IHS **Economics**

US Executive Summary

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Winter's over, expect a hot quarter to follow

Highlights

- The weather was a factor in the first quarter's poor GDP performance, but data anomalies from fourth-quarter 2013 and slower-than-expected organic growth also contributed. Very few of these issues are expected to impact economic growth in the second half of 2014.

- Our second-quarter forecast will show a continuation of the recent saw-tooth pattern of real GDP growth, with a rebound to 3.5%. Growth in the second half of 2014 will average 2.8%.

- This month, the IHS Brent crude oil price outlook has increased throughout the forecast period, culminating with Brent prices of about $145/barrel in 2024, about $27/barrel higher than last month's forecast. The higher prices will help bolster economic growth by spurring greater domestic production and compelling a future liberalization of US export regulations affecting crude.

Analysis

The recent saw-tooth pattern of real GDP growth comes from a combination of weather, unusually large one-time data movements, and an organically weaker economy. The last of these three pieces was an important contributor to the weak first-quarter growth, but not a pervasive one. The weakness was largely confined to the housing and computer sectors. A brief scorecard of the movements from these three impacts follows:

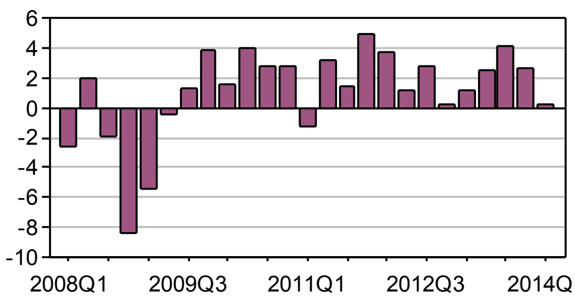
- **Consumer spending:** Real natural gas spending soared in the first quarter due to the cold weather, but this spending will be reversed in the second quarter. Healthcare expenditures grew at a 9.9% annual rate from the operational rollout of the Affordable Care Act—the largest gain since third-quarter 1980. We expect healthcare spending to resume its lower, trend growth rates for the rest of the year.

- **Exports:** A weak export sector subtracted over a percentage point from growth in the first quarter, offsetting most of the fourth quarter's outsized gains. However, (nominal) exports still remain 5.0% ahead of year-ago levels based on the Commerce Department's March trade data, and are expected to grow strongly in the second quarter.

- **Housing:** New and existing home sales were affected by both the weather and difficult lending conditions

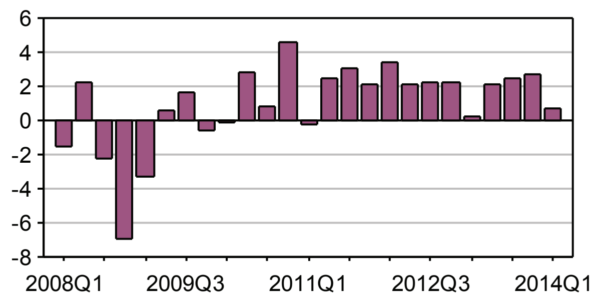
Real GDP growth

(Annualized percent change)



Real final sales growth

(Annualized percent change)



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for buyers. Scant evidence of a rebound appeared in the March data, although this could be from the inability to home-shop in the preceding cold and snowy months.

- **Capital spending:** First-quarter sales of computers (nominal spending) were the second lowest since 1996. While we acknowledge significant weakness in the industry, we believe that some of this first-quarter dip will be reversed in the second quarter. Investment in aircraft also fell in the first quarter, partially offsetting an upward spike in the previous quarter.

This month, we have altered two significant assumptions in the baseline related to energy. First, we now expect that US crude export regulations will be liberalized in 2016. This results in a significant improvement in the US net exports position from higher exports. The second change concerns energy prices. The IHS forecast for Brent (a UK-based, global price) has increased in each year of the forecast period. The increases start at $1.50/barrel in 2015 and rise to $8.40/barrel in 2020 and $26.45 in 2024, yielding per-barrel prices of $101, $118, and $145 in each of these three years. This new price forecast is driven by the anticipated higher costs of extracting crude from increasingly expensive methods and locations. Separately, the US-centric West Texas Intermediate price will decline in 2015 as a result of a supply glut, but sharply increase thereafter in a manner consistent with the Brent price, ultimately narrowing the gap between the Brent and WTI prices. The higher prices also will spur additional domestic production and economic growth by reducing petroleum imports.

While first-quarter real GDP growth came in at a disappointing 0.1%, the recent data suggest that this will be revised down by 0.5–1.0 percentage point, exacerbating the second-quarter rebound to a 3.5% rate. Annual real GDP growth in 2014 and 2015 remains about the same as last month, with growth at 2.4% and 3.2%, respectively. The outlook for 2016–17 has increased primarily due to the changes in the energy-sector assumptions.

How big of a threat is deflation in the developed world?

Inflation rates in the developed world have been falling for about three decades. This trend has generally been viewed as a confirmation of the success of central banks in achieving both low and stable inflation. Recently, though, there has been growing anxiety that there can be "too much of a good thing." In the United States, Eurozone, and (more recently) the United Kingdom, inflation rates are now below the 2% target of the respective central banks—and trending down, especially in the case of Europe. Some Eurozone economies are already in deflation—a highly undesirable outcome—and others are close. As a result, there are persistent worries that, even as Japan has emerged from its two "lost decades," parts of Europe may be entering their own deflationary period.

Why worry about deflation, or even "lowflation"?

Arguably, combating deflation is a tougher challenge than inflation. The latter can usually be brought under control by turning off the monetary spigots and plunging an economy into recession—very painful but effective. Deflation, on the other hand, is corrosive in a different way from inflation, and it becomes part of people's expectations, the policies used to counteract it are typically not very effective. In the 1930s, many countries found this out the hard way—as did Japan in the 1990s and 2000s.

The damage from deflation can manifest itself in several ways:

- When consumers and businesses expect prices to fall, incentives are created to wait to make purchases. This reinforces stagnation in an economy.

- The low nominal interest rates that accompany deflation also mean that the opportunity cost of companies delaying capital expenditures is low. This aggravates the economic malaise.

- Even if nominal interest rates are low, in an environment of falling prices, real interest rates (corrected for deflation—or, more accurately, expected deflation) are higher. This means that monetary policy may be tight even if nominal interest rates are at or close to zero.

- While inflation erodes the value of debt, deflation increases the burden of debt. This can lead to a nasty phenomenon known as "debt deflation," in which rising debt burdens and falling net worth can depress business and consumer spending, further exacerbating deflationary pressures.

It usually takes very aggressive policies to eradicate deflation from the economy and deflationary expectations from the psychology of businesses and consumers. Even very low rates of inflation—recently dubbed "lowflation" by the International Monetary Fund—are dangerous. Such ultralow inflation raises the risk that the economy could slide into outright deflation, especially if there is a deflationary shock. Moreover, many of the same prob-

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lems that exist when there is deflation are also in play during episodes of "lowflation."

United States—So far so good, but there is no room for complacency

Deflation is a relatively minor threat to the US economy at this point in time. Both core and headline inflations rates will likely remain in the 1.5–2.0% range in 2014, although inflation measured by the core personal consumption expenditures deflator (watched by the Federal Reserve) has been running below 1.5% recently. The US economy has been gradually working off the excess capacity in both labor and product markets. That said, the gap between actual and potential (trend) GDP remains historically large and, by some measures, there is significant slack in the labor market. Specifically, high long-term unemployment rates and low labor-force participation rates are worrisome. The fact that some inflation exists amid this excess capacity greatly reduces the likelihood of deflation. In fact, our baseline forecast assumes a tightening of monetary policy in the latter part of 2015 as resource constraints begin to exacerbate inflation pressures.

The good news is that with inflation comfortably in positive territory and nominal interest rates very low, real short-term interest rates in the United States have fluctuated between -1% and -2% over the past year (measured using actual inflation rates, rather than expected inflation rates, which are harder to quantify). This means that monetary policy remains quite accommodative, thereby reducing the risks of deflation. Nevertheless, these risks could rise once again if the world economy were to be hit with a deflationary shock, such as a Chinese economic hard landing or an escalation of the hostilities between Russia and Ukraine.

Eurozone—sleepwalking into the danger zone?

