US EXECUTIVE SUMMARY

APRIL 2012

Training Wheels Coming Off?

Forecast Highlights

- Initial evidence for 2012 is still mostly encouraging, although we expect GDP growth to slip to 2.1% in the first quarter, from 3.0% in the fourth.
- The labor market has generally been doing better than most indicators of aggregate demand, consistent with slower productivity growth and slower growth in corporate earnings.
- We think that the labor market has been overstating the underlying strength in the economy—a view supported by the soft March payrolls report.
- Rising gasoline prices are squeezing consumers' spending power this spring. An oil price spike remains the key immediate risk to growth.
- The Federal Reserve is less inclined to launch further quantitative easing—but more easing of some form may yet be needed.

The Forecast in Brief

The news on the domestic economy has been encouraging enough for the Federal Reserve to indicate that it is less likely to launch any more quantitative easing. Although financial markets do not like that message, it is good news since it implies that the Fed thinks the economy is healthy enough to keep improving without emergency assistance.

Nonetheless, important uncertainties remain over the strength of the expansion. The GDP picture has not looked as robust as the most of the news from the labor market**.** There's probably a number of factors behind the disconnect—GDP growth may be understated, employment has probably been in a "catch-up" phase after the severe cuts during and immediately after the recession, and the exceptionally mild winter weather has probably helped employment more than GDP. The weak employment report for March, with only 120,000 jobs created (published after our forecast was released) is a warning that the 246,000 average payroll gains in December through February overstated the underlying strength of the recovery.

So long as there is doubt over how strong and durable the economy's "takeoff" will be, the Fed will keep further easing as a possibility. Our own view remains cautious. We have edged up our growth rate projections slightly to 2.2% for 2012 (from 2.1%) and 2.4% for 2013 (from 2.3%), a moderate growth outlook that keeps open the possibility of some form of Fed action in the second half of the year.

GDP growth remains on track to slow by about one percentage point in the first quarter, from the inventory-fueled 3.0% pace in the fourth. Our first-quarter GDP growth rate projection is now 2.1%, up from 1.9% last month. Consumer spending growth picked up smartly in February, leaving real consumption on track to rise by 2.1%, the same as in the fourth quarter. Residential construction was a big plus (probably helped by the warm weather), and business capital spending probably rose in the mid-single digits, similar to the fourth quarter. Foreign trade appears to have been a drag—export growth improved a little, but faster domestic spending growth seems to have pulled in imports at a faster clip.

Over the rest of the year, we expect GDP growth to hold at or just above the 2% mark. The key factors preventing a stronger performance are high gasoline prices, the absence of a strong rebound in housing activity, and huge

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fiscal uncertainties as key tax and spending deadlines loom on January 1, 2013, after the elections.

Oil remains the key immediate risk, given continuing tensions over Iran. Oil prices have not moved much over the past month, but gasoline prices have climbed as the usual seasonal premium is added into the price. As of April 2, the national all-grades average was a fraction of a cent below $4.00, and we expect it to average $4.04 in the second quarter. This would be the highest quarterly average on record, but would not wreak as much damage as last year's price hike. It's the size of the hike, not the level of prices, that determines the growth impact. Last year, second-quarter prices were 34.8% above year-earlier levels; this year, we expect the year-over-year hike will be 4.5%. The time to really worry would be if a disruption of supplies drove the oil price up a further $30-40/barrel, meaning gasoline prices hitting $5/gallon (rather than $4/gallon).

Eurozone risks have diminished (but not disappeared) now that the European Central Bank's Long-Term Refinancing Operations have pumped around 1 trillion euros into the banking system. Relief may prove temporary. Market worries have shifted from Greece to Spain, a much larger country in deep recession with a huge budget deficit and a fragile banking system.

Consumer spending has done better than sentiment readings suggested—and sentiment is now catching up with spending. Pent-up demand—as long-delayed replacement needs become increasingly urgent—is helping spending to improve among the proportion of the workforce (the majority) that is in work, notably for vehicles. After recent good sales figures, we have raised our **light-vehicle sales** forecast for 2012 to 14.2-million units (previously 14.0 million). Our 2013 projection has been raised to 14.9 million (from 14.8 million).

But consumers still face too many negatives to allow a robust spending recovery—high debt burdens, house prices that have not yet hit bottom, price increases that have outpaced wage growth, and a lack of confidence in the government's ability to make things better. Overall, we expect consumer spending growth of 2.1% in 2012, down slightly from 2.2% in 2011, and not a powerful driver of recovery.

The best news for consumers is that the **employment** picture is improving—even if not as rapidly as it might have seemed. Payroll employment growth over the first three months of the year was 212,000 on average, even with March's disappointing 120,000 result. Over the course of 2012, we anticipate job growth averaging around 190,000 per month. What that does to the unemployment rate depends on the labor-force response. If rising employment fails to attract job seekers back into the labor force, the unemployment rate will keep falling sharply, but our forecast assumes faster labor-force growth, so the jobless rate edges down only a little further to 8.0% by year-end, from 8.2% in March.

Pent-up demand for **housing** is building as young adults stay at home, and at some point (helped by job growth) will spark a major revival in housing activity. We expect a modest improvement in housing starts during 2012 (740,000 units, compared with 611,000 in 2011), concentrated in the multifamily segment, where pent-up demand is already helping the rental market. Recent evidence suggests that home prices are beginning to stabilize, and we have scaled back our expected house-price decline in 2012 to 0.6% (from 3.3%), as measured by the FHFA purchase-only index, fourth quarter to fourth quarter.

Capital equipment remains an important driver of GDP growth. **Business equipment and software spending** growth eased to 7.5% in the fourth quarter, after an exceptionally strong third quarter (up 16.2%). Businesses remain flush with cash and want to address replacement needs neglected during the recession and to improve productivity, and we expect spending growth of 8.6% on average in 2012.

On the **business structures** side, spending on buildings edged higher (up 2.1%) in the fourth quarter, but appears to have fallen back (down 8.3%) in the first. We think that this represents a correction after three quarterly increases rather than the start of a new downtrend, but do not expect to see sustained strong improvement until 2013. **Oil and gas drilling activity** fell sharply in the fourth quarter. While higher oil prices have led to a surge in petroleum drilling, natural gas drilling is now in retreat in the face of exceptionally low prices. We expect a modest increase overall increase (1.5%) in drilling for 2012.

In the **state and local government sector**, the pace of budget tightening is easing as revenues have begun to improve. We expect real state and local government spending to decline 1.4% in calendar 2012, after a 2.2% decline in calendar 2011.

The **federal budget deficit** came in at $1.3 trillion in fiscal 2011 (8.7% of GDP), roughly the same as fiscal 2010. Federal fiscal policy is tightening, as stimulus fades away and spending cuts take effect. We expect the deficit to decline to $1.1 trillion in fiscal 2012.

Key fiscal deadlines are looming. If nothing is done, automatic spending cuts will kick in at the beginning of 2013, and all of the Bush tax cuts and the payroll tax cut and emergency unemployment insurance benefits will expire at the same time. We expect a "grand bargain" involving entitlement spending cuts and tax increases, phased in over many years, to be reached at the last minute, preventing a catastrophic fiscal tightening. The exact nature of that bargain will depend on the balance of power in Washington after the November elections, which is hard to call. Our presidential election model still sees the president as the underdog, based on the state of the economy, but the Republicans have struggled to unite around a candidate.

We believe that the Eurozone slipped into recession during the fourth quarter. In addition, emerging markets' growth has slowed, and the dollar is stronger than a year ago. This combination is bad news for US **export growth**, which will likely decelerate from 6.7% in 2011 to 4.2% in 2012.

We expect the **dollar** to strengthen further against the euro as the Eurozone tips into recession, but we see no clear medium-term trend in the dollar against major currencies. We foresee a downward trend against emerging-market currencies, dictated by the pace at which China allows the renminbi to appreciate. The overall **current-account deficit** should widen to 3.6% of GDP in 2012 (from 3.1% in 2011), partly because higher oil prices will increase the oil import bill.

Even though gasoline prices and food prices are rising, their rate of increase is less than in 2011, which means that **headline CPI inflation** should slow to 2.2% in 2012, from 3.1% in 2011. In addition, in the face of sluggish demand growth and some pullback in commodity prices, we expect core inflation to slow gradually during the year.

