

## WEEKLY HEADLINES

### → GLOBAL OVERVIEW: DECOUPLING, DIVERGENCE:

The worry is that manufacturing weakness would spread to softer consumer spending. The opposite may be true as the service sector propels manufacturing back to recovery.

### → WORLD REBALANCING IN THE DATA:

Global growth is rebalancing; developed countries enjoying modest recoveries; China's economy is more stable after a significant slowdown that may not be captured in official statistics.

### → THE FED, SWIMMING AGAINST THE TIDE:

The Federal Reserve (Fed) is almost alone among central banks in pursuing rate hikes, but markets cheered the hawkish statement as, finally, the Fed has found some confidence in the economy.

### → ASSET ALLOCATION: RETURNS HARDER TO FIND:

Equity investors had excellent gains in October on a central-banker bounce and reduced fears of recession; year-ahead returns will likely be positive and single-digit, but the investment cycle is clearly in its later stages.

## GLOBAL OVERVIEW: DECOUPLING, DIVERGENCE

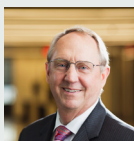
Mixed messages have been the hallmarks of a global economy in flux for some time. Developed-country growth has decoupled from emerging markets, the latter slowing from weakness in China and the plunge in commodity prices, the former sparked by vigorous domestic demand. Services and manufacturing sectors have diverged as meager pricing power, global overcapacity, and a cyclical inventory overhang weigh on the latter. Income is being redistributed from commodity producers to consumers as energy prices stay low. Investors, anxious about the weak side of those divergences, brought the pessimism of August and September.

Service-sector indicators have diverged widely from those of manufacturing throughout the global economy. Surveys of U.S. service businesses show robust expansion while those of manufacturers hover narrowly above contraction. U.S. manufacturing has suffered a variety of headwinds: the soaring dollar hit exports and profits on foreign sales. Inventories grew since sales were not as ebullient as expected. Persistently low oil prices cratered investment and triggered layoffs by energy and mining companies. Excess capacity and over-supply in developing countries put a squeeze on pricing power and profits for industrial companies around the world.

### → PERVERSIVE WORRY:

Throughout this year, fretful pundits believed the plunge in commodity prices and follow-on weakness in manufacturing signaled a wide-spread tumble in demand. That fear brought the mid-August crash in equity prices as investors worried that a hard landing in China would spread to emerging markets and then Japan; Europe and the United States would not be able to escape unscathed. That angst widened credit spreads in corporate bonds and brought safe-haven sovereign yields down to match recent lows. The real dread was that the divergence between manufacturing and services would be resolved through weaker services and a slower pace of household spending.

## MEET THE AUTHORS



**Robert F. Baur, Ph.D.**  
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### ▶ **DEFLATIONARY EXPANSION:**

We think the opposite is more likely — the current mild deflation is a boon to consumers. The strains on corporate pricing power and plunge in commodity prices raise real incomes for households around the world, keeping consumer demand robust and durable. So, as the mini-cycle in inventories gets resolved, businesses will adjust to a stronger dollar and lower commodity prices, investment growth will return, and buoyant consumer demand should pull manufacturing back into recovery.

### ▶ **IT'S ALREADY HAPPENING:**

U.S. consumer spending has expanded at an average annual pace of 3.1% for two years; the inventory overhang has already started to shrink; vehicle sales could total well over 17 million this year; housing activity is the best in a decade; and the energy-driven plunge in investment should fade this quarter. In the Eurozone, retail sales and car registrations stay solid. Policy support in China is beginning to help; lower energy prices boost household real incomes in China too.

If the modest pickup in global growth that we envision were stronger or more sustained, we'd call it a deflationary boom. But, that's too forceful a term for the mild reflation that's underway, a modest revival of global growth amid anxiety about deflation. Last month, we suggested that pessimism about the world economy was overdone and the upcycle was about to return. With several signs of stabilization in China, with consumer-driven upturns powered by gains in real incomes in the United States and Europe, with the negative impact of collapsing energy prices waning, we'd stick with that counsel.

## WORLD REBALANCING IN THE DATA

### ▶ **THE UNITED STATES:**

Despite anxiety about global growth, U.S. private domestic demand remains robust. Absent the inventory drawdown, the U.S. private sector expanded 3.2% in the third quarter. Vehicle sales are terrific. But strong consumer demand is more than just autos; real purchases ex autos is rising virtually as fast as total spending. Housing activity is surging; home prices are rising; and homebuilder confidence is the highest in a decade. Layoffs are inching higher, but initial claims for unemployment payments as a percent of total employment are record low. Manufacturing is soft, but business surveys are improving; the weakness is mostly related to exports, energy, and mining. Consumer confidence is solid, near the levels of the 2000s. Congress passed legislation removing any fears of a government shutdown. Household financial obligations as a portion of disposable income are near an historic low.

