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On the Other Hand
Economic Insights

April 2014

The anemic growth of the first quarter will not derail the taper train that left the station last December.

By Bob Baur, Robin Anderson, and the Economic Committee

TOPIC SUMMARIES

- DID THE BUREAU OF ECONOMIC ANALYSIS (BEA) FORGET A DIGIT? U.S. first quarter growth was a big disappointment in many ways, rising only 0.1%; and what were gains do not suggest much rebound. Still, the rotten winter weather was likely the main culprit and the drag from net exports should lessen as revisions come in later this month. With the private economy growing 3.5% last year and at a 3.4% annual average for the entire eighteen quarters of the recovery, if the drag from falling government spending wanes, our optimistic forecasts for the rest of 2014 should pan out.

- AROUND THE WORLD IN 600 WORDS: Recent data in the Euro area suggest a moderate acceleration in economic activity. The U.K. economy is robust, up at a 3.2% annual rate in the first quarter, the fourth straight quarter of above-trend growth. Inflation is likely at its lowest ebb of the recovery, so the European Central Bank (ECB) may refrain from any new bond purchases. Japanese data since the hike in the sales tax haven't been quite as bad as forecast, so the Bank of Japan may be reluctant to expand is bond purchase program for a bit longer. China's economy seems to have stabilized into a weaker range of 6% to 7.5% or so, although no signs of a hard landing are apparent. Some mini-stimulus programs have been announced to juice things up a bit, but we doubt anything major is in the offing.

- WHY ARE U.S. TREASURY YIELDS SO LOW? There surely are several reasons and the simplest may be technical: bets on rising Treasury yields were the overwhelming favorite consensus trade of late last year. It worked great until the stock market went sideways and U.S. growth turned weak in the first quarter. Worried investors fleeing that consensus trade and reversing positions may have driven yields lower. There are fundamental reasons for lower Treasury yields: inflation has surprised on the downside; Treasury investors may be skeptical that growth will pick up; real interest rates are still very low historically; there may simply be more credit available than there are qualified borrowers willing to borrow; and global excess capacity may be keeping returns on investible projects below company requirements. Better growth should still take Treasury yields higher later this year.

- ASSET ALLOCATION CORNER: April was a month of modest returns. Unless you owned REITs, a few select commodities or an occasional emerging market or three, returns were generally sub-2%. Year-to-date performance was in a similar ballpark. The question is what will produce good returns in the future? Five years of ultra-easy monetary policy has already priced in the best outcomes in many, if not most assets and asset classes.

The BEA Must Have Left Off a Digit

GDP barely moved in the first quarter, rising only 0.1%, far less than the expected 1.1%. Consumer spending was robust, up 3%. But, utilities and Obamacare-driven health care costs explained most of the gains in consumption. Other sectors were weak: lower inventory growth hit investment; and exports fell surprisingly as did state and local government spending. Weather was likely the culprit, pulling down construction and durable goods purchases as well as hours worked. March and April data already show the U.S. economy regaining strong momentum. We expect robust growth of about 3.25% to 3.5% the rest of the year. Still, this weak initial report of first quarter GDP cratered the full year potential from nearly 3% down to only 2.5%.

OBAMACARE, WEATHER, INVENTORIES, AND EXPORTS: The above were the main drivers, good and bad, of economic activity in the first quarter. Here is a breakdown of GDP components:

- Consumption increased 3% adding two percentage points to GDP. Spending on durable goods rose only 0.4% but services jumped 4.4%.
- Health services costs soared 9.9%, the largest gain since the 1980s, explaining over half the gain in consumption and adding 1.1 percentage points to growth.
- Expenditures on housing and utilities, likely associated with the frigid winter, were the other drivers of consumer spending, adding 0.73 points to GDP growth.
- Gross private investment subtracted 1.0 point from growth; inventories alone had a 0.57 point drag. The good news is that reduced inventory accumulation last quarter translates into better expectations for this quarter.
- Residential construction deducted 0.18 points from GDP, partially associated with the rotten winter.
- Net exports were another big drag, pulling 0.8 points from GDP. However, this first estimate of GDP only included hard trade data for January and February. Exports will likely be revised up and imports down, reducing the drag.
- Government spending surprisingly fell 0.5% from the prior quarter. Spending by state and local governments declined 1.3%. Federal spending rose 0.7% after plummeting 12.8% in the fourth quarter from the government shutdown.
- Real final sales increased 0.7% as consumer spending was robust but investment weak.

BEA assumptions for the Patient Protection and Affordable Care Act likely explained the surge in health services spending. That trend started last fall, picked up in earnest the first quarter and may jump again this quarter. Of the eight million enrolled thus far in health care exchanges, almost half waited until the last minute to sign up for benefits. Once enrollment stabilizes, health care spending growth will likely slow.

MORE WEATHER: Not only does weather explain much of the slowdown residential construction, it's likely the culprit behind weak durable-goods spending and soft hours worked. Durable goods spending rose only 0.8% as auto purchases were up a mere 0.5%. Auto sales stopped in some parts of the country with frigid temperatures in December through February. Sales have already improved, rebounding in March and April to or above a sixteen-million annual rate.

GDP can be crudely thought of as hours worked times output per hour. Hours worked in the first quarter declined fairly significantly as snow and ice hindered worker commutes. According to calculations from the research firm ISI, if hours worked had not declined in the first quarter, GDP would have jumped 2.6%. The good news is that hours worked rebounded smartly in March and April to pre-winter levels.

SPRING FORWARD: We still expect growth to pick up robustly the rest of the year. After all, private GDP growth averaged about 3.5% in 2013, so if the drag from shrinking government spending simply stops, our forecasts should be in the ballpark. Most sectors gained momentum in March and April. The April ISM manufacturing index rose to 54.9 compared to 53.7 last month and four of the six regional indices out so far surged higher. Consumer confidence is almost back to pre-recession levels. Payroll growth is decisively above

last year's average; the last three months averaged 238,000 versus 194,000 in 2013. Core-capital goods orders jumped 3.5% in March, the most since January 2013.

While this initial GDP report was disappointing, the weakness in the first quarter was likely temporary. Still, this lousy first estimate of first quarter GDP socked the potential for 2014 down to 2.5% from nearly 3%. Complete forecasts are in the table at the back of the commentary.

GREAT PAYROLL GAINS: April's report on U.S. payrolls was a real boost to optimism. New jobs totaled 288,000 with positive revisions of 36,000 to February and March. The unemployment rate plunged to 6.3%. The private payroll diffusion index, a measure of the breadth of job gains, soared to 67%. The negatives were flat average hourly earnings and a surprising drop in the workforce participation rate to a thirty-five year low of 62.8%. The latter was due to a huge drop of 806,000 in the labor force as almost a million more people were categorized as "not in the labor force"; that is likely a delayed reaction to the end of extended unemployment benefits that expired December 31st.

Around the World in 600 Words

Recent data for the Euroarea suggest a moderate acceleration of growth. For the first time since 2009, all eight countries in the Economic and Monetary Union of the European Union (EMU) with a purchasing managers index (PMI) had survey readings above 50.0; in other words, Germany, France, Greece, Italy, Spain, Ireland, Austria, and the Netherlands all reported manufacturing sectors to be expanding. U.K. GDP accelerated 0.8% quarter-on-quarter for a 3.2% annualized rate; its April PMI jumped from 55.8 to 57.3 — very strong momentum going into the second quarter.

CENTRAL BANKS ON HOLD: Even though PMIs for April were robust, inflation stayed well below target for the EMU, although it moved slightly higher to 0.7% over the prior year, up from 0.5% in March. But, inflation is a lagging indicator and is likely in a bottoming process.

