Principal Global Investors

Economic Insights

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

Topic summaries:

- **The final indignity:**
  The world economy continues its remarkable and robust recovery from a near-recession in late 2015. The strong momentum should continue through 2018 and into 2019.
- **Central bankers give no clues:**
  There are few hints of any change to aggressive monetary policy in Europe or Japan. Robust growth and rising inflation suggest long-term interest rates will continue to rise.
- **Asset allocation - "just get me in":**
  The surging enthusiasm evident in stock markets is the first evidence of real investor euphoria in this cycle. Rising interest and less-favorable financial conditions will eventually dampen that ebullience.

For the month of February 2018

The final indignity

Last week, we offered some context to explain why the consensus still believes inflation and interest rates will stay "lower for longer" even in the face of robust growth and surging stock markets. The near-decade of economic morass from mid-2007 was a time of very slow growth, serial financial crises, dread of deflation, and fear of a crisis relapse. Investors extrapolated those super-low interest rates and deflationary conditions forward, expecting them to persist even though economic conditions today are much different.

How that period of deflation and crisis ended, though, can help explain today's super-charged world economic expansion. The near-decade of economic malaise did not just fade away. It ended in early 2016 only after a final indignity, a 20-month surge in the U.S. dollar and collapse in oil prices. Those coincident trends brought the world to the brink of recession once again and left a widespread expectation that the period of crisis and deflation was not yet over.

But it was over:

A recovery began that March. The entire world was entangled in that near-recession. But, once the U.S. dollar peaked in January and oil prices troughed in February, the global economies began to recover in synchrony. Profits came back, commodity prices surged, confidence broadened, and spending began to resume. When so many countries expand together, momentum can build and feed on itself. So, even though the U.S. economy is in its ninth year of expansion, it has all the hallmarks, vigor, and dynamism of the early or middle part of a business cycle. This suggests the expansion could last much longer.

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

All together now:

According to the Organization for Economic Cooperation and Development (OECD), no major country is in recession. If you think of the world as an orchestra, for the first time in a decade, all the instruments are playing in tune, in rhythm, and at the same time. The OECD tracks 45 countries and as of last year's third quarter, all 45 were expanding; and of those, growth in 30 was accelerating. Europe has transitioned into a confident expansion. Japan is enjoying the longest period of economic growth since the mid-1990s. Growth in China has held up despite official directives to slow the credit expansion and curb pollution.

The United States:

The orchestra is still playing. Fourth-quarter U.S. GDP fell short of expectations at 2.6%, but underlying details were fabulous. Smaller inventories and huge imports caused the missed headline, subtracting 1.8 percentage points from growth. Imports surged 13.9%, a sign of vigorous consumer spending; the modest inventory gain suggests that companies are struggling to keep pace with demand. Subtract those two items, real final sales to domestic purchasers surged 4.3% and 4.6% to domestic private purchasers! Consumer spending is soaring, up 3.8% annualized for the quarter with purchases of durable goods sky-rocketing 14.2%. Housing enjoyed an 11.6% jump after two quarters of declines. Business spending on equipment and software shot up at a double-digit clip for a second straight quarter. 2017 was the best investment year since 2011. Confidence stays strong for households and businesses. The labor market gets tighter, job growth stays excellent, and layoffs are low. Leading indicators keep leading the way higher and faster. Our forecasts for this year and next are in the tables at the end of the commentary.

The Eurozone:

European data stays robust. Consumer confidence retouched the record high reached in 2000; business confidence in Germany hit another record. The composite business survey of purchasing managers reached the best level in 12 years and is consistent with growth of 3.5% or more. So, growth in 2018 could exceed 2.5%. And, yes, there even is some inflation in Europe, Eastern Europe anyway. Hungarian core inflation rose to 2.6%, and to 2.7% in the Czech Republic and Slovakia. And, the Czech National Bank became the first bank in Europe to raise interest rates way back in August of last year. The Czech National Bank hiked again in October.

