IHS Global Insight

US Executive Summary

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Ups and downs continue

Forecast highlights

- The economy's fundamentals are improving, particularly in housing, but policy headwinds from Washington are still holding it back for now. We expect GDP growth to accelerate from 2.0% this year to 2.8% in 2014.
- We have assumed that the sequester remains in effect until 30 September, taking 0.4 percentage point off 2013 growth.
- We expect GDP growth to rebound to 3.8% in the first quarter from 0.4% growth in the fourth quarter, but to slow again to 0.4% in the second quarter as the sequester bites.
- We assume that the Federal Reserve will continue quantitative easing into 2014, and will keep the federal funds rate near zero until late 2015, by when we expect the unemployment rate to drop below the Fed's 6.5% threshold.

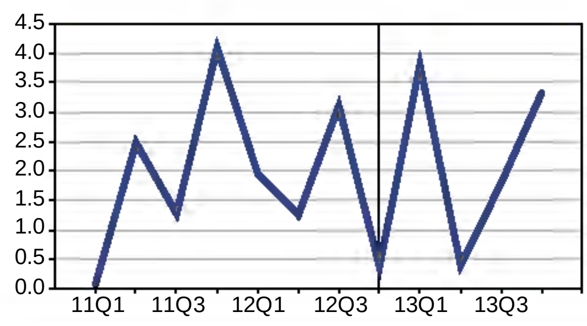
Forecast in brief

The economy has begun 2013 on a strong note, with real GDP growth now expected to bounce up to 3.8% in the first quarter, from just 0.4% in the fourth. **Unfortunately, it is premature to conclude that the recovery has moved to a sustained stronger growth track.** A swing in inventory accumulation from a big drag in the fourth quarter to a big plus in the first quarter accounts for most of the swing in GDP growth. In the second quarter, inventory accumulation will probably slow and become a drag once again. In addition, the sequester will be taking effect, pulling down government spending. As a result, we see no immediate end to the up-and-down pattern of GDP growth, and expect the second quarter to register a meager 0.4% growth rate.

We now assume that the sequester will continue through the end of the third quarter—rather than through the end of the second, as we assumed last month—and as a result have cut our third-quarter growth rate from 3.2% to 1.8%. Growth then bounces back above 3% in the fourth quarter, after the assumed end to the sequester. Despite the longer sequester, the stronger-than-expected start to the year still leaves the calendar-year 2013 growth rate higher than our previous forecast. We now project 2013 GDP growth at 2.0%, compared with 1.8% in our March forecast. We have shaved our projected 2014 growth rate from 2.9% to 2.8%.

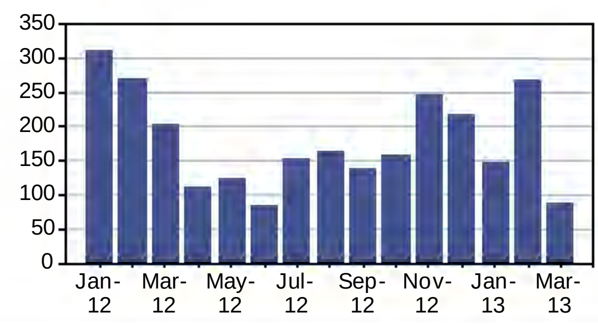
Up-and-down growth pattern to continue

(Real GDP, percent change, annualized rate)



Job creation slows in March

(Millions of jobs)



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The stream of upbeat news on the economy has been interrupted, at least temporarily, consistent with the view that growth will slow in the second quarter. The two ISM indexes both showed slower growth in March than in February, and the March employment report came in much weaker than expected, with only 88,000 jobs added, and the unemployment rate dropping 0.1 percentage point to 7.6% only because the labor force plunged by 496,000. The housing market news remains very encouraging, though, across all dimensions —home sales, housing starts, and house prices—and housing should continue to make a strong contribution to growth. The housing recovery is the main reason that we expect growth to improve to around 3%—not just for one quarter, but on a sustained basis—after the sequester's effects unwind.

The sequester has become entrenched, at least for the rest of the fiscal year. The continuing resolution to keep the government funded through the end of the fiscal year passed with little fuss at the end of March, leaving the sequester in place. There is general agreement that the sequester is a bad thing, but the crucial disagreement is whether extra revenues should be part of any replacement deal—Democrats say yes, Republicans say no. If the sequester is to end soon, it will require some evidence of severe public discomfort from its effects (not yet seen) to turn up the heat in Washington and produce a compromise.

The next key deadline will probably not arrive until August, when the debt ceiling will once again become binding. The new fiscal year will be approaching, as well. If a deal can be done, this would be the time, replacing the sequester's crude spending cuts with better-targeted cuts spread over many years—including to entitlement programs—and with extra revenues from limits on tax expenditures.