Ten-year Treasury **bond yields** bounced up recently on the notion that there may be no more quantitative easing from the Fed—but then fell back sharply to just above 2% after the weak March payroll report. We expect bond yields to move substantially higher over the long term, but see them mostly in the 2.0-2.5% range through the end of 2012.

The **Federal Reserve** has maintained its "exceptionally low" rates guidance through late 2014. Since our growth forecast is below the Fed's, and our inflation forecast no worse, we have assumed that the Fed will stick to this guidance, and expect no rate hike until early 2015. The Fed has signaled that it is now less likely to launch a further round of quantitative easing (QE). We have removed QE III from our forecast (i.e., we now assume no further expansion of the Fed's balance sheet). However, our outlook for growth remains softer than the Fed's, so we still assume that it will take some further action in the second half of the year via sterilized purchases of mortgage-backed securities—more like "Operation Twist" than full quantitative easing.

What's the Risk of a Hard Landing for the Chinese Economy?

These days many US and European businesses are worried about a hard landing in China—as much as (or even more than) they are worried about a financial meltdown in Europe or a spike in oil prices. This is quite understandable, given the number of corporate growth strategies that are centered on the huge and rapidly growing Chinese market. In some industries, revenues from China (both from exports and from on-the-ground operations) have decelerated rapidly. Does this mean that China is headed for a hard landing—or possibly already in the midst of one? Based on a variety of indicators and considerations, IHS believes that a soft landing is still the most likely scenario for the Chinese economy.

A "Double Whammy." China's economy has been struck by two shocks simultaneously. The first is the hit to export growth from slower global growth—and especially the recession in Europe, which is a destination for about 20% of China's exports. The second shock is the downturn in construction, which is mostly due to the attempt by the central

government to deflate the bubble that was developing at the high end of the housing market (mostly in apartment buildings designed for and owned by upper-income families).

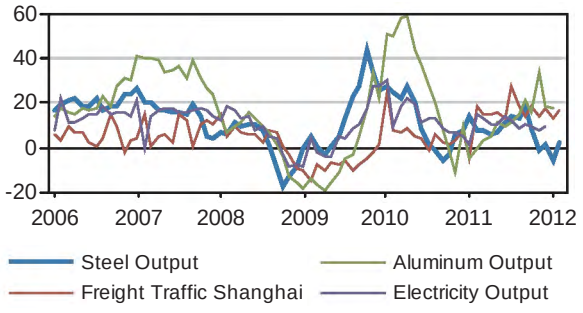
These two shocks have occurred against a backdrop of gradually slowing growth in China since the sharp snapback from the Great Recession. After falling precipitously to nearly 6% in the first quarter of 2009, Chinese quarterly real GDP growth (measured on a year-over-year basis) rebounded strongly to more than 12% by the first quarter of 2010. Since then, however, it has trended down, and by the fourth quarter of last year growth was 8.9%. So, at the macroeconomic level, there is little evidence of a hard landing—usually defined at 5% or 6% growth.

What Are the Data Telling Us? While the data on real GDP do not signal trouble, industry data are more mixed and more volatile, and some indicators suggest that the slowdown may be more pronounced. For example, growth in export volumes and vehicle sales were briefly in negative territory late last year and early this year (although some of this may be seasonal). Similarly, on a year-on-year basis, US exports to China fell in December for the first time since August 2009 (although they rose slightly in January).

On the other hand, most of the industry data confirm that—so far—China's economy is experiencing a soft landing. Data as diverse as the production of steel, aluminum, and electricity, freight traffic in Shanghai harbor, and inventories of key chemicals such as polyethylene point to much slower growth than 2010 or early 2011, but do not indicate a more pronounced (or deeper) downturn. In fact some indicators such as steel production, real goods exports and light-vehicle sales seem to have bounced back in February.

Industry Data Suggest Chinese Soft Landing

(Year-over-year percent change)



And How Reliable Are They? A major problem with China's economic data for January and February is that they have been distorted by the Chinese New Year. Specifically, because a lot of economic activity is suspended during this holiday, the data likely understate the strength of the economy. The March data—to be released over the next few weeks—are likely to give a better read on how China's economy is actually doing.

Another concern (expressed by some analysts) about China's GDP data is that they tend to underestimate growth during booms and overestimate it during busts. While this concern may seem unfair, consider that China is one of the first countries in the world to report its quarterly national income and product data—some weeks before the United States or Europe release theirs. Given the size and complexity of China's economy, the very short time it takes for data to be collected and processed raises questions about their reliability. Just as worrisome is that China's provincial GDP estimates are at odds with the national numbers. For example, in the fourth quarter of 2011, 28 out of 31 provinces were growing above the national average—in some cases substantially faster.

This Is Not a Repeat of 2009 for China—Not Even Close. Despite the questions about the veracity of Chinese data and despite the mixed signals from both the macroeconomic and industry data, one thing is certain: the current slowdown is nothing like 2009. For example, three years ago, exports fell at an annual rate of around 20%. Recently, they have barely dropped, even to Europe. In 2009, purchasing managers' indexes (PMIs) dipped into the 30-40 range. This time around, they have only briefly dropped below the 50 threshold (which demarcates expansion from contraction). Likewise, most indicators of production have recently dipped for a month or two, only to bounce back—compared with much longer downturns in the depths of the Great Recession. Based on most of the available data, China's landing looks pretty soft.

Why a Soft Landing Is Still in the Cards. Even if China has had a soft landing so far, what are the risks of a hard landing in the coming year? For a number of reasons, IHS assesses the risk of such a scenario at 20% or less. First, assuming that growth in the United States and the emerging markets gains some momentum during the rest of this

year, Chinese exports will recover. Second, the Chinese government's program to build 36-million low-cost housing units over the next five years will help to support construction activity. Third, with inflation dropping (from around 6% a few months ago to about 3% recently), there is more scope for the People's Bank of China to ease—in fact, it is already loosening credit quietly. Fourth, the banking sector is controlled by the government. Even if there is a banking crisis (due to rising nonperforming loans), a credit crunch is unlikely since the government will pressure banks to keep lending. While this would likely create problems down the road, it would reduce the risk of a US-style financial crisis in the near term. Finally (and perhaps most important of all), this is a political transition year in China. The last thing the leadership wants at such a juncture is a hard landing—and over the past couple of decades the Chinese government has had a relatively good track record in engineering soft landings.

Key Forecast Assumptions

Fiscal Policy: Discretionary Spending. We assume that real nondefense federal government spending on goods and services falls 1.7% in calendar 2012 and 2.6% in 2013 as budget cuts bite. We assume that real defense spending falls 1.9% in 2012 and 4.0% in 2013, reflecting a combination of budget cuts and overseas contingency operations winding down.

Fiscal Policy: Expiring Stimulus. We assume that the 2% payroll tax cut and emergency unemployment insurance benefits are extended for 2013, and then phased out over several years, rather than disappearing overnight.

Fiscal Policy: Automatic Spending Cuts and the Bush Tax Cuts. We do not expect the automatic spending cuts now scheduled to begin in January 2013 to take effect (except perhaps temporarily). We assume that the new Congress and president will produce a package of spending cuts and tax increases, mostly sparing discretionary spending since the cuts there are already aggressive. We have assumed a combination of cuts in Medicare, Medicaid, and Social Security, and increases in income tax. The measures mostly begin in January 2014; we assume that the Bush tax cuts are extended for 2013.

Oil Prices Resilient. The price of oil has risen, underpinned by strong growth in emerging-market demand, limited spare capacity, and intensifying supply risks (notably Iran). We expect the refiners' acquisition cost for crude oil, which averaged $102/barrel in 2011, to average $113/barrel in 2012. This corresponds to an average price for Brent oil of $120/barrel in 2012.

Federal Reserve to Hold Rates Near Zero Until January 2015. The Fed has said that it expects to keep its federal funds target in the 0.00-0.25% range until at least late 2014. We anticipate that it will wait until January 2015. We no longer assume full quantitative easing in the second half of 2012, but do assume a round of sterilized purchases of mortgage-backed securities. Sterilization means that the liquidity injected would be borrowed back by the Fed at short maturities, meaning no increase in the overall size of the Fed's balance sheet.