Japan, China:

Japan's survey of manufacturing businesses reached the highest level in five years. Exports grew 9.3% year-over-year, as imports surged nearly 15%. Unemployment is an incredibly low 2.7%, and there are over three job openings for every two job applicants. The labor participation rate for women is surging. Wage gains are beginning to pick up. The labor market is very tight. We expect growth to be 1% to 1.5% in 2018.

Fourth-quarter growth in China beat expectations, up 6.8% and up 6.9% for the year. However, most of the timelier indicators, industrial output, retail sales, electricity production, housing starts, and sales, are all modestly decelerating. So, our model of economic momentum in China shows deterioration. Yields on 10-year government bonds have passed 4% and our indicator of financial stress has risen significantly. We expect the deceleration to continue with growth in the low 6% range in China in 2018.

A peek beyond:

We expect this broad-based global growth to last into 2019. This U.S. expansion is already the third longest on record, but it too should continue into next year. The recovery from the near-recession noted above has enlivened and extended the U.S. investment cycle. And as discussed in last month's outlook, corporate tax reform will provide a significant lift. The labor market remains fantastic; consumers are finally taking on a bit of leverage; and we expect wage gains to pick up: all key supports for consumer spending. There is a feeling of real confidence in the air; so while this expansion is old in years, it shows few signs of aging.

The expansion in Europe began much later than in the United States and could continue past 2019. Declining unemployment rates and strong confidence should support domestic demand even if a stronger euro bites into exports. Japan and emerging markets ex-China should benefit from strong global trade flows. According to J.P. Morgan, credit growth is also turning up in those emerging markets, another positive for broader economic activity. Economic growth in China will continue to decelerate as its labor force growth is rapidly slowing and the pace of debt growth falls.

Risks:

It's likely that economic growth may be better than financial market returns. Inflation is picking up from its mid-2017 soft patch; inflation expectations have moved up meaningfully since early December and explain a lot of the recent rise in interest rates. If the rate rise continues and bond markets become more volatile, stock market instability will follow. Central banks in Europe and Japan will start normalizing policy at some point and push local interest rates higher. Finally, with tax reform out of the way, the White House is taking a harder line on trade, another source of market volatility. There are already new tariffs on solar panels and washing machines, and trade restrictions could broaden.

Central bankers give no clues

The governing boards of both the Bank of Japan (BOJ) and the European Central Bank (ECB) met in late January, but neither hinted at any change in their aggressive monetary policies. Both the euro and yen have appreciated as markets speculated that both banks would trim their bond purchases. But, no dice. The ECB did acknowledge that the Eurozone economy is much stronger than anticipated. In his press conference, President Draghi noted that currency market volatility was a source of uncertainty, but attributed the euro's strength to better economic prospects. He also said that foreign exchange markets were very sensitive to ECB communications, so investors may get even fewer policy signals in the months ahead.

The January meeting of the U.S. Federal Open Market Committee (FOMC) will likely be devoted to the change in leadership from Janet Yellen to Jerome Powell, so we expect no action and little change in the policy statement. The next interest rate hike will likely be at the March meeting, along with new economic projections and an inaugural press conference from the new Chair.

The conundrum between robust economic growth and a surging stock market, yet Depression-era interest rates, described in last week's Economic Insights, began to resolve itself in January. Yields on 10-year U.S. Treasury bonds rose nearly 0.5% to the highest since July 2014, based on investor perceptions of higher inflation and economic strength. Yields on other government bonds have also moved higher. Yields on 10-year German bunds more than doubled in January to 0.63%, the highest since December 2015., Even though10-year yields in Japan are pegged at 0% by the BOJ, they have risen a few tenths from the peg. Yields on similar UK gilts are up almost 0.3% from late December at 1.44%. Recent U.S. rate history is shown in Exhibit I.