### ▶ **OUTLOOK:**

More of the same with good odds of a pickup in wage growth. There is plenty of anecdotal evidence that wage pressures are building. ADP said third-quarter hourly wages rose 3.5%, up from 2.5% and 1.9% in the second and first quarters. Small businesses are finding job openings hard to fill and planning to raise worker salaries. Unions are more aggressive in wage demands. There are about 1.4 unemployed workers per job opening, very near the low of the 2000s. And real incomes are already rising, so household spending should stay robust.

All this suggests U.S. growth should be in the 2.5% to 3% range through the end of 2016.

There is good potential upside from higher investment, no drag from government spending, little change in the U.S. dollar, and the inventory overhang fading. One downside could be a decline in government spending on Medicare and Medicaid, which is included in consumer services; healthcare spending has been growing at a nearly 5% pace and could easily cool. As noted, robust domestic demand should bring a recovery in manufacturing. Forecasts for U.S. growth are in the tables at the end of the commentary.

#### CHINA:

The economy appears to be stabilizing after a sizeable slowdown. Heavy industry is clearly the most troubled with extreme excess capacity, profits under pressure, limited pricing power, and producer-price deflation of 5% per year. But, business surveys have troughed and confidence indicators are rising. House prices have increased month-over-month for six straight months; housing-market activity has picked up with home sales up 8% year-over-year (y/y). Credit growth has steadied at 12% or so y/y and money-supply growth has ticked higher, M2 up 13.1% y/y in September versus 12.2% in 2014. Vehicle sales stay solid, likely over 23 million this year.

The economy is gradually responding to steady doses of stimulus over 18 months. The People's Bank of China (PBOC) cut interest rates recently by 0.25% and reserve requirements by 0.5% for the sixth and fourth time, respectively in the last year; purchase taxes on new cars with small engines were halved; planned infrastructure spending has been pulled forward; RMB3.2 trillion was authorized for local government debt swaps, which will cut local interest expense dramatically and provide funds for new spending. We expect easier policy to bring slightly improving data and reduced fears of a hard landing.

The Fifth Plenum, the fifth of seven Communist Party Central Committee meetings held every five years, was held the last week of October. The Central Committee is a group of about 360 party

leaders. This session mapped out the next five year plan, 2016 to 2020, to be ratified at the National People's Congress in March. The most eye-catching change was relaxing the one-child policy; interested couples will now be legally able to have two children.

#### GREATER EUROPE:

Business surveys have weakened a bit in the United Kingdom, so it's no surprise that growth slowed a touch to still robust 2.3% y/y in the third quarter since construction contracted for the first time in a while. Retail sales, however, are resilient and suggest that domestic demand remains robust. GDP rose strongly in Spain once again, up 3.2% annual rate in the third quarter. The Eurozone's composite purchasing manager index edged back to near its recent four-year high, with the service sector leading. The Eurozone's economic sentiment index marked a new four-year high with solid gains in construction and retail. Consumer confidence in Italy hit the highest in 13 years. While it's still high, Eurozone unemployment maintained its decline, now 10.8%, down 0.1% from August.

The euro's fall from near 1.40 \$/€ in March 2014, plunge in oil prices, easing of credit standards, the European Central Bank's (ECB) bond purchase program, and opening of credit markets to small business has brought about a modest economic recovery to the Eurozone. We expect respectable growth in the second half of about 1.5%.

#### JAPAN:

The economy likely entered another technical recession in the third quarter with the second consecutive contraction. The economy is probably doing better than the GDP numbers indicate. Unemployment is near a long-time low of 3.4% and there are 1.23 job openings for every applicant. Real exports rose 1.9% in September and were up about 1% annual rate in the quarter. Tourism is being propelled by the lower currency and has been supporting retail sales. We look for weak but positive growth in 2015 and about 1% or more next year.

# THE FED: SWIMMING AGAINST THE TIDE

The Fed wrapped up its latest meeting with a hawkish tone, even as other central banks turned even more dovish. At the press conference after the recent ECB meeting, President Draghi strongly indicated that the degree of monetary policy ease would be “examined at our December monetary policy meeting,” suggesting the ECB sees downside risks, so further stimulus may be necessary. Those steps could include reducing the negative deposit rate further, increasing the pace of asset purchases, or extending the purchase program beyond its 2016 expiration.

Not to be outdone, the PBOC, in quick response to sub-7% third-quarter growth, announced another 0.25% cut in both its lending and deposit rates to record lows for recent history. The PBOC also lowered reserve requirements by 0.5% and another 0.5% for selected banks. Further, it abandoned the ceiling on bank deposit rates, fully liberalizing them in line with a central bank statement last year. This would help clear the way for China’s application to the International Monetary Fund to include its

currency in the Special Drawing Rights basket.