Dollar to Gain on the Euro. We believe that the Eurozone economy tipped into recession during the fourth quarter, and that the sovereign-debt crisis has further to run. As a result, the euro will weaken to $1.28 by the end of 2012. We still see the dollar's long-run trend as downward, but against emerging-market currencies rather than major currencies. We expect a gradual appreciation of the Chinese renminbi, amounting to 4.9% in 2012 (year-end to year-end), after 4.6% in 2011.

Global Growth Slowing. We expect GDP growth in the United States' major-currency trading partners to weaken to 1.1% in 2012, from 1.8% in 2011. This mainly reflects a recession in the Eurozone, where we expect GDP to contract around 0.5%. GDP growth for other important trading partners is projected to slow to 4.3% in 2012, from 5.3% in 2011.

by Nariman Behravesh and Nigel Gault

Risks to the Forecast

The recovery from the Great Recession has been capricious. While the two first months of 2012 witnessed strong employment gains, the most recent payroll data were disappointing. With GDP on track to grow around 2% in the first quarter of the year, will the recovery reignite, or will it get derailed by higher oil prices and policy missteps here and in Europe?

In the pessimistic scenario, tensions between the West and Iran escalate, and although a full-blown war is averted, oil-supply disruptions lead to higher oil prices. These higher prices hurt consumers and businesses throughout the world, and push the already-battered Eurozone economy deeper into recession. Greece eventually exits the common currency zone, and panic settles upon financial markets. At home, higher gasoline prices reduce real disposable incomes and lead to lower overall consumer spending. Private-sector confidence plummets, credit conditions tighten, housing activity retreats, and the unemployment rate inches back up towards 10%.

In the optimistic scenario, oil prices retreat as anxiety over an imminent supply disruption fades, and US growth is robust. Consistent payroll growth, financial market stability, and lower gasoline prices reinvigorate consumers and a sharp, sustained improvement in the housing sector signals that strong growth is here to stay.

Recovery Gets Derailed (20% Probability): In the pessimistic scenario, oil and Europe combine to tip the economy into recession. Oil prices surge as the situation in Iran deteriorates. Iran breaches the United Nations resolutions and continues to expand its nuclear program. Sanctions imposed by the Eurozone and United States, as well as uncertainty surrounding shipping through the Strait of Hormuz, lead to oil supply disruptions and worries about future supply.

Low- and middle-income families are severely hit by higher oil prices. Gasoline prices reach new highs, averaging $4.32 per gallon in the second and third quarters. As a result, real disposable income falls and household spending declines. As sales dwindle, businesses must face higher input costs which force them to reduce payrolls and delay any expansion plans. With layoffs on the rise, and hirings on hold, the unemployment rate surges back above 9% by early 2013.

In Europe, stringent austerity measures and high oil prices combine at the wrong time. Greece exits the Eurozone, while Spain and Italy face much higher borrowing costs. Financial markets panic and stock prices plunge. Investors initially pour funds into the safe haven of the US dollar, thereby strengthening it, but a weak economy and threatening debt levels undermine the greenback in the long run.

On the policy front, with the economy back in recession, politicians manage to avoid a fiscal catastrophe in 2013 by extending the expiring emergency unemployment benefits and payroll tax cut. But they fail to extend these measures in 2014, deciding that deficit reduction must take priority. This fiscal tightening does nothing to improve the state of consumers, and represents yet another unnecessary drag on growth.

In the pessimistic scenario, the US economy barely manages to increase 1% in the first quarter of 2012, grows even more slowly in the second, and then contracts in the second half of the year. Real GDP increases only 0.9% in 2012 (versus 2.2% in the baseline). As real disposable income stalls, household spending growth weakens to just 1.4% in 2012 and 0.9% in 2013 (versus 2.1% and 2.2% in the baseline). Light-vehicle sales inch up to 13.3-million units (annual rate) in 2012 (versus 14.2 million in the baseline), but then fall back to 13.1-million units in 2013 (versus 14.9-million in the baseline).

A weak labor market, still-high debt, and depressed incomes also weigh heavily on the housing market. A high number of foreclosures and weak fundamentals push prices down and constrain any type of housing recovery. Housing starts remain stuck at record lows around 621,000 units in 2012 (versus 740,000 units in the baseline). The median price of a single-family existing home falls 7.9% below the baseline by early 2014.

Initially, higher oil prices put upward pressure on headline CPI inflation, but when these prices come off their peak, weak domestic demand pushes headline CPI inflation down to 1.4% in 2013 (versus 1.7% in the baseline), while core CPI inflation falls to 1.5% in 2013. This prompts the Federal Reserve to launch a third round of quantitative eas-

ing, and to keep the federal funds rate targeted in the 0.00-0.25% range until 2016.

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 leads to higher inflation, in combination with a weakening US dollar. CPI inflation exceeds the baseline by 2015, and the gap continues to widen. The Fed raises interest rates in response, but is too late. Monetary tightening eventually stabilizes core inflation around 2.5-3.0%, but the Fed abandons its inflation target of 2.0%.

Recovery Reignites (20% Probability): In the optimistic scenario, fears of another slowdown are quickly dispelled by better-than-expected data and better news from Europe and the Middle East, boosting equity markets and the consumer mood. Stronger growth in this scenario is due in part to lower oil prices than in the baseline, brought on by reduced tensions in the Middle East and a favorable supply outlook. GDP growth is 2.9% in the first quarter of 2012 and 3.1% for the year (versus 2.1% and 2.2% in the baseline). As credit conditions ease, business fixed investment rises 9.3% in both 2012 and 2013 (versus 6.8% and 6.1% in the baseline).

On the policy front, a healthier economy motivates Congress to begin scaling back emergency unemployment benefits and payroll tax cuts in 2013, a year sooner than in the baseline, but the economy is healthy enough that it can do without the extra stimulus. Across the Atlantic, European leaders continue to take deliberate, forward-looking actions to tackle sovereign-debt issues and prevent a financial meltdown. Greek debt restructuring was unavoidable, but the rest of the Eurozone provides sufficient, credible, and timely support to stabilize financial markets and prevent any contagion.

US equity markets respond favorably to European stability and a better domestic growth profile, with the S&P 500 finishing the year more than 14% higher than in the baseline.

The upward trend in employment growth continues in the optimistic scenario, as private firms add 2.8 million jobs in 2012, compared with 2.3 million in the baseline. The unemployment rate drops to 7.3% by the fourth quarter of 2012, while in the baseline it remains above 8.0% until mid-2013. Consumer and business confidence improves immediately, leading to more spending and investment. Light-vehicle sales hit 15.1-million units in 2012 and 16.5-million units in 2013 (versus 14.2 million and 14.9 million, respectively, in the baseline). The optimistic scenario also sees a quicker, sustained recovery in residential construction. Housing starts reach 866,000 units in 2012 (versus 740,000 in the baseline) and 1,335,000 units in 2013 (versus 1,007,000 in the baseline).

Aided by a dollar that is initially weakening (since the safe-haven bid diminishes), US businesses continue to take advantage of growing demand in emerging markets. Exports increase 5.6% in 2012 and 10.5% in 2013 (versus 4.2% and 7.1% in the baseline). In the longer run, a stronger domestic growth picture supports currency appreciation, and the dollar moves permanently above the baseline by early 2015.

In the short term, core inflation rises above the baseline, because a stronger growth profile supports higher prices. The optimistic scenario assumes stronger growth in total factor productivity, which delivers lower inflation and higher income gains over the longer term, and core inflation falls below the baseline by 2015.

The stronger-than-expected US growth causes the Federal Reserve to rethink its pledge to keep interest rates near zero through late 2014, and it begins hiking rates in the third quarter of 2013. Lower inflation in the long term allows the Fed to reduce interest rates below baseline levels near the end of the decade.