Interest Rates

	12/31/2015	12/31/2016	12/29/2017	01/26/2018 (High)*	09/27/2017 (Low)*	01/26/2018 Current
2 year	1.05%	1.19%	1.88%	2.12%	1.27%	2.12%
10 year	2.27%	2.44%	2.41%	2.66%	2.04%	2.66%
10-2 spread	1.22%	1.25%	0.53%	0.54%	0.77%	0.54%
30 year	3.02%	3.07%	2.74%	2.91%	2.66%	2.91%

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

Higher yields ahead:

Robust economic growth, inflation that is already edging up, dwindling central bank bond purchases, diminishing world excess capacity, more bond issuance by the U.S. federal government, sharper wage gains; all these are reasons we expect interest rates to rise further in the months ahead. The FOMC expects three rate hikes in 2018 and three more in 2019; that may be too aggressive. Our initial interest rate forecasts are shown in Exhibit II. But, year-end 2019 estimates depend entirely on economic growth and the stock market. 10-year U.S. Treasury bond yields at or above 3% would likely be a big headwind for stocks, given today's valuations. Years of ultra-low yields have raised the prices of all assets as investors discounted their future income at very low rates. Significant stock market weakness would delay Fed rate hikes as well as push long-term yields lower than these suggestions.

Interest Rates	Year-end 2018	Year-end 2019
Federal Funds	2.13%	2.63%
2-Year UST Yield	2.5%	2.75%-3.0%
10-Year UST Yield	3.0%	3.25%
2-10 Year Spread	0.5%	0.25%-0.5%

Asset allocation - "just get me in"

The tremors of November in the technology space gave way to a stuttering, but nice, Santa Claus rally into year-end 2017. As markets sky-rocketed in January, the attitude of investors seems to have been, "Just get me in the market at any price." The S&P 500 Index shot up 7.45% in January through the 26th, and the MSCI Emerging Market Index surged 9.9%. The MSCI All Country World Index jumped 7.2%, held back a bit by MSCI Developed Europe and MSCI Japan, which rose a more subdued 2.9% and 3.8%, respectively. Of the 46 world equity indices we track, the only losses were in the United Kingdom and Australia, both of which were only a bit under flat.

Indices and securities dependent on stable or falling interest rates were not treated well. MSCI U.S. and Global REITs cracked a bit, down 4% and 1.5%, respectively. The S&P 500 utilities sector also had a tough four weeks, off 3.1%. High-yield corporate bonds and emerging-market corporate and sovereign credit had a good month as credit spreads narrowed, even though long-term interest rates rose sharply. That jolt higher in long-term U.S. Treasury bond yields gave investors losses; the Barclay's long treasury bond index suffered a 2.8% setback.

Tax reform boost

The January surge confirmed that the full impact of tax reform had not been fully discounted by the market in December. So far in the fourth quarter reporting period, company earnings have been excellent and spokespeople are raising earnings guidance based on the new and lower 21% corporate rate. It appears that S&P 500 Index earnings will be 6% to 10% higher, just because of tax changes. It is that optimism that is putting the bid into stock prices.

No bears anywhere:

Almost no one is willing to stand in the way of this fevered buying; most analysts have already raised year-end targets. Even the prognosticators who've been warning investors about extreme over-valuation in markets and the downdraft that always follows have been silent. Valuations don't seem to matter when there is a rush to join the party. According to Kepler-Cheuvreux research, the "flows into global equity funds in the last four documented weeks have been the largest ever recorded for such a period." This suggests that investors turned super-optimistic, perhaps even euphoric, over recent months as stocks sky-rocketed. Bull-bear polls and other sentiment indicators point to the same excitement and enthusiasm.

What wall of worry?

What is unusual about this rally, and what may have turned the bearish analysts mute, is its wide breadth. Most all stocks are participating in the upsurge; the equal-weighted S&P 500 Index is not underperforming the market-cap weighted S&P 500 Index by much. So, the soaring market is not being propelled by a just few super-hot stocks, as was the tech rally in 1998 and 1999. That's often a good sign of further market strength. And with no bears willing to stand in front of this freight train, no one is offering any tidbits about which to worry. So, the market must have already surmounted its proverbial wall of worry.