Because of higher levels of unemployment and larger output gaps, the risk of deflation in the Eurozone is considerably greater than in the United States. CPI inflation has fallen more precipitously—from an average 2.7% in 2011 to 0.7% in April. Four countries are already suffering deflation (Cyprus, Greece, Portugal, and Slovakia) and four others are too close for comfort (Ireland, Italy, Slovenia, and Spain).

With inflation rates falling, real interest rates in the Eurozone have risen from (an average) -2% in mid-2012 to zero recently. For countries that are in deflation. this means that real interest rates are now positive and an increasing drag on growth. Not coincidentally, these are the same countries that were both hit hard by the Eurozone crisis and are now seeing very weak growth or lingering recessions. For these countries, a much more aggressive application of monetary stimulus is called for—especially since many are still in the midst of austerity programs. A more robustly stimulative monetary policy would also help alleviate another big drag on growth—a strengthening euro.

The unwillingness and/or inability (because of its mandate) of the European Central Bank (ECB) to provide more stimulus since mid-2012 runs the risk that some or all of the Eurozone could suffer a protracted period of sluggish growth, much like Japan in the past 20 years. Moreover, as some analysts have fretted, the entire Eurozone is probably "one shock away from deflation."

Japan—a terrible role model until late 2012

Deflation was one of the defining characteristics of Japan's lost decades. Between 1994 and 2011, Japanese consumer price inflation was negative during 10 years and close to zero during another six. The Bank of Japan and successive governments seemed paralyzed, and therefore unable to take the necessary actions to rid the economy of deflation. High real interest rates, a strong currency, and sluggish growth were integral parts of this negative dynamic.

All this changed in late 2012, with the election of Shinzo Abe as prime minister of Japan. One of the hallmarks of "Abenomics" has been an aggressive quantitative easing program by the Bank of Japan and an announced 2% inflation target. This change in policy has had the desired effect. Inflation is now firmly in positive territory (2.7% in April—the highest since 1992). Over the past year and a half, real interest rates have fallen from 1% to -2% and the yen has dropped by about 20% relative to the dollar. This has boosted profits, the stock market and domestic growth.

Bottom line: Japan has shown the rest of the world what not to do in the face of deflation—and more recently what to do. The Federal Reserve absorbed these lessons (especially Japan's mistakes and those of the Fed in the 1930s) and acted accordingly, thereby reducing the risk of deflation. The ECB's lack of urgency in dealing with deflation in the Eurozone increases the risk that price declines could become more pervasive.

US GDP analysis

Current quarter and one quarter ahead: Real GDP growth in the first quarter came in at an annualized rate

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of 0.1%. Early evidence about the first revision suggests that this growth rate will be reduced by 0.5–1.0 percentage point because of new international trade, construction, shipments, and inventories data. Anticipation of this revision and the subsequent rebound is a major factor in driving the IHS forecast of 3.5% real GDP growth in the second quarter, which will likely prove to be the fastest growing quarter of the year.

While the weather contributed to this cyclicality, much of the growth that we foresee represents genuine strength in the economy. We expect a swing in the real GDP growth rate of about four percentage points between the first and second quarters. Export growth will contribute about two percentage points of this swing. Exports had declined in the first quarter because of reduced food and industrial supply exports. They are expected to surge in the second quarter due to greater exports of capital goods—a sign of improvement in the global economy. Capital equipment investment will contribute almost another two percentage points because of higher light-vehicle sales in the second quarter, as well as a rebound from abnormally low computer sales in the first quarter.

Housing remains a risk factor to the positive outlook. Existing home sales will remain depressed from last year's peak rate of 4.70 million units. This sales pace will not be re-attained until early 2015. Housing starts, however, are expected to exceed the one-million mark in the third quarter of this year, a pace not seen since 2008. Thus, for the next year or two, the construction aspects of housing will be a greater contributor to growth than categories driven by existing home sales, such as remodeling and real estate commissions.

Consumer spending and income: Perhaps the most distinguishing feature of the first-quarter GDP report was that personal consumption expenditures grew at a 3.0% annual rate, yet total output was nearly flat. More specifically, services spending increased 4.4%, led by a weather-related surge in natural gas spending and an Affordable Care Act–driven increase in healthcare consumption. A major retrenchment in natural gas spending and a return-to-trend outlook for healthcare is slated for the second quarter, with services growth of only 1.1%. Additionally, the second quarter will see a rebound in light-vehicle sales to 16.2 million units, from the first quarter's weather-dampened 15.6 million units.

Business investment spending: Business equipment investment should be one of the brightest pieces of second-quarter growth, contributing 0.7 percentage point. Light-vehicle investment—which includes sales to businesses, fleet automobile sales, and most cars sold on leases—will see solid growth in the second quarter. This will add to growth, along with a rebound in computer investment, which was especially weak in the first quarter. Aircraft sales reached their highest level in over 10 years at the end of last year, will continue a return-to-normalcy trend started in the first quarter.

Housing: With reasonable mortgage rates, good employment growth, and a recent history of rising prices, why isn't the housing market booming? Recent data show that new and existing home sales remain weak, as do housing starts. Moreover, this weakness is seen in parts of the United States that had "good" winter weather, eliminating the climate as the sole causal factor.

There are several possible factors delaying the housing recovery: higher input prices for builders and a shortage of buildable lots; very stringent lending standards put in place by mortgage lenders, reducing the potential customer pool; a relative lack of distressed properties for sale, which had helped drive sales in recent years; and a reduction in job mobility, as the rate of new job hiring remains stuck at recession levels.

Additionally, some of the explanation for the delayed recovery may be found among the Census Bureau's data for homeownership by age cohort. Across the United States, homeownership rates have dropped by about four percentage points over the past 10 years, from 69% to 65%. This drop was especially pronounced for those in the 35–44 age cohort. Persons in this age bracket may have bought or currently own houses where the mortgage owed exceeds the value of the home, been foreclosed upon in recent years, or just simply work in sectors where job and wage growth has been poor. Similar but smaller declines in homeownership rates can be found in the other working-age cohorts.

International trade: A deterioration in real net exports subtracted 0.8 percentage point from GDP growth in the first quarter. Most of this decline was from fewer exports. Imports fell too, but not nearly enough to offset what happened on the export side. Because real exports grew at an annual rate of 9.5% in the fourth quarter, some retrenchment was expected, and the data did not disappoint, with a 7.6% decline in the first quarter. Export growth will resume in the second quarter, led by capital goods.

Real imports fell at a 1.4% annual rate in the first quarter, with most of this decline centered on motor vehicles and consumer goods. Because overall demand in these areas is

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expect to be strong, a pickup in import demand is anticipated for the second half of this year.

Government spending: Six months into fiscal year (FY) 2014, the federal government is running a deficit of $413 billion, compared to $600 billion at this point in FY 2013. We expect a FY 2014 deficit of $520 billion (3.0% of GDP), down from $680 billion in FY 2013 (4.1% of GDP) thanks to rising tax receipts, military spending cuts, reduced unemployment benefits, and transfers from the GSEs and the Federal Reserve to the Treasury.

Over the next decade, in light of recent discretionary spending cuts, projected federal budget deficits over the 10-year forecast horizon have been declining. We had assumed that entitlement and tax reform—which lowered marginal tax rates but raised revenues (and effective tax rates) by closing tax loopholes—would ultimately be necessary to stabilize the federal debt and deficit as shares of GDP. We no longer think that this is necessary or politically feasible in the current environment. We have therefore removed major tax increases from our baseline assumption. Our forecast is for a federal deficit equal to 2.5% of GDP in 2024, versus 1.8% in last month's forecast.

The tax-rate reductions were applied to both personal and corporate effective rates. By 2024, the effective personal tax rate was reduced by 1.8 percentage points from last month's forecast, while the effective corporate tax rate fell by 4.4 percentage points. The decline in the personal rate impacts the economy more than the corporate rate because of the larger income base. But the greater reduction in corporate tax rates reflects a bipartisan recognition that lower tax rates are needed to maintain or promote greater global business competitiveness.

