Principal

Economic Insights

Commentary by Bob Baur, Zach Deitrich, and the Economic Committee

Topic summaries:

- **Global expansion stays on track:**
  The global economic recovery that began in early 2016 has reached a self-sustaining velocity. Even the consensus accepts the evidence. Momentum is likely peaking now, but solid growth should persist well into 2018.

- **Robust growth, less accommodation:**
  The global expansion rolls on and many central banks are contemplating reducing monetary ease. With higher oil prices, solid global growth, and fading investor caution, long-term sovereign bond yields should work higher into year-end.

- **Asset allocation - return to refl tion:**
  Cyclical securities rebounded in September because investors judged the global upturn to be self-sustaining. Robust economic conditions suggest there's more rally ahead. However, rising interest rates or infl tion concerns could trigger a correction from high valuations.

For the month of October 2017

Global expansion stays on track

The global economic recovery that began in early 2016, after the U.S. dollar peaked and commodity prices troughed, has reached self-sustaining velocity. Even the consensus now recognizes the evidence: strong industrial production, robust growth, and improved capital spending. Plus business and consumer confiden e is surging to high or record levels. Stock market internals confirm the refl tion:

- Interest rates are low.
- Profits a e rebounding.
- Caution is fading.
- Small-cap and value stocks performed better relative to large-cap growth stocks in recent weeks.

Bank indices had better returns than the overall market. Mildly rising interest rates also suggest that investors appreciate some of the more recent worries (i.e., risks of defl tion, political turmoil in Europe, or a China hard landing) have fallen significa tly.

Europe, Japan:

The Eurozone economy is surging. Economic sentiment there is within a whisker of a 17-year high. Confiden e improved in every sector and country. Even Italian CEOs have the most optimistic outlook in a decade. The fin l survey of manufacturing purchasing managers was 58.1, the highest in over six and a half years. The flash omposite of service and manufacturing indices rose a point, to a robust 56.7. Private demand is driving growth in both consumer spending and investment. In September, infl tion stayed modest at 1.12% over the prior year, above the 0.81% level of the fourth quarter. Unemployment is falling and job gains are healthy. The 5.6% jobless rate in Germany is the lowest it's been since reunific tion in the early 1990s. Even Brexit fears can't keep the UK economy from expanding, or household spending there from growing.

> As the synchronized global economic expansion continues robust and unabated, central banks are re-evaluating the extraordinary policies put in place after the financi l crisis.
>
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Third-quarter growth in Japan won't equal the healthy 2.5% annualized pace of the second. But the data is strong enough for Prime Minister Abe to gamble on increasing his majority in the Diet by calling a snap election for October 22nd. The labor force participation rate is the highest in nearly fi teen years; it should be, since the jobless rate is a measly 2.8%, with 1.52 job o ers for every job applicant, the highest since February 1974. Corporate profits eep rising to record highs and investment is picking up.

China:

Purchasing manager indices from the National Bureau of Statistics suggest that both manufacturing and service businesses are improving in China. The former survey hit a fi e-year high at 52.4, and the service index jumped two points to 55.4. August industrial profits a e up 24% from the prior year. The private-sector gauge from Caixin/Markit slipped a bit, but still shows growth. The People's Bank of China revealed a targeted cut in required reserves for banks that increase lending to small and very small enterprises, so while fisc l stimulus has faded some, there will be plenty of liquidity. Growth is not accelerating, but no near-term hard landing is anywhere in sight. Still, with debt rising faster than nominal growth, there is real potential for a financi l disturbance somewhere down the road.

United States:

A weather forecaster in Los Angeles has a standard outlook: warm today, warm tomorrow. That has described the U.S. economy very well the past year. Real economic growth averaged 2.2%, matching the rate over the entire expansion. Confiden e is high, job growth is robust, and infl tion is subdued. The story hasn't changed, and it's a good story.

Small-business optimism from the National Federation of Independent Business rose to 105.3 in August, near the twelve-year high of January. Other measures of overall confiden e are mixed, perhaps re ecting hurricane-related stress, but stay at the highest levels since 2000. Job gains have been excellent in the face of a low unemployment rate. Payrolls rose an average of 185,000 per month the past three months, right at the twenty-four-month average of 191,000.