The ECB governing council assembles this week to assess monetary policy. But, this inflation report was probably not enough for the ECB to start asset purchases. In a late April speech, Mario Draghi laid out the ECB's plan for further monetary easing. He said easing would be warranted only if the outlook for medium-term inflation worsened significantly either through a downshift in inflation expectations or a demand side shock. And even though inflation is well below target, economic activity is improving. In addition, lending standards, another key for policy decisions, are improving. The ECB's latest lending standards report shows that for the first time since 2007 the economic outlook contributed to an easing rather than a tightening of lending standards. Net demand for corporate loans rose for the time since 2011. At the same time, borrowing costs have fallen for Italian and Spanish companies. While deflation remains a risk for the EMU, the economy is rebounding for now despite the risk.

There are things that could derail growth in Europe. A further rise of the euro would be a potential drag on exports, a big driver of the current recovery. Alternatively, the crisis in the Ukraine could worsen, raising energy prices and hitting confidence, a big worry for Germany, in particular.

IN JAPAN: Data have been mixed in the first month since the sales tax hike. The PMI dropped below breakeven in April, to 49.4, for the first time in a year. New export orders plunged below 50.0 as well for the first time in eight months. However, initial sales data for April were not as bad as forecast.

Overall car sales, including minis, dropped only 5.5% last month versus 15% expected. According to the *Wall Street Journal*, department store sales dropped anywhere from 8% to 13% compared to the 20% decline expected by some analysts.

The Bank of Japan's latest economic forecast remained upbeat despite the sales tax. The Bank expected inflation to reach 1.3% by March 2015 and its 2% target the following year. Their outlook for job growth was also optimistic. Without a clear decline in inflation or activity, it is unlikely that the Bank of Japan will start a second round of bond purchases in the near future. The Bank of Japan kept policy unchanged at its last meeting and will likely remain on hold a while longer.

AND IN CHINA: PMI surveys stabilized a bit in April but by no means signaled a resurgence of growth. Chinese GDP grew 7.4% last quarter, the lowest in 18 months. The official PMI from the National Bureau of Statistics ticked barely higher to 50.4 from 50.3. The new orders subcomponent improved to 51.2 from 50.6. The flash Markit PMI also nudged up slightly to 48.3 from 48.0 in March (the final Markit PMI will be released on Monday). We expect growth to remain in a range of 6% to 7% or so in the intermediate term with no hard landing.

Why Are U.S. Treasury Yields So Low?

For three months, yields on ten-year U.S. Treasury bonds have stayed in a tight range from 2.6% to 2.8% after dropping from a peak of 3.04% in early January. The consensus of equity investors is for a pickup in economic growth after the rotten winter weather; that plus the upward bias of equity markets this year would typically have the Treasury market sending a message of rising rates, but it's not doing that. Some yield history is in Exhibit I.

Exhibit I

Interest Rates	12/30/2011	12/31/2012	12/31/2013	12/31/2013 (High)*	05/02/2013 (Low)*	04/30/2014 Current
2-year	0.24%	0.26%	0.38%	0.38%	0.20%	0.41%
10-year	1.88%	1.76%	3.03%	3.03%	1.63%	2.65%
10-2 spread	1.64%	1.64%	2.65%	2.65%	1.43%	2.24%

Source: Bloomberg
*Based on the 10-year Treasury Bond, over the prior 12 months

So, the question is why have yields stayed so low, and especially after the great April payroll report of 288,000 new jobs. First, there may be a simple, technical driver keeping rates low. Betting on rising Treasury yields has been the overwhelming consensus trade since late last summer; almost 100% of strategists believed ten-year Treasury yields would rise. So, portfolios were logically set for it and hedge funds likely made large, leveraged bets on that outcome. That trade worked marvelously well through yearend. But, with the stock market consolidating in the first quarter and U.S. growth far below consensus expectations, yields could not maintain that uptrend. So, with everyone positioned for rising yields, the lack of follow-through surely caused some investors to flee the trade and yields had to fall as those rising-rate bets were reversed. And with the belief in rising rates so universal, there may be a lot more unwinding to come, particularly if the faster growth optimism doesn't pan out. A further swift exit from those trades would put a lot more down pressure on yields.