Monetary policy, unemployment and inflation: Since December, the Federal Reserve has been reducing the monthly pace of its purchases of US Treasury securities and mortgage-backed securities in $10-billion increments. With the recovery showing renewed resilience, if not outright robustness, the Fed slowed the pace once again at its most recent meeting, this time to $45 billion per month, from $55 billion. The Fed still believes that the economy needs "highly accommodative" monetary policy to support the recovery. This means that the Fed will continue to buy government bonds for the remainder of the year, though at an increasingly slower pace. Once the program does end, the Fed will keep asset levels on its balance sheet "big" for some time. We expect that the Fed will own $4.2 trillion in US Treasury securities and agency-backed mortgage-backed securities by the end of the year.

As the unemployment rate dips below 6% in the latter half of 2015, we see the Fed's nearly zero short-term interest rates coming to end, reversing a policy that begin in 2009. We see the federal funds rates peaking in 2017 at around 4%, growing in mostly 25-basis-point intervals.

Key forecast assumptions

Fiscal policy: We have incorporated the discretionary spending levels from the Bipartisan Budget Act and have assumed that the no future government shutdowns will occur as a result of either budget or debt-ceiling stalemates. New spending and taxation assumptions have been incorporated this month that are described above.

Federal Reserve: The tapering process will continue throughout most of 2014, in reduced increments averaging about $10 billion per Fed meeting. This process should be completed in the fourth quarter of 2014.

Exchange rates and non-US GDP growth: The inflation-adjusted, trade-weighted value of the dollar is expected to decline 2.0% over the 10-year forecast period against the currencies of the United States' major trading partners, and fall 19.0% against the currencies of other important trading partners. Real GDP growth for the major-currency trading partners is assumed to average 2.0% annually from 2014 through 2024; for other important trading partners, growth averages 4.4% over the next 10 years.

Energy: Brent spot prices will remain in the $106–108/barrel range throughout 2014, and gradually rise to $118 by 2020 and to $145 by 2024. West Texas Intermediate (WTI) prices will fall to $95/barrel by the end of 2014 and $86/barrel by the end of 2015. Additionally, we have assumed that US regulations will be eased around 2016 to permit exports of crude oil. This will link the US-based WTI prices more closely to global Brent prices, ultimately driving WTI prices higher. The higher prices will help promote domestic production and reduce import demand.

Ukraine: At this time, the political crisis in Ukraine is not expected to materially impact worldwide energy prices, nor develop into military conflict.

by Doug Handler and Nariman Behravesh, with Chris G. Christopher, Paul Edelstein, and Patrick Newport

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Risks to the forecast

First-quarter real GDP growth was reported at a 0.1% annualized rate—much lower than expected. However, we expect it to be revised down by 0.5–1.0 percentage point due to changes in international trade, construction, shipments, and inventories. We revised our second-quarter real GDP growth forecast up from 2.7% to 3.5% because of the more-pronounced rebound. Nevertheless, major risks for the US economy come from a weak housing market and lower consumer spending numbers. Additionally, since we needed to parse which aspects of first-quarter weakness were weather-related, we needed to do the same thing with second-quarter growth. It is possible that more of the first quarter's weakness was organic than previously thought, and therefore the rebound in the second quarter is at risk.

In the pessimistic scenario, the US economy grows 0.6% in the second quarter, but takes a hit in the third quarter, dropping into negative territory (down 0.1%) as the housing market weakens. With a stalling economy and weak labor market conditions, the Federal Reserve keeps the federal funds rate in the 0.00–0.25% range until 2017.

Recovery stalls (20% probability): In the pessimistic scenario, depressed employment and weak wage gains produce a housing-sector relapse. Builders' margins remain tight, as low affordability and tight credit turn homeownership into a distant dream for current renters. Housing starts weaken again, and average only 910,000 in 2014, 12.6% below the baseline. Consumption does not contribute to second-quarter growth, weakened by poorer-than-expected contributions from utility spending and healthcare consumption. Real GDP grows 0.6% in the second quarter of 2014, and then declines 0.1% in the third quarter before recovering in the fourth quarter. Real GDP growth rounds up to 1.3% for the year (versus 2.4% in the baseline).

Fiscal policy is of no great help in the pessimistic scenario, either—federal government spending contracts by nearly 13% (annualized rate) in the second quarter. Without a credible stimulus plan on the horizon, private-sector confidence sinks, stock prices plunge, and the US economy continues to tumble. After holding up in the first quarter, the S&P 500 sinks nearly 7% in the second quarter.

This decline in the stock market leads to much weaker confidence, and consumer spending increases only 2.0% in 2014 (versus 2.7% in the baseline). With businesses unwilling to expand further in such a weak environment, nonresidential fixed investment growth slows down. Light-vehicle sales turn down again, falling back to 15.2-million units (annualized) in the third quarter (versus 16.0-million units in the baseline).

The possible scenario of a banking crisis in China, conflict between Ukraine and Russia, and weaker growth in other emerging economies results in a decline in US exports growth; exports increase 4.7% in the second quarter, but drop 0.2% in the third quarter, growing by just 1.5% in 2014 (versus 2.8% in the baseline).

The double squeeze from weak domestic sales and slow exports weakens businesses and puts them in the undesirable position of having to cut payrolls. In turn, this leads to depressed wages, low profits, and declining employment, with the unemployment rate rising back to 7.3% by the end of 2014, before retreating again.

In the baseline scenario, the price of Brent crude increases in each year of the forecast period because of the anticipated higher costs of extracting crude from increasingly expensive methods and locations. These higher prices spur additional domestic production and economic growth by reducing petroleum imports. In the pessimistic scenario, on the other hand, weak global demand for energy pushes the Brent price below the baseline in the short run, providing some cushion for real incomes. The result is lower inflation, with headline consumer price inflation at 1.6% in 2014. But when the US economy finally starts recovering and pent-up demand is released, tight production capacity and weak productivity lead to production bottlenecks and put upward pressure on prices. This causes higher inflation, along with a weakening US dollar due to worries about fiscal debt and weak growth. CPI inflation exceeds the baseline, and nears the critical 2.5% threshold by the end of 2016. The Federal Reserve decides to finally raise the federal funds rate only in the third quarter of 2017, too late to prevent a higher inflation rate from becoming entrenched.

Recovery reignites (20% probability): In the optimistic scenario, the unusually frigid winter explains most of the unexpected softness in recent economic data; as the weather warms, the economy heats up. The atmosphere of excessive caution dissolves, and the pace of technology adoption accelerates. The associated jump in productivity kick-starts equities markets, which rise 12.8% above the baseline by the third quarter of 2014 due to unforeseen improvements in productivity.

April's strong payroll gains continue, and the labor-market recovery continues at a similar pace throughout the rest of the year. As business confidence firms, investment in equipment accelerates in the second quarter, growing 7.0% in 2014 and 13.5% in 2015 (versus 4.9% and 10.2%

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in the baseline). Nonfarm productivity growth jumps above the baseline in the same quarter, lifting wage and salary growth with it; both remain elevated throughout the forecast period. By the third quarter of 2014, the labor market is consistently adding about 270,000 jobs per month. The unemployment rate falls below the Fed's 6.5% threshold in the second quarter of 2014. While this threshold is not viewed as concrete, it occurs in tandem with a ramp-up in yearly growth of the core PCE index, prompting the Fed to raise short-term rates above their near-zero levels by the third quarter.

As wage and employment growth expand together, home affordability improves, opening the floodgates of underlying demand for housing. Sales of new single-family homes improve sharply in the second quarter, and sustain this newfound momentum through the end of 2015. Meanwhile, the pullback in investor purchases allows families to make more successful bids on existing single-family homes; sales remain sluggish in the second quarter, but with the playing field tilted back in families' favor, sales recover in the second half of the year. Demand remains stronger than supply, causing year-on-year home prices to grow faster than the baseline in the near term. The rising tide lifts all boats: builders, empowered by improved access to credit and inspired by the simultaneous revival in sales and continued price growth, ramp up single-family housing starts to a 779,000 annual rate in the third quarter (versus 714,000 in the baseline).