Regional manufacturing surveys from the Federal Reserve (Fed) were very strong in September. Profi growth is rebounding, and capital spending is clearly picking up. We expect third-quarter growth to be cut a few tenths by the tragedies that came with Hurricanes Harvey, Irma, and Maria. Rebuilding e orts could add a bit to growth in following quarters. With the economy firing on ll cylinders, the next few months could look like the economic environment of late 2016. Our U.S. forecasts are in tables at the end of the commentary. The outlook for selected U.S. data is in the chart below.

U.S. Forecast Table	2016 (A)	2017 (E)	2018 (E)
Real GDP	+1.5%	+2.2%	+2.6%
Domestic Final Sales	+2.1%	+2.5%	+2.6%
U.S. Auto Sales (units)	17.5m (0.4%)	17.2m (-1.5%)	17.4m (1.0%)
Industrial Production	-1.2%	1.5%	+1.2%
Housing Starts (million)	1,117 (6.3%)	1,212 (3.0%)	1,285 (6.0%)
After Tax Corporate Pro ts (National Income and Products Accounts	2.2%	+8%	+6%
Federal Budget Balance (Fiscal Years)	-$0.6t	-$0.7t	-$0.6t
Civilian Unemployment Rate	4.9%	4.5%	4.2%
CPI – Overall	+1.3%	+2.1%	+2.4%
CPI – ex Food & Energy	+2.2%	+1.9%	+2.1%
GDP Price Index	+1.3%	+1.5%	+1.9%

Sources are in the tables at the end of the commentary

A - Actual

E - Estimated

At cycle peaks:

What happens when governments supply fisc l stimulus to already robust economies rather than during recessions or tough times? We may find out The U.S. Congress will soon discuss a tax bill with large business tax cuts. Japanese offic ls suggest future tax hike proceeds be used to support education. The German election combined with French President Macron's plans for a more integrated Europe may result in looser budget constraints. Cuts to required reserves in China are also a stimulus. If refl tion doesn't ignite on its own, fisc l stimulus may do it, perhaps even bringing concerns of overheating.

Robust growth, less accommodation

As the synchronized global economic expansion continues robust and unabated, central banks are re-evaluating the extraordinary policies put in place after the financi l crisis. The Federal Reserve was fir t out the gate with an initial hike in the fed funds rate in December 2015, followed by a second one last December, and two more so far in 2017. The fed funds rate is now in a range of 1.0% to 1.25%. The Fed also announced the fir t step in reducing its huge bond portfolio would be in October. Market expectations for a fi th Fed rate hike this December are well above 50%, which would push the rate to an average 1.28%. The Bank of Canada also began to remove its monetary ease with two 0.25% hikes to bring its policy rate to 1.25%.

So far, the European Central Bank (ECB) and the Bank of Japan (BOJ) seem content to let the Fed set the pace. The ECB Governing Council made no change in its current policy at the September meeting, and made no statement about any change in its bond-purchase program that is scheduled to stop this year-end. ECB President Draghi did indicate such notice would occur in the fourth quarter, which investors assume means October. Draghi reaffirme that policy rates would remain unchanged until "well past the horizon of our net asset purchases," and emphasized the "need for a very substantial degree of monetary accommodation to secure a sustained return of infl tion." The ECB's job is complicated by stunted infl tion and by a strong currency, which has risen 12% versus the dollar in 2017. The strong currency is a drag on import prices, though it helped keep the measure of core consumer prices (ex food and energy) at 1.1%, down a bit from 1.2% in August. Still, that is up from 0.8% at the end of 2016.

The economy in Japan is doing well, but infl tion stays very weak and overall prices are up just 0.7% over the prior year in August. Core prices (ex fresh food and energy) are up only 0.2%, and wages haven't kept pace with economic growth. So, the BOJ has little interest in changing its extremely accommodative policy.