Our baseline forecast assumes that such a package is agreed in time to end the sequester at the beginning of the new fiscal year in October. Under our assumptions, the sequester delivers $44 billion in actual spending cuts in fiscal 2013 and $57 billion in calendar 2013, and cuts 0.4% off the calendar-year GDP growth rate for 2013.

The **housing** recovery continues to gather momentum. Household formation is reviving, and the recovery in demand is spreading from rental units to the owner-occupied sector. For 2012 overall, housing starts rose 28%, albeit from a low base (782,000 units, compared with 612,000 in 2011). We expect starts to improve another 24% in 2013, to 970,000, and then by 30% in 2014, to 1.27 million. House prices are also reviving. We expect a 6.5% house-price increase in 2013 to follow a 5.5% increase in 2012, as measured by the FHFA purchase-only index, fourth quarter to fourth quarter.

The housing recovery is supporting **consumer spending** (through its effect on wealth and on housing-related purchases), and is probably one of the reasons why consumer spending growth is heading for 3.3% in the first quarter despite the drag from the loss of the payroll tax cut. We doubt that this pace can be maintained, though, since it would be far ahead of the 1.2% growth rate that we expect for real disposable incomes this year. Households still face too many negatives to allow a robust consumer spending recovery—a loss of about 1% of disposable income due to the ending of the payroll tax cut, high (though falling) debt burdens, low (though now rising) house prices, modest employment growth, and a lack of confidence in the government's ability to make things better. Overall, we expect consumer spending to rise 2.2% in 2013, slightly better than 2012 (1.9%), and to strengthen to 2.5% growth in 2014. Light-vehicle sales are the brightest spot, as pent-up demand is coming through, and we have nudged higher our sales forecast for 2013 to 15.3 million (from 15.2 million), up from 14.4 million in 2012.

Capital equipment should remain an important driver of GDP growth. After a dip in mid-2012, capital goods orders have revived strongly. **Business equipment and software spending** bounced up at an 11.8% pace in the fourth quarter (led by aircraft). The fourth-quarter bounce may have been exaggerated by the anticipated expiry of bonus depreciation, and we expect spending growth to slow to 4.3% in the first quarter, before accelerating again in the second quarter. On a calendar-year basis, we expect spending growth of 6.5% in 2013, similar to the 6.9% growth rate in 2012.

On the **business structures** side, spending on buildings is improving, although at an uneven pace. We expect spending to rise 3.2% in 2013, down from 10.7% growth in 2012. **Oil and gas drilling activity** surprisingly rose in the third and fourth quarters, despite a retreat in natural gas drilling in the face of low prices. Overall drilling rose 5.7% in 2012, but we expect only a 0.8% increase in 2013.

In the **state and local government sector**, the pace of budget tightening has eased slightly as revenues have begun to improve, but municipalities remain under severe pressure, and the sequester will cut federal grants.

We expect real state and local government spending to decline 0.8% in calendar 2013, after dropping 1.4% in calendar 2012.

The **federal budget deficit** in fiscal 2012 narrowed to $1.1 trillion (7.0% of GDP), from $1.3 trillion in fiscal 2011 (8.7% of GDP). Fiscal policy is tightening, as stimulus fades away and spending cuts and tax increases take effect. We expect the deficit to decline further to $868 billion in fiscal 2013 (5.4% of GDP).

Slower growth around the world has created a headwind for US **export growth**. Exports fell sharply in the fourth quarter, but we think that paints an unduly pessimistic picture. We expect modest export growth during 2013, at 2.6%, down slightly from 3.4% in 2012. We expect the **dollar** to strengthen against the euro over the rest of 2013 as the Eurozone recession lingers. 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 shrink to 2.7% of GDP in 2013, from 3.0% in 2012, due to a smaller bill for imported oil.

Inflation remains a nonissue. We expect lower oil prices to pull **headline CPI inflation** down to 1.4% in 2013, from 2.1% in 2012. Moreover, in the face of sluggish demand growth, we expect core inflation to continue to ease gradually through mid-2013.

The combination of slow global growth, a continuing Eurozone crisis, and Fed purchases is keeping 10-year Treasury **bond yields** low. Yields have retreated to 1.7% in recent days, after a brief move above 2% in mid-March on hopes that global risks were receding. We expect bond yields to move much higher over the long term, but see them averaging 2.0% in 2013.

The **Federal Reserve** is continuing its purchases of long-term Treasuries at $45 billion per month and mortgage-backed securities at $40 billion per month. It has said that as the outlook for the labor market improves, purchases will probably taper off rather than come to a sudden halt. We expect quantitative easing to continue well into 2014, given only gradual labor-market improvement. We expect no rate hike before late 2015.