## WHAT SAY THE FED?

The Fed faced a challenge in September: respond to the robust U.S. expansion and hike rates for the first time in years or offset the strong U.S. dollar, pressure on exports, and too-low inflation with longer zero interest. The mid-August stock plunge pushed the Fed to take a pass. Sensing confusion about the message, Chair Yellen shortly noted that she did expect rates to rise yet this year. But, investors had serious doubts since the Fed has found a reason to delay liftoff for many meetings.

## FINALLY, SOME CONFIDENCE:

And so, it was a mild surprise Wednesday when the statement revealed hawkish language and an active effort to show that liftoff was likely coming in December. The Fed upgraded its economic assessment, removed the worry about the global outlook, and discussed when it would consider raising rates, i.e., “at its next meeting,” rather than whether to maintain current levels. Upon release of the statement, U.S. stocks plunged for about 45 minutes, but then rallied strongly, likely relishing that the Fed finally expressed real confidence in the U.S. recovery. U.S. Treasury bond yields, both short and long, shot up in response. Current yields and some history are shown in in the table below.

Interest Rates	12/31/2012	12/31/2013	12/31/2014	06/10/2015 (High)*	01/30/2015 (Low)*	10/30/2015 Current
2-year	0.26%	0.38%	0.66%	0.73%	0.45%	0.73%
10-year	1.76%	3.03%	2.17%	2.48%	1.64%	2.14%
10-2 spread	1.50%	2.65%	1.51%	1.75%	1.19%	1.41%
30-year	2.95%	3.97%	2.75%	3.22%	2.22%	2.92%

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

## RATES WANT TO MOVE HIGHER:

Markets now assess the likelihood of December liftoff at 54%, a bit above a coin flip, and a 71% chance for March. Many investors had bought into the pessimism about the U.S. and world economy, noting the broad slowdown in China, problems in emerging markets, the weak September U.S. payroll report, and paltry U.S. growth in the third quarter. This glumness implied the Fed would keep rates at zero well into next year. So, if the Fed did hike rates in December, markets would view that as a policy error and push long rates lower.

But, that's not what happened. 10-year Treasury yields rose 0.07% on the release of the statement and another 0.07% the next day. Markets are now suggesting that imminent Fed liftoff shows real confidence in the economy and that long rates at 2% are too low for solid economic growth. So, some pickup in activity as inventories decline, unshakable consumer spending, and a couple of decent payroll reports should be enough to lift the clouds and push rates mildly higher by yearend. Our projections for U.S. Treasury yields are shown in the table below.

YEAREND RATES	2015	2016
Federal Funds	0.38%	0.75%-1.0%
2-Year UST Yield	0.75%	1.0%-1.25%
10-Year UST Yield	2.25%-2.5%	2.5%-2.75%
2-10 Year Spread	1.5%-1.75%	1.25%-1.75%

## ASSET ALLOCATION: RETURNS HARDER TO COME BY

### ➤ INVESTORS LIKED OCTOBER:

Did central bankers save the world...again? Markets seemed to think so. A weak U.S. jobs report, the Fed's non-hike in September, an ECB that pledged once again to "do whatever it takes," a PBOC that twice pruned rates and reserve requirements, voila, equity markets surged higher. The S&P 500 Index soared 8.3%, the best monthly price return in four years. The MSCI Europe developed-market index soared 9.6% in the month, the most in 16 years.

While central bankers' soothing words surely spurred the rally, signs of stability in China, firm spending by U.S. households, a tentative bottom in commodity prices, and a range-bound dollar provided relief and calmed fears of a coming global recession. Equity indices were mostly up across the board. Oil and copper prices were flattish for the month, so global energy and materials sector prices bounced healthily,

up 10.4% and 8.2%, respectively; U.S. energy and materials sectors rose even more. The bounce carried through to emerging markets with the MSCI Emerging index up a nice 6.8%.

October treated bond investors less well because yields on 10-year U.S. Treasuries rose 0.1% for the month and the Fed hinted at a December rate hike. The Barclays' long Treasury index lost 1.1%. U.S. and global corporate credit, for the most part, had positive returns, benefitting from improved attitudes toward world growth prospects. United States and Euro area high-yield indices returned about 3%.

### FUTURE RETURNS?

Enough of the past; how about prospects? Equity bear markets usually precede recessions and the near-term potential for one in the United States seems dim. The only harbingers of a downturn are wider credit spreads and an inventory overhang; but inventories are shrinking and gapping spreads reflect default risk in energy rather than recession. Further, with small odds of a hard landing in China, chances for a global recession are not large either. So, the future doesn't seem to favor an unrelenting bear market.

