve, would outperform (e.g., banks, financials, industrials, value and small cap stocks). This would be a return of the reflation trade of 2016.

At some point, though, and it's hard to pinpoint the level at which higher U.S. Treasury yields will become a serious headwind for the stock market and precipitate a significant correction later this year. That correction, of course, would trigger a big drop in rates and perhaps even Fed support, so stocks would likely rally back in 2018. Maybe it's a rally to new highs; maybe not.

If "normal" interest rates are indeed substantially higher than today, as discussed in the opening section, long-term financial returns may be very hard to find. Interest rates have been so low for so long that many assets are already at full value with little room left for advance unless rates stay low. Defensive assets (large-cap growth stocks, companies that pay good dividends, health care and consumer staples sectors, and especially sovereign bonds) have all hugely outperformed for much of the rally since late 2010.

Outlook:

Global stock markets could rally another 5% to 10% before an interest rate-driven correction sets in, if indeed it does. If we're correct about long-maturity sovereign bond yields having to work gradually higher over the next several quarters, this may be the last phase of the long stock-market surge that began in March 2009. Until the world economy stalls – maybe late next year or in 2019 – investors might find solace in medium-duration corporate bonds and some areas of commercial real estate. Rising interest rates would be anathema for emerging market stocks and bonds.

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%	2.1%	4.4%	1.38%	3.00%
	2018 F	2.6%	2.2%	4.0%	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	1.5%	1.4%	7.0%	0.50%	1.72%
	2017 F	2.5%	1.9%	6.6%	0.60%	1.90%
	2018 F	2.0%	2.0%	6.6%	0.80%	2.30%
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	1.6%	2.6%	4.7%	0.25%	1.50%
	2018 F	1.3%	2.5%	5.0%	0.50%	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	1.8%	0.2%	10.0%	0.00%	0.21%
	2017 F	1.9%	1.6%	9.3%	0.00%	0.60%
	2018 F	1.9%	1.5%	9.0%	0.00%	0.90%
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%	0.10%
	2018 F	1.0%	0.8%	2.9%	-0.10%	0.13%
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%	5.7%	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)	103.9	105.0	105.0	1.3%	2.1%	2.2%	103.1	104.1	105.4	-1.2%	1.0%	1.2%
2 Capacity Utilization Rate, Total Industry (1997=100)	75.9	76.7	76.6	0.7%	1.5%	1.3%	75.7	76.3	76.9	-1.4%	0.8%	0.8%
3 Total Private Housing Starts (SAAR)	1,189	1,156	1,092	5.4%	-0.7%	-2.4%	1,177	1,295	1,386	6.3%	10.0%	7.0%
4 Total Light Vehicle Sales (YTD)	4,013.9	5,426.8	6,937.8	-1.4%	-2.4%	-2.0%	17,465	17,290	17,463	0.4%	-1.0%	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%

	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	1,729.2	4.3%	22.3%	11.5%	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	117.6	118.3	3.2%	1.5%	2.3%	117.3	121.1	124.5	2.5%	2.8%	2.8%