Rates moved higher:

Robust world growth, higher oil prices, and rising investor confiden e in the self-sustaining expansion, pushed government bond yields higher, reversing their July-August dip. Yields on ten-year U.S. Treasurys ended September at 2.32%, up 0.2% from the end of August, and fl t for the third quarter. Yields on 10-year UK gilts jumped 0.34% during the month to 1.36%. 10-year German bund yields rose a bit to 0.46%, also about fl t for the quarter. The BOJ keeps the 10-year government bond yield near zero, although markets pushed the yield to 0.05%. Recent U.S. rate history is in the chart below.

Interest Rates

	12/31/2013	12/31/2014	12/31/2015	03/13/2017 (High)*	09/30/2016 (Low)*	09/29/2017 Current
2 year	0.38%	0.66%	1.05%	1.37%	0.76%	1.49%
10 year	3.03%	2.17%	2.27%	2.63%	1.60%	2.33%
10-2 spread	2.65%	1.51%	1.22%	1.26%	0.84%	0.84%
30 year	3.97%	2.75%	3.02%	3.21%	2.32%	2.86%

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

Interest Rate Outlook:

The key question is where long-term rates go from here. Yields have been historically low, in part from central bank purchases and ownership of large quantities of sovereign bonds. But, yields have also stayed low from the shadow of the severe financi l crisis, and the flig t to safety by investors.

On short rates:

In recent comments, Fed Chair Yellen, reiterated her belief in above-trend growth, stronger labor markets, stable infl tion expectations, and upward pressure on infl tion. Yellen seems dovish no more, and believes the recent weak infl tion reports are unrelated to each other and will fade so long as growth remains solid. In her last speech, Yellen noted that the Fed shouldn't be too slow to remove monetary ease because job gains are above long-term potential, risking overheated wage gains and an infl tion problem. These comments appear to support one more rate hike in December, although we think it's only an even chance. If the Trump administration can pass tax reform by the end of the year, the December rate hike is probably a lock.

Lower for longer?

Some make a case that long-term developed-country government bond yields could stay far lower than historically for two structural reasons: falling potential growth and low infl tion. Aging demographics in developed countries means the growth in the number of workers will be less than recent decades. U.S. labor force growth is currently about 1% annually, versus 3% in the 1970s. Even that 1% is well above the 0.5% to 0.75% current population growth. Slower growth in the number of people working implies weaker economic growth.

Infl tion could also stay below the Fed's target for some time. There's the Amazon e ect of extreme competition and price transparency keeping price rises slim, the rate of technological change is accelerating and pushing advances in efficie y, robotics and artifici l intelligence may replace many jobs - keeping wage gains modest, and infrastructure spending in Africa and other less-developed areas could expand the global labor supply by hundreds of millions of new workers. All this suggests defl tion could be more of a problem than infl tion in the future. Slower growth and modest infl tion are structural reasons interest rates may never return to normal past levels.

Cyclical gains:

The global expansion is vigorous and self-sustaining, with energy lifting even in Europe. Of the 45 countries tracked by Organization of Economic Cooperation and Development, all are growing and many are accelerating. With the global financi l crisis nearly a decade in the rear-view mirror, the dread, fear, and caution it generated is starting to fade. So, even if structural forces pressure long-term yields lower, cyclical forces of solid growth momentum should push rates higher in the near-term. Today's 10-year U.S. Treasury yields of 2.3% are inconsistent with 4% or more nominal U.S. growth. So, while we await evidence about whether long-term yields will stay lower for longer, we expect long-term sovereign bond yields to work higher into year-end. Our forecasts for U.S. Treasury bond yields are below.

Interest Rates	Year-end 2017	Year-end 2018
Federal Funds	1.13%-1.38%	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%

Asset allocation-return to reflation

September was the month when the investment consensus began to revisit their fli tation with refl tion that was so evident in 2016. Refl tion, of course, is a pickup in cyclical economic activity, bringing a rebound in profits a modest boost to infl tion, and a mild rise in interest rates. Refl tion's counterpart in markets is a rotation in returns from growth to value, from large caps to small caps, and from defensive sectors to cyclical ones that benefi from improving activity. That's exactly what occurred in September.