Interest rates drive markets

However, low interest rates have been the driving force in this entire investment cycle. Years of ultra-low rates and the expectations that rates and inflation will stay "lower for longer" have raised the price of all assets. And that is the key change that is happening now as noted above; long-term interest rates around the world have all turned higher. Monetary and financial conditions will be getting less favorable; the cost of debt will be rising; the central bank message will be "quantitative tightening." Higher interest rates should generate significant stock market volatility this year, perhaps a modest correction in the next few weeks and a larger setback a little later in the year as yields keep trying to reach some semblance of normal.

A significant stock market correction, of course, would push long-term interest rates lower and perhaps even delay the Fed's rate hike schedule. That would allow stocks to start another nice rally back up to the highs or beyond, and give long-term yields another chance to move up in their mission to reach normality. This rally-correct, then rally-correct again, may be the start of a gradual topping process for financial markets in 2018 after the long U.S. upcycle from March 2009. There's probably a bit more upside left for the stock market as the boost from tax reform may not be completely reflected in prices until the end of this reporting period. But, we expect 2018 to be much more volatile than last year. The huge recent flows into equities, the incessant talk about over-valuation that's suddenly silenced, and the impulsive optimism so evident in surveys suggest to contrarians like this analyst that it's a good time to be cautious.

A few months ago, and for the first time since February 2011, we advocated taking just a few chips off the table of risk assets; in hindsight, that was early as interest rates were slower to rise than expected. It's not possible to perfectly time a stock market top, so reducing risk in increments is a good way to lessen the impact of big downdrafts. This is likely another time to be similarly cautious on a portion of one's portfolio. There will likely be better opportunities to reinvest ahead.

Table I: Global Economic Trends

Country	Year	Real GDP	CPI	Unemployment Rate	Benchmark Rate EOP	10 yr. Treasury Rate EOP
US:	2015	2.4%	0.1%	5.3%	0.38%	2.27%
	2016	1.5%	1.3%	4.9%	0.62%	2.46%
	2017	2.3%	2.1%	4.4%	1.38%	2.42%
	2018 F	3.3%	2.3%	3.9%	2.13%	3.00%
	2019 F	2.8%	2.2%	3.7%	2.88%	3.50%
Canada:	2015	0.9%	1.1%	6.9%	0.50%	1.39%
	2016	1.5%	1.4%	7.0%	0.50%	1.72%
	2017 F	3.0%	1.6%	6.4%	1.25%	2.02%
	2018 F	2.2%	2.0%	6.0%	1.75%	2.65%
	2019 F	1.9%	2.0%	5.9%	2.25%	3.25%
UK:	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%	4.4%	0.50%	1.19%
	2018 F	1.4%	2.5%	4.5%	0.75%	1.70%
	2019 F	1.4%	2.2%	4.6%	1.00%	2.10%
Eurozone:	2015	2.0%	0.0%	10.9%	0.05%	0.63%
	2016	1.8%	0.2%	10.0%	0.00%	0.21%
	2017 F	2.4%	1.5%	9.1%	0.00%	0.43%
	2018 F	2.5%	1.4%	8.5%	0.00%	0.90%
	2019 F	2.0%	1.7%	8.0%	0.25%	1.25%
Japan:	2015	1.1%	0.8%	3.4%	0.10%	0.26%
	2016	1.0%	-0.1%	3.1%	-0.10%	0.04%
	2017 F	1.8%	0.5%	2.8%	-0.10%	0.04%
	2018 F	1.5%	0.7%	2.7%	-0.05%	0.10%
	2019 F	1.3%	1.0%	2.6%	0.00%	0.18%
Australia:	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%	5.6%	1.50%	2.63%
	2018 F	2.8%	2.2%	5.4%	1.75%	3.00%
	2019 F	2.8%	2.3%	5.2%	2.25%	3.25%
China: Official Statistics	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%		4.50%	
	2019 F	6.5%	2.4%			