Is the August-September meltdown over? We're not so sure, even though the October rebound was wonderful. As markets adjust to the monetary transition by the Federal Reserve, a November relapse seems quite possible. That would likely be a buying opportunity as one-year returns could be a little better.

However, the six-and-a-half year rally in equities that tripled U.S. stock prices has pushed to levels from which future good returns will be hard to find. At 2080 on the S&P 500 Index, the price-earnings ratio on operating earnings is 19.1, above its long-term median of 17.8. On reported earnings, the PE is 21.1, well above any long-term average. And with the Fed transitioning to higher rates, the investment cycle is clearly in its later stages. So, the years of just tracking a stampeding bull market are likely over. And with interest rates still ultra-low, adding bonds to an equity portfolio may not offer the safety and diversification typically expected.

Still, we'd suggest there may be another year of higher stock prices before the investment cycle turns. Total returns, though, should be limited to single-digits, earnings gains plus dividends, as valuations may not expand from current levels. One catalyst for that upside could be positive economic surprises from China, since pessimism for a hard landing persists. We'd stick with developed-country stocks and underweight emerging markets as we've suggested for a long time. With profits under pressure, limited pricing power, excess capacity, and high-debt levels, the developing world is where the risks reside in the intermediate term.

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Pensions & Investments, "the Best Places to Work in Money Management", 12/08/2014.





TABLE II: Global Economic Trends

			<u>Real GDP</u>	<u>CPI</u>	<u>Unemploy. Rate</u>	<u>Benchmark Rate (EOP)</u>	<u>10 yr. Rate (EOP)</u>
	<u>US:</u>	2012	2.2%	2.1%	8.1%	0.25%	1.76%
		2013	1.9%	1.5%	7.4%	0.25%	3.03%
		2014	2.4%	1.6%	6.2%	0.25%	2.18%
		2015F	2.5%	0.2%	5.3%	0.38%	2.25%
		2016F	2.8%	2.1%	4.9%	1.25%	2.75%
	<u>Canada:</u>	2012	1.7%	1.5%	7.3%	1.00%	1.79%
		2013	2.0%	0.9%	7.1%	1.00%	2.75%
		2014	2.4%	1.9%	6.9%	0.75%	1.78%
		2015F	1.1%	1.1%	6.7%	0.50%	1.50%
		2016F	2.0%	2.0%	6.8%	0.50%	2.00%
	<u>UK:</u>	2012	0.2%	2.8%	8.0%	0.50%	1.82%
		2013	1.7%	2.6%	7.6%	0.50%	3.02%
		2014	3.0%	1.4%	6.3%	0.50%	1.75%
		2015F	2.6%	0.2%	5.5%	0.50%	2.00%
		2016F	2.4%	1.5%	5.3%	1.00%	2.50%
	<u>Euroland:</u>	2012	-0.6%	2.5%	11.4%	0.75%	1.31%
		2013	-0.4%	1.3%	12.0%	0.25%	1.95%
		2014	0.9%	0.4%	11.6%	0.05%	0.54%
		2015F	1.5%	0.1%	11.3%	0.05%	0.70%
		2016F	1.8%	1.0%	11.0%	0.05%	0.90%
	<u>Japan:</u>	2012	1.5%	-0.04%	4.3%	0.10%	0.78%
		2013	1.5%	0.4%	4.0%	0.10%	0.73%
		2014	-1.0%	2.7%	3.6%	0.10%	0.31%
		2015F	0.9%	0.8%	3.5%	0.10%	0.40%
		2016F	1.4%	1.1%	3.3%	0.10%	0.70%
	<u>Australia:</u>	2012	3.6%	1.8%	5.2%	3.00%	3.27%
		2013	2.0%	2.5%	5.7%	2.50%	4.27%
		2014	2.8%	2.5%	6.1%	2.50%	2.75%
		2015 F	2.3%	1.7%	6.4%	2.00%	2.75%
		2016 F	2.3%	2.0%	6.4%	2.00%	3.00%
	<u>China:</u> Official Stats	2014	7.3%	2.0%		5.60%	
		2015 F	6.8%	1.6%		4.35%	
		2016 F	6.0%	1.5%		3.85%	

F - Forecast

Source: Economic Intelligence Unit, International Monetary Fund, OECD &amp; Sovereign Group, Principal Global Investors



