Principal Global Investors

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Economic Insights

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

Topic summaries:

- **And the beat goes on:**
  The world expansion rolls along. Surging confidence, rising capital spending, strong profit gains, and healthy demand generate a positive feedback loop that reinforces the robust growth, which should persist well into 2018.

- **The ECB - just don't call it a taper:**
  The European Central Bank will reduce its expansionary policy in January; the Fed is already doing so. The Bank of Japan may follow suit next summer. Still, the pace of tightening will be microscopic. Powerful cyclical forces suggest long-term interest rates will face eventual upward pressure.

- **Asset allocation - a melt-up in tech:**
  Large growth tech stock prices surged in October, leaving value and small-cap stock prices in the dust. If inflation and interest rates move higher over the next few months, which is likely, stock markets will encounter headwinds.

For the month of November 2017

And the beat goes on

From the 1980 platinum album, by a rhythm and blues group called The Whispers, came a hot selling single: "And the Beat Goes On." It was a number one seller on a soul music chart.

"And the beat goes on
Just like my love everlasting
And the beat goes on
Still moving strong on and on"

The heartbeat of this current synchronized world economic expansion is powerful; it just keeps going and may still be accelerating. It transformed from what, last year, we called an "upturn" to a full-fledged economic expansion. It includes a virtuous circle: a phase where solid household spending, strong profit gains, robust confidence, and easy monetary policy combine to create a positive feedback loop that pushes growth even further. Healthy demand and profits generate capital spending, more job growth, and better wage gains, which in turn engender even more spending and demand. The question is whether this energy is about to peak or whether the momentum can push the expansion to new heights. So far, the data looks positive.

United States:

Recent U.S. data have been excellent. The report on orders and shipments of capital equipment was compelling, with orders soaring 10.1% and shipments up 8.2%, both annual rate, over the last six months. The first estimate for third-quarter gross domestic product (GDP) was well above expectations at 3.0% annual rate over the prior quarter, even though spending was surely dented by Hurricane Harvey. All measures of confidence are strong; the University of Michigan's sentiment index reached the second highest since November 2000. Initial claims for jobless benefits

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>
> Bob Baur • Chief Global Economist, Principal Global Investors

recently hit the lowest since the early 1970s; and as a portion of the workforce, those claims are an all-time low. Workers are coming back into the labor force in record numbers, even more than the number of retiring Baby Boomers. Business surveys remain sturdy, suggesting growth continues at a fast pace.

We expect 3% growth (or slightly higher) to continue a couple more quarters before a mild deceleration into late 2018. Specific U.S. forecasts are at the back of the commentary. The beat goes on.

Eurozone similar:

The revival of the Eurozone economy was the growth shock of the last year. After the UK vote to exit the European Union, the mood was dire. Yet, growth came in at nearly 2.5% for several quarters. And momentum remains convincing. Surveys of purchasing managers edged lower, still consistent with solid growth, but higher in France and Germany. Lending conditions are easing and loan demand is rising. Broad consumer confidence hit a 16-year high, and German business sentiment climbed to the highest in nearly 50 years.

Even in Italy, manufacturing confidence reached the highest in a decade with industrial orders very strong. Joblessness in Spain fell to a nine-year low and unemployment in Germany is the lowest since reunification in 1990. Ireland raised €4 billion from a bond sale with a small negative yield. The U.K., embroiled in difficult negotiations with the European Union, even managed a 1.6% annual rate gain in third-quarter GDP. With the Eurozone periphery participating in the expansion, good euro area growth will likely be sustained. The beat goes on.

China:

The selection of leadership in China for the next five years has wound down. The Politburo and its Standing Committee have all been announced, and President Xi has gained unprecedented clout and authority. His phrase, "Socialism with Chinese characteristics for a new era," has been enshrined in the Chinese constitution. Breaking with tradition, no one on the Standing Committee is young enough to serve for 10 years after Xi's current term ends in 2022. So, no potential successor to Xi is in sight.

