Economic Insights

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

- **Global economic engine: chugging right along:**
  The synchronized world expansion rolls along and will likely last into 2018, perhaps beyond. In most countries, growth is robust, financial conditions are easy, profits are up sharply, inflation and interest rates stay low, confidence is building, and caution is fading.

- **U.S. payroll report: not stellar, but adequate:**
  The U.S. payroll report for August was well below expectations, but likely not weak enough to discourage the Fed from its plans to reduce monetary easing.

- **Central bankers: slow, gradual, nervous:**
  Even with a synchronized world economic expansion, central bankers are loath to reduce monetary easing. That keeps long-term yields low. Robust growth momentum and improved pricing power should put upward pressure on long-term yields.

- **Asset allocation: low rates point to equity:**
  The drop in long-term yields, robust growth, and a weak U.S. dollar can explain most of the return variance in August. Those same conditions suggest that stock prices have a bit more upside.

Global economic engine: chugging right along

The synchronized global economic expansion now underway is the latest in a series of transitions the world economy has recently experienced. In 2015, the world was near recession from the surge in the U.S. dollar and the collapse in oil prices that began mid-2014. Last year, a recovery began after the U.S. dollar peaked and commodity prices bottomed. Nominal growth of world gross domestic product (GDP) moved from negative to positive. U.S. goods-producing sectors swung from contraction to expansion. Consumer and producer prices shifted from slowing inflation to accelerating price gains across a broad range of countries. That was clearest in China, where producer prices stopped falling in late 2016, for the first time since March 2012.

In 2017, another transition emerged as recovery turned into a sustainable expansion that is broadly global. The U.S. business cycle is in its ninth year, but in many ways, seems not to be tiring. Real GDP grew an upwardly revised 3% annual pace in the second quarter, and that pace will likely be revised up more. Job growth has slowed a touch from a year or two ago, but is still excellent. Wage growth seems on the verge of breaking out of its two-year 2.5% to 2.7% range. Capital spending, which had been very slow to get started, is finally surging as evidenced by robust factory orders and shipments the last several months. Inflation is gaining no ground, the Fed is hesitant to raise interest rates, earnings and profits are climbing briskly, and confidence has decisively resurfaced all around.

› Global growth is remarkable:

The Eurozone cycle is a bit more youthful, but appears just as robust. Revised second-quarter data shows a 2.6% rise in real GDP at an annual rate, driven by household and business spending, with some help from net trade, i.e., exports over imports. That makes three quarters of a 2.4% average annual pace, the best showing in years. The strong trend in industrial production and healthy responses to surveys of purchasing managers suggest the string of above-trend growth will persist.

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>
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The initially reported hyper-growth pace of 4% for Japan in the second quarter was revised down to 2.5%, but that is still well above the likely trend growth rate of 1% to 1.5%. The labor market is super tight, with an unemployment rate of only 2.8%. Wage growth does not reflect that pressure, even though there are 1.51 job openings for every applicant, a near record high. The latest data from China suggests a slight pickup:

- imports rebounded in the most recent report
- iron ore prices continue to surge
- and producer prices showed a year-over-year gain of 6.3%, above the prior month's 5.5% rise

Past the surge:

There are, however, tentative signs of waning momentum. That doesn't mean a slowdown, just a flattening in the pace of growth. But that's natural as nothing accelerates forever. Surveys of purchasing managers appear to have peaked at robust levels in Europe, and good levels in Japan. The latest Market News International business survey in China edged higher, as did the official assessment from the National Bureau of Statistics.

The tragedies spawned by hurricanes Harvey and Irma will make U.S. data hard to interpret for a while. However, third-quarter growth was on a pace to mirror the 3% pace of the second quarter. Rebuilding from damages wrought by the winds and floods will add to growth over succeeding quarters.

Growth continues:

We expect the synchronized world economic expansion to persist. Interest rates are low and financial conditions are easy. The weak U.S. dollar is making plenty of liquidity available. Commodity prices stay firm and suggest demand is still robust. Constraints from little spare capacity are not yet visible. Household and business debt levels in developed countries are not a headwind. Wage costs are contained, since there is still slack in U.S. and Eurozone labor markets. Profits are at good levels and rising. Businesses and households have stayed very cautious because of the severity of the financial crises. That caution is gradually fading as confidence builds and should propel the expansion well into 2018 and perhaps beyond. Geopolitics can cast a pall over markets, but rising earnings and the global upturn should overshadow most political developments. The economic engine keeps the expansion moving right along.