The European Central Bank expands its monetary base, successfully steering the Eurozone away from deflation. European growth picks up, lifting demand for US exports with it; the improvement in the external sector lifts export growth above the baseline in 2014.

by Stephanie Karol and Ozlem Yaylaci

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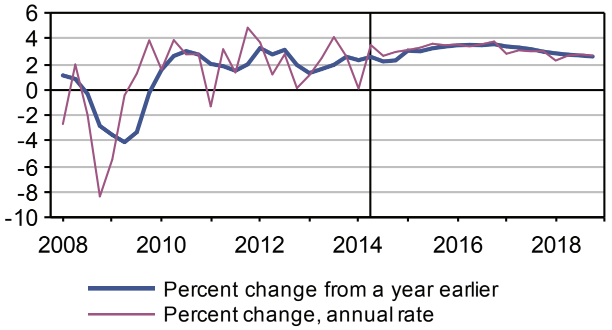
Forecast at a glance

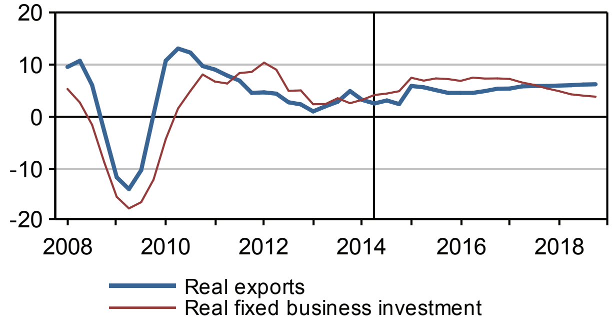
Economic growth will accelerate in 2014

(Real GDP, percent change)



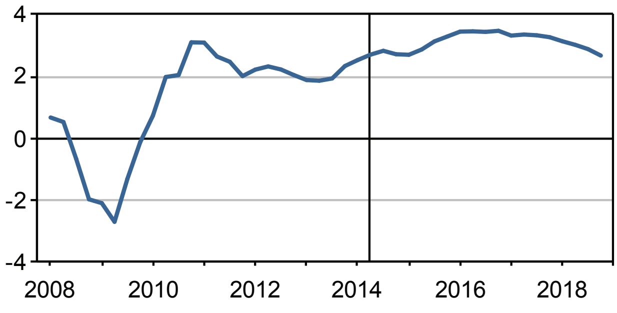
Export and investment gains will outpace GDP growth

(Percent change from a year earlier)



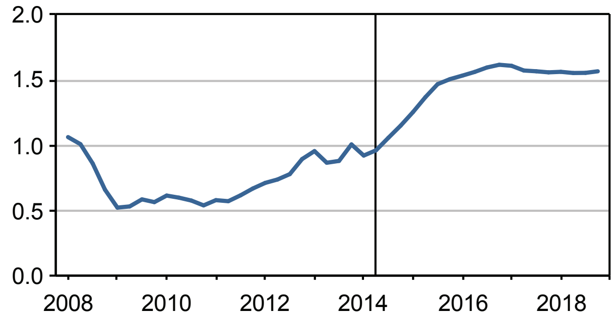
Consumer spending growth accelerates

(Real spending, percent change from a year earlier)



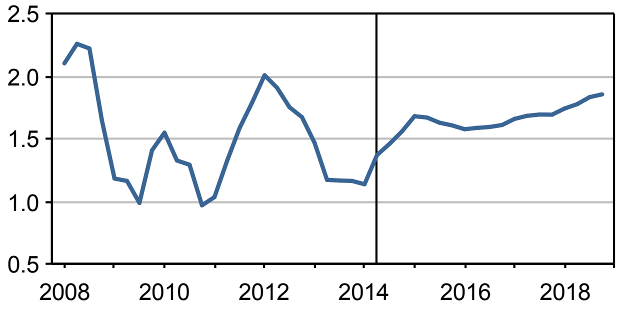
Housing starts grow to prerecession levels by 2016

(Million units)



Core inflation has bottomed out, but is not expected to become problematic

(Core PCE index, year-on-year percent change)



Federal Reserve holds short-term rates near 0% until mid-2015

(Percent)

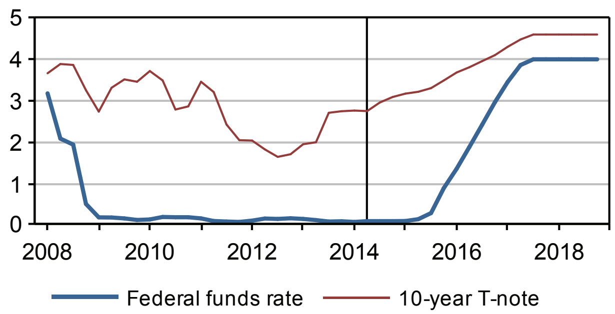


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TABLE 1
Monthly Economic Indicators