Broad equity indices performed relatively well, despite churning underneath the surface. Total return of the S&P 500 Index was 2.1% during September, and 4.5% for the quarter. The broad MSCI All Country World Index rose 1.8% for the month and 4.7% in the third quarter. Energy and industrial companies were among the best-performing sectors. Indices of bank stocks benefi ed from the rise in interest rates. Real estate investment trusts had a tough month and weak quarter because higher rates were a headwind. Many bond indices lost ground in September when refl tion took hold. Even so, investors in the euro area and U.S. high yield bonds eked out decent returns.

A look ahead:

On average, Dow Industrials perform best in the fourth quarter. November has had the strongest average monthly return since 2010, followed by October. This year, October should be little di erent, because the U.S. and global economies are strong, year-over-year earnings growth is still accelerating (up nearly 20% for reported trailing twelve-month earnings to the second quarter), and interest rates are still low. We look for the refl tion trade to continue through much of the quarter.

Stocks and bonds of emerging market companies typically perform well in periods of refl tion. That was not true in September. The MSCI Emerging Market Index lost 0.6%, and emerging market bonds indices in local currency also had poor returns. We think that underperformance will persist. Emerging market stocks and bonds have been the best performers year-to-date even with a rough September. The U.S. dollar was weak, interest rates were falling, and commodity prices rebounded, all strong tailwinds for emerging market securities. Those advantages are over and have become headwinds. Europe and Japanese stocks will likely replace them as the leaders for a while; their major indices had a strong September.

While the stock market rally will likely continue a bit longer, the long term is what's important, and that outlook is less exciting. Eight or more years of super-low interest rates and very active central banks, combined with decent growth, have driven stock and bond prices to high valuations. The most important determinant of good long-term returns is the initial price paid These high initial prices suggest long-term returns will be modest at best.

The interim potential for the stock market will be determined by reports of infl tion and further increases in long-term interest rates if any. Another 5% or so of continued advance doesn't seem unreasonable. The odds of a real bear market, a drop of around 25% or more, seem remote at this time. That type of decline is usually associated with a recession and current economic conditions don't suggest one anytime soon. However, a sudden or continued rise in interest rates, and a revival of infl tion concerns could easily bring a significa t correction to this highly valued market. The global economy is likely at peak growth momentum now. Any deceleration into year-end or beyond coupled with higher long-term rates could precipitate a correction. So, the potential for a longer rally is still there, but interim risk is rising. Those of the faint of heart might want to use this rally to take a few more chips o the table.