U.S. payroll report: not stellar, but adequate

The August payroll report noted a steady rise in employment, which should keep the Fed on track to begin reducing its huge bond portfolio later this year. The Bureau of Labor Statistics (BLS) estimated that U.S. payrolls added 156,000 jobs in August. Government employment shrank by 9,000, so private payrolls added a solid 165,000 workers for the month, near the six-month average of 163,000. That was well below expectations, but initial August estimates are often upwardly revised as the school year starts and the first estimate often misses some teacher hires.

Still, a somewhat slower pace of job growth is normal eight years into an economic expansion. A net gain of almost seventeen million jobs since the trough in 2010 has left fewer applicants to fill open spots. The pool of unemployed workers is dramatically lower today at seven million, versus a peak of 15.2 million in late 2009. So, hiring should naturally trend down as available and qualified workers become harder to find.

Survey data confirms an employment backdrop with potential hires scarce and wages picking up. The July National Federation of Independent Businesses survey showed 35% of firms had open positions that were not able to be filled, an all-time high going back to 1974. Plans to hire and/or raise wages in the next three months were strong as well. The Institute for Supply Management index of manufacturing employment reached 59.9 in August, the highest since 2011 when businesses were ramping up production after the financial crisis.

Wage growth, as measured by the BLS series of average hourly earnings, was 2.5% over the prior year. The monthly gain was a slow 0.1%, but we expect pay gains should pick up from here.

The tragedy from hurricane Harvey has showed up in one data measure already. Initial claims for unemployment compensation shot higher last week with the jump centered in Texas. Total new claims leapt 62,000 to 298,000. This series should return to lower levels as Texans start to rebuild and move on as best they can.

Central bankers: slow, gradual, and nervous

The synchronized upturn suggests that central banks should all be starting to normalize policy. That's hardly the case. The Bank of Canada (BOC) moved ahead of other central banks by raising its benchmark rate to 1.0%, the second 0.25 increase since July. The BOC's statement worried about excess capacity, subdued inflation, slow wage gains, a strong currency, too much debt, and geopolitics. So, why raise rates? Because of surging economic growth in the second quarter, a July unemployment rate that's the lowest since 2008, and job growth is the best its been since 2007.

That's more aggressive than other central banks. The Fed may defer its next rate hike until 2018, even though it is almost certain to implement its plan to reduce the size of its bond portfolio before year-end. The European Central Bank (ECB) met on September 7, but announced no policy changes. It did raise its growth forecasts and reduce its inflation estimates a bit for 2017 and 2018, and characterize Eurozone risks as "broadly balanced." The ECB will likely announce changes to its policy mix and bond purchases for 2018 in October. Draghi reaffirmed that policy rates are expected to remain unchanged until "well past the horizon of our net asset purchases." He emphasized "the need for a continued very substantial degree of monetary accommodation to secure a sustained return of inflation" toward the ECB goal.

The Reserve Bank of Australia will likely keep its policy rate at 1.5%, as it has for thirteen months, even though Australian real GDP surged ahead 3.3% annual rate in the second quarter. That was less than expected. This robust growth, an excellent pace of full-time hiring and a good investment outlook, suggest that Australia has moved beyond the mining slump. But, the central bank is worried about the impact of high household debt, poor consumer sentiment, and stagnant wage growth on future consumption. The Bank of Japan stays with its super-aggressive monetary policy even though growth is strong and unemployment is ultra-low.

Rates stay low:

Healthy growth, a calm summer, growing global confidence, and a self-sustaining economic expansion suggest rates should be moving higher. But, that's not happening. Inflation has been slow to pick up, so central banks are staying easy and rates remain miniscule. That low inflation along with hurricanes and geopolitical tensions combined to ratchet long-term yields lower over the past month. Yields on ten-year German bunds dropped from 0.54% to 0.36% during August, while ten-year U.K. gilt yields fell 0.18% and yields on ten-year Japanese Government Bonds shriveled to near zero. Recent U.S. rate history is in the chart on the following page.

Interest Rates

	12/31/2014	12/31/2015	12/30/16	03/13/20167 (High)*	09/06/2016 (Low)*	08/31/2017 Current
2 year	0.66%	1.05%	1.19%	1.37%	0.73%	1.33%
10 year	2.17%	2.27%	2.44%	2.63%	1.53%	2.12%
10-2 spread	1.51%	1.22%	1.25%	1.26%	0.80%	0.79%
30 year	2.75%	3.02%	3.07%	3.21%	2.22%	2.73%

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

Interest rate outlook:

Our expectation for upward pressure on U.S. Treasury yields has been way off base so far. The consensus view seems to be that inflation is dead and interest rates will stay low forever. That belief has been validated by several sources:

- ultra-cautious central bankers
- recently weak inflation
- a slump in the U.S. dollar
- chaos in the White House
- and geopolitical tensions which spurred a flight to safe havens.