	Mar. 2013	Apr. 2013	Sep. 2013	Oct. 2013	Nov. 2013	Dec. 2013	Jan. 2014	Feb. 2014	Mar. 2014	Apr. 2014	2011	2012	2013
Industrial Markets													
Industrial Prod. Total (2007=100.0)	99.5	99.3	100.7	100.8	101.4	101.5	101.3	102.5	103.2		93.6	97.1	99.9
Percent Change	0.4	-0.2	0.7	0.1	0.5	0.1	-0.2	1.2	0.7		3.3	3.8	2.9
Percent Change Year Earlier	3.6	2.6	3.4	3.6	3.2	3.2	2.9	3.5	3.8				
Capacity Utilization, Manufacturing (%)	76.1	75.8	76.2	76.3	76.4	76.4	75.5	76.5	76.7		73.9	75.5	76.1
Unemployment Rate (%)	7.5	7.5	7.2	7.2	7.0	6.7	6.6	6.7	6.7	6.3	8.9	8.1	7.4
Payroll Employment (Mil.)	135.682	135.885	136.800	137.037	137.311	137.395	137.539	137.761	137.964	138.252	131.849	134.098	136.363
Change (Mil.)	0.141	0.203	0.164	0.237	0.274	0.084	0.144	0.222	0.203	0.288	1.576	2.250	2.264
Leading Indicator (2004=1.000)	0.951	0.958	0.982	0.985	0.994	0.994	0.996	1.001	1.009		0.916	0.936	0.969
Percent Change	-0.2	0.7	1.0	0.3	0.9	0.0	0.2	0.5	0.8		5.3	2.2	3.4
New Orders, Mfg. (Bil. $)	469.1	475.0	491.3	489.1	496.4	486.3	481.3	488.7	493.9		459.3	472.7	485.4
Percent Change	-4.7	1.3	1.8	-0.5	1.5	-2.0	-1.0	1.5	1.1		12.9	2.9	2.7
Inv. Chg., Mfg. & Trade (Bil. $)	-1.6	5.1	9.5	11.6	8.4	7.2	7.5	6.7			113.1	75.5	70.2
Merchandise Trade Bal. (Bil. $)	-53.9	-57.0	-61.4	-57.3	-53.3	-57.4	-58.6	-59.4	-59.2		-727.8	-729.6	-688.4
Consumer Markets													
Disposable Income (Bil. 2009$)	11568	11600	11752	11728	11741	11709	11742	11778	11819		11325	11552	11637
Percent Change	0.4	0.3	0.4	-0.2	0.1	-0.3	0.3	0.3	0.3		2.4	2.0	0.7
Personal Income (Bil. $)	14017	14032	14291	14282	14320	14310	14364	14418	14496		13191	13744	14135
Percent Change	0.3	0.1	0.4	-0.1	0.3	-0.1	0.4	0.4	0.5		6.1	4.2	2.8
Personal Saving Rate (%)	4.3	4.6	5.1	4.6	4.3	4.1	4.3	4.2	3.8		5.7	5.6	4.5
Consumer Expenditures (Bil. $)	11419	11392	11576	11612	11682	11692	11719	11773	11881		10712	11150	11502
Percent Change	0.2	-0.2	0.3	0.3	0.6	0.1	0.2	0.5	0.9		5.0	4.1	3.2
Retail Sales (Bil. $)	417.1	417.8	423.8	426.5	428.2	427.8	423.9	427.2	432.3		4627.5	4863.3	5068.4
Percent Change	-0.8	0.2	0.0	0.6	0.4	-0.1	-0.9	0.8	1.2		7.5	5.1	4.2
Non-Auto. Retail Sales (Bil. $)	338.6	338.4	342.0	343.5	343.1	344.3	342.5	343.8	346.1		3808.1	3969.0	4090.0
Percent Change	-0.7	-0.1	0.3	0.4	-0.1	0.3	-0.5	0.4	0.7		6.9	4.2	3.0
New Light-Vehicle Sales (Mil.)	15.3	15.2	15.2	15.1	16.3	15.3	15.2	15.3	16.3	16.0	12.7	14.4	15.5
Housing Starts (Mil.)	1.005	0.852	0.873	0.899	1.101	1.024	0.903	0.920	0.946		0.612	0.783	0.929
New Home Sales (Mil.)	0.443	0.446	0.403	0.452	0.448	0.437	0.470	0.449	0.384		0.306	0.368	0.431
Existing Home Sales (Mil.)	4.960	4.990	5.260	5.130	4.830	4.870	4.620	4.600	4.590		4.277	4.659	5.073
Chg. Consumer Install. Credit (Bil. $)	9.7	12.6	16.6	16.9	8.1	15.6	13.4	13.0	17.5		108.5	167.7	173.7
Prices and Wages													
CPI, All Urban Consumers	2.321	2.317	2.337	2.338	2.340	2.346	2.349	2.352	2.356		2.249	2.296	2.330
Percent Change Year Earlier	1.5	1.1	1.1	0.9	1.2	1.5	1.6	1.1	1.5		3.1	2.1	1.5
Core Cons. Price Defl. (2009=100.0)	105.6	105.6	106.2	106.3	106.4	106.5	106.6	106.7	106.9		102.7	104.6	105.9
Percent Change Year Earlier	1.4	1.2	1.2	1.1	1.2	1.2	1.1	1.1	1.2		1.4	1.8	1.2
PPI, Finished Goods	1.960	1.948	1.969	1.972	1.972	1.977	1.988	1.995	1.994		1.905	1.942	1.966
Percent Change Year Earlier	1.1	0.6	0.2	0.2	0.8	1.3	1.5	1.3	1.7		6.0	1.9	1.2
PPI, Industrial Commodities (NSA)	2.033	2.032	2.039	2.025	2.011	2.019	2.034	2.061	2.062		2.020	2.021	2.030
Percent Change Year Earlier	-0.9	-0.7	0.0	-0.1	0.2	0.7	0.9	1.0	1.4		8.0	0.0	0.4
Avg. Private Hourly Earnings ($)	20.02	20.04	20.21	20.25	20.30	20.35	20.39	20.49	20.47	20.50	19.44	19.73	20.14
Percent Change Year Earlier	1.9	1.7	2.2	2.3	2.3	2.3	2.2	2.4	2.2	2.3	2.0	1.5	2.0
Brent Crude, Spot Price ($/bbl.)	109.66	103.83	111.57	109.39	107.71	110.68	107.60	108.67	107.87	107.98	110.95	111.78	108.75
Percent Change Year Earlier	-11.9	-13.9	-1.6	-2.2	-1.5	1.3	-4.0	-6.6	-1.6	4.0	39.0	0.7	-2.7
Henry Hub Spot Natural Gas ($/mmbtu)	3.82	4.17	3.62	3.67	3.62	4.24	4.69	6.01	4.86	4.61	4.00	2.75	3.73
Percent Change Year Earlier	76.6	114.0	27.4	10.8	2.1	27.0	41.0	80.0	27.4	10.4	-8.9	-31.2	35.5
Financial Markets													
Federal Funds Rate (%)	0.08	0.07	0.16	0.16	0.16	0.13	0.14	0.16	0.16	0.16	0.16	0.14	0.11
3-Month T-Bill Rate (%)	0.01	0.01	0.09	0.09	0.10	0.10	0.11	0.10	0.09	0.07	0.11	0.10	0.06
Commercial Bank Prime Rate (%)	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Moody's Aaa Corp. Bond Yield (%)	3.87	3.93	3.80	3.64	3.40	3.48	3.49	3.47	3.50	3.65	5.08	4.91	3.82
10-Year Treasury Note Yield (%)	2.01	1.98	1.80	1.62	1.53	1.68	1.72	1.75	1.65	1.72	3.43	3.05	1.91
Conv. Mortgage Rate, FHLMC (%)	3.99	3.96	3.80	3.68	3.55	3.60	3.50	3.38	3.35	3.35	4.88	4.58	3.87
M1 Money Supply (Bil. $)	2161	2160	2254	2270	2322	2347	2384	2416	2408	2447	1701	1895	2223
Percent Change	1.0	0.0	0.2	0.7	2.3	1.1	1.6	1.3	-0.3	1.6	5.3	19.2	10.4
M2 Money Supply (Bil. $)	9582	9623	9889	9952	10025	10089	10161	10217	10283	10410	8506	8943	9778
Percent Change	0.5	0.4	0.3	0.6	0.7	0.6	0.7	0.6	0.6	1.2	2.6	9.5	6.1
Trade-Weighted US$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	81.3	82.1	82.4	83.4	83.0	82.1	80.6	80.6	81.3	81.0	84.3	79.8	81.6
Percent Change	0.7	1.0	1.4	1.3	-0.6	-1.1	-1.8	0.0	0.9	-0.4	-5.2	-5.4	2.3
Percent Change Year Earlier	0.1	0.3	5.6	6.9	7.2	5.5	0.7	-0.2	0.0	-1.4			
Real Morgan Guaranty Index	83.9	85.2	85.7	87.6	87.9	87.0	85.1	85.1	86.2	86.2	87.2	81.8	84.9
Percent Change	0.9	1.6	1.9	2.3	0.3	-1.0	-2.2	0.1	1.3	0.0	-4.7	-6.2	3.8
Percent Change Year Earlier	0.5	1.3	8.1	9.5	10.3	8.5	3.5	2.4	2.8	1.2	4.14	5.12	5.43