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	1.5%	1.3%	4.9%	0.62%	2.46%
	2017 F	2.2%	2.1%	4.5%	1.38%	2.50%
	2018 F	2.7%	2.4%	4.2%	2.13%	2.75%
Canada:	**2014**	2.6%	1.9%	6.9%	0.75%	1.78%
	2015	0.9%	1.1%	6.9%	0.50%	1.39%
	2016	1.5%	1.4%	7.0%	0.50%	1.72%
	2017 F	2.8%	1.7%	6.5%	1.25%	2.20%
	2018 F	2.0%	2.0%	6.4%	1.50%	2.50%
UK:	**2014**	3.1%	1.5%	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%	2.7%	4.6%	0.25%	1.40%
	2018 F	1.3%	2.5%	5.0%	0.50%	1.70%
Eurozone:	**2014**	1.3%	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	2.1%	1.6%	9.2%	0.00%	0.70%
	2018 F	1.9%	1.5%	8.7%	0.00%	1.00%
Japan:	**2014**	0.3%	2.7%	6.3%	0.10%	0.31%
	2015	1.1%	0.8%	3.4%	0.10%	0.26%
	2016	1.0%	-0.1%	3.1%	-0.10%	0.04%
	2017 F	1.4%	0.5%	2.9%	-0.10%	0.05%
	2018 F	1.0%	0.8%	2.8%	-0.10%	0.10%
Australia:	**2014**	2.8%	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%	2.0%	5.7%	1.50%	2.80%
	2018 F	2.8%	2.2%	5.6%	1.75%	3.15%
	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%	2.0%		4.35%	
	2018 F	6.2%	2.2%		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 %		
		Jun-17	Jul-17	Aug-17	Jun-17	Jul-17	Aug-17	2016	2017 F	2018 F	2016	2017 F	2018 F
1	**Industrial Production Index (2007=100)**	105.3	105.7	104.7	2.1%	2.4%	1.5%	103.1	104.6	106.5	-1.2%	1.5%	1.8%
2	**Capacity Utilization Rate, Total Industry (1997=100)**	76.7	76.9	76.1	1.2%	1.3%	0.4%	75.7	76.5	77.4	-1.4%	1.0%	1.2%
3	**Total Private Housing Starts (SAAR)**	1,217	1,190	1,180	2.3%	-2.7%	1.4%	1,177	1,250	1,377	6.3%	6.2%	7.0%
4	**Total Light Vehicle Sales (YTD)**	8,401.7	9,809.7	11,285.6	-2.2%	-3.0%	-2.8%	17,465	17,203	17,375	0.4%	-1.5%	1.0%
5	**Civilian Labor Force (thousands)**	160,145	160,494	160,571	0.8%	0.8%	0.7%	159,186	160,429	162,088	1.3%	0.78%	1.11%
6	**Civilian Employment (thousands)**	153,168	153,513	153,439	1.4%	1.3%	1.2%	151,437	153,295	155,295	1.7%	1.2%	1.3%
7	**Total Unemploment (thousands)**	6,977	6,981	7,132	-10.5%	-9.9%	-9.2%	7,750	7,134	6,793	-6.5%	-8.1%	-4.8%
		Level			Y/Y %			Level			Y/Y %		
		Q4-16	Q1-17	Q2-17	Q4-16	Q1-17	Q2-17	2016	2017 F	2018 F	2016	2017 F	2018 F
8	**After-Tax Corporate Profits (billions $, quarterly)**	1,787.4	1,810.5	1,774.7	19.6%	11.8%	7.4%	1,687.9	1,772	1,867	2.2%	8.0%	6.0%
9	**Index of Hourly Compensation Non-farm Business (2009=100, quarterly)**	115.7	117.1	117.6	-0.3%	1.9%	1.1%	116.0	118.1	120.5	1.0%	2.0%	2.0%
		Annual			Monthly			Monthly				Annual	
		2014	2015	2016	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17		2017 F	2018 F
10	**Consumer Price Index, All Urban Consumers Y/Y%**	1.6%	0.1%	1.3%	2.4%	2.2%	1.9%	1.6%	1.7%	1.9%		2.1%	2.4%
11	**Consumer Price Index, Ex. Food & Energy Y/Y%**	1.7%	1.8%	2.2%	2.0%	1.9%	1.7%	1.7%	1.7%	1.7%		1.9%	2.1%
12	**Non-farm Payroll Growth (thousands)**	2,998	2,713	2,240	50	207	145	210	189	156			
13	**Unemployment Rate, All Workers**	6.2	5.3	4.9	4.5	4.4	4.3	4.4	4.3	4.4		4.5	4.2
14	**Unemployment Rate, All Workers, >15 Weeks**	3.0	2.3	2.0	1.7	1.7	1.8	1.6	1.7	1.7		-	-
15	**Unemployment Rate, Adult Men**	5.7	4.9	4.5	4.3	4.0	3.8	4.0	4.0	4.1		-	-
16	**Unemployment Rate, Adult Women**	5.6	4.8	4.4	4.0	4.1	4.0	4.0	4.0	4.0		-	-
17	**Unemployment Rate, Teenagers (16-19)**	19.5	16.9	15.7	13.7	14.7	14.3	13.3	13.2	13.6		-	-