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 %		
	Oct-17	Nov-17	Dec-17	Oct-17	Nov-17	Dec-17	2017	2018 F	2019 F	2017	2018 F	2019 F
1 Industrial Production Index (2007=100)	106.6	106.5	107.5	3.4%	3.5%	3.6%	105.1	107.0	108.9	2.0%	1.8%	1.8%
2 Capacity Utilization Rate, Total Industry (1997=100)	77.4	77.2	77.9	2.2%	2.3%	2.5%	76.5	77.6	78.8	1.0%	1.5%	1.5%
3 Total Private Housing Starts (SAAR)	1,261	1,299	1,192	-5.0%	13.1%	-6.0%	1,207	1,267	1,343	2.5%	5.0%	6.0%
4 Total Light Vehicle Sales (YTD)	14,148.1	15,539.5	17,134.7	-1.8%	-1.5%	-1.9%	17,135	17,306	17,479	-1.9%	1.0%	1.0%
5 Civilian Labor Force (thousands)	160,371	160,533	160,597	0.4%	0.6%	0.5%	160,310	161,541	162,671	0.7%	0.76%	0.70%
6 Civilian Employment (thousands)	153,846	153,917	154,021	1.3%	1.2%	1.2%	153,337	155,174	156,653	1.3%	1.2%	1.0%
7 Total Unemploment (thousands)	6,524	6,616	6,576	-15.9%	-10.8%	-12.3%	6,973	6,367	6,018	-10.0%	-8.9%	-5.4%

Indicator	Level			Y/Y %			Level			Y/Y %		
	Q1-17	Q2-17	Q3-17	Q1-17	Q2-17	Q3-17	2016	2017 F	2018 F	2016	2017 F	2018 F
8 After-Tax Corporate Profits (billions $, quarterly)	1,810.5	1,774.7	1,858.4	11.8%	7.4%	9.8%	1,687.9	1,843	1,972	2.2%	9.2%	7.0%
9 Index of Hourly Compensation Non-farm Business (2009=100, quarterly)	117.1	117.2	118.0	1.9%	0.8%	0.8%	116.0	117.8	120.2	1.1%	1.6%	2.0%

Indicator	Annual			Monthly			Monthly			Annual	
	2015	2016	2017	Jul-17	Aug-17	Sept-17	Oct-17	Nov-17	Dec-17	2018 F	2019 F
10 Consumer Price Index, All Urban Consumers Y/Y%	0.1%	1.3%	2.1%	1.7%	1.9%	2.2%	2.0%	2.2%	2.1%	2.3%	2.2%
11 Consumer Price Index, Ex. Food & Energy Y/Y%	1.8%	2.2%	1.8%	1.7%	1.7%	1.7%	1.8%	1.7%	1.8%	2.0%	2.1%
12 Non-farm Payroll Growth (thousands)	2,713	2,240	2,055	138	208	38	211	252	148		
13 Unemployment Rate, All Workers	5.3	4.9	4.4	4.3	4.4	4.2	4.1	4.1	4.1	3.9	3.7
14 Unemployment Rate, All Workers, >15 Weeks	2.3	2.0	1.7	1.7	1.7	1.7	1.6	1.6	1.5	-	-
15 Unemployment Rate, Adult Men	4.9	4.5	4.0	4.0	4.1	3.8	3.8	3.7	3.8	-	-
16 Unemployment Rate, Adult Women	4.8	4.4	4.0	4.0	4.0	3.9	3.6	3.6	3.7	-	-
17 Unemployment Rate, Teenagers (16-19)	16.9	15.7	14.1	13.3	13.8	13.0	13.7	15.9	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 2018-2019, by Quarter