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TABLE 2

Summary of the US Economy

	2014:1	2014:2	2014:3	2014:4	2015:1	2015:2	2015:3	2015:4	2016:1	2016:2	2016:3	2016:4	2017:1
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.1	3.5	2.7	3.0	3.1	3.3	3.6	3.5	3.5	3.4	3.6	3.8	2.8
Final Sales of Domestic Product	0.7	3.8	3.0	3.2	3.4	3.3	3.6	3.4	3.6	3.4	3.6	3.8	3.0
Total Consumption	3.0	2.5	2.5	2.8	3.0	3.2	3.5	3.5	3.6	3.2	3.4	3.6	3.0
Durables	0.8	9.5	6.7	4.9	5.2	6.2	6.6	7.7	6.6	5.0	5.8	5.7	4.9
Nondurables	0.1	3.5	0.5	3.0	2.8	3.1	3.5	3.2	3.3	2.7	2.9	2.9	2.5
Services	4.4	1.1	2.5	2.4	2.7	2.8	3.0	2.9	3.2	3.1	3.2	3.5	2.9
Nonresidential Fixed Investment	-2.0	8.4	6.0	7.5	8.0	6.2	7.7	7.0	6.6	8.7	7.1	7.1	6.2
Equipment	-5.5	13.3	9.3	9.3	11.0	10.7	9.8	8.1	6.2	9.1	6.9	6.8	5.5
Information Processing Equipment	-14.8	18.1	17.0	13.5	14.6	13.7	15.2	13.6	13.0	12.2	10.7	8.8	7.7
Computers & Peripherals	-38.4	44.0	20.1	11.0	12.9	12.4	15.2	10.2	10.2	10.1	12.5	10.4	8.0
Communications Equipment	-20.2	21.6	19.4	15.1	16.6	16.8	17.5	17.3	17.5	16.6	14.7	11.1	9.8
Industrial Equipment	10.4	9.5	11.5	13.2	14.3	9.2	7.0	7.4	5.0	4.5	4.9	6.0	6.6
Transportation equipment	-11.3	17.3	-2.2	-0.4	3.7	7.4	3.0	-0.3	-4.7	10.2	1.1	2.1	-1.2
Aircraft	-43.9	-45.8	-6.3	1.5	5.5	4.8	6.3	8.8	5.9	7.8	7.0	6.3	4.5
Other Equipment	-0.7	7.2	10.0	10.2	10.3	11.6	12.1	9.9	8.8	8.4	8.9	9.1	7.5
Intellectual Property Products	1.5	2.9	6.1	5.9	5.0	4.3	4.4	4.9	5.0	4.4	4.2	4.5	4.5
Structures	0.2	6.9	-0.4	6.3	6.2	0.2	8.2	7.6	9.8	13.7	11.2	11.0	9.8
Commercial & Health Care	-7.6	5.9	3.1	8.4	10.1	22.4	39.5	34.5	29.5	34.8	18.8	16.9	10.5
Manufacturing	27.0	0.5	6.5	7.2	9.3	-1.9	-0.9	0.4	10.7	2.2	14.6	9.3	1.6
Power & Communication	9.0	-5.9	-13.7	-5.8	-4.1	-14.3	-0.6	-1.2	-0.4	7.3	3.7	5.3	14.2
Mining & Petroleum	0.1	17.0	1.3	12.4	8.8	-12.2	-10.0	-11.8	-5.4	2.0	7.9	11.8	13.0
Other	-13.3	11.8	4.0	5.2	5.3	14.7	16.6	19.1	14.4	11.3	7.4	4.8	4.7
Residential Fixed Investment	-5.8	11.7	13.2	20.8	21.5	22.3	23.0	16.6	8.7	6.3	6.1	3.8	0.3
Exports	-7.6	5.2	6.3	6.5	5.6	4.2	4.0	4.4	5.7	4.2	5.4	6.2	5.8
Imports	-1.4	1.8	5.1	8.3	6.8	6.6	6.7	7.1	5.1	5.0	4.8	4.5	4.7
Federal Government	0.7	0.8	0.7	0.4	-1.1	-1.4	-1.4	-0.3	-1.1	-0.8	-0.8	-0.7	-0.5
State & Local Government	-1.3	1.6	0.6	0.6	0.8	1.2	0.9	1.0	1.0	1.5	1.5	1.6	1.6
Billions of Dollars													
Real GDP	15946.6	16085.0	16191.2	16310.2	16436.2	16570.3	16718.2	16862.8	17010.5	17153.1	17304.4	17465.8	17588.1
Nominal GDP	17149.6	17373.7	17584.4	17801.3	18025.3	18241.5	18477.3	18701.2	18952.6	19185.6	19432.0	19699.0	19927.4
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	1.3	2.1	2.2	2.0	1.9	1.5	1.6	1.4	1.9	1.6	1.6	1.8	1.8
Consumer Prices	1.9	2.8	2.3	1.8	1.3	0.8	1.4	1.1	1.8	1.6	1.8	2.1	1.7
Producer Prices, Finished Goods	3.8	6.0	3.0	0.9	-0.5	-1.3	0.5	0.1	1.2	1.3	1.0	1.8	0.9
Employment Cost Index - Total Comp.	1.0	2.0	2.3	2.2	2.6	2.6	2.7	2.8	3.0	2.8	2.9	3.0	3.2
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	108.04	107.57	107.50	106.33	104.00	99.50	100.75	100.75	101.86	102.71	103.66	104.62	104.80
Productivity (%ch., saar)	-1.7	1.0	0.4	1.2	1.1	1.0	1.5	1.5	1.8	1.7	1.9	2.1	1.3
Total Industrial Production (%ch., saar)	4.4	2.9	3.7	3.5	4.5	3.4	4.0	3.2	3.9	4.2	4.0	4.0	2.7
Factory Operating Rate	76.2	76.8	77.2	77.5	77.8	78.1	78.4	78.5	78.6	78.6	78.7	78.8	78.5
Nonfarm Inven. Chg. (Bil. 2009 $)	65.7	69.0	63.5	60.5	52.5	55.7	55.7	58.7	56.7	55.6	56.2	56.4	48.4
Consumer Sentiment Index	80.9	86.0	87.0	88.0	89.0	91.8	92.7	93.4	92.7	91.7	91.3	91.6	90.6
Light Vehicle Sales (Mil. units, saar)	15.59	16.22	16.12	16.16	16.24	16.35	16.44	16.62	16.65	16.70	16.71	16.74	16.73
Housing Starts (Mil. units, saar)	0.923	0.964	1.059	1.152	1.255	1.369	1.469	1.507	1.534	1.562	1.596	1.616	1.609
Exist. House Sales (Total, Mil. saar)	4.603	4.834	5.127	5.278	5.505	5.622	5.705	5.776	5.819	5.679	5.585	5.546	5.510
Unemployment Rate (%)	6.7	6.5	6.5	6.3	6.2	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4
Payroll Employment (%ch., saar)	1.5	2.0	2.1	1.7	1.8	2.1	2.0	2.1	2.1	2.1	2.2	2.2	1.7
Federal Surplus (Unified, nsa, bil. $)	-240.7	24.8	-131.7	-180.1	-256.2	41.9	-125.8	-169.1	-241.3	57.2	-125.6	-183.5	-248.0
Current Account Balance (Bil. $)	-372.8	-357.5	-345.7	-357.6	-359.9	-362.7	-383.8	-412.3	-424.4	-443.5	-459.8	-464.7	-475.1
Financial Markets, NSA													
Federal Funds Rate (%)	0.07	0.09	0.09	0.09	0.09	0.14	0.29	0.89	1.36	1.88	2.42	2.96	3.46
3-Month Treasury Bill Rate (%)	0.05	0.04	0.06	0.06	0.08	0.14	0.43	0.96	1.42	1.93	2.43	2.92	3.35
10-Year Treasury Note Yield (%)	2.76	2.75	2.96	3.09	3.17	3.22	3.31	3.49	3.68	3.81	3.95	4.10	4.30
30-Year Fixed Mortgage Rate (%)	4.36	4.38	4.54	4.72	4.81	4.90	4.99	5.23	5.45	5.66	5.85	6.08	6.31
S&P 500 Stock Index	1834	1884	1898	1917	1937	1957	1976	1999	2023	2045	2061	2078	2095
(Four-Quarter % change)	21.1	17.0	13.3	8.3	5.6	3.9	4.1	4.3	4.4	4.5	4.3	4.0	3.6
Exchange Rate, Major Trading Partners	0.992	0.995	1.002	1.011	1.015	1.010	1.005	1.002	1.000	1.000	1.001	1.002	1.002
(% change, annual rate)	6.1	1.1	2.8	3.7	1.4	-1.7	-2.3	-0.9	-0.9	-0.2	0.7	0.3	-0.1
Incomes													
Personal Income (% ch., saar)	3.5	3.3	5.1	4.9	6.3	5.0	5.1	5.3	6.5	5.2	5.3	5.8	6.4
Real Disposable Income (%ch., saar)	1.9	1.1	2.7	3.5	4.8	4.0	3.8	3.8	4.5	3.8	4.1	4.2	3.9
Saving Rate (%)	4.1	3.7	3.8	3.9	4.3	4.4	4.5	4.5	4.7	4.8	5.0	5.1	5.2
After-Tax Profits (Billions of $)	2013	2082	2070	2088	2037	2060	2092	2102	2055	2074	2081	2114	2045
(Four-quarter % change)	12.8	14.3	10.8	9.6	1.2	-1.0	1.1	0.7	0.9	0.7	-0.6	0.5	-0.5