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		2nd QUARTER 17		3rd QUARTER 17		4th QUARTER 17		2015 ACTUAL		2016 ACTUAL	
	Actual		Actual		Forecast		Forecast					
Real GDP	**16,903.2**	**1.2%**	**17,031.1**	**3.1%**	**17,140.4**	**2.6%**	**17,270.5**	**3.1%**	**16,471.5**	**2.9%**	**16,716.2**	**1.5%**
Personal Consumption Expenditures	**11,758.0**	**1.9%**	**11,853.0**	**3.3%**	**11,915.6**	**2.1%**	**12,009.3**	**3.2%**	**11,264.3**	**3.6%**	**11,572.1**	**2.7%**
Durable Goods	1,647.3	-0.1%	1,677.8	7.6%	1,682.0	1.0%	1,702.6	5.0%	1,511.9	7.8%	1,595.1	5.5%
Non-Durables	2,540.2	1.1%	2,566.6	4.2%	2,579.3	2.0%	2,604.8	4.0%	2,446.8	3.1%	2,514.3	2.8%
Services	7,621.0	2.5%	7,664.4	2.3%	7,702.4	2.0%	7,750.1	2.5%	7,340.2	3.2%	7,507.3	2.3%
Gross Private Domestic Invest.	**2,897.0**	**-1.2%**	**2,924.7**	**3.9%**	**2,942.8**	**2.5%**	**2,978.5**	**4.9%**	**2,905.4**	**5.2%**	**2,858.2**	**-1.6%**
Bus. Fixed Invest.	2,263.6	7.1%	2,300.6	6.7%	2,323.2	4.0%	2,348.8	4.5%	2,223.5	2.3%	2,210.4	-0.6%
Structures	468.0	14.8%	476.0	7.0%	478.4	2.0%	483.1	4.0%	465.4	-1.8%	446.4	-4.1%
Equipment	1,059.4	4.4%	1,082.0	8.8%	1,097.9	6.0%	1,111.4	5.0%	1,084.5	3.5%	1,047.8	-3.4%
Intellectual Property Products	738.6	5.8%	745.3	3.7%	749.0	2.0%	756.4	4.0%	677.8	3.8%	720.4	6.3%
Residential Invest.	605.5	11.1%	594.1	-7.3%	589.6	-3.0%	599.7	7.0%	556.9	10.2%	587.5	5.5%
Change in Inventory	1.2 -		5.5 -		30.0 -		30.0 -		100.6 -		33.4 -	
Net Exports	**-622.2 -**		**-613.6 -**		**-619.2 -**		**-624.0 -**		**-545.3 -**		**-586.3 -**	
Exports	2,162.3	7.3%	2,181.1	3.5%	2,195.7	2.7%	2,210.3	2.7%	2,127.1	0.4%	2,120.1	-0.3%
Imports	2,784.5	4.3%	2,794.8	1.5%	2,814.8	2.9%	2,834.3	2.8%	2,672.4	5.0%	2,706.3	1.3%
Gov't Purchases of Goods & Services	**2,896.6**	**-0.6%**	**2,895.2**	**-0.2%**	**2,899.3**	**0.6%**	**2,904.9**	**0.8%**	**2,878.5**	**1.4%**	**2,900.2**	**0.8%**
Federal	1,108.4	-2.4%	1,113.7	1.9%	1,115.3	0.6%	1,116.4	0.4%	1,114.1	-0.1%	1,114.6	0.0%
National Defense	658.6	-3.3%	666.2	4.7%	667.9	1.0%	667.9	0.0%	672.0	-2.2%	667.0	-0.7%
Non-Defense	449.0	-1.1%	446.9	-1.9%	447.5	0.5%	448.6	1.0%	441.6	3.2%	447.0	1.2%
State & Local	1,786.2	0.5%	1,779.6	-1.5%	1,784.0	1.0%	1,788.5	1.0%	1,762.8	2.3%	1,783.7	1.2%
Real Final Sales	16,883.5	2.7%	17,006.6	2.9%	17,110.4	2.5%	17,240.5	3.1%	16,354.3	2.6%	16,664.1	1.9%
Real Domestic Final Sales	17,502.7	2.4%	17,618.3	2.7%	17,729.6	2.6%	17,864.5	3.1%	16,900.4	3.3%	17,250.3	2.1%
y/y	2.0%		2.2%		2.2%		2.5%					