Baseline Forecasts

A. Growth in Real GDP - Qtr-Qtr (% Change, Annualized):

	1st QUARTER 18 Forecast		2nd QUARTER 18 Forecast		3rd QUARTER 18 Forecast		4th QUARTER 18 Forecast		2016 ACTUAL		2017 ACTUAL	
Real GDP	**17,449.9**	**4.2%**	**17,597.0**	**3.4%**	**17,733.6**	**3.1%**	**17,869.9**	**3.1%**	**16,716.2**	**1.5%**	**17,092.7**	**2.3%**
Personal Consumption Expenditures	**12,136.2**	**3.6%**	**12,227.1**	**3.0%**	**12,314.4**	**2.9%**	**12,402.3**	**2.9%**	**11,572.1**	**2.7%**	**11,888.9**	**2.7%**
Durable Goods	1,792.3	5.0%	1,814.3	5.0%	1,832.2	4.0%	1,850.3	4.0%	1,595.1	5.5%	1,702.2	6.7%
Non-Durables	2,633.8	3.0%	2,656.5	3.5%	2,679.5	3.5%	2,702.6	3.5%	2,514.3	2.8%	2,575.7	2.4%
Services	7,765.0	2.4%	7,811.2	2.4%	7,857.6	2.4%	7,904.4	2.4%	7,507.3	2.3%	7,672.5	2.2%
Gross Private Domestic Invest.	**3,040.5**	**5.1%**	**3,093.6**	**7.2%**	**3,137.4**	**5.8%**	**3,180.4**	**5.6%**	**2,858.2**	**-1.6%**	**2,950.3**	**3.2%**
Bus. Fixed Invest.	2,403.2	6.5%	2,440.3	6.3%	2,478.0	6.3%	2,516.4	6.3%	2,210.4	-0.6%	2,314.2	4.7%
Structures	474.8	5.0%	481.7	6.0%	488.8	6.0%	496.0	6.0%	446.4	-4.1%	470.1	5.3%
Equipment	1,159.9	7.0%	1,182.4	8.0%	1,205.4	8.0%	1,228.8	8.0%	1,047.8	-3.4%	1,098.0	4.8%
Intellectual Property Products	770.6	4.0%	778.2	4.0%	785.9	4.0%	793.6	4.0%	720.4	6.3%	750.5	4.2%
Residential Invest.	612.3	6.0%	618.3	4.0%	624.4	4.0%	629.0	3.0%	587.5	5.5%	597.5	1.7%
Change in Inventory	25.0	-	35.0	-	35.0	-	35.0	-	33.4	-	13.6	-
Net Exports	**-659.6**	-	**-666.0**	-	**-670.1**	-	**-674.2**	-	**-586.3**	-	**-621.5**	-
Exports	2,246.0	3.0%	2,263.2	3.1%	2,279.5	2.9%	2,293.6	2.5%	2,120.1	-0.3%	2,191.3	3.4%
Imports	2,905.6	3.3%	2,929.3	3.3%	2,949.6	2.8%	2,967.8	2.5%	2,706.3	1.3%	2,812.9	3.9%
Gov't Purchases of Goods & Services	**2,930.7**	**1.3%**	**2,940.3**	**1.3%**	**2,949.8**	**1.3%**	**2,959.4**	**1.3%**	**2,900.2**	**0.8%**	**2,903.2**	**0.1%**
Federal	1,131.8	1.7%	1,134.7	1.0%	1,137.5	1.0%	1,140.3	1.0%	1,114.6	0.0%	1,116.7	0.2%
National Defense	683.5	2.0%	685.2	1.0%	686.9	1.0%	688.6	1.0%	667.0	-0.7%	668.8	0.3%
Non-Defense	448.4	1.5%	449.5	1.0%	450.6	1.0%	451.7	1.0%	447.0	1.2%	447.3	0.1%
State & Local	1,798.9	1.5%	1,805.6	1.5%	1,812.3	1.5%	1,819.1	1.5%	1,783.7	1.2%	1,784.7	0.1%
Real Final Sales	17,424.9	4.3%	17,562.0	3.2%	17,698.6	3.1%	17,834.9	3.1%	16,664.1	1.9%	17,060.0	2.4%
Real Domestic Final Sales	18,084.5	4.4%	18,228.0	3.2%	18,368.7	3.1%	18,509.2	3.1%	17,250.3	2.1%	17,678.9	2.5%
y/y	3.2%		3.3%		3.3%		3.5%					