There may also be fundamental reasons for low yields. First, there has been a global inflation surprise, coming in below expectations in most major countries. Low current inflation lowers inflation expectations which keep nominal interest rates down. Second, investors in Treasurys may simply be skeptical about near-term U.S. growth prospects. After all, first quarter growth as noted was anemic even after taking into account the lousy winter weather. Third, real interest rates remain low by historical standards even though they are now positive. Those low real yields may be the bond market's way of saying that long-term U.S. growth prospects are not as good as the consensus expects.

Another reason for the strong Treasury market may simply be that the supply of new credit from willing lenders is greater than the demand from qualified borrowers. Lending standards, while having dropped from the stringent levels after the financial crisis, are still much higher than before. Further, student loan debt is very high and household debt generally is still above historical levels relative to income, so consumers may be reluctant to borrow more. And with the search for yield still so frantic, there is plenty of liquidity looking for fixed income returns. The global savings glut described by Ben Bernanke is alive and well; the savings rate in China and other emerging markets is very high and Treasurys are a safe store of value for central banks looking to park some liquidity.

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Another reason may be the excess productive capacity all around the world today that was built during the emerging market heyday driven by the industrialization of China. As a result, the number of investible projects with good rates of return may be few and far between. That also may explain the surge of mergers and acquisitions in recent months. Business chieftains may believe that taking capacity out of the system through mergers is a better use of capital than expansion and new investment.

But, if the buoyant Treasury market is telling us that U.S. growth will be weaker than expected, the rest of the fixed income space is singing a different tune. Credit spreads narrowing to almost the tights of the 2000s suggests that no one's very worried about credit risk or sagging economic growth. And if those implicit beliefs come to pass, U.S. Treasury yields should rise past 3% later this year.

WHAT ABOUT THE FED? The anemic growth of the first quarter will not derail the taper train that left the station last December. As Stanley Fisher said, the Fed has begun its exit. We expect the Fed's bond purchases to end in October. If our optimistic base case comes to pass, rates will move higher. A reasonable expectation is a range of 3.25% to 3.5% on ten-year Treasurys by yearend. Short rates are likely to go up as well except at the very short end. In 2015, a range of 3.25% - 3.75% might be realistic as the robust economy persists at least early in the year.

Despite pronouncements to the contrary, the Fed may be forced to raise the Fed Funds rate for the first time this summer, June or July. U.S. inflation has surely bottomed. Services prices have been rising at a 2% to 3% pace; it has been the fall in goods prices that has kept inflation near 1%. With rents rising robustly and commodity prices firming as global growth stabilizes and trends higher, inflation should approach the Fed's 2% target perhaps in the fall. Wages are accelerating modestly and the pace should creep higher as job gains improve. Rates should be in a clear uptrend later this year. Our yield forecasts for yearend 2014 and 2015 are as follows:

	2014	2015
Federal Funds Target	0.0 - 0.25%	0.5 - 0.75%
Two-Year Treasury Rate	1.00%	1.50%
10-Year Treasury Rate	3.40%	3.60%
Two-10 Year Spread	2.40%	2.10%

Asset Allocation Corner

MODEST APRIL RETURNS: Buffeted by geopolitical problems in the Ukraine, credit and growth worries out of China, no validation of faster U.S. growth, yet supported a bit by a wave of mergers and acquisitions, investor returns in April were generally modest. Unless one owned U.S. or global REITs, a few select commodities or a rebounding emerging market or three, returns were mostly sub-2% for the month. The outperformance of U.S. value stocks over growth continued as high valuation growth stocks stayed under pressure. Sector performance was mixed with little clear trend. The MSCI emerging market index gained 1% adding to the nice gains of March. The MSCI all country index moved ahead 1.5%.