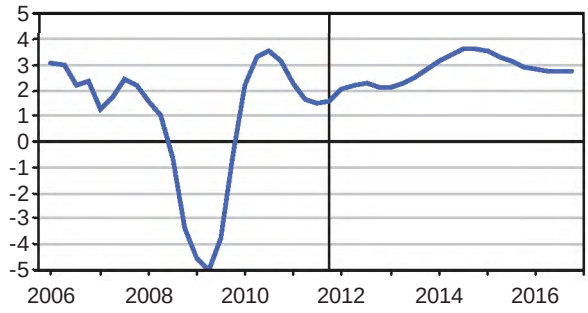
In short, the optimistic alternative sees the US economy charging forward as lower oil prices, impressive payroll growth, more optimistic consumers, and stronger signs of life in the housing market paint a brighter growth picture than depicted in the baseline.

by Gregory Daco and Erik Johnson

Forecast at a Glance

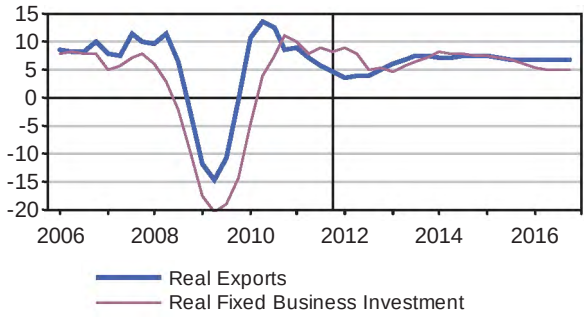
Sustained but Modest Growth

(Real GDP, percent change from a year earlier)



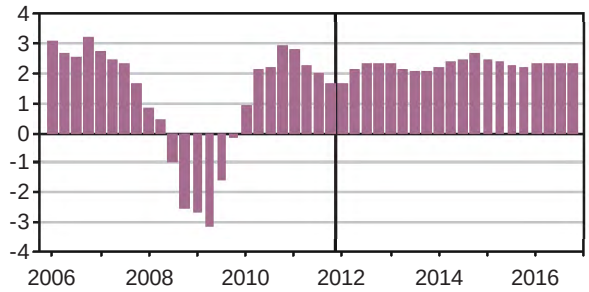
Exports, Business Spending Support Growth

(Percent change from a year earlier)



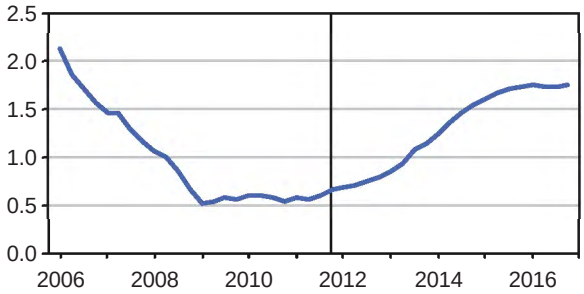
Restrained Consumer Spending Growth

(Real spending, percent change from a year earlier)



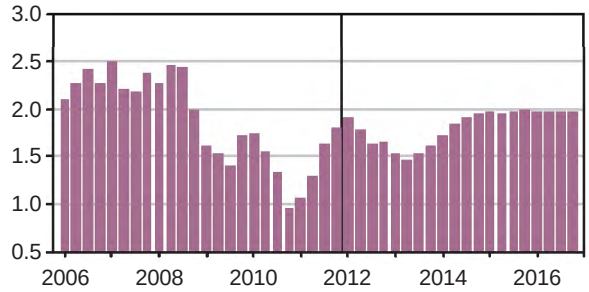
A Prolonged Trough for Housing Starts

(Million units)



Core Inflation Should Ease in 2012

(Core CPI, percent change from a year earlier)



Fed Holds Rates Near 0% Until 2015

(Percent)