So begins the third era of Chinese development. Mao Zedong unified China after a long civil war in 1949 as a Communist state. Under a mantra of "growth at all costs," Deng Xiaoping carefully added capitalist experiments to the economy beginning in 1980. China's industrial and manufacturing might is now unquestioned, and Xi wants to focus on quality of growth over the quantity of growth: a better life for the middle class, a clean environment, and a strong military. But, there was little in the proceedings or currently in the data that would preclude the economy from the decelerating, but still fast, pace growth, for the next several years. The beat goes on.

Japan:

After what seemed like decades in recession, economic activity in Japan is surging in the longest period of expansion in more than 10 years. Corporate profits are at record levels; the Nikkei 225 stock index is up 27% year-over-year; tourism into Japan is soaring with the number of visitors up 18.6% over the prior year in September. The jobless rate is an incredibly low 2.8% with three job applicants for every two openings, a super-tight job market. Growth of 1.5% to 2% annual rate for several quarters is very doable. The beat goes on.

The rest:

With these four regions that account for over 60% of world GDP growing robustly, the rest of the world is in good shape. Rising commodity prices, easy monetary conditions, and a weaker U.S. dollar is boosting growth in emerging markets. GDP gains in India have decelerated over the last year or two in response to uncertainty around the sales tax change, currency demonetization, and rising non-performing loans at state-owned banks. But, equalizing tax laws across state lines, bringing the invisible economy into the open, and continuing a strong recapitalization program suggest that growth should move back to trend. The beat goes on.

An old-fashioned boom?

Fiscal stimulus usually boosts the pace of growth; it may be coming. There are rising odds of tax reform in the United States. With her reelection, German Chancellor Merkee may be more amenable to loosening fiscal restraint in Germany as well as across the Union. The election in Japan was held in part to validate Prime Minister Abe's desire to spend the proceeds of the next hike in the value-added tax in advance. Fiscal stimulus is usually enacted in a recession or early in a recovery, not in the face of a vigorous world expansion like today. This added boost could turn this healthy expansion into an old-fashioned boom. The beat goes on and on.

Risks:

Overall, Eurozone political risks seem reduced, with no real breakthroughs by populist parties across Europe. France's Macron and Germany's Merkel could work together on a reformist and pro-Europe policy. But, the crisis in Catalonia could widen and the negotiations between the UK and the European Union appear deadlocked. At the moment, underlying economic forces are strong and should prevail over these risks, but, only time will tell. Until then, the beat goes on.

The ECB: just don't call it a taper

At its October meeting, the European Central Bank (ECB) decided to marginally scale back its monetary ease by halving the pace of its bond purchases from €60 billion per month, to €30 billion starting in January. But, the Governing Council didn't want a "taper tantrum" like the surge in yields after then-Fed Chairman Bernanke intimated a slower pace of bond purchases; so, the word "taper" was not seen or heard. They needn't have worried; the extremely dovish comments sent the euro and euro-area interest rates sharply lower.

Rates lower for longer:

The slower rate of bond purchases will continue through at least September 2018 and will persist "until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim." Nothing was said about terminating the program, only increasing it. It was also clear that official rates would stay at historic lows for an "extended time, and well past the horizon of the net asset purchases." Further, the ECB would reinvest maturing security proceeds for an "extended period" after the purchase program ends. And, the ECB's refinancing operations would continue at full strength for as long as necessary.

So it is in Japan:

The resounding victory of Prime Minister Abe in the recent snap election brought renewed confidence that his policy agenda would be extended. This likely includes the Bank of Japan's (BOJ) action to keep the 10-year Japanese government bond yield near zero at least to mid-2018. Still, market action will surely keep that yield at the high end of the BOJ's desired range.

The Fed diverges:

The Fed is one of the few world central banks raising rates and actively reducing its bond holdings. We expect another rate hike in December and one in March 2018. Any further increases will depend on investor reaction to higher long-term rates. If those higher yields materialize and a stock market correction follows, further rate hikes will be delayed as the Fed takes cues from equities. If long-term yields stay in the current range and growth remains robust, the fed funds rate could be raised three times in 2018.

Long-term U.S. Treasury yields surged from 2.04% in early September, to 2.41% October 27th. Strong world growth, higher oil prices, and an uptrend in inflation pushed yields higher. In contrast, yields on 10-year German bunds slumped after the ECB meeting to 0.38%, off 0.1% from before the meeting. Italian and Spanish yields fell too, since the ECB made clear its bond purchases were far from over. Recent U.S. rate history is in the chart below.