Bond investors made gains too with the Barclays U.S. and Global Aggregate indices returning 0.8% and 1.2%, respectively for the month. Long-dated U.S. Treasury bonds had a nice return of 1.7%, using the Barclays Long Treasury index, as yields fell a few basis points over the month.

Year-to-date performance was more mixed. Japan, Asia, and emerging markets suffered the most with losses for the four months. REITs soared in that time period as rates fell from cycle peaks at the end or 2013: U.S. and global REITs, using MSCI indices, surged 10% and 12.4% respectively. That drop in interest rates helped bond investors for the year too, with the Barclays U.S. and Global Aggregate Indices up 2.7% and 3.6% respectively.

A NEW ERA OF LOW RETURNS? Five years of zero interest rates and ultra-easy monetary policy has produced terrific gains in fixed income as well as most equity markets. That expansive policy also brought overvaluation in emerging markets in 2012 and early 2013, but that began to work itself off last summer and this year's first quarter. The longer term question is where future return will come from after years of such ultra-low interest rates. All these extensive gains from very easy monetary policy have already priced in the best outcomes for many or most assets and asset classes.

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With forecasts of faster growth in Europe and the U.S., the best returns will likely not come from fixed income as the underlying direction of interest rates should be up. In addition, the Fed will be moving to normalize interest rates at some point. The first Fed Funds rate hike could come as early as mid-2015 if those better forecasts come to fruition. In that environment, the search for fixed income returns won't be easy. But if interest rates rise as a result of a better economy, risk appetite should go up along with it, good for stocks as well as real estate. Bonds with higher yields that face some credit risk may also offer a fair return as credit spreads could narrow a little more, although current spreads are already exceedingly tight.

We still expect equity markets, at least in the U.S. and Europe to provide moderate positive returns yet this year. Earnings continue to be quite good. If profits grow in the 6% to 9% range, a couple of points added on for dividends should produce returns on the order of 8% to 12%. We'd still be cautious about putting new money to work, preferring to do so on setbacks. The Euro area appears to be in the midst of a modest acceleration which should be good for domestically-focused equities still depressed from the sovereign debt crisis. Better global growth in the summer and fall could give a boost to commodities and a further rebound in emerging markets at least in the short term.

Last month's return to normal theme means the U.S. business cycle may look more familiar as confidence returns. Investors may continue to search for stocks that are more favorably valued rather than the large, safe growth companies they have preferred to date. We expect the recent surge of value stocks over growth to persist. The best opportunities may still be in real estate, at least outside of gateway markets, as cap rates are still well above bond yields.

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Global Stock Markets

	Friday Close	Low	High	Week	QTD	12 Month
		12 Month		Percentage Change		
U.S. Dow Jones Industrials	16,513	14,660	16,581	0.93%	0.34%	10.28%
U.S. S&P 500	1,881	1,573	1,891	0.95%	0.47%	16.52%
U.S. S&P 400 Midcap	1,362	1,125	1,395	1.07%	-1.23%	16.87%
U.S. S&P 600 Smallcap	653	536	683	0.44%	-2.77%	21.92%
NASDAQ Composite Index	4,124	3,321	4,358	1.19%	-1.79%	22.06%
London FTSE 100	6,822	6,029	6,866	2.05%	3.40%	4.61%
Germany DAX	9,556	7,692	9,743	1.64%	0.00%	17.65%
Canada TSX	14,765	11,837	14,765	1.59%	3.00%	18.71%
Japan Nikkei 225	14,458	12,445	16,291	0.20%	-2.50%	5.58%
Hong Kong Hang Seng	22,261	19,814	24,039	0.17%	0.49%	-1.89%
South Korea KOSPI	1,959	1,781	2,060	-0.62%	-1.32%	-0.32%
India Sensex 30	22,404	17,906	22,877	-1.25%	0.08%	14.45%
China Shanghai Composite	2,026	1,950	2,324	-0.50%	-0.34%	-6.96%
Brazil Bovespa	52,980	44,966	56,460	3.08%	5.09%	-4.52%
MSCI EAFE	1,941	1,599	1,944	1.08%	1.33%	10.94%
Mexico IPC	40,968	37,517	42,959	1.91%	1.25%	-3.84%