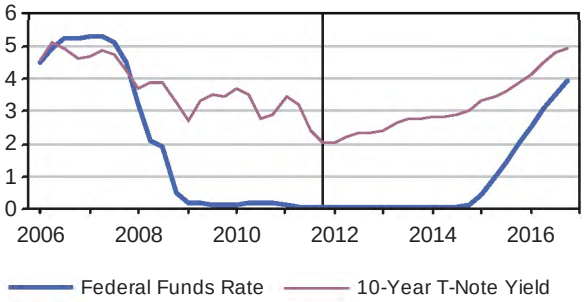


TABLE 1

Monthly Economic Indicators

	Feb. 2011	Mar. 2011	Aug. 2011	Sep. 2011	Oct. 2011	Nov. 2011	Dec. 2011	Jan. 2012	Feb. 2012	Mar. 2012	2009	2010	2011
Industrial Markets													
Industrial Prod. Total (2007=100.0)	92.3	93.1	94.2	94.4	94.9	94.9	95.7	96.2	96.2		85.4	90.1	93.7
Percent Change	-0.2	0.8	0.3	0.2	0.5	0.0	0.9	0.5	0.0		-11.4	5.4	4.0
Percent Change Year Earlier	5.2	5.3	3.4	3.2	4.1	3.9	3.6	4.0	4.2				
Capacity Utilization, Manufacturing (%)	74.2	74.7	75.2	75.5	75.8	75.6	76.6	77.4	77.6		65.5	71.2	75.0
Unemployment Rate (%)	9.0	8.9	9.1	9.0	8.9	8.7	8.5	8.3	8.3	8.2	9.3	9.6	9.0
Payroll Employment (Mil.)	130.676	130.922	131.492	131.694	131.806	131.963	132.186	132.461	132.701	132.821	130.787	129.856	131.359
Change (Mil.)	0.220	0.246	0.085	0.202	0.112	0.157	0.223	0.275	0.240	0.120	-6.008	-0.931	1.503
Leading Indicator (1992=1.000)	0.927	0.937	0.937	0.932	0.938	0.941	0.946	0.948	0.955		0.828	0.891	0.937
Percent Change	1.0	1.1	-0.7	-0.5	0.6	0.3	0.5	0.2	0.7		-12.8	7.6	5.2
New Orders, Mfg. (Bil. $)	429.7	445.8	452.1	451.6	450.9	460.9	467.3	462.4	468.4		353.3	398.7	447.5
Percent Change	-0.3	3.8	0.1	-0.1	-0.2	2.2	1.4	-1.1	1.3		-21.7	12.9	12.2
Inv. Chg., Mfg. & Trade (Bil. $)	10.0	18.1	7.0	-2.6	12.7	4.7	8.9	10.8			-137.1	111.4	112.8
Merchandise Trade Bal. (Bil. $)	-58.8	-60.2	-59.6	-58.2	-57.1	-61.7	-63.9	-66.5			-503.6	-634.9	-726.7
Consumer Markets													
Disposable Income (Bil. 2005$)	10186	10188	10181	10192	10226	10219	10252	10234	10218		9883	10062	10194
Percent Change	0.1	0.0	-0.1	0.1	0.3	-0.1	0.3	-0.2	-0.1		-2.3	1.8	1.3
Personal Income (Bil. $)	12851	12910	13049	13089	13139	13146	13202	13228	13256		11930	12374	13005
Percent Change	0.6	0.5	0.1	0.3	0.4	0.1	0.4	0.2	0.2		-4.3	3.7	5.1
Personal Saving Rate (%)	5.0	4.9	4.7	4.3	4.5	4.4	4.7	4.3	3.7		5.1	5.3	4.7
Consumer Expenditures (Bil. $)	10578	10639	10763	10841	10862	10867	10886	10927	11013		9866	10246	10726
Percent Change	0.8	0.6	0.1	0.7	0.2	0.0	0.2	0.4	0.8		-1.7	3.8	4.7
Retail Sales (Bil. $)	383.0	387.0	391.1	396.0	398.6	399.8	401.0	403.5	407.8		4093.2	4353.4	4689.7
Percent Change	0.9	1.0	0.3	1.3	0.7	0.3	0.3	0.6	1.1		-7.0	6.4	7.7
Non-Auto. Retail Sales (Bil. $)	315.1	319.4	324.7	326.8	328.5	329.1	328.4	332.1	335.3		3416.0	3609.7	3871.0
Percent Change	0.9	1.4	0.5	0.6	0.5	0.2	-0.2	1.1	0.9		-5.5	5.7	7.2
New Light-Vehicle Sales (Mil.)	13.2	13.0	12.1	13.1	13.2	13.6	13.5	14.1	15.0	14.3	10.4	11.6	12.7
Housing Starts (Mil.)	0.518	0.593	0.585	0.646	0.628	0.702	0.681	0.706	0.698		0.554	0.585	0.610
New Home Sales (Mil.)	0.281	0.305	0.290	0.302	0.311	0.322	0.336	0.318	0.313		0.374	0.321	0.307
Existing Home Sales (Mil.)	4.220	4.260	4.410	4.280	4.320	4.400	4.380	4.630	4.590		4.329	4.181	4.283
Chg. Consumer Install. Credit (Bil. $)	8.2	4.3	-10.5	8.1	6.3	20.0	16.3	18.6	8.7		-111.7	-41.8	86.2
Prices and Wages													
CPI, All Urban Consumers	2.220	2.232	2.263	2.269	2.268	2.270	2.270	2.275	2.284		2.146	2.181	2.249
Percent Change Year Earlier	2.1	2.6	3.8	3.9	3.6	3.5	3.0	2.9	2.9		-0.3	1.6	3.1
Core Cons. Price Defl. (2005=100.0)	111.0	111.1	112.2	112.2	112.4	112.5	112.7	112.9	113.1		108.7	110.2	111.8
Percent Change Year Earlier	1.1	1.0	1.7	1.6	1.7	1.8	1.9	1.9	1.9		1.6	1.4	1.4
PPI, Finished Goods	1.879	1.889	1.918	1.936	1.930	1.935	1.933	1.935	1.942		1.728	1.800	1.908
Percent Change Year Earlier	5.4	5.5	6.6	7.2	6.0	5.9	4.8	4.1	3.4		-2.5	4.2	6.0
PPI, Industrial Commodities (NSA)	1.964	2.004	2.037	2.044	2.019	2.028	2.011	2.014	2.024		1.749	1.870	2.021
Percent Change Year Earlier	7.0	8.0	8.6	9.4	7.2	7.2	5.1	3.7	3.1		-9.1	7.0	8.1
Avg. Private Hourly Earnings ($)	19.33	19.34	19.50	19.53	19.57	19.58	19.59	19.61	19.65	19.68	18.63	19.08	19.46
Percent Change Year Earlier	2.1	2.1	2.0	2.0	1.7	1.8	1.9	1.4	1.7	1.8	3.0	2.4	2.0
Refiner Acq. Cost of Crude Oil ($/bbl.)	90.85	102.43	97.70	99.39	100.57	107.28	105.69	104.70	107.60		59.20	76.70	101.80
Percent Change Year Earlier	21.8	32.3	31.0	34.6	29.3	32.7	23.0	18.6	18.4		-37.2	29.5	32.7
Henry Hub Spot Natural Gas ($/mmbtu)	4.09	3.97	4.05	3.89	3.57	3.25	3.17	2.67	2.51	2.16	3.95	4.39	4.00
Percent Change Year Earlier	-23.2	-7.5	-5.8	-0.3	4.0	-13.0	-25.3	-40.6	-38.6	-45.6	-55.4	11.1	-8.9
Financial Markets													
Federal Funds Rate (%)	0.16	0.14	0.10	0.08	0.07	0.08	0.07	0.08	0.10	0.13		0.18	0.10
3-Month T-Bill Rate (%)	0.13	0.10	0.02	0.01	0.02	0.01	0.01	0.03	0.09	0.08		0.14	0.05
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
Moody's Aaa Corp. Bond Yield (%)	5.22	5.13	4.37	4.09	3.98	3.87	3.93	3.85	3.85	3.99		4.94	4.64
10-Year Treasury Note Yield (%)	3.58	3.41	2.30	1.98	2.15	2.01	1.98	1.97	1.97	2.17		3.21	2.79
Conv. Mortgage Rate, FHLMC (%)	4.95	4.84	4.27	4.11	4.07	3.99	3.96	3.92	3.89	3.95		4.69	4.46
M1 Money Supply (Bil. $)	1879	1891	2106	2123	2139	2158	2174	2229	2221			1742	2010
Percent Change	0.6	0.7	5.1	0.8	0.8	0.9	0.7	2.5	-0.4			8.1	16.9
M2 Money Supply (Bil. $)	8904	8950	9483	9503	9550	9596	9640	9765	9786			8625	9245
Percent Change	0.5	0.5	2.0	0.2	0.5	0.5	0.5	1.3	0.2			3.3	9.2
Trade-Weighted US$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	80.2	79.3	77.8	80.0	80.8	81.3	82.1	81.7	80.4	81.1		83.8	79.5
Percent Change	-0.8	-1.1	0.5	2.9	0.9	0.7	1.0	-0.5	-1.5	0.9		-4.0	-5.2
Percent Change Year Earlier	-5.2	-5.5	-7.8	-4.2	-0.3	0.1	0.3	1.1	0.3	2.3			
Real Morgan Guaranty Index	82.3	80.9	80.6	82.7	83.4	84.0	85.4	84.9	83.4	83.8		86.8	81.9
Percent Change	-1.1	-1.7	0.7	2.5	0.9	0.7	1.6	-0.5	-1.7	0.5		-4.8	-5.7
Percent Change Year Earlier	-6.3	-6.9	-8.2	-4.7	-0.5	0.4	1.2	2.0	1.4	3.6			