That upward pressure is likely still out there. Robust profit growth suggests that businesses indeed have some pricing power. Business cycles of the past have always had a surge of wage gains in the later stages that passed through into higher inflation. The weaker dollar has already eliminated imported deflation. Strong growth momentum like the last few quarters has always brought faster inflation in past cycles. Producer prices suggest that a bit higher consumer inflation is coming. Commodity prices stay firm. With a little higher inflation, investors would likely raise their expectations for future inflation, which would bring that upward pressure in long-term interest rates of developed countries.

Further, if large central bank bond portfolios did truly push interest rates lower, then a reduction in the size of the Fed's balance sheet should have the opposite effect and push yields higher. Last, few investors expect any part of the Trump fiscal agenda to be passed into law. After passage of the debt ceiling and hurricane Harvey relief funds, some sort of tax reform action seems more likely. Our forecasts for year-end yields for U.S. Treasury bonds are shown in the chart below. We expect the next Fed rate hike to occur in March 2018.

Interest Rates	Yearend 2017	Yearend 2018
Federal Funds	1.13%	1.88%
2-Year UST Yield	1.5%	2.0%
10-Year UST Yield	2.5%	2.75%
2-10 Year Spread	1.0%	0.75%

Asset allocation: low rates point to equity

The key move for financial markets in August was the drop in long-term bond yields. U.S., German, and U.K. ten-year yields each fell around 0.2%. That, coupled with robust growth, produced nice gains in most types of global bonds for the month and for the quarter. The Barclays index of long maturity U.S. Treasury bonds returned 3.4% in August. Global high yield and emerging market bond indices had good positive returns.

Geopolitical worries and falling expectations for enactment of any Trump-driven fiscal stimulus kept August returns for broad U.S. equity indices near zero. S&P 500 Index total return was only 0.3% for the month, and a price return of 0.1%. The Dow Jones Industrial Average return was only marginally better. Euro-area and Japanese indices actually lost ground during August. Emerging market stocks obtained the best returns, which benefitted from the weaker U.S. dollar, low interest rates, firming commodity prices, and vigorous global growth. The MSCI Emerging Market Index rose 2.0% in August, and increased 7.6% for the two months from July.

Stay with stocks:

The outlook for stock prices is still a bit higher. Profits have been strong. Twelve-month trailing reported earnings for the S&P 500 Index jumped 19.7% through the second quarter 2017. The world expansion is remarkably synchronous across most countries and sectors. Inflation pressure is incredibly tame. Central bankers will only remove monetary accommodation very gradually, so interest rates will have a difficult time moving appreciably higher. These are almost goldilocks conditions for equities.

Valuations are high. The ratio of price to earnings on the S&P 500 Index using third quarter earnings estimates and actual earnings for the other three quarters is 22.9, well above the 70-year average of about 17. Valuations, however, are useful in estimating returns only for long time horizons. High valuations today suggest that returns over the next ten years will be very low, but that says little about returns over the next month or two, or even year or two. Confidence in the stock market is very low, evidenced by the outperformance of defensive sectors and securities and strong performance of safe-haven bonds. At least that means investors are not overly ebullient.

It is usually an impending recession that brings an end to a long stock market rally. But, there is little evidence of one on the intermediate horizon: no super-aggressive Fed, no raging inflation, and few imbalances or economic constraints. The labor market slack is diminishing, but wage gains are not soaring. The most likely way for this investment cycle to end is with rising long-term U.S. Treasury bond yields. We still think that will bring the end of this cycle, but markets are surely not worried. The risk of the cycle ending has risen and we suggested that those who were highly risk-averse take a few marbles off the table. For others, conditions still favor somewhat higher equity prices at least for the near-term.