TABLE III: OTHER ECONOMIC INDICATORS

Indicator	Latest Data		Percent Change*	2014	Percent Change*	2015 (E)	Percent Change*	2016 (E)	Percent Change*
Index of Industrial Production (2007=100)	September-15	107.1	0.4%	105.7	3.7%	107.5	1.7%	109.7	2.0%
Total Private Housing Starts (000)	September-15	1,206.0	17.5%	1,003.3	8.5%	1,110.0	10.6%	1,250.0	12.6%
Capacity Utilization Rate Total Industry (1997=100)	September-15	77.5%	-1.3%	78.1	1.8%	78.3	0.3%	78.9	0.8%
Index of Hourly Compensation Non-farm Business Sector (2009=100)	June-15	113.1	2.5%	111.1	2.7%	111.0	2.5%	113.8	2.5%
After-Tax Corporate Profits (Billions \$)	June-15	1,844.6	8.5%	1,693.9	0.1%	1,918.7	5.0%	2,014.6	5.0%
Total Light Vehicle (SAAR)	Sep-15 YTD	13,000.0	5.1%	16,522.0	5.9%	17,265.5	4.5%	17,783.5	3.0%

\* Change over same period of prior year.

\*\*Discontinuity in series due to change in estimates of Inventory Valuation Adjustment (IVA) and Capital Consumption Allowances (CCA)

(E) - Estimated, (P) - Preliminary, (A) - Actual, (SAAR) - Seasonally Adjusted Annual Rate

Source:

Index of Industrial Production, Capacity Utilization Rate - Federal Reserve Board (<http://www.federalreserve.gov/releases/G17/>)

Total Private Housing Starts - U.S. Census Bureau (<http://www.census.gov/construction/nrc/>)

Index of Hourly Compensation Non-farm Business Sector - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://stats.bls.gov/news.release/prod2.t02.htm>)

After-Tax Corporate Profits - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.doc.gov/bea/dn/nipaweb/NIPATableIndex.htm#P>)

Vehicle Sales-U.S. Dept. of Commerce (<http://www.doc.gov>)

Projections - Internal Forecasts

TABLE IV: EMPLOYMENT TRENDS

<b>Labor Force (in thousands)</b>										
	2013		2014		2015		2015		2016	
	Average	%change*	Average	%change*	September	%change*	Average (E)	%change*	Average (E)	%change*
Civilian Labor Force	155,387	0.3%	155,899	0.3%	156,715	0.6%	157,078	0.8%	158,466	0.9%
Civilian Employment	143,312	1.0%	146,303	1.7%	148,800	1.5%	148,774	1.7%	150,700	1.3%
Total Unemployment	11,485	-8.1%	9,596	-16.4%	7,915	-14.8%	8,304	-13.5%	7,766	-6.5%

\* Year-over-year; (E) - Expected

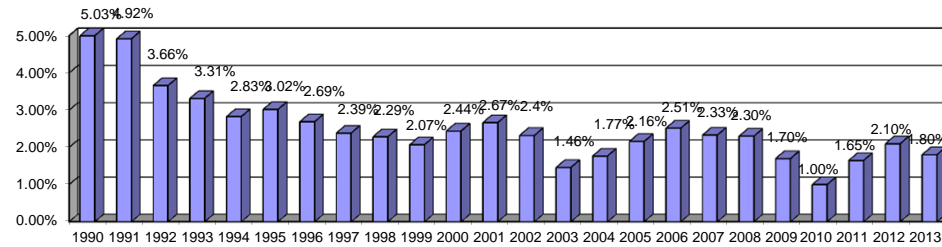
**Selected Unemployment Rates (%)**

(Seasonally Adjusted)