TABLE 2

Summary of the US Economy

	2011:3	2011:4	2012:1	2012:2	2012:3	2012:4	2013:1	2013:2	2013:3	2013:4	2014:1	2014:2	2014:3
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	1.8	3.0	2.1	2.0	2.1	2.3	2.2	2.6	2.9	3.5	3.6	3.6	3.6
Final Sales of Domestic Product	3.2	1.1	2.0	2.0	1.7	2.3	2.5	2.8	3.1	3.6	3.6	3.6	3.6
Total Consumption	1.7	2.1	2.1	2.6	2.4	2.2	2.1	1.9	2.2	2.2	2.5	2.6	2.6
Durables	5.7	16.1	12.7	3.7	5.9	4.6	3.5	2.9	4.0	3.8	2.8	3.4	3.9
Nondurables	-0.5	0.8	0.1	1.8	2.4	2.0	2.0	1.6	1.8	1.3	1.3	1.5	1.6
Services	1.9	0.4	1.1	2.7	1.9	1.9	1.8	1.8	2.0	2.3	2.9	2.8	2.8
Nonresidential Fixed Investment	15.7	5.2	5.5	5.7	4.1	6.2	3.6	8.7	8.1	8.6	7.6	7.7	7.5
Equipment & Software	16.2	7.5	8.0	8.1	5.9	8.9	4.7	9.8	8.3	7.7	6.5	7.9	7.8
Information Processing Equipment	1.2	9.6	8.4	11.1	8.9	10.6	2.2	7.7	9.9	8.5	7.5	7.7	6.8
Computers & Peripherals	12.1	15.3	-4.1	29.4	21.0	23.6	2.7	10.1	22.9	18.6	14.6	15.2	15.2
Communications Equipment	-22.5	26.6	33.8	8.0	5.1	10.0	-3.6	6.8	8.2	10.5	12.5	12.2	9.1
Industrial Equipment	31.8	17.8	1.7	9.7	13.0	11.5	4.2	5.6	6.2	4.4	1.8	4.9	5.0
Transportation equipment	33.0	18.9	21.1	9.7	1.5	1.4	20.9	23.1	3.7	5.6	3.4	7.5	9.9
Aircraft	-46.1	368.9	-24.7	-18.1	28.1	-6.0	8.0	3.3	0.3	2.1	3.9	5.0	9.0
Other Equipment	36.6	-13.9	2.9	-2.6	-5.4	7.8	-0.6	9.2	10.5	11.0	11.8	12.2	11.6
Structures	14.4	-0.9	-0.8	-0.9	-0.9	-1.3	0.2	5.4	7.5	11.3	11.0	7.2	6.7
Commercial & Health Care	10.8	-13.5	-4.1	-1.7	0.1	3.3	17.0	28.0	18.7	19.5	18.2	18.8	20.9
Manufacturing	35.6	29.2	-4.9	0.5	4.6	6.2	6.1	5.8	34.4	10.7	13.7	12.4	-0.9
Power & Communication	19.6	24.2	-5.5	-4.5	-0.4	-4.2	-13.6	-9.4	-13.3	0.8	2.3	3.1	3.1
Mining & Petroleum	7.5	-18.7	15.1	1.5	-5.0	-6.7	-6.4	-0.5	3.2	8.7	5.4	-8.1	-6.8
Other	16.2	12.2	-17.8	0.0	2.8	3.5	9.5	7.7	12.0	17.9	19.2	18.1	17.1
Residential Fixed Investment	1.2	11.7	19.7	4.3	7.5	10.4	16.0	20.9	26.6	31.3	27.8	22.3	20.6
Exports	4.7	2.7	3.8	4.3	5.4	7.1	8.3	7.4	6.9	7.6	7.1	7.9	8.3
Imports	1.2	3.7	7.1	3.0	5.0	4.2	3.0	3.9	3.7	3.4	3.9	4.2	4.9
Federal Government	2.1	-7.0	3.6	-5.3	-3.7	-3.7	-3.6	-3.2	-3.0	-3.0	-2.9	-2.7	-2.5
State & Local Government	-1.6	-2.2	-0.6	-1.3	-1.4	-0.9	-0.7	-0.2	-0.2	0.1	0.4	0.6	0.8
Billions of Dollars													
Real GDP	13331.6	13429.0	13497.9	13565.3	13635.8	13713.7	13788.2	13877.2	13975.3	14097.6	14221.2	14349.2	14478.1
Nominal GDP	15176.1	15319.4	15439.0	15547.1	15697.1	15843.0	15989.1	16129.0	16313.3	16520.2	16743.8	16965.7	17188.6
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	2.6	0.9	1.1	0.8	1.8	1.4	1.5	0.9	1.7	1.6	1.9	1.7	1.7
Consumer Prices	3.1	1.3	2.4	2.0	1.9	1.5	1.7	1.0	2.3	1.9	2.0	1.9	1.8
Producer Prices, Finished Goods	4.2	2.1	1.1	1.6	0.0	0.7	1.6	0.2	2.9	1.7	1.1	1.1	0.9
Employment Cost Index - Total Comp.	1.4	1.8	2.3	1.8	2.0	2.1	2.4	2.3	2.2	2.4	3.0	2.7	2.7
Other Key Measures													
Oil - Refiner Acq. Cost, Composite ($/bbl)	100.59	104.51	109.89	116.87	113.33	113.26	113.43	112.99	113.02	112.67	112.21	111.22	110.24
Productivity (%ch., saar)	1.8	0.9	-1.0	0.6	0.4	0.5	0.8	1.4	1.5	2.0	1.7	1.7	1.6
Total Industrial Production (%ch., saar)	5.6	4.3	5.0	5.9	3.8	2.6	2.7	2.6	2.9	3.5	3.7	3.8	3.7
Factory Operating Rate	75.2	76.0	77.6	78.0	78.4	78.7	78.9	79.2	79.3	79.7	79.9	80.3	80.6
Nonfarm Inven. Chg. (Bil. 2005 $)	5.5	60.8	62.8	60.6	70.1	70.6	60.4	53.7	45.0	45.0	45.1	46.8	48.5
Consumer Sentiment Index	59.7	64.8	75.5	77.2	78.6	79.9	81.1	82.1	80.8	81.7	82.5	83.4	84.6
Light Vehicle Sales (Mil. units, saar)	12.45	13.44	14.49	14.17	14.16	14.14	14.52	14.82	15.08	15.18	15.36	15.58	15.81
Housing Starts (Mil. units, saar)	0.615	0.670	0.697	0.712	0.751	0.798	0.848	0.942	1.079	1.158	1.251	1.351	1.460
Exist. House Sales (Total, Mil. saar)	4.247	4.367	4.610	4.647	4.720	4.797	4.946	5.054	5.109	5.162	5.197	5.350	5.497
Unemployment Rate (%)	9.1	8.7	8.3	8.3	8.2	8.1	8.0	8.0	7.9	7.7	7.6	7.4	7.2
Payroll Employment (%ch., saar)	0.9	1.4	2.2	1.6	1.6	1.9	1.7	1.5	1.6	1.7	1.8	1.9	1.9
Federal Surplus (Unified, nsa, bil. $)	-326.3	-321.7	-413.2	-97.6	-241.9	-272.3	-325.5	-16.1	-170.3	-215.0	-272.3	16.9	-149.4
Current Account Balance (Bil. $)	-430.5	-496.4	-547.6	-574.3	-566.2	-546.8	-516.5	-508.9	-515.0	-506.6	-498.4	-497.3	-501.4
Financial Markets, NSA													
Federal Funds Rate (%)	0.08	0.07	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Treasury Bill Rate (%)	0.02	0.01	0.07	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.10
10-Year Treasury Note Yield (%)	2.43	2.05	2.04	2.20	2.36	2.35	2.43	2.67	2.75	2.80	2.83	2.86	2.90
30-Year Fixed Mortgage Rate (%)	4.31	4.01	3.92	4.03	4.07	4.02	4.07	4.22	4.28	4.33	4.37	4.41	4.43
S&P 500 Stock Index	1228	1226	1347	1392	1382	1362	1392	1410	1428	1447	1466	1484	1503
(Four-Quarter % change)	12.0	1.8	3.4	5.6	12.6	11.2	3.3	1.3	3.3	6.2	5.2	5.3	5.3
Exchange Rate, Major Trading Partners	0.832	0.863	0.869	0.868	0.870	0.871	0.873	0.875	0.879	0.879	0.876	0.876	0.874
(% change, annual rate)	1.0	15.6	2.9	-0.4	0.9	0.5	0.8	1.1	1.6	0.2	-1.1	-0.3	-0.9
Incomes													
Personal Income (% ch., saar)	3.2	3.3	3.0	4.3	5.0	4.7	3.6	4.1	4.2	4.4	6.0	5.0	5.2
Real Disposable Income (%ch., saar)	0.7	1.7	-0.3	1.9	2.3	2.4	0.8	1.7	2.1	3.0	3.1	3.6	3.5
Saving Rate (%)	4.6	4.5	4.0	3.8	3.7	3.7	3.4	3.4	3.3	3.5	3.6	3.9	4.1
After-Tax Profits (Billions of $)	1502	1494	1556	1533	1526	1532	1633	1633	1654	1681	1703	1721	1723
(Four-quarter % change)	6.2	11.7	7.0	4.3	1.6	2.5	4.9	6.5	8.4	9.7	4.3	5.4	4.1