Global Interest Rates

	Central Bank Official Rank	3 Month	2 Year	10 Year	2-10 Spread
			Government Debt		
U.S.	0.25	0.02	0.42	2.59	2.16
UK	0.50	0.39	0.71	2.65	1.94
Eurozone	0.25	0.20	0.13	1.44	1.31
Japan	0.10	0.20	0.09	0.61	0.52
Australia	2.50	2.46	2.73	3.87	1.14
Canada	1.00	0.94	1.06	2.34	1.28
Brazil	11.00	10.97	12.09	12.51	0.43
China	6.00[1]	3.40	3.81	4.35	0.54
Mexico	3.50	3.41	4.02	6.17	2.15

[1]China one-year best lending rate

U.S. Credit Spreads (in basis points)

	Friday	1 Week	1 Month	12 Month
Investment Grade	100	101	103	134
High Yield	345	345	352	410
CMBS	111	102	103	113

Sources: Bloomberg, Barclays Capital Live

Exchange Rates (to USD)

	Friday	1 Week	1 Month	12 Month
European Euro	1.387	1.385	1.374	1.308
Chinese Renminbi	6.260	6.254	6.212	6.167
Japanese Yen	102.200	102.490	103.100	99.330
Brazilian Real	2.222	2.224	2.214	2.014
Canadian Dollar	1.097	1.103	1.098	1.007
Australian Dollar	0.928	0.926	0.927	1.026
Mexican Peso	13.015	13.123	13.011	12.109

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Economic Releases

U.S.	Date	For Period	Actual	Prior
Consumer Confidence Index	4/29/14	Apr	82.3	82.3
GDP Annualized QoQ	4/30/14	1Q A	0.1%	2.6%
Initial Jobless Claims	5/1/14	Apr-26	344K	329K
Change in Nonfarm Payrolls	5/2/14	Apr	288K	192K
Markit Eurozone Manufacturing PMI	5/2/14	Apr F	53.4	53.3
Germany CPI MoM	4/29/14	Apr P	-0.2%	0.3%
UK GDP QoQ	4/29/14	1Q A	0.8%	0.7%
China Manufacturing PMI	4/30/14	Apr	50.4	50.3