	All Workers	Adult Men	Adult Women	Teenagers (16 - 19)	Married Men Spouse Present	Unemployed (> 15 weeks)^
1987	6.2%	5.4%	5.4%	16.9%	3.9%	1.7%
1988	5.5%	4.8%	4.9%	15.3%	3.2%	1.3%
1989	5.3%	4.5%	4.7%	15.0%	3.1%	1.1%
1990	5.6%	5.0%	4.9%	15.6%	3.4%	1.2%
1991	6.9%	6.4%	5.7%	18.7%	4.4%	1.9%
1992	7.5%	7.1%	6.3%	20.1%	5.1%	2.7%
1993	6.9%	6.4%	5.9%	19.1%	4.4%	2.4%
1994	6.1%	5.4%	5.4%	17.6%	3.7%	2.2%
1995	5.6%	4.8%	4.9%	17.3%	3.3%	1.8%
1996	5.4%	4.6%	4.8%	16.7%	3.0%	1.7%
1997	4.9%	4.2%	4.4%	16.0%	2.7%	1.5%
1998	4.5%	3.7%	4.1%	14.6%	2.3%	1.2%
1999	4.2%	3.5%	3.8%	13.9%	2.2%	1.1%
2000	4.0%	3.3%	3.6%	13.1%	2.0%	0.9%
2001	4.7%	4.2%	4.1%	14.7%	2.7%	1.2%
2002	5.8%	5.3%	5.1%	16.5%	3.6%	2.0%
2003	6.0%	5.7%	5.1%	17.4%	3.8%	2.3%
2004	5.5%	5.0%	4.8%	17.0%	3.1%	2.1%
2005	5.1%	4.4%	4.6%	16.5%	2.8%	1.5%
2006	4.6%	4.1%	4.1%	15.3%	2.4%	1.5%
2007	4.6%	4.1%	4.0%	15.7%	2.5%	1.5%
2008	9.3%	5.5%	4.9%	18.7%	3.4%	2.1%
2009	9.6%	9.6%	7.4%	24.1%	6.7%	4.7%
2010	9.6%	9.8%	8.0%	25.9%	6.7%	5.7%
2011	8.9%	8.7%	7.9%	24.4%	5.8%	5.3%
2012	8.1%	7.5%	7.3%	24.0%	4.9%	4.5%
2013	7.4%	7.0%	6.5%	22.9%	4.3%	4.0%
2014	6.2%	5.7%	5.6%	19.6%	3.4%	3.0%
2015 (E)	5.3%					
January	5.7%	5.3%	5.1%	18.8%	2.9%	2.7%
February	5.5%	5.2%	4.9%	17.1%	3.0%	2.6%
March	5.5%	5.1%	4.9%	17.5%	2.8%	2.4%
April	5.4%	5.0%	4.9%	17.1%	3.0%	2.3%
May	5.5%	5.0%	5.0%	17.9%	2.9%	2.4%
June	5.3%	4.8%	4.8%	18.1%	2.8%	2.2%
July	5.3%	4.8%	4.9%	16.2%	2.8%	2.1%
August	5.1%	4.7%	4.7%	16.9%	2.8%	2.2%
September	5.1%	4.7%	4.6%	16.3%	2.8%	2.1%
2016 (E)	4.9%					

TABLE V: CONSUMER PRICE INDEX

## CORE CPI: ALL ITEMS LESS FOOD AND ENERGY

**HISTORICAL CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS:**

U.S. average, by commodity, service group and detailed expenditure categories.

(Annual Average: 1982-84=100)

YR\INDEX	ALL ITEMS	% CHANGE*	ALL ITEMS LESS FOOD, ENERGY	% CHANGE*
1984	103.9	4.4%	104.7	5.1%
1985	1467.4	3.5%	109.3	4.4%
1986	109.7	1.9%	113.7	4.0%
1987	113.6	3.6%	118.2	3.9%
1988	118.3	4.1%	123.4	4.4%
1989	123.9	4.8%	129.0	4.5%
1990	130.7	5.4%	135.5	5.0%
1991	136.2	4.2%	142.1	4.9%
1992	140.3	3.0%	147.3	3.7%
1993	144.5	3.0%	152.2	3.3%
1994	148.2	2.6%	156.5	2.8%
1995	152.4	2.8%	161.2	3.0%
1996	156.9	2.9%	165.6	2.7%
1997	-3.6	2.3%	169.5	2.4%
1998	163.0	1.5%	173.4	2.3%
1999	166.6	2.2%	177.0	2.1%
2000	172.2	3.4%	181.3	2.4%
2001	177.0	2.8%	186.1	2.7%
2002	179.9	1.6%	190.4	2.3%
2003	184.0	2.3%	193.2	1.5%
2004	188.9	2.7%	196.6	1.8%
2005	195.3	3.4%	200.9	2.2%
2006	201.6	3.2%	205.9	2.5%
2007	207.3	2.9%	210.7	2.3%
2008	215.3	3.9%	215.6	2.3%
2009	214.5	-0.4%	219.2	1.7%
2010	218.1	1.7%	221.3	1.0%
2011	224.9	3.2%	225.0	1.7%
2012	229.6	2.1%	229.8	2.1%
2013	233.0	1.5%	233.8	1.7%
2014	236.7	1.6%	237.8	1.7%
2015 F	237.2	0.2%	241.8	1.7%
January	233.7	-0.1%	239.2	1.6%
February	234.7	0.0%	240.1	1.7%
March	236.1	-0.1%	241.1	1.8%
April	236.6	-0.2%	241.8	1.8%
May	237.8	0.0%	242.1	1.7%
June	238.6	0.1%	242.4	1.8%
July	238.7	0.2%	242.4	1.8%
August	238.3	-0.1%	242.7	1.8%
September	237.9	0.0%	243.4	1.9%
2016 F	242.2	2.1%	246.6	2.0%