Interest Rates

	12/31/2014	12/31/2015	12/31/2016	03/13/2017 (High)*	11/04/2016 (Low)*	10/27/2017 Current
2 year	0.66%	1.05%	1.19%	1.37%	0.79%	1.59%
10 year	2.17%	2.27%	2.44%	2.63%	1.78%	2.41%
10-2 spread	1.51%	1.22%	1.25%	1.26%	0.99%	0.82%
30 year	2.75%	3.02%	3.07%	3.21%	2.56%	2.92%

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

Interest rate outlook:

Monetary policy has remained expansionary because inflation has stayed low for much longer than most expected. There are several structural reasons why that might persist:

- Globalization has brought low-wage underemployed workers into the world workforce
- Technology keeps pressure down on prices
- Growth has been very slow since the financial crisis
- The severity of the crisis kept everyone cautious
- The investment surge in China created massive over-capacity

Some of these forces are surely dissipating. Robust nominal growth, strong profit gains, a surge in capital spending, sky-high confidence, solid job increases, falling unemployment, and higher commodity and import prices all suggest that inflation will trend up toward the Fed's target. And the rising odds of fiscal stimulus in the United States, the Eurozone, and Japan would add to an already powerful expansion. These are impressive cyclical forces. The Fed, ECB, and BOJ will likely accommodate this setting with only gradual tightening. All this suggests that long-term interest rates should face eventual upward pressure. Our interest rate forecasts are shown below.

Interest Rates	Year-end 2017	Year-end 2018
Federal Funds	1.38%	1.88%
2-Year UST Yield	1.5-1.75%	2.25%
10-Year UST Yield	2.5%-2.75%	3.0%-3.25%
2-10 Year Spread	1.0%	.75%-1.0%

Asset allocation: a melt-up in tech[1]

The 2.2% surge in the NASDAQ Composite Index on October 27, led by soaring prices of Facebook, Alphabet, and Amazon, capped a huge month for technology. The MSCI Information Technology sector climbed 6.8% in October. Japanese stocks had a great month as the Nikkei 225 index jumped 8.6%. Broad world indices were higher through October 27, with the MSCI All Country World Index up 1.8%. Even though interest rates rose during October, the reflation trade did not persist from September; growth stocks overwhelmed value stocks and large-cap averages had over a 1% advantage to small-cap indices.

The rise in U.S. and German sovereign bond yields pushed long-maturity government bond funds to losses. Barclays U.S. Long Treasury Total Return Index lost 1.2% in October. Real estate investment trusts also did not fare well as rates rose. The robust world economy, though, narrowed credit spreads, giving owners of diversified high yield bond funds positive returns.

What's a girl to do?

That depends on interest rates, which depend in part on inflation. If long-maturity sovereign bond yields (e.g., on 10-year U.S. Treasurys, German bunds, UK gilts, Japanese governments) stay in recent ranges, stock prices could continue working higher with rising earnings and a robust economy. That "goldilocks" environment would only occur if inflation stays subdued.

As noted above, yields on 10-year U.S. Treasury bonds and UK gilts climbed about 0.4% from early September. Inflation stayed quiescent much of this year, and given the structural forces of technology and globalization, the investment consensus clearly believes that dormancy will persist.

Contrarily, it's hard for this analyst to see what will stop the gradual rise in long-term yields. Nominal U.S. growth last quarter was 5.2% annualized and 4.1% over the prior year; it will likely be the same or higher this quarter.

Labor markets are tightening all around the world; global growth is robust; producer price inflation is 6.9% over the prior year in China and is rising in the United States. The Fed is removing monetary accommodation; the ECB announced it will be next. None of this squares with 10-year U.S. Treasury yields of only 2.4%. Those low yields imply that growth is about to slow dramatically, but there is little evidence of that anywhere.