Sources: Bloomberg, Barclays Capital Live

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BASELINE ECONOMIC FORECASTS FOR 2014-2015, BY QUARTER

Baseline Forecasts

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

	1st QUARTER 14 Actual		2nd QUARTER 14 Forecast		3rd QUARTER 14 Forecast		4th QUARTER 14 Forecast		2012 ACTUAL		2013 ACTUAL	
Real GDP	**15,946.6**	**0.1%**	**16,086.4**	**3.6%**	**16,213.4**	**3.2%**	**16,350.2**	**3.4%**	**15,470.7**	**2.8%**	**15,761.3**	**1.9%**
Personal Consumption Expenditures	**10,912.3**	**3.0%**	**11,013.2**	**3.8%**	**11,093.1**	**2.9%**	**11,173.7**	**2.9%**	**10,517.6**	**2.2%**	**10,727.9**	**2.0%**
Durable Goods	1,360.5	0.8%	1,386.9	8.0%	1,407.3	6.0%	1,427.9	6.0%	1,246.7	7.7%	1,337.5	6.9%
Non-Durables	2,366.4	0.2%	2,389.7	4.0%	2,413.3	4.0%	2,437.0	4.0%	2,296.7	1.4%	2,341.7	2.0%
Services	7,201.7	4.4%	7,251.6	2.8%	7,287.6	2.0%	7,323.7	2.0%	6,982.7	1.6%	7,059.0	1.2%
Gross Private Domestic Invest.	**2,602.0**	**-6.1%**	**2,611.5**	**1.5%**	**2,648.0**	**5.7%**	**2,693.5**	**7.1%**	**2,436.0**	**9.5%**	**2,555.1**	**5.4%**
Bus. Fixed Invest.	2,012.1	-2.0%	2,050.4	7.8%	2,085.8	7.1%	2,125.2	7.8%	**1,931.8**	**7.3%**	**1,983.7**	**2.7%**
Structures	436.6	0.2%	445.1	8.0%	451.6	6.0%	459.3	7.0%	421.6	12.7%	430.0	1.3%
Equipment	941.3	-5.5%	964.0	10.0%	985.0	9.0%	1,008.7	10.0%	905.9	7.6%	930.6	3.1%
Intellectual Property Products	635.5	1.5%	643.3	5.0%	651.2	5.0%	659.2	5.0%	605.8	3.4%	624.8	3.1%
Residential Invest.	481.8	-5.8%	491.2	8.0%	497.2	5.0%	503.3	5.0%	433.8	12.9%	492.8	12.2%
Change in Inventory	87.4	-	70.0	-	65.0	-	65.0	-	57.6	-	81.6	-
Net Exports	**-414.4**	-	**-410.6**	-	**-404.9**	-	**-399.1**	-	**-430.8**	-	**-412.3**	-
Exports	2,023.2	-7.6%	2,048.0	5.0%	2,073.2	5.0%	2,098.6	5.0%	1,957.5	3.5%	2,010.1	2.7%
Imports	2,437.6	-1.4%	2,458.7	3.5%	2,478.1	3.2%	2,497.7	3.2%	2,388.2	2.2%	2,422.3	1.4%
Gov't Purchases of Goods & Services	**2,864.9**	**-0.5%**	**2,869.5**	**0.6%**	**2,874.4**	**0.7%**	**2,879.3**	**0.8%**	**2,963.1**	**-1.0%**	**2,897.0**	**-2.2%**
Federal	1,126.9	0.7%	1,127.4	0.2%	1,128.0	-0.6%	1,128.5	-0.3%	1,220.3	-1.4%	1,166.6	-5.2%
National Defense	689.4	-2.4%	689.4	0.0%	689.4	0.0%	689.4	0.0%	769.1	-3.2%	721.6	-7.0%
Non-Defense	437.5	6.0%	438.0	0.5%	438.6	0.5%	439.1	0.5%	451.2	1.8%	445.1	-1.9%
State & Local	1,737.7	-1.3%	1,742.0	1.0%	1,746.4	1.0%	1,750.7	1.0%	1,742.8	-0.7%	1,740.8	-0.2%
Real Final Sales	15,842.0	0.7%	16,016.4	4.5%	16,148.4	3.3%	16,285.2	3.4%	15,403.2	2.6%	15,682.1	1.7%
Real Domestic Final Sales	16,255.7	1.5%	16,427.1	4.3%	16,553.3	3.1%	16,684.3	3.2%	15,835.2	2.4%	16,099.0	1.6%
y/y	3.67%		4.27%		4.37%		5.22%					