BASELINE ECONOMIC FORECASTS FOR 2015-2016, BY QUARTER

Baseline Forecasts

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

	1st QUARTER 15		2nd QUARTER 15		3rd QUARTER 15		4th QUARTER 15		2013 ACTUAL		2014 ACTUAL	
	Actual		Actual		Actual		Forecast					
<b>Real GDP</b>	<b>16177.3</b>	<b>0.6%</b>	<b>16333.6</b>	<b>3.9%</b>	<b>16394.2</b>	<b>1.5%</b>	<b>16506.5</b>	<b>2.8%</b>	<b>15583.3</b>	<b>1.5%</b>	<b>15961.7</b>	<b>2.4%</b>
<b>Personal Consumption Expenditures</b>	<b>11081.2</b>	<b>1.7%</b>	<b>11178.9</b>	<b>3.6%</b>	<b>11268.6</b>	<b>3.2%</b>	<b>11359.1</b>	<b>3.2%</b>	<b>10590.5</b>	<b>1.7%</b>	<b>10875.7</b>	<b>2.7%</b>
Durable Goods	1430.4	2.0%	1458.3	8.0%	1482.2	6.7%	1500.4	5.0%	1307.6	5.8%	1384.1	5.9%
Non-Durables	2397.8	0.7%	2423.0	4.3%	2443.7	3.5%	2461.8	3.0%	2319.9	1.9%	2367.8	2.1%
Services	7277.4	2.1%	7325.3	2.7%	7373.0	2.6%	7416.8	2.4%	6977.0	1.0%	7144.6	2.4%
<b>Gross Private Domestic Invest.</b>	<b>2830.2</b>	<b>8.6%</b>	<b>2864.8</b>	<b>5.0%</b>	<b>2823.5</b>	<b>-5.6%</b>	<b>2836.9</b>	<b>1.9%</b>	<b>2577.3</b>	<b>4.5%</b>	<b>2717.7</b>	<b>5.4%</b>
Bus. Fixed Invest.	2188.6	1.6%	2210.6	4.1%	2222.1	2.1%	2246.1	4.4%	2023.8	3.0%	2148.3	6.2%
Structures	458.2	-7.4%	465.2	6.3%	460.5	-4.0%	462.8	2.0%	429.7	1.6%	464.6	8.1%
Equipment	1046.0	2.3%	1046.9	0.3%	1060.4	5.3%	1070.8	4.0%	969.5	3.2%	1026.2	5.8%
Intellectual Property Products	687.1	7.4%	701.0	8.3%	704.1	1.8%	714.4	6.0%	626.9	3.8%	659.5	5.2%
Residential Invest.	512.4	10.1%	524.0	9.4%	531.8	6.1%	540.9	7.0%	478.0	9.5%	486.4	1.8%
Change in Inventory	112.8 -		113.5 -		56.8 -		50.0 -		61.4 -		68.0 -	
<b>Net Exports</b>	<b>-541.2 -</b>		<b>-534.6 -</b>		<b>-536.2 -</b>		<b>-538.1 -</b>		<b>-417.5 -</b>		<b>-442.5 -</b>	
Exports	2091.4	-6.0%	2117.5	5.1%	2127.5	1.9%	2145.4	3.4%	2018.1	2.8%	2086.4	3.4%
Imports	2632.5	7.1%	2652.1	3.0%	2663.7	1.8%	2683.5	3.0%	2435.6	1.1%	2528.9	3.8%
<b>Gov't Purchases of Goods &amp; Services</b>	<b>2838.5</b>	<b>-0.1%</b>	<b>2856.9</b>	<b>2.6%</b>	<b>2869.0</b>	<b>1.7%</b>	<b>2877.7</b>	<b>1.2%</b>	<b>2854.9</b>	<b>-2.9%</b>	<b>2838.3</b>	<b>-0.6%</b>
Federal	1111.3	1.1%	1111.3	0.0%	1112.0	0.3%	1113.5	0.5%	1144.1	-5.7%	1116.3	-2.4%
National Defense	680.3	1.0%	680.8	0.3%	678.4	-1.4%	679.2	0.5%	716.6	-6.7%	689.1	-3.8%
Non-Defense	430.7	1.2%	430.2	-0.5%	433.2	2.8%	434.3	1.0%	427.5	-4.0%	427.0	-0.1%
State & Local	1725.9	-0.8%	1744.1	4.3%	1755.5	2.6%	1764.2	2.0%	1710.2	-1.0%	1720.8	0.6%
Real Final Sales	16053.8	-0.2%	16209.7	3.9%	16329.0	3.0%	16456.5	3.2%	15511.4	1.4%	15881.7	2.4%
Real Domestic Final Sales	16597.7	1.7%	16747.2	3.7%	16868.4	2.9%	16994.6	3.0%	15929.8	1.2%	16326.3	2.5%
y/y	2.9%		2.7%		2.0%		2.2%					