	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%	1.9%		2.1%	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%	1.7%		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	**16,872.8**	**1.4%**	**17,005.9**	**3.2%**	**17,122.4**	**2.8%**	**17,240.0**	**2.8%**	**16,397.2**	**2.6%**	**16,662.1**	**1.6%**
Personal Consumption Expenditures	**11,701.3**	**1.1%**	**11,784.7**	**2.9%**	**11,863.1**	**2.7%**	**11,942.0**	**2.7%**	**11,214.7**	**3.2%**	**11,522.2**	**2.7%**
Durable Goods	1,641.7	-1.6%	1,653.9	3.0%	1,666.1	3.0%	1,678.5	3.0%	1,498.1	6.9%	1,584.6	5.8%
Non-Durables	2,532.7	1.6%	2,551.5	3.0%	2,570.4	3.0%	2,589.5	3.0%	2,439.3	2.6%	2,500.5	2.5%
Services	7,578.5	1.4%	7,625.4	2.5%	7,672.6	2.5%	7,720.2	2.5%	7,310.3	2.8%	7,480.9	2.3%
Gross Private Domestic Invest.	**2,894.3**	**3.7%**	**2,926.0**	**4.4%**	**2,962.8**	**5.1%**	**3,001.2**	**5.3%**	**2,869.0**	**5.0%**	**2,824.6**	**-1.6%**
Bus. Fixed Invest.	2,252.3	10.4%	2,272.5	3.6%	2,295.2	4.1%	2,319.3	4.3%	2,200.2	2.1%	2,188.6	-0.5%
Structures	466.3	22.5%	468.6	2.0%	470.9	2.0%	474.4	3.0%	452.1	-4.4%	439.2	-2.9%
Equipment	1,056.8	7.8%	1,067.2	4.0%	1,080.3	5.0%	1,093.6	5.0%	1,072.5	3.5%	1,041.4	-2.9%
Intellectual Property Products	731.5	6.4%	738.7	4.0%	746.0	4.0%	753.3	4.0%	680.0	4.8%	711.9	4.7%
Residential Invest.	614.4	12.9%	623.4	6.0%	632.6	6.0%	641.8	6.0%	564.5	11.7%	592.0	4.9%
Change in Inventory	2.6	-	30.0	-	35.0	-	40.0	-	84.0	-	22.0	-
Net Exports	**-595.6**	**-**	**-603.4**	**-**	**-608.8**	**-**	**-613.6**	**-**	**-540.0**	**-**	**-563.0**	**-**
Exports	2,174.0	7.0%	2,190.1	3.0%	2,204.8	2.7%	2,219.5	2.7%	2,120.6	0.1%	2,128.2	0.4%
Imports	2,769.6	4.0%	2,793.5	3.5%	2,813.6	2.9%	2,833.1	2.8%	2,660.6	4.6%	2,691.2	1.1%
Gov't Purchases of Goods & Services	**2,901.2**	**-0.9%**	**2,899.0**	**-0.3%**	**2,905.6**	**0.9%**	**2,910.6**	**0.7%**	**2,883.7**	**1.8%**	**2,907.0**	**0.8%**
Federal	1,115.3	-2.0%	1,114.9	-0.2%	1,117.1	0.8%	1,117.7	0.2%	1,113.9	0.0%	1,120.5	0.6%
National Defense	656.2	-3.9%	656.2	0.0%	657.8	1.0%	657.8	0.0%	672.0	-2.1%	667.0	-0.7%
Non-Defense	458.1	0.7%	458.7	0.5%	459.2	0.5%	459.8	0.5%	441.3	3.3%	452.7	2.6%
State & Local	1,784.1	-0.2%	1,784.1	0.0%	1,788.5	1.0%	1,793.0	1.0%	1,768.2	2.9%	1,784.8	0.9%
Real Final Sales	16,853.7	2.6%	16,975.9	2.9%	17,087.4	2.7%	17,200.0	2.7%	16,300.6	2.4%	16,626.1	2.0%
Real Domestic Final Sales	17,448.2	2.3%	17,579.3	3.0%	17,696.2	2.7%	17,813.5	2.7%	16,841.7	3.1%	17,190.4	2.1%
y/y	2.1%		2.5%		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	**17,358.0**	**2.8%**	**17,466.4**	**2.5%**	**17,562.4**	**2.2%**	**17,641.8**	**1.8%**	**17,060.2**	**2.4%**	**17,507.1**	**2.6%**
Personal Consumption Expenditures	**12,021.6**	**2.7%**	**12,096.5**	**2.5%**	**12,170.1**	**2.5%**	**12,236.7**	**2.2%**	**11,822.8**	**2.6%**	**12,131.2**	**2.6%**
Durable Goods	1,691.0	3.0%	1,703.5	3.0%	1,718.2	3.5%	1,728.8	2.5%	1,660.1	4.8%	1,710.4	3.0%
Non-Durables	2,608.7	3.0%	2,624.8	2.5%	2,641.1	2.5%	2,654.2	2.0%	2,561.0	2.4%	2,632.2	2.8%
Services	7,768.0	2.5%	7,814.2	2.4%	7,856.8	2.2%	7,899.6	2.2%	7,649.2	2.2%	7,834.6	2.4%
Gross Private Domestic Invest.	**3,033.8**	**4.4%**	**3,061.0**	**3.6%**	**3,077.2**	**2.1%**	**3,085.2**	**1.0%**	**2,946.1**	**4.3%**	**3,064.3**	**4.0%**
Bus. Fixed Invest.	2,342.5	4.1%	2,363.3	3.6%	2,379.7	2.8%	2,391.0	1.9%	2,284.9	4.4%	2,369.1	3.7%
Structures	476.8	2.0%	479.2	2.0%	481.5	2.0%	481.5	0.0%	470.1	7.0%	479.8	2.1%
Equipment	1,107.0	5.0%	1,117.9	4.0%	1,126.2	3.0%	1,131.8	2.0%	1,074.5	3.2%	1,120.7	4.3%
Intellectual Property Products	760.8	4.0%	768.3	4.0%	774.0	3.0%	779.7	3.0%	742.4	4.3%	770.7	3.8%
Residential Invest.	651.3	6.0%	657.7	4.0%	662.6	3.0%	664.2	1.0%	628.1	6.1%	658.9	4.9%
Change in Inventory	40.0	-	40.0	-	35.0	-	30.0	-	26.9	-	36.3	-
Net Exports	**-618.7**	**-**	**-621.9**	**-**	**-623.0**	**-**	**-623.3**	**-**	**-605.3**	**-**	**-621.7**	**-**
Exports	2,238.1	3.4%	2,254.7	3.0%	2,271.4	3.0%	2,285.5	2.5%	2,197.1	3.2%	2,262.5	3.0%
Imports	2,856.8	3.4%	2,876.6	2.8%	2,894.4	2.5%	2,908.8	2.0%	2,802.4	4.1%	2,884.2	2.9%
Gov't Purchases of Goods & Services	**2,921.7**	**1.5%**	**2,931.3**	**1.3%**	**2,938.6**	**1.0%**	**2,943.6**	**0.7%**	**2,904.1**	**-0.1%**	**2,933.8**	**1.0%**
Federal	1,122.1	1.6%	1,124.9	1.0%	1,127.7	1.0%	1,130.5	1.0%	1,116.2	-0.4%	1,126.3	0.9%
National Defense	661.1	2.0%	662.7	1.0%	664.4	1.0%	666.1	1.0%	657.0	-1.5%	663.6	1.0%
Non-Defense	461.0	1.0%	462.1	1.0%	463.3	1.0%	464.4	1.0%	459.0	1.4%	462.7	0.8%
State & Local	1,799.7	1.5%	1,806.4	1.5%	1,810.9	1.0%	1,813.2	0.5%	1,787.4	0.1%	1,807.5	1.1%
Real Final Sales	17,318.0	2.8%	17,426.4	2.5%	17,527.4	2.3%	17,611.8	1.9%	17,029.2	2.4%	17,470.9	2.6%
Real Domestic Final Sales	17,936.7	2.8%	18,048.3	2.5%	18,150.4	2.3%	18,235.1	1.9%	17,634.3	2.6%	18,092.6	2.6%
y/y	2.9%		2.7%		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.

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