	1st QUARTER 15 Forecast		2nd QUARTER 15 Forecast		3rd QUARTER 15 Forecast		4th QUARTER 15 Forecast		2014 FORECAST		2015 FORECAST	
Real GDP	**16,478.4**	**3.2%**	**16,596.6**	**2.9%**	**16,692.3**	**2.3%**	**16,765.3**	**1.8%**	**16,149.2**	**2.5%**	**16,633.2**	**3.0%**
Personal Consumption Expenditures	**11,249.7**	**2.7%**	**11,319.2**	**2.5%**	**11,371.8**	**1.9%**	**11,418.0**	**1.6%**	**11,048.1**	**3.0%**	**11,339.7**	**2.6%**
Durable Goods	1,448.9	6.0%	1,466.7	5.0%	1,473.9	2.0%	1,481.3	2.0%	1,395.7	4.3%	1,467.7	5.2%
Non-Durables	2,452.1	2.5%	2,467.3	2.5%	2,479.6	2.0%	2,488.8	1.5%	2,401.6	2.6%	2,472.0	2.9%
Services	7,363.7	2.2%	7,400.2	2.0%	7,433.3	1.8%	7,462.9	1.6%	7,266.2	2.9%	7,415.0	2.0%
Gross Private Domestic Invest.	**2,735.9**	**6.4%**	**2,776.4**	**6.0%**	**2,810.4**	**5.0%**	**2,829.4**	**2.7%**	**2,638.8**	**3.3%**	**2,788.0**	**5.7%**
Bus. Fixed Invest.	2,163.2	7.3%	2,196.2	6.2%	2,224.9	5.3%	2,243.6	3.4%	2,068.4	4.3%	2,206.9	6.7%
Structures	470.4	10.0%	478.4	7.0%	484.3	5.0%	489.1	4.0%	448.2	4.2%	480.5	7.2%
Equipment	1,030.7	9.0%	1,050.7	8.0%	1,068.7	7.0%	1,079.2	4.0%	974.8	4.7%	1,057.3	8.5%
Intellectual Property Products	664.1	3.0%	669.0	3.0%	674.0	3.0%	677.3	2.0%	647.3	3.6%	671.1	3.7%
Residential Invest.	517.8	12.0%	530.2	10.0%	540.5	8.0%	545.9	4.0%	493.4	0.1%	533.6	8.2%
Change in Inventory	55.0	-	50.0	-	45.0	-	40.0	-	71.9	-	47.5	-
Net Exports	**-394.1**	-	**-390.7**	-	**-385.2**	-	**-381.7**	-	**-407.3**	-	**-387.9**	-
Exports	2,123.3	4.8%	2,147.9	4.7%	2,172.2	4.6%	2,194.6	4.2%	2,060.7	2.5%	2,159.5	4.8%
Imports	2,517.4	3.2%	2,538.6	3.4%	2,557.4	3.0%	2,576.4	3.0%	2,468.0	1.9%	2,547.4	3.2%
Gov't Purchases of Goods & Services	**2,884.1**	**0.7%**	**2,888.9**	**0.7%**	**2,892.4**	**0.7%**	**2,896.9**	**0.8%**	**2,872.0**	**-0.9%**	**2,890.6**	**0.6%**
Federal	1,126.8	-0.6%	1,125.1	-0.6%	1,123.4	-0.6%	1,122.5	-0.3%	1,127.7	-3.3%	1,124.4	-0.3%
National Defense	687.7	-1.0%	685.9	-1.0%	684.2	-1.0%	683.4	-0.5%	689.4	-4.5%	685.3	-0.6%
Non-Defense	439.1	0.0%	439.1	0.0%	439.1	0.0%	439.1	0.0%	438.3	-1.5%	439.1	0.2%
State & Local	1,757.2	1.5%	1,763.8	1.5%	1,769.1	1.2%	1,774.3	1.2%	1,744.2	0.2%	1,766.1	1.3%
Real Final Sales	16,423.4	3.4%	16,546.6	3.0%	16,647.3	2.5%	16,725.3	1.9%	16,073.0	2.5%	16,585.7	3.2%
Real Domestic Final Sales	16,817.5	3.2%	16,937.3	2.9%	17,032.5	2.3%	17,107.0	1.8%	16,480.1	2.4%	16,973.6	3.0%
					16,130.9							
y/y	3.34%		3.17%		2.95%		2.54%					

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