	1st QUARTER 16		2nd QUARTER 16		3rd QUARTER 16		4th QUARTER 16		2015 FORECAST		2016 FORECAST	
	Forecast		Forecast		Forecast		Forecast					
<b>Real GDP</b>	<b>16,622.0</b>	<b>2.8%</b>	<b>16,734.5</b>	<b>2.7%</b>	<b>16,847.8</b>	<b>2.7%</b>	<b>16,953.0</b>	<b>2.5%</b>	<b>16352.9</b>	<b>2.5%</b>	<b>16789.3</b>	<b>2.7%</b>
<b>Personal Consumption Expenditures</b>	<b>11,441.2</b>	<b>2.9%</b>	<b>11,518.9</b>	<b>2.7%</b>	<b>11,597.2</b>	<b>2.7%</b>	<b>11,672.3</b>	<b>2.6%</b>	<b>11221.9</b>	<b>3.2%</b>	<b>11557.4</b>	<b>3.0%</b>
Durable Goods	1,518.8	5.0%	1,537.4	5.0%	1,556.3	5.0%	1,571.6	4.0%	1467.8	6.0%	1546.1	5.3%
Non-Durables	2,480.1	3.0%	2,498.5	3.0%	2,517.0	3.0%	2,535.7	3.0%	2431.6	2.7%	2507.8	3.1%
Services	7,457.3	2.2%	7,498.0	2.2%	7,538.9	2.2%	7,580.0	2.2%	7348.1	2.8%	7518.5	2.3%
<b>Gross Private Domestic Invest.</b>	<b>2,859.4</b>	<b>3.2%</b>	<b>2,885.0</b>	<b>3.6%</b>	<b>2,914.6</b>	<b>4.2%</b>	<b>2,939.4</b>	<b>3.4%</b>	<b>2838.9</b>	<b>4.5%</b>	<b>2899.6</b>	<b>2.1%</b>
Bus. Fixed Invest.	2,261.9	2.8%	2,283.5	3.9%	2,305.3	3.9%	2,327.3	3.9%	2216.8	3.2%	2294.5	3.5%
Structures	466.2	3.0%	469.7	3.0%	473.2	3.0%	476.7	3.0%	461.7	-0.6%	471.4	2.1%
Equipment	1,076.2	2.0%	1,085.5	3.5%	1,094.8	3.5%	1,104.3	3.5%	1056.0	2.9%	1090.2	3.2%
Intellectual Property Products	721.5	4.0%	730.3	5.0%	739.3	5.0%	748.4	5.0%	701.7	6.4%	734.9	4.7%
Residential Invest.	547.5	5.0%	551.6	3.0%	554.3	2.0%	557.1	2.0%	527.3	8.4%	552.6	4.8%
Change in Inventory	50.0 -		50.0 -		55.0 -		55.0 -		83.3 -		52.5	
<b>Net Exports</b>	<b>-542.1 -</b>		<b>-545.1 -</b>		<b>-547.5 -</b>		<b>-550.0 -</b>		<b>-537.5 -</b>		<b>-546.1</b>	
Exports	2,161.3	3.0%	2,178.4	3.2%	2,196.1	3.3%	2,214.0	3.3%	2120.4	1.6%	2187.4	3.2%
Imports	2,703.4	3.0%	2,723.4	3.0%	2,743.6	3.0%	2,764.0	3.0%	2657.9	5.1%	2733.6	2.8%
<b>Gov't Purchases of Goods &amp; Services</b>	<b>2,886.6</b>	<b>1.2%</b>	<b>2,895.4</b>	<b>1.2%</b>	<b>2,904.3</b>	<b>1.2%</b>	<b>2,913.2</b>	<b>1.2%</b>	<b>2860.5</b>	<b>0.8%</b>	<b>2899.8</b>	<b>1.4%</b>
Federal	1,115.8	0.8%	1,118.0	0.8%	1,120.2	0.8%	1,122.5	0.8%	1112.0	-0.4%	1119.1	0.6%
National Defense	680.9	1.0%	682.6	1.0%	684.3	1.0%	686.0	1.0%	679.7	-1.4%	683.5	0.6%
Non-Defense	434.8	0.5%	435.4	0.5%	435.9	0.5%	436.5	0.5%	432.1	1.2%	435.6	0.8%
State & Local	1,770.8	1.5%	1,777.4	1.5%	1,784.0	1.5%	1,790.7	1.5%	1747.4	1.5%	1780.7	1.9%
Real Final Sales	16,572.0	2.8%	16,684.5	2.7%	16,792.8	2.6%	16,898.0	2.5%	16262.3	2.4%	16736.8	2.9%
Real Domestic Final Sales	17,114.1	2.8%	17,229.5	2.7%	17,340.3	2.6%	17,447.9	2.5%	16802.0	2.9%	17283.0	2.9%
y/y	2.75%		2.45%		2.77%		2.70%					

Source: Historical Statistics - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/dn1.htm>), Projections - Internal Estimates.