› A process:

A stock market sage once said that the end of a stock market rally is a process, while the bottom of a bear market is an event; i.e., market bottoms tend to look like a "V" while the top of a broad index appears as a wide inverted "U". The higher that growth stocks climb, the lower the rise of long-term yields likely required to start that topping process or bring a correction of some magnitude. If long-term rates rise gradually, that topping process could take several months. On average, the fourth quarter has historically had the best returns of the year. So, equities likely have more upside, but stock investors should be cautious from here.

All references to October or month in this section refer to the month through October 27.

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	2.3%	2.1%	4.4%	1.38%	2.75%
		2018 F	3.0%	2.4%	4.0%	1.88%	3.00%
	**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	3.1%	1.7%	6.4%	1.25%	2.25%
		2018 F	2.1%	2.0%	6.1%	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%	4.5%	0.50%	1.50%
		2018 F	1.3%	2.5%	4.7%	0.75%	1.75%
	**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	2.2%	1.5%	9.2%	0.00%	0.70%
		2018 F	1.9%	1.5%	8.7%	0.10%	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	1.5%	0.5%	2.8%	-0.10%	0.10%
		2018 F	1.1%	0.7%	2.7%	-0.10%	0.15%
	**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%	5.5%	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 %		
	Jul-17	Aug-17	Sept-17	Jul-17	Aug-17	Sept-17	2016	2017 F	2018 F	2016	2017 F	2018 F
1 **Industrial Production Index (2007=100)**	105.1	104.3	104.6	1.8%	1.2%	1.6%	103.1	104.5	106.4	-1.2%	1.4%	1.8%
2 **Capacity Utilization Rate, Total Industry (1997=100)**	76.5	75.8	76.0	0.8%	0.0%	0.5%	75.7	76.2	77.1	-1.4%	0.7%	1.2%
3 **Total Private Housing Starts (SAAR)**	1,185	1,183	1,127	-3.1%	1.6%	6.1%	1,177	1,240	1,340	6.3%	5.4%	6.5%
4 **Total Light Vehicle Sales (YTD)**	9,809.7	11,285.6	12,801.0	-3.0%	-2.8%	-1.9%	17,465	17,168	340	0.4%	-1.7%	1.0%
5 **Civilian Labor Force (thousands)**	160,494	160,571	161,146	0.8%	0.7%	0.8%	159,186	160,560	162,093	1.3%	0.86%	0.95%
6 **Civilian Employment (thousands)**	153,513	153,439	154,345	1.3%	1.2%	1.6%	151,437	153,530	156,001	1.7%	1.3%	1.6%
7 **Total Unemploment (thousands)**	6,981	7,132	6,801	-9.9%	-9.2%	-14.0%	7,750	7,030	6,091	-6.5%	-9.2%	-13.4%

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	1,774.7	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	1.1%	2.0%	2.0%

Indicator	Annual			Monthly			Monthly			Annual	
	2014	2015	2016	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sept-17	2017 F	2018 F
10 **Consumer Price Index, All Urban Consumers Y/Y%**	1.6%	0.1%	1.3%	2.2%	1.9%	1.6%	1.7%	1.9%	2.2%	2.1%	2.4%
11 **Consumer Price Index, Ex. Food & Energy Y/Y%**	1.7%	1.8%	2.2%	1.9%	1.7%	1.7%	1.7%	1.7%	1.7%	1.9%	2.1%
12 **Non-farm Payroll Growth (thousands)**	2,998	2,713	2,240	207	145	210	138	169	-33		
13 **Unemployment Rate, All Workers**	6.2	5.3	4.9	4.4	4.3	4.4	4.3	4.4	4.2	4.4	4.0
14 **Unemployment Rate, All Workers, >15 Weeks**	3.0	2.3	2.0	1.7	1.8	1.6	1.7	1.7	1.7	-	-
15 **Unemployment Rate, Adult Men**	5.7	4.9	4.5	4.0	3.8	4.0	4.0	4.1	3.9	-	-
16 **Unemployment Rate, Adult Women**	5.6	4.8	4.4	4.1	4.0	4.0	4.0	4.0	3.9	-	-
17 **Unemployment Rate, Teenagers (16-19)**	19.5	16.9	15.7	14.7	14.3	13.3	13.2	13.6	12.9	-	-