Table I: Global Economic Trends

Country	Year	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%	2.0%	4.5%	1.13%	2.50%
	2018 F	2.6%	2.2%	4.2%	1.63%	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%	2.10%
	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%	1.20%
	2018 F	1.3%	2.5%	5.0%	0.50%	1.60%
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%	2.75%
	2018 F	2.8%	2.2%	5.6%	1.70%	3.10%
China: Official Statistics	**2014**	7.3%	2.0%		5.60%	
	2015	6.9%	1.4%		4.35%	
	2016	6.7%	2.0%		4.25%	
	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	105.5		2.1%	2.2%		103.1	104.6	106.5	-1.2%	1.5%	1.8%
2 Capacity Utilization Rate, Total Industry (1997=100)	76.7	76.7		1.2%	1.1%		75.7	76.5	77.4	-1.4%	1.0%	1.2%
3 Total Private Housing Starts (SAAR)	1,213	1,155		1.9%	-5.6%		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%

Indicator	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	1,785.9	19.6%	11.8%	8.1%	1,687.9	1,772	1,867	2.2%	8.0%	6.0%
9 Index of Hourly Compensation Non-farm Business (2009=100, quarterly)	115.4	116.9	117.4	-0.6%	1.9%	1.0%	115.8	118.1	120.5	1.0%	2.0%	2.0%

Indicator	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%		2.2%	2.2%
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%		2.0%	2.2%
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 Actual		2nd QUARTER 17 Actual		3rd QUARTER 17 Forecast		4th QUARTER 17 Forecast		2015 ACTUAL		2016 ACTUAL	
Real GDP	**16,903.2**	**1.2%**	**17,030.0**	**3.0%**	**17,156.6**	**3.0%**	**17,269.3**	**2.7%**	**16,471.5**	**2.9%**	**16,716.2**	**1.5%**
Personal Consumption Expenditures	**11,758.0**	**1.9%**	**11,854.4**	**3.3%**	**11,930.3**	**2.6%**	**12,009.7**	**2.7%**	**11,264.3**	**3.6%**	**11,572.1**	**2.7%**
Durable Goods	1,647.3	-0.1%	1,683.0	9.0%	1,695.5	3.0%	1,708.1	3.0%	1,511.9	7.8%	1,595.1	5.5%
Non-Durables	2,540.2	1.1%	2,567.1	4.3%	2,579.8	2.0%	2,599.0	3.0%	2,446.8	3.1%	2,514.3	2.8%
Services	7,621.0	2.5%	7,661.4	2.1%	7,703.2	2.2%	7,750.9	2.5%	7,340.2	3.2%	7,507.3	2.3%
Gross Private Domestic Invest.	**2,897.0**	**-1.2%**	**2,922.9**	**3.6%**	**2,945.2**	**3.1%**	**2,978.3**	**4.6%**	**2,905.4**	**5.2%**	**2,858.2**	**-1.6%**
Bus. Fixed Invest.	2,263.6	7.1%	2,301.0	6.8%	2,313.9	2.3%	2,338.2	4.3%	2,223.5	2.3%	2,210.4	-0.6%
Structures	468.0	14.8%	475.1	6.2%	477.5	2.0%	481.0	3.0%	465.4	-1.8%	446.4	-4.1%
Equipment	1,059.4	4.4%	1,081.9	8.8%	1,087.3	2.0%	1,100.6	5.0%	1,084.5	3.5%	1,047.8	-3.4%
Intellectual Property Products	738.6	5.8%	747.5	4.9%	751.2	2.0%	758.6	4.0%	677.8	3.8%	720.4	6.3%
Residential Invest.	605.5	11.1%	595.4	-6.5%	601.3	4.0%	610.1	6.0%	556.9	10.2%	587.5	5.5%
Change in Inventory	1.2	-	1.8	-	30.0	-	30.0	-	100.6	-	33.4	-
Net Exports	**-622.2**	**-**	**-613.4**	**-**	**-619.0**	**-**	**-623.8**	**-**	**-545.3**	**-**	**-586.3**	**-**
Exports	2,162.3	7.3%	2,182.1	3.7%	2,196.7	2.7%	2,211.4	2.7%	2,127.1	0.4%	2,120.1	-0.3%
Imports	2,784.5	4.3%	2,795.6	1.6%	2,815.7	2.9%	2,835.2	2.8%	2,672.4	5.0%	2,706.3	1.3%
Gov't Purchases of Goods & Services	**2,896.6**	**-0.6%**	**2,894.3**	**-0.3%**	**2,898.3**	**0.6%**	**2,903.3**	**0.7%**	**2,878.5**	**1.4%**	**2,900.2**	**0.8%**
Federal	1,108.4	-2.4%	1,113.7	1.9%	1,115.2	0.5%	1,115.8	0.2%	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%	446.8	-1.9%	447.4	0.5%	447.9	0.5%	441.6	3.2%	447.0	1.2%
State & Local	1,786.2	0.5%	1,778.7	-1.7%	1,783.1	1.0%	1,787.6	1.0%	1,762.8	2.3%	1,783.7	1.2%
Real Final Sales	16,883.5	2.7%	17,009.7	3.0%	17,126.6	2.8%	17,239.3	2.7%	16,354.3	2.6%	16,664.1	1.9%
Real Domestic Final Sales	17,502.7	2.4%	17,621.2	2.7%	17,745.5	2.9%	17,863.1	2.7%	16,900.4	3.3%	17,250.3	2.1%
y/y	2.0%		2.2%		2.3%		2.5%					