Progress on deficit and debt reduction: Too much or not enough?

One of the jokes these days is that American and European politicians are in a perverse race to see who can succeed in taking a manageable problem and turning it into a crisis. In the past couple of years, at various times US and EU politicians have been “ahead.” More seriously, given that public deficits and debts have to be cut in almost all of the developed nations of the world, it is fair to ask: What has been accomplished so far? Has it been too draconian? Or has it been too timid? And what more needs to be done? Not surprisingly, the answer differs from country to country. In the case of the United States, progress has been made on stabilizing the debt-to-GDP ratio—albeit in a very chaotic and damaging way. But without further action on the entitlement programs, the debt ratio will in the end explode, after a temporary hiatus. In many respects, the fiscal contraction in Europe has been far bigger—some would say too big. At the other extreme, Japan’s fiscal policy over the past five years has become steadily more expansionary.

What has been accomplished so far?

A useful way of measuring the tightness or looseness of fiscal policy is to calculate what the budget deficit would be if the economy were operating at full-employment. This isolates the impact of policy changes (versus the business cycle) on the deficit. The Organization for Economic Cooperation and Development (OECD) calculates a comparable set of cyclically adjusted deficits (national and local governments combined) for over 30 countries. What do these tell us about how tight fiscal policy has become?

- **United States.** The cyclically adjusted deficit in the United States rose from around 3% of GDP in 2006 to just over 10% in 2009—partly because of the fiscal stimulus program enacted by the Obama administration in early 2009. This ratio fell to around 7% by 2012 and is expected to fall further (to around 3%) by 2015. This means that US fiscal policy has become tighter, but is not yet tight—there would still be a budget deficit if the economy were at full-employment. Meanwhile, notwithstanding the dysfunctional politics in Washington, DC, substantial progress is being made on putting US fiscal policy on a more sustainable path. The fiscal impact of the spending cuts enacted in the summer of 2011, the tax increases put in place at the beginning of this year, and the full sequester amounts to about $2.8 trillion over a 10-year period. This amounts to $600 billion in tax increases and $2.2 trillion in spending cuts. These are big projected changes, and mean that the United States is about 75% of the way towards stabilizing its debt ratio in the next 10 years.

- **Europe.** Deficit reduction in Europe’s hardest-hit economies has been much more dramatic. In 2009, Greece’s cyclically adjusted deficit was over 16% of GDP.

Last year this measure was in balance, and headed for a surplus this year and next. Ireland's cyclically adjusted deficit was a whopping 26% of GDP in 2010, but was squeezed down to around 4.5% last year. The fiscal contraction has been less extreme in Italy, Portugal, and Spain—but still substantial. Fiscal policy is set to tighten in all five countries; in Greece, Italy, and Portugal, the cyclically adjusted budget balances are projected (by the OECD) to be in surplus either this year or next. By this measure, fiscal policy is far too tight in these three countries, all of which are in deep, multiyear recessions. At the same time, Germany—which has not had any sovereign-debt issues—has also been tightening. Its cyclically adjusted deficit has fallen from around 3.5% of GDP in 2010 to nearly zero last year. This is a problem, given Germany's (potential) locomotive role in the Eurozone.

- **Japan.** The Japanese fiscal stance is the only one in the developed world that has become steadily more stimulative in the past four years. The cyclically adjusted deficit has risen from under 7.5% of GDP in 2009 to more than 9% in 2012. With the additional fiscal stimulus envisaged by the Japanese government, this ratio will rise even more in 2013.

What more needs to be done—Or will be done?

- **United States.** IHS estimates that for the US debt ratio to be stabilized (at around 80% for the debt held by the public) for the next 10 years, another $800 billion or so in spending cuts and tax increases will be required. While, on its own, this is quite manageable, the challenge becomes daunting after the next decade, when the cost of entitlement programs explodes (especially Medicare). While progress has been made on deficit reduction and debt control, the president and Congress have shied away from any entitlement reform—and meaningful tax reform. The long-run sustainability of the US fiscal situation will not be guaranteed until these reforms are enacted. The good news for the United States is that given its (relatively) positive growth and demographic dynamics, the pain from austerity and reforms can be absorbed fairly well. The same cannot be said about Europe.

- **Europe.** The draconian austerity programs in Southern Europe and tight or tighter fiscal policies in much of Northern Europe mean that the region now has *both* a sovereign-debt crisis and a serious growth crisis. Further fiscal tightening is both damaging and counterproductive. Austerity hurts growth, which cuts revenues and raises spending (on social safety net