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TABLE 3

Summary of the US Economy

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Composition of Real GDP, Percent Change													
Gross Domestic Product	1.8	-0.3	-2.8	2.5	1.8	2.8	1.9	2.4	3.2	3.5	3.2	2.7	2.7
Final Sales of Domestic Product	2.0	0.2	-2.0	1.0	2.0	2.6	1.7	2.4	3.3	3.5	3.3	2.8	2.7
Total Consumption	2.2	-0.4	-1.6	2.0	2.5	2.2	2.0	2.7	3.0	3.4	3.3	2.9	2.6
Durables	4.6	-5.1	-5.5	6.1	6.6	7.7	6.9	5.0	6.1	6.3	5.4	4.8	4.6
Nondurables	1.7	-1.1	-1.8	2.2	1.9	1.4	2.0	2.0	2.7	3.1	2.7	2.3	2.1
Services	2.0	0.8	-0.8	1.2	2.1	1.6	1.2	2.6	2.6	3.1	3.2	2.8	2.4
Nonresidential Fixed Investment	5.9	-0.7	-15.6	2.5	7.6	7.3	2.7	4.2	7.3	7.3	6.3	4.3	3.1
Equipment	3.2	-6.9	-22.9	15.9	12.7	7.6	3.1	4.9	10.2	7.9	6.0	4.1	3.7
Information Processing Equipment	11.5	0.4	-8.9	9.9	2.3	2.7	3.4	2.7	14.7	12.7	8.5	6.8	6.5
Computers & Peripherals	13.1	5.9	-0.4	10.3	-1.4	5.4	-0.7	2.3	15.0	11.2	10.1	9.6	9.4
Communications Equipment	12.9	-4.9	-13.3	13.6	2.3	9.0	8.9	-1.3	17.1	16.5	10.2	6.7	6.8
Industrial Equipment	3.1	-4.8	-22.2	-0.5	15.7	5.5	3.3	7.7	11.1	5.9	5.0	1.2	-0.3
Transportation equipment	-4.2	-23.0	-55.0	94.0	32.2	22.2	0.4	5.2	3.3	1.6	1.5	2.4	2.8
Aircraft	28.3	-0.7	-41.0	24.7	11.2	30.5	0.2	-1.2	-1.1	6.9	6.0	4.3	3.1
Other Equipment	-1.2	-4.8	-19.8	8.5	12.3	3.9	5.4	4.9	10.5	9.5	7.4	4.7	4.5
Intellectual Property Products	4.8	3.0	-1.4	1.9	4.4	3.4	3.1	3.4	5.0	4.6	4.2	3.8	3.7
Structures	12.7	6.1	-18.9	-16.4	2.1	12.7	1.3	3.9	4.6	9.6	9.7	5.1	1.3
Commercial & Health Care	10.0	-3.7	-30.7	-24.9	-0.4	7.9	3.5	5.8	15.9	29.7	13.1	4.0	-0.1
Manufacturing	18.2	24.8	4.6	-27.5	-4.1	15.1	2.4	4.8	4.0	5.2	6.3	3.3	0.5
Power & Communication	39.3	9.9	1.4	-16.1	-7.8	18.9	-8.4	-1.5	-7.2	0.7	9.6	6.7	-0.7
Mining & Petroleum	-1.6	7.3	-28.6	17.1	24.2	13.8	5.1	6.4	0.9	-3.8	9.8	7.1	3.0
Other	15.1	12.7	-18.3	-26.7	-7.5	8.0	4.3	2.3	9.5	13.3	5.1	4.0	3.7
Residential Fixed Investment	-18.8	-24.0	-21.2	-2.5	0.5	12.9	12.2	4.0	19.8	11.4	0.7	-1.6	0.8
Exports	8.9	5.7	-9.1	11.5	7.1	3.5	2.7	2.8	5.3	4.9	5.8	6.1	6.2
Imports	2.3	-2.6	-13.7	12.8	4.9	2.2	1.4	2.1	6.5	5.7	4.6	4.2	3.3
Federal Government	1.7	6.8	5.7	4.3	-2.6	-1.4	-5.2	-2.4	-0.5	-0.9	-0.6	-0.5	-0.3
State & Local Government	1.5	0.3	1.6	-2.7	-3.6	-0.7	-0.2	0.3	0.9	1.2	1.5	1.4	1.2
Billions of Dollars													
Real GDP	14876.8	14833.6	14417.9	14779.4	15052.4	15470.7	15761.3	16133.2	16646.9	17233.4	17788.8	18274.6	18759.9
Nominal GDP	14480.4	14720.3	14418.0	14958.3	15533.8	16244.6	16799.7	17477.2	18361.3	19317.3	20280.2	21210.4	22166.8
Prices & Wages, Percent Change													
GDP Deflator	2.7	1.9	0.8	1.2	2.0	1.7	1.4	1.7	1.8	1.6	1.7	1.8	1.8
Consumer Prices	2.9	3.8	-0.3	1.6	3.1	2.1	1.5	1.9	1.5	1.5	1.8	2.0	2.0
Producer Prices, Finished Goods	3.9	6.4	-2.6	4.2	6.0	1.9	1.2	2.9	0.6	0.8	1.3	1.7	1.6
Employment Cost Index - Total Comp.	3.1	2.9	1.4	1.9	2.1	2.0	1.9	1.8	2.5	2.8	3.0	3.1	3.2
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	72.68	97.94	61.57	79.84	110.95	111.78	108.75	107.36	101.25	103.21	105.53	108.59	113.03
Productivity (%ch.)	1.6	0.8	3.2	3.3	0.5	1.5	0.5	0.9	1.1	1.7	1.7	1.8	2.1
Total Industrial Production (%ch.)	2.5	-3.4	-11.3	5.7	3.3	3.8	2.9	3.7	3.7	3.8	3.1	2.1	2.3
Factory Operating Rate	78.7	74.6	65.6	71.1	73.9	75.5	76.1	76.9	78.2	78.7	78.2	77.0	76.6
Nonfarm Inven. Chg. (Bil. 2009 $)	36.5	-35.0	-146.0	65.9	39.7	68.7	58.3	64.7	55.7	56.2	46.2	38.4	38.0
Consumer Sentiment Index	85.6	63.8	66.3	71.8	67.4	76.5	79.2	85.5	91.7	91.8	90.5	89.9	89.9
Light Vehicle Sales (Mil. units)	16.09	13.19	10.40	11.55	12.73	14.44	15.49	16.02	16.41	16.70	16.71	16.51	16.47
Housing Starts (Mil. units)	1.342	0.900	0.554	0.586	0.612	0.783	0.929	1.024	1.400	1.577	1.577	1.560	1.585
Exist. House Sales (Total, Mil. units)	5.041	4.106	4.329	4.183	4.277	4.659	5.073	4.961	5.652	5.657	5.380	5.326	5.448
Unemployment Rate (%)	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.5	6.0	5.6	5.3	5.2	5.1
Payroll Employment (%ch.)	1.1	-0.6	-4.3	-0.7	1.2	1.7	1.7	1.8	1.9	2.1	1.8	1.3	0.8
Federal Surplus (Unified, FY, bil. $)	-161.5	-454.8	-1415.7	-1294.2	-1296.8	-1089.2	-680.2	-520.2	-520.3	-478.9	-521.2	-579.0	-604.6
Current Account Balance (Bil. $)	-713.4	-681.3	-381.6	-449.5	-457.7	-440.4	-379.3	-358.4	-379.7	-448.1	-475.2	-474.6	-458.1
Financial Markets, NSA													
Federal Funds Rate (%)	5.02	1.93	0.16	0.18	0.10	0.14	0.11	0.09	0.35	2.15	3.83	4.00	4.00
3-Month Treasury Bill Rate (%)	4.35	1.37	0.15	0.14	0.05	0.09	0.06	0.05	0.40	2.18	3.62	3.74	3.74
10-Year Treasury Note Yield (%)	4.63	3.67	3.26	3.21	2.79	1.80	2.35	2.89	3.30	3.89	4.49	4.60	4.60
30-Year Fixed Mortgage Rate (%)	6.34	6.04	5.04	4.69	4.46	3.66	3.98	4.50	4.98	5.76	6.53	6.65	6.65
S&P 500 Stock Index	1477	1221	947	1139	1269	1380	1643	1883	1967	2052	2118	2185	2262
(Percent change)	12.7	-17.3	-22.5	20.3	11.4	8.7	19.1	14.7	4.4	4.3	3.2	3.2	3.5
Exchange Rate, Major Trading Partners	1.004	0.959	1.000	0.970	0.912	0.946	0.979	1.000	1.008	1.001	1.001	0.998	0.994
(Percent change)	-5.6	-4.5	4.3	-3.0	-5.9	3.7	3.4	2.2	0.8	-0.7	0.0	-0.3	-0.4
Incomes													
Personal Income (% ch.)	5.3	3.6	-2.8	2.9	6.1	4.2	2.8	3.6	5.3	5.6	5.7	5.2	4.9
Real Disposable Income (%ch.)	2.1	1.5	-0.5	1.1	2.4	2.0	0.7	2.0	3.7	4.0	4.1	3.4	3.1
Saving Rate (%)	3.0	5.0	6.1	5.6	5.7	5.6	4.5	3.9	4.4	4.9	5.4	5.7	6.0
After-Tax Profits (Billions of $)	1303	1073	1199	1464	1473	1755	1845	2063	2073	2081	2059	2060	2077
(Percent change)	-5.5	-17.6	11.7	22.2	0.6	19.2	5.1	11.8	0.5	0.4	-1.0	0.0	0.8