	1st QUARTER 18 Forecast		2nd QUARTER 18 Forecast		3rd QUARTER 18 Forecast		4th QUARTER 18 Forecast		2017 FORECAST		2018 FORECAST	
Real GDP	**17,387.4**	**2.8%**	**17,496.0**	**2.5%**	**17,592.3**	**2.2%**	**17,672.0**	**1.8%**	**17,089.8**	**2.2%**	**17,536.9**	**2.6%**
Personal Consumption Expenditures	**12,089.7**	**2.7%**	**12,165.0**	**2.5%**	**12,239.1**	**2.5%**	**12,306.1**	**2.2%**	**11,888.1**	**2.7%**	**12,200.0**	**2.6%**
Durable Goods	1,720.7	3.0%	1,733.5	3.0%	1,748.5	3.5%	1,759.3	2.5%	1,683.5	5.5%	1,740.5	3.4%
Non-Durables	2,618.3	3.0%	2,634.5	2.5%	2,650.8	2.5%	2,663.9	2.0%	2,571.5	2.3%	2,641.9	2.7%
Services	7,798.9	2.5%	7,845.3	2.4%	7,888.1	2.2%	7,931.1	2.2%	7,684.1	2.4%	7,865.8	2.4%
Gross Private Domestic Invest.	**3,010.6**	**4.4%**	**3,037.7**	**3.6%**	**3,053.8**	**2.1%**	**3,061.8**	**1.0%**	**2,935.9**	**2.7%**	**3,041.0**	**3.6%**
Bus. Fixed Invest.	2,361.6	4.1%	2,382.5	3.6%	2,399.0	2.8%	2,410.4	1.9%	2,304.2	4.2%	2,388.4	3.7%
Structures	483.4	2.0%	485.8	2.0%	488.2	2.0%	488.2	0.0%	475.4	6.5%	486.4	2.3%
Equipment	1,114.1	5.0%	1,125.1	4.0%	1,133.4	3.0%	1,139.1	2.0%	1,082.3	3.3%	1,127.9	4.2%
Intellectual Property Products	766.1	4.0%	773.6	4.0%	779.4	3.0%	785.2	3.0%	749.0	4.0%	776.1	3.6%
Residential Invest.	619.0	6.0%	625.1	4.0%	629.8	3.0%	631.3	1.0%	603.1	2.7%	626.3	3.9%
Change in Inventory	30.0	-	30.0	-	25.0	-	20.0	-	15.8	-	26.3	-
Net Exports	**-629.0**	**-**	**-632.3**	**-**	**-633.5**	**-**	**-633.8**	**-**	**-619.6**	**-**	**-632.2**	**-**
Exports	2,229.9	3.4%	2,246.5	3.0%	2,263.1	3.0%	2,277.1	2.5%	2,188.1	3.2%	2,254.2	3.0%
Imports	2,859.0	3.4%	2,878.8	2.8%	2,896.6	2.5%	2,911.0	2.0%	2,807.7	3.7%	2,886.3	2.8%
Gov't Purchases of Goods & Services	**2,914.4**	**1.5%**	**2,923.9**	**1.3%**	**2,931.2**	**1.0%**	**2,936.3**	**0.7%**	**2,898.1**	**-0.1%**	**2,926.5**	**1.0%**
Federal	1,120.2	1.6%	1,123.0	1.0%	1,125.8	1.0%	1,128.6	1.0%	1,113.3	-0.1%	1,124.4	1.0%
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	449.0	1.0%	450.1	1.0%	451.3	1.0%	452.4	1.0%	447.8	0.2%	450.7	0.7%
State & Local	1,794.2	1.5%	1,800.9	1.5%	1,805.4	1.0%	1,807.7	0.5%	1,783.9	0.0%	1,802.1	1.0%
Real Final Sales	17,357.4	2.8%	17,466.0	2.5%	17,567.3	2.3%	17,652.0	1.9%	17,064.8	2.4%	17,510.7	2.6%
Real Domestic Final Sales	17,986.4	2.8%	18,098.3	2.5%	18,200.8	2.3%	18,285.8	1.9%	17,683.1	2.5%	18,142.8	2.6%
y/y	2.9%		2.7%		2.5%		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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