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 Actual		4th QUARTER 17 Forecast		2015 ACTUAL		2016 ACTUAL	
Real GDP	**16,903.2**	**1.2%**	**17,031.1**	**3.1%**	**17,156.9**	**3.0%**	**17,303.9**	**3.5%**	**16,471.5**	**2.9%**	**16,716.2**	**1.5%**
Personal Consumption Expenditures	**11,758.0**	**1.9%**	**11,853.0**	**3.3%**	**11,922.1**	**2.4%**	**12,023.6**	**3.4%**	**11,264.3**	**3.6%**	**11,572.1**	**2.7%**
Durable Goods	1,647.3	-0.1%	1,677.8	7.6%	1,711.5	8.3%	1,732.5	5.0%	1,511.9	7.8%	1,595.1	5.5%
Non-Durables	2,540.2	1.1%	2,566.6	4.2%	2,580.1	2.1%	2,605.5	4.0%	2,446.8	3.1%	2,514.3	2.8%
Services	7,621.0	2.5%	7,664.4	2.3%	7,692.9	1.5%	7,736.8	2.3%	7,340.2	3.2%	7,507.3	2.3%
Gross Private Domestic Invest.	**2,897.0**	**-1.2%**	**2,924.7**	**3.9%**	**2,967.5**	**6.0%**	**2,981.0**	**1.8%**	**2,905.4**	**5.2%**	**2,858.2**	**-1.6%**
Bus. Fixed Invest.	2,263.6	7.1%	2,300.6	6.7%	2,322.7	3.9%	2,351.0	5.0%	2,223.5	2.3%	2,210.4	-0.6%
Structures	468.0	14.8%	476.0	7.0%	469.7	-5.2%	474.3	4.0%	465.4	-1.8%	446.4	-4.1%
Equipment	1,059.4	4.4%	1,082.0	8.8%	1,104.5	8.6%	1,118.1	5.0%	1,084.5	3.5%	1,047.8	-3.4%
Intellectual Property Products	738.6	5.8%	745.3	3.7%	753.2	4.3%	760.6	4.0%	677.8	3.8%	720.4	6.3%
Residential Invest.	605.5	11.1%	594.1	-7.3%	585.0	-6.0%	595.0	7.0%	556.9	10.2%	587.5	5.5%
Change in Inventory	1.2	-	5.5	-	35.8	-	35.0	-	100.6	-	33.4	-
Net Exports	**-622.2**	**-**	**-613.6**	**-**	**-595.5**	**-**	**-600.2**	**-**	**-545.3**	**-**	**-586.3**	**-**
Exports	2,162.3	7.3%	2,181.1	3.5%	2,193.7	2.3%	2,208.4	2.7%	2,127.1	0.4%	2,120.1	-0.3%
Imports	2,784.5	4.3%	2,794.8	1.5%	2,789.2	-0.8%	2,808.5	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%**	**2,894.4**	**-0.1%**	**2,897.5**	**0.4%**	**2,878.5**	**1.4%**	**2,900.2**	**0.8%**
Federal	1,108.4	-2.4%	1,113.7	1.9%	1,116.9	1.2%	1,117.4	0.2%	1,114.1	-0.1%	1,114.6	0.0%
National Defense	658.6	-3.3%	666.2	4.7%	670.0	2.3%	670.0	0.0%	672.0	-2.2%	667.0	-0.7%
Non-Defense	449.0	-1.1%	446.9	-1.9%	446.3	-0.5%	447.4	1.0%	441.6	3.2%	447.0	1.2%
State & Local	1,786.2	0.5%	1,779.6	-1.5%	1,775.7	-0.9%	1,780.1	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%	17,101.7	2.3%	17,268.9	4.0%	16,354.3	2.6%	16,664.1	1.9%
Real Domestic Final Sales	17,502.7	2.4%	17,618.3	2.7%	17,697.0	1.8%	17,869.1	3.9%	16,900.4	3.3%	17,250.3	2.1%
y/y	2.0%		2.2%		2.3%		2.7%					