	1st QUARTER 18		2nd QUARTER 18		3rd QUARTER 18		4th QUARTER 18		2017 FORECAST		2018 FORECAST	
	Forecast		Forecast		Forecast		Forecast					
Real GDP	**17,397.4**	**3.0%**	**17,506.1**	**2.5%**	**17,602.4**	**2.2%**	**17,682.2**	**1.8%**	**17,086.3**	**2.2%**	**17,547.0**	**2.7%**
Personal Consumption Expenditures	**12,097.5**	**3.0%**	**12,172.9**	**2.5%**	**12,247.1**	**2.5%**	**12,314.1**	**2.2%**	**11,884.0**	**2.7%**	**12,207.9**	**2.7%**
Durable Goods	1,723.5	5.0%	1,736.3	3.0%	1,751.3	3.5%	1,762.1	2.5%	1,677.4	5.2%	1,743.3	3.9%
Non-Durables	2,624.1	3.0%	2,640.3	2.5%	2,656.7	2.5%	2,669.9	2.0%	2,572.7	2.3%	2,647.7	2.9%
Services	7,798.1	2.5%	7,844.5	2.4%	7,887.3	2.2%	7,930.3	2.2%	7,684.5	2.4%	7,865.1	2.3%
Gross Private Domestic Invest.	**3,010.7**	**4.4%**	**3,037.8**	**3.6%**	**3,053.9**	**2.1%**	**3,061.9**	**1.1%**	**2,935.7**	**2.7%**	**3,041.1**	**3.6%**
Bus. Fixed Invest.	2,372.3	4.1%	2,393.3	3.6%	2,409.9	2.8%	2,421.3	1.9%	2,309.1	4.5%	2,399.2	3.9%
Structures	485.5	2.0%	487.9	2.0%	490.3	2.0%	490.3	0.0%	476.4	6.7%	488.5	2.5%
Equipment	1,125.0	5.0%	1,136.1	4.0%	1,144.5	3.0%	1,150.2	2.0%	1,087.7	3.8%	1,138.9	4.7%
Intellectual Property Products	763.8	4.0%	771.4	4.0%	777.1	3.0%	782.8	3.0%	747.3	3.7%	773.8	3.5%
Residential Invest.	608.5	6.0%	614.4	4.0%	619.0	3.0%	620.5	1.0%	597.2	1.7%	615.6	3.1%
Change in Inventory	30.0 -		30.0 -		25.0 -		20.0 -		16.7 -		26.3 -	
Net Exports	**-629.2 -**		**-632.5 -**		**-633.7 -**		**-634.0 -**		**-619.7 -**		**-632.4 -**	
Exports	2,228.9	3.4%	2,245.4	3.0%	2,262.1	3.0%	2,276.1	2.5%	2,187.4	3.2%	2,253.1	3.0%
Imports	2,858.1	3.4%	2,877.9	2.8%	2,895.8	2.5%	2,910.1	2.0%	2,807.1	3.7%	2,885.5	2.8%
Gov't Purchases of Goods & Services	**2,916.6**	**1.6%**	**2,926.1**	**1.3%**	**2,933.3**	**1.0%**	**2,938.4**	**0.7%**	**2,899.0**	**0.0%**	**2,928.6**	**1.0%**
Federal	1,121.4	1.8%	1,124.2	1.0%	1,127.0	1.0%	1,129.8	1.0%	1,113.5	-0.1%	1,125.6	1.1%
National Defense	671.2	2.0%	672.8	1.0%	674.5	1.0%	676.2	1.0%	665.1	-0.3%	673.7	1.3%
Non-Defense	450.2	1.5%	451.4	1.0%	452.5	1.0%	453.6	1.0%	448.0	0.2%	451.9	0.9%
State & Local	1,795.1	1.5%	1,801.8	1.5%	1,806.3	1.0%	1,808.6	0.5%	1,784.6	0.1%	1,803.0	1.0%
Real Final Sales	17,367.4	3.0%	17,476.1	2.5%	17,577.4	2.3%	17,662.2	1.9%	17,060.2	2.4%	17,520.8	2.7%
Real Domestic Final Sales	17,996.6	3.0%	18,108.6	2.5%	18,211.1	2.3%	18,296.2	1.9%	17,678.8	2.5%	18,153.1	2.7%
y/y	2.9%		2.8%		2.7%		2.4%					

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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