TABLE 3

Summary of the US Economy

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Composition of Real GDP, Percent Change													
Gross Domestic Product	3.1	2.7	1.9	-0.3	-3.5	3.0	1.7	2.2	2.4	3.4	3.2	2.8	2.6
Final Sales of Domestic Product	3.2	2.6	2.2	0.2	-2.6	1.4	2.0	1.9	2.5	3.5	3.3	2.8	2.6
Total Consumption	3.4	2.9	2.3	-0.6	-1.9	2.0	2.2	2.1	2.2	2.4	2.3	2.3	2.1
Durables	5.9	4.5	5.0	-4.9	-5.4	7.2	8.2	8.1	4.0	3.6	4.3	4.7	3.7
Nondurables	3.2	2.6	1.9	-1.2	-1.8	2.9	1.7	0.9	1.9	1.5	1.5	1.8	1.9
Services	3.0	2.6	1.9	0.4	-1.4	0.9	1.4	1.6	1.9	2.6	2.3	2.1	2.0
Nonresidential Fixed Investment	6.7	8.0	6.5	-0.8	-17.9	4.4	8.8	6.8	6.1	7.9	6.9	5.1	4.4
Equipment & Software	8.5	7.6	3.3	-4.3	-16.0	14.6	10.4	8.6	7.4	7.6	6.1	4.1	4.1
Information Processing Equipment	7.3	8.6	8.1	2.1	-3.8	9.9	6.2	8.4	7.5	7.9	6.9	6.5	6.4
Computers & Peripherals	11.7	23.1	14.0	7.9	-3.2	30.5	16.9	15.2	15.1	16.2	14.7	15.0	16.1
Communications Equipment	1.8	12.7	11.3	-5.1	-8.1	12.5	-1.9	10.4	4.9	10.5	9.3	7.4	5.8
Industrial Equipment	8.3	8.3	4.0	-3.9	-20.7	6.9	12.7	11.4	7.4	4.3	4.9	1.8	2.0
Transportation equipment	11.9	8.1	-5.5	-23.2	-50.5	68.9	26.0	15.4	11.1	6.4	0.6	-4.6	-2.9
Aircraft	-12.5	-6.4	30.5	-3.2	-25.1	-1.2	4.4	15.3	3.4	4.2	5.9	3.9	2.6
Other Equipment	8.8	3.7	-0.7	-3.5	-18.1	11.6	10.2	1.0	4.1	11.3	10.2	7.4	5.4
Structures	1.4	9.2	14.1	6.4	-21.2	-15.8	4.6	2.2	2.3	8.9	9.1	7.8	5.2
Commercial & Health Care	-0.9	6.1	10.0	-3.7	-30.7	-24.5	-4.2	-1.3	13.3	20.1	23.4	16.1	8.5
Manufacturing	17.3	10.3	18.2	24.8	4.5	-31.8	-7.7	11.3	9.1	11.9	6.8	8.9	7.1
Power & Communication	-2.3	7.8	39.2	9.1	0.7	-15.1	7.1	4.5	-8.0	-0.3	1.8	-3.0	5.6
Mining & Petroleum	10.3	14.5	6.1	8.4	-35.2	16.6	22.0	1.5	-2.7	0.3	-3.0	1.5	-2.7
Other	-5.5	9.2	15.4	12.6	-18.7	-26.2	-6.8	-0.5	7.4	16.5	13.1	10.4	6.4
Residential Fixed Investment	6.2	-7.3	-18.7	-23.9	-22.2	-4.3	-1.3	9.7	16.3	25.5	16.7	3.9	0.4
Exports	6.8	9.0	9.3	6.1	-9.4	11.3	6.7	4.2	7.1	7.5	7.3	6.8	6.6
Imports	6.1	6.1	2.4	-2.7	-13.6	12.5	4.9	4.1	3.8	4.0	4.1	3.4	3.1
Federal Government	1.3	2.1	1.2	7.2	6.0	4.5	-1.9	-1.8	-3.6	-2.8	-2.0	-1.2	-0.8
State & Local Government	-0.2	0.9	1.4	0.0	-0.9	-1.8	-2.2	-1.4	-0.6	0.3	0.8	0.8	0.8
Billions of Dollars													
Real GDP	12623.0	12958.5	13206.4	13161.9	12703.1	13088.0	13315.1	13603.2	13934.6	14414.7	14879.5	15289.3	15684.1
Nominal GDP	12623.0	13377.2	14028.7	14291.6	13938.9	14526.6	15094.0	15631.5	16237.9	17079.2	17944.3	18765.2	19579.5
Prices & Wages, Percent Change													
GDP Deflator	3.3	3.2	2.9	2.2	1.1	1.2	2.1	1.4	1.4	1.7	1.8	1.8	1.7
Consumer Prices	3.4	3.2	2.9	3.8	-0.3	1.6	3.1	2.2	1.7	1.9	1.9	1.9	1.7
Producer Prices, Finished Goods	4.9	2.9	3.9	6.4	-2.5	4.2	6.0	1.9	1.1	1.3	1.2	1.2	0.6
Employment Cost Index - Total Comp.	3.1	2.9	3.1	2.9	1.4	1.9	2.2	2.0	2.2	2.6	2.8	3.0	3.0
Other Key Measures													
Oil - Refiner Acq. Cost, Composite ($/bbl)	50.32	60.10	67.98	94.29	59.20	76.70	101.80	113.34	113.03	110.73	108.56	107.45	102.87
Productivity (%ch.)	1.6	0.9	1.5	0.6	2.4	4.0	0.6	0.3	1.0	1.7	1.4	1.5	1.8
Total Industrial Production (%ch.)	3.3	2.2	2.5	-3.5	-11.4	5.4	4.0	4.6	3.1	3.5	3.2	2.6	2.4
Factory Operating Rate	78.2	78.5	78.5	74.3	65.5	71.2	75.0	78.2	79.3	80.4	80.9	80.7	80.4
Nonfarm Inven. Chg. (Bil. 2005 $)	49.8	63.2	28.7	-37.6	-143.8	60.7	44.3	66.0	51.0	46.9	43.4	36.6	41.6
Consumer Sentiment Index	88.6	87.3	85.6	63.8	66.3	71.8	67.4	77.8	81.4	84.0	84.9	84.8	86.3
Light Vehicle Sales (Mil. units)	16.95	16.50	16.09	13.19	10.40	11.55	12.74	14.24	14.90	15.69	16.21	16.60	16.69
Housing Starts (Mil. units)	2.073	1.812	1.342	0.900	0.554	0.585	0.610	0.740	1.007	1.402	1.686	1.739	1.762
Exist. House Sales (Total, Mil. units)	7.076	6.516	5.041	4.106	4.329	4.181	4.283	4.694	5.068	5.431	5.979	5.945	5.976
Unemployment Rate (%)	5.1	4.6	4.6	5.8	9.3	9.6	9.0	8.2	7.9	7.3	6.6	6.2	5.9
Payroll Employment (%ch.)	1.7	1.8	1.1	-0.6	-4.4	-0.7	1.2	1.6	1.7	1.8	1.8	1.5	1.1
Federal Surplus (Unified, FY, bil. $)	-318.7	-248.2	-161.5	-454.8	-1415.7	-1294.2	-1296.8	-1074.4	-784.2	-619.8	-518.2	-498.4	-528.4
Current Account Balance (Bil. $)	-745.8	-800.6	-710.3	-677.1	-376.6	-470.9	-473.4	-558.7	-511.7	-500.6	-531.3	-566.4	-556.1
Financial Markets, NSA													
Federal Funds Rate (%)	3.21	4.96	5.02	1.93	0.16	0.18	0.10	0.10	0.10	0.11	1.23	3.27	4.0
3-Month Treasury Bill Rate (%)	3.15	4.73	4.35	1.37	0.15	0.14	0.05	0.09	0.09	0.12	1.34	3.23	3.80
10-Year Treasury Note Yield (%)	4.29	4.79	4.63	3.67	3.26	3.21	2.79	2.24	2.66	2.91	3.56	4.58	4.89
30-Year Fixed Mortgage Rate (%)	5.87	6.41	6.34	6.04	5.04	4.69	4.46	4.01	4.22	4.44	5.02	6.10	6.37
S&P 500 Stock Index	1207	1311	1477	1221	947	1139	1269	1371	1419	1494	1567	1634	1698
(Percent change)	6.8	8.6	12.7	-17.3	-22.5	20.3	11.4	8.1	3.5	5.2	4.9	4.3	3.9
Exchange Rate, Major Trading Partners	1.000	0.985	0.930	0.888	0.926	0.898	0.846	0.870	0.876	0.874	0.864	0.854	0.846
(Percent change)	-1.9	-1.5	-5.6	-4.5	4.3	-3.0	-5.9	2.8	0.8	-0.2	-1.2	-1.2	-0.8
Incomes													
Personal Income (% ch.)	5.5	7.5	5.7	4.6	-4.3	3.7	5.1	3.7	4.2	5.0	4.8	4.9	4.4
Real Disposable Income (%ch.)	1.4	4.0	2.4	2.4	-2.3	1.8	1.3	1.1	1.8	3.0	2.7	2.8	2.6
Saving Rate (%)	1.6	2.6	2.4	5.4	5.2	5.3	4.7	3.8	3.4	3.9	4.3	4.7	4.9
After-Tax Profits (Billions of $)	1228	1349	1293	1051	1183	1408	1480	1537	1650	1721	1648	1578	1523
(Percent change)	33.0	9.9	-4.2	-18.7	12.6	19.0	5.1	3.8	7.4	4.3	-4.2	-4.3	-3.5