	1st QUARTER 19 Forecast		2nd QUARTER 19 Forecast		3rd QUARTER 19 Forecast		4th QUARTER 19 Forecast		2018 FORECAST		2019 FORECAST	
Real GDP	**17,983.0**	**2.6%**	**18,105.0**	**2.7%**	**18,220.4**	**2.6%**	**18,316.5**	**2.1%**	**17,662.6**	**3.3%**	**18,156.2**	**2.8%**
Personal Consumption Expenditures	**12,494.6**	**3.0%**	**12,582.6**	**2.8%**	**12,663.4**	**2.6%**	**12,731.0**	**2.2%**	**12,270.0**	**3.2%**	**12,617.9**	**2.8%**
Durable Goods	1,868.5	4.0%	1,882.3	3.0%	1,896.3	3.0%	1,903.4	1.5%	1,822.3	7.1%	1,887.6	3.6%
Non-Durables	2,726.0	3.5%	2,752.8	4.0%	2,780.0	4.0%	2,800.6	3.0%	2,668.1	3.6%	2,764.8	3.6%
Services	7,951.4	2.4%	7,998.6	2.4%	8,038.3	2.0%	8,078.2	2.0%	7,834.5	2.1%	8,016.6	2.3%
Gross Private Domestic Invest.	**3,228.3**	**6.2%**	**3,255.6**	**3.4%**	**3,283.2**	**3.4%**	**3,304.9**	**2.7%**	**3,113.0**	**5.5%**	**3,268.0**	**5.0%**
Bus. Fixed Invest.	2,555.1	6.3%	2,577.7	3.6%	2,600.5	3.6%	2,622.3	3.4%	2,459.5	6.3%	2,588.9	5.3%
Structures	502.0	5.0%	509.4	6.0%	516.9	6.0%	523.2	5.0%	485.3	3.2%	512.9	5.7%
Equipment	1,249.7	7.0%	1,259.0	3.0%	1,268.3	3.0%	1,277.7	3.0%	1,194.1	8.8%	1,263.7	5.8%
Intellectual Property Products	805.3	6.0%	811.2	3.0%	817.3	3.0%	823.3	3.0%	782.1	4.2%	814.3	4.1%
Residential Invest.	638.2	6.0%	643.0	3.0%	647.7	3.0%	652.5	3.0%	621.0	3.9%	645.4	3.9%
Change in Inventory	35.0		35.0		35.0		30.0		32.5		33.8	
Net Exports	**-679.2**		**-682.2**		**-684.9**		**-685.4**		**-667.5**		**-683.0**	
Exports	2,310.6	3.0%	2,328.3	3.1%	2,345.0	2.9%	2,359.5	2.5%	2,270.6	3.6%	2,335.9	2.9%
Imports	2,989.8	3.0%	3,010.6	2.8%	3,029.9	2.6%	3,045.0	2.0%	2,938.1	4.5%	3,018.8	2.7%
Gov't Purchases of Goods & Services	**2,971.3**	**1.6%**	**2,980.9**	**1.3%**	**2,990.6**	**1.3%**	**2,998.1**	**1.0%**	**2,945.0**	**1.4%**	**2,985.2**	**1.4%**
Federal	1,145.4	1.8%	1,148.3	1.0%	1,151.1	1.0%	1,154.0	1.0%	1,136.1	1.7%	1,149.7	1.2%
National Defense	692.0	2.0%	693.7	1.0%	695.5	1.0%	697.2	1.0%	686.0	2.6%	694.6	1.2%
Non-Defense	453.4	1.5%	454.5	1.0%	455.7	1.0%	456.8	1.0%	450.0	0.6%	455.1	1.1%
State & Local	1,825.9	1.5%	1,832.7	1.5%	1,839.5	1.5%	1,844.1	1.0%	1,809.0	1.4%	1,835.5	1.5%
Real Final Sales	17,948.0	2.6%	18,070.0	2.7%	18,185.4	2.6%	18,286.5	2.2%	17,630.1	3.3%	18,122.4	2.8%
Real Domestic Final Sales	18,627.2	2.6%	18,752.2	2.7%	18,870.3	2.5%	18,971.9	2.2%	18,297.6	3.5%	18,805.4	2.8%
y/y	3.1%		2.9%		2.7%		2.5%					

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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