	1st QUARTER 18 Forecast		2nd QUARTER 18 Forecast		3rd QUARTER 18 Forecast		4th QUARTER 18 Forecast		2017 FORECAST		2018 FORECAST	
Real GDP	**17,435.2**	**3.1%**	**17,555.8**	**2.8%**	**17,664.0**	**2.5%**	**17,760.7**	**2.2%**	**17,098.8**	**2.3%**	**17,603.9**	**3.0%**
Personal Consumption Expenditures	**12,115.1**	**3.1%**	**12,200.2**	**2.8%**	**12,278.7**	**2.6%**	**12,352.3**	**2.4%**	**11,889.2**	**2.7%**	**12,236.6**	**2.9%**
Durable Goods	1,753.8	5.0%	1,773.2	4.5%	1,790.6	4.0%	1,806.1	3.5%	1,692.3	6.1%	1,780.9	5.2%
Non-Durables	2,624.8	3.0%	2,644.3	3.0%	2,660.7	2.5%	2,673.9	2.0%	2,573.1	2.3%	2,650.9	3.0%
Services	7,784.7	2.5%	7,831.0	2.4%	7,875.6	2.3%	7,920.5	2.3%	7,678.8	2.3%	7,852.9	2.3%
Gross Private Domestic Invest.	**3,014.4**	**4.6%**	**3,042.9**	**3.8%**	**3,064.1**	**2.8%**	**3,080.2**	**2.1%**	**2,942.5**	**3.0%**	**3,050.4**	**3.7%**
Bus. Fixed Invest.	2,375.7	4.3%	2,396.8	3.6%	2,413.4	2.8%	2,425.0	1.9%	2,309.5	4.5%	2,402.7	4.0%
Structures	477.8	3.0%	480.2	2.0%	482.6	2.0%	482.6	0.0%	472.0	5.7%	480.8	1.9%
Equipment	1,131.8	5.0%	1,142.9	4.0%	1,151.4	3.0%	1,157.1	2.0%	1,091.0	4.1%	1,145.8	5.0%
Intellectual Property Products	768.1	4.0%	775.7	4.0%	781.4	3.0%	787.2	3.0%	749.4	4.0%	778.1	3.8%
Residential Invest.	603.7	6.0%	611.1	5.0%	615.7	3.0%	620.2	3.0%	594.9	1.3%	612.7	3.0%
Change in Inventory	35.0	-	35.0	-	35.0	-	35.0	-	19.4	-	35.0	-
Net Exports	**-602.5**	**-**	**-605.0**	**-**	**-606.0**	**-**	**-606.2**	**-**	**-607.9**	**-**	**-604.9**	**-**
Exports	2,226.9	3.4%	2,244.0	3.1%	2,260.6	3.0%	2,274.6	2.5%	2,186.4	3.1%	2,251.5	3.0%
Imports	2,829.4	3.0%	2,849.0	2.8%	2,866.6	2.5%	2,880.8	2.0%	2,794.3	3.2%	2,856.4	2.2%
Gov't Purchases of Goods & Services	**2,909.2**	**1.6%**	**2,918.6**	**1.3%**	**2,928.1**	**1.3%**	**2,935.4**	**1.0%**	**2,895.9**	**-0.1%**	**2,922.8**	**0.9%**
Federal	1,122.4	1.8%	1,125.2	1.0%	1,128.0	1.0%	1,130.8	1.0%	1,114.1	0.0%	1,126.6	1.1%
National Defense	673.3	2.0%	675.0	1.0%	676.7	1.0%	678.4	1.0%	666.2	-0.1%	675.8	1.4%
Non-Defense	449.1	1.5%	450.2	1.0%	451.3	1.0%	452.4	1.0%	447.4	0.1%	450.8	0.8%
State & Local	1,786.8	1.5%	1,793.4	1.5%	1,800.1	1.5%	1,804.6	1.0%	1,780.4	-0.2%	1,796.2	0.9%
Real Final Sales	17,400.2	3.1%	17,520.8	2.8%	17,629.0	2.5%	17,725.7	2.2%	17,065.2	2.4%	17,568.9	3.0%
Real Domestic Final Sales	18,002.7	3.0%	18,125.8	2.8%	18,234.9	2.4%	18,331.9	2.1%	17,671.8	2.4%	18,173.8	2.8%
y/y	3.1%		3.1%		3.0%		2.6%					

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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