TABLE 4

Alternative Scenarios of the US Economy

	2011:4	2012:1	2012:2	2012:3	2012:4	2013:1	2011	2012	2013	2014	2015	2016	2017
Recovery Gets Derailed (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	3.0	1.3	0.2	-1.7	-1.3	1.2	1.7	0.9	0.6	2.3	2.7	2.6	2.1
Total Consumption	2.1	1.7	1.2	0.4	0.2	1.0	2.2	1.4	0.9	0.9	1.1	1.5	1.4
Nonresidential Fixed Investment	5.2	3.7	3.8	-1.3	-0.7	-0.7	8.8	4.8	2.0	6.4	6.4	5.7	4.4
Residential Fixed Investment	11.7	18.3	-6.2	-12.0	-11.3	-0.6	-1.3	3.2	1.3	20.3	22.7	8.8	-0.3
Exports	2.7	2.8	2.5	-1.1	-1.1	0.8	6.7	2.2	1.6	5.9	6.4	5.9	5.8
Imports	3.7	6.7	0.6	-1.4	-3.8	-1.5	4.9	2.3	-0.5	1.2	1.0	1.9	1.6
Federal Government	-7.0	3.6	-5.3	-3.7	-3.7	-4.7	-1.9	-1.8	-4.0	-3.0	-2.0	-1.4	-0.9
State & Local Government	-2.2	-0.9	-1.4	-2.8	-1.5	-2.0	-2.2	-1.7	-1.8	-0.6	0.3	0.7	0.8
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	1.3	2.3	3.9	2.8	0.1	1.2	3.1	2.6	1.4	1.8	2.0	2.2	2.2
Producer Prices, Finished Goods	2.1	1.2	6.2	2.4	-1.9	0.8	6.0	2.9	0.9	1.5	1.6	1.7	1.3
Employment Cost Index - Total Comp.	1.8	2.0	1.4	1.6	1.7	1.8	2.2	1.8	1.7	1.8	2.4	2.9	3.3
Other Key Measures													
Oil - Refiner Acq. Cost, Composite ($/bbl)	104.51	109.89	129.20	133.16	126.54	125.97	101.80	124.70	125.53	124.43	122.78	121.50	118.06
Productivity (%ch., saar)	0.9	-1.8	-0.7	-2.2	-1.1	1.6	0.6	-0.6	0.5	1.5	1.4	1.2	1.2
Total Industrial Production (%ch., saar)	4.3	4.6	2.1	-1.5	-2.7	1.8	4.0	2.8	0.5	2.4	3.0	2.6	1.9
Nonfarm Inven. Chg. (Bil.2005 $)	60.8	57.8	37.5	1.1	-37.4	-14.5	44.3	14.8	-2.3	24.7	28.6	28.9	25.8
Consumer Sentiment Index	64.8	75.5	68.1	63.4	65.5	66.9	67.4	68.2	71.0	75.2	77.5	77.5	75.9
Light Vehicle Sales (Mil. units, saar)	13.44	14.49	13.49	12.86	12.19	12.33	12.74	13.26	13.09	13.86	14.24	14.88	14.87
Housing Starts (Mil. units, saar)	0.670	0.690	0.671	0.582	0.540	0.585	0.610	0.621	0.701	1.016	1.404	1.548	1.567
Unemployment Rate (%)	8.7	8.3	8.4	8.6	8.8	9.0	9.0	8.5	9.1	9.0	8.4	8.0	7.7
Payroll Employment (%ch., saar)	1.4	2.2	0.7	-0.3	-0.2	0.2	1.2	1.1	0.2	0.8	1.3	1.5	1.1
Federal Surplus (Unified, FY, bil. $)	-321.7	-414.5	-104.3	-263.0	-303.5	-362.3	-1296.8	-1103.5	-934.0	-744.8	-666.8	-649.8	-699.1
Financial Markets, NSA													
Federal Funds Rate (%)	0.07	0.10	0.09	0.08	0.08	0.08	0.10	0.09	0.08	0.08	0.11	1.26	3.31
10-Year Treasury Note Yield (%)	2.05	2.04	1.84	1.58	1.55	1.59	2.79	1.75	1.99	2.44	3.23	4.43	5.67
Incomes													
Personal Income (% ch., saar)	3.3	2.3	3.4	3.1	2.1	1.4	5.1	2.9	2.2	2.7	4.1	5.0	5.0
After-Tax Profits (Four-qtr.% change)	11.7	6.2	3.5	-4.4	-8.5	-1.9	5.1	-0.9	4.6	2.2	-4.2	-4.0	-6.1
Recovery Reignites (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	3.0	2.9	3.6	4.2	4.4	4.1	1.7	3.1	4.0	4.0	3.4	3.0	2.9
Total Consumption	2.1	2.1	3.6	3.8	3.2	2.5	2.2	2.5	2.9	3.2	3.2	3.1	3.1
Nonresidential Fixed Investment	5.2	11.2	9.7	6.0	7.4	8.6	8.8	9.3	9.3	10.2	6.6	4.8	5.0
Residential Fixed Investment	11.7	20.3	15.6	31.3	37.4	36.0	-1.3	16.7	30.0	18.3	12.1	7.0	3.4
Exports	2.7	6.0	5.3	8.3	11.8	12.6	6.7	5.6	10.5	9.0	7.9	6.3	5.4
Imports	3.7	9.1	3.8	6.7	6.6	6.1	4.9	5.1	6.1	5.8	5.9	5.2	4.9
Federal Government	-7.0	3.6	-5.3	-3.7	-3.7	-3.6	-1.9	-1.8	-3.6	-2.8	-2.0	-1.2	-0.8
State & Local Government	-2.2	0.2	-1.2	-1.2	-0.3	0.2	-2.2	-1.1	0.1	1.1	1.2	1.1	1.0
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	1.3	3.0	1.1	2.5	1.9	2.2	3.1	2.3	2.0	2.1	1.8	1.5	1.4
Producer Prices, Finished Goods	2.1	1.4	-0.5	0.5	1.2	2.1	6.0	1.7	1.4	1.3	0.7	0.3	0.0
Employment Cost Index - Total Comp.	1.8	3.2	2.1	1.7	1.9	2.9	2.2	2.2	2.3	2.8	3.2	3.3	3.3
Other Key Measures													
Oil - Refiner Acq. Cost, Composite ($/bbl)	104.51	109.89	109.85	106.65	106.84	106.97	101.80	108.31	107.20	105.73	101.80	97.47	92.79
Productivity (%ch., saar)	0.9	-0.1	0.9	1.0	1.4	1.4	0.6	0.7	1.3	1.6	1.6	2.0	2.2
Total Industrial Production (%ch., saar)	4.3	6.0	8.7	6.8	5.6	6.4	4.0	5.9	5.8	4.3	2.8	2.3	2.2
Nonfarm Inven. Chg. (Bil. 2005 $)	60.8	68.6	71.6	89.5	99.7	103.7	44.3	82.3	94.1	70.7	54.3	46.0	52.1
Consumer Sentiment Index	64.8	75.5	82.0	85.9	88.4	90.0	67.4	83.0	90.3	91.9	94.0	94.7	95.4
Light Vehicle Sales (Mil. units, saar)	13.44	14.49	14.89	15.45	15.74	16.18	12.74	15.14	16.51	17.04	17.14	17.65	18.05
Housing Starts (Mil. units, saar)	0.670	0.699	0.760	0.931	1.072	1.186	0.610	0.865	1.335	1.633	1.878	1.973	1.994
Unemployment Rate (%)	8.7	8.3	7.9	7.6	7.3	7.1	9.0	7.8	6.7	5.7	5.0	4.6	4.3
Payroll Employment (%ch., saar)	1.4	2.2	2.2	2.9	3.0	3.0	1.2	2.0	2.8	2.5	1.9	1.5	1.1
Federal Surplus (Unified, FY, bil. $)	-321.7	-411.2	-92.3	-229.2	-254.2	-293.3	-1296.8	-1054.5	-658.7	-462.1	-388.8	-370.7	-410.1
Financial Markets, NSA													
Federal Funds Rate (%)	0.07	0.10	0.12	0.15	0.15	0.15	0.10	0.13	0.44	2.38	3.91	4.00	4.00
10-Year Treasury Note Yield (%)	2.05	2.04	2.55	3.05	3.31	3.58	2.79	2.74	4.03	4.57	4.85	4.89	4.78
Incomes													
Personal Income (% ch., saar)	3.3	3.4	5.4	6.3	5.9	4.3	5.1	4.2	5.4	6.3	5.6	5.0	4.6
After-Tax Profits (Four-qtr.% change)	11.7	8.9	5.7	4.9	7.4	8.7	5.1	6.7	9.9	3.2	-4.2	-2.4	-3.0