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TABLE 4

Alternative Scenarios of the US Economy

	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2013	2014	2015	2016	2017	2018	2019
Recovery Stalls (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.1	0.6	-0.1	0.6	1.1	1.8	1.9	1.3	1.3	2.8	2.4	2.1	2.1
Total Consumption	3.0	1.1	0.2	1.1	1.9	1.8	2.0	2.0	1.5	1.9	1.8	1.9	1.9
Nonresidential Fixed Investment	-2.0	2.9	2.1	2.0	2.2	1.9	2.7	2.3	2.7	6.2	6.0	4.1	3.0
Residential Fixed Investment	-5.8	5.5	-2.8	-0.4	1.3	9.8	12.2	-0.4	5.2	10.2	1.5	-0.1	-0.2
Exports	-7.6	4.6	-0.2	0.4	0.4	1.6	2.7	1.5	1.3	3.6	4.8	5.2	5.4
Imports	-1.4	-1.3	-1.5	-0.9	-1.4	0.1	1.4	0.1	-0.4	2.1	2.5	3.1	2.7
Federal Government	0.7	-12.8	-0.2	2.1	0.1	-0.5	-5.2	-5.0	-0.6	-0.3	-0.4	-0.5	-0.3
State & Local Government	-1.3	0.2	0.0	-0.7	-0.9	-0.1	-0.2	-0.1	-0.4	0.3	1.0	1.0	0.8
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	1.9	2.0	1.2	1.2	1.7	1.7	1.5	1.6	1.6	2.3	2.5	2.7	2.8
Producer Prices, Finished Goods	3.8	4.7	1.2	0.2	0.6	0.9	1.2	2.4	1.0	2.2	2.2	2.5	2.5
Employment Cost Index - Total Comp.	1.0	0.2	2.0	1.6	2.4	2.4	1.9	1.4	2.1	2.9	3.3	3.6	3.7
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	108.0	105.3	99.2	95.7	95.9	97.0	108.75	102.08	97.93	110.50	114.88	117.93	122.52
Productivity (%ch., saar)	-1.7	-0.9	0.2	0.3	-0.3	0.4	0.5	0.4	0.3	1.7	1.4	1.3	1.5
Total Industrial Production (%ch., saar)	4.4	0.8	0.7	1.0	2.5	2.0	2.9	2.7	1.9	3.4	2.6	1.6	1.9
Nonfarm Inven. Chg. (Bil.2009 $)	65.7	55.8	36.1	15.6	-8.3	-11.1	58.3	43.3	-3.0	26.0	24.7	22.2	25.4
Consumer Sentiment Index	80.9	80.8	78.2	77.5	78.1	78.4	79.2	79.4	78.5	78.4	78.6	78.5	79.5
Light Vehicle Sales (Mil. units, saar)	15.6	16.0	15.2	14.8	14.7	14.6	15.49	15.38	14.64	14.88	15.08	14.98	15.06
Housing Starts (Mil. units, saar)	0.9	0.9	0.9	0.9	0.9	1.0	0.929	0.910	1.039	1.213	1.290	1.347	1.408
Unemployment Rate (%)	6.7	6.8	7.3	7.3	7.2	7.2	7.4	7.0	7.2	7.1	7.1	7.0	6.8
Payroll Employment (%ch., saar)	1.5	1.3	0.9	0.7	1.2	1.2	1.7	1.4	1.1	1.4	1.4	1.0	0.7
Federal Surplus (Unified, FY, bil. $)	-240.7	30.8	-132.7	-189.4	-270.9	21.7	-680.2	-515.2	-590.9	-600.5	-645.1	-727.4	-808.7
Financial Markets, NSA													
Federal Funds Rate (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.11	0.08	0.12	0.14	0.49	2.31	4.19
10-Year Treasury Note Yield (%)	2.8	2.6	2.2	2.2	2.3	2.4	2.35	2.44	2.47	3.06	3.89	5.03	5.58
Incomes													
Personal Income (% ch., saar)	3.5	0.8	2.3	2.9	4.6	3.5	2.8	2.7	3.4	4.6	5.3	5.5	5.6
After-Tax Profits (Four-qtr.% change)	12.8	10.6	4.5	1.6	-7.4	-6.9	5.1	7.3	-4.4	1.9	-0.3	-1.3	0.0
Recovery Reignites (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.1	5.2	5.1	4.8	5.0	3.9	1.9	3.1	4.6	4.0	3.8	3.2	3.0
Total Consumption	3.0	4.0	3.5	3.9	4.5	4.2	2.0	3.2	4.3	4.8	4.5	3.7	3.2
Nonresidential Fixed Investment	-2.0	11.3	13.9	12.8	11.9	8.9	2.7	6.0	11.0	8.2	7.0	5.2	4.2
Residential Fixed Investment	-5.8	28.6	22.8	19.7	18.5	20.6	12.2	7.9	20.8	13.6	4.7	0.2	0.4
Exports	-7.6	5.2	10.0	10.8	9.0	5.4	2.7	3.5	7.6	4.9	5.9	6.4	6.7
Imports	-1.4	5.0	7.8	12.2	10.6	10.5	1.4	3.3	10.2	9.4	8.0	6.0	4.7
Federal Government	0.7	6.0	-1.3	0.9	-1.1	-1.4	-5.2	-1.7	-0.4	-0.9	-0.6	-0.5	-0.3
State & Local Government	-1.3	3.3	2.0	1.6	2.2	2.4	-0.2	0.9	2.0	1.5	1.7	1.6	1.3
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	1.9	3.8	4.4	1.9	1.7	0.9	1.5	2.4	1.9	0.9	1.5	1.8	1.8
Producer Prices, Finished Goods	3.8	6.7	5.3	0.2	-0.4	-1.6	1.2	3.3	0.5	-0.6	0.7	1.4	1.3
Employment Cost Index - Total Comp.	1.0	2.7	4.0	2.5	2.8	2.8	1.9	2.2	2.9	3.0	3.3	3.4	3.4
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	108.0	109.8	115.6	111.4	109.3	103.9	108.75	111.23	104.09	95.12	96.17	99.24	103.53
Productivity (%ch., saar)	-1.7	1.8	0.5	1.4	2.4	1.2	0.5	1.0	1.5	2.0	2.2	2.2	2.5
Total Industrial Production (%ch., saar)	4.4	5.3	6.3	5.2	6.5	3.9	2.9	4.6	5.1	3.9	3.6	2.6	2.6
Nonfarm Inven. Chg. (Bil. 2009 $)	65.7	60.0	70.0	81.5	89.0	90.2	58.3	69.3	84.4	68.7	66.8	49.3	43.8
Consumer Sentiment Index	80.9	88.7	90.7	95.2	100.6	101.8	79.2	88.9	102.9	104.9	104.0	100.0	99.9
Light Vehicle Sales (Mil. units, saar)	15.6	16.3	16.6	17.0	17.4	17.5	15.49	16.37	17.56	17.86	18.08	17.87	17.75
Housing Starts (Mil. units, saar)	0.9	1.1	1.1	1.3	1.4	1.6	0.929	1.100	1.579	1.816	1.854	1.797	1.783
Unemployment Rate (%)	6.7	6.1	5.7	5.4	5.2	4.9	7.4	6.0	4.8	4.3	3.9	3.8	3.8
Payroll Employment (%ch., saar)	1.5	2.8	2.4	2.8	2.8	2.8	1.7	2.0	2.7	2.7	2.3	1.5	0.9
Federal Surplus (Unified, FY, bil. $)	-240.7	21.3	-121.0	-165.8	-238.6	62.4	-680.2	-513.0	-447.0	-415.7	-444.6	-467.3	-492.5
Financial Markets, NSA													
Federal Funds Rate (%)	0.1	0.1	0.3	0.6	0.9	1.3	0.11	0.28	1.96	3.93	4.00	4.00	4.00
10-Year Treasury Note Yield (%)	2.8	2.9	4.1	4.7	4.8	4.8	2.35	3.61	4.88	4.97	4.74	4.53	4.36
Incomes													
Personal Income (% ch., saar)	3.5	4.6	6.8	7.4	8.6	6.8	2.8	4.3	7.2	6.5	6.0	5.4	4.9
After-Tax Profits (Four-qtr.% change)	12.8	16.7	15.4	13.3	5.8	0.6	5.1	14.5	1.3	0.8	1.6	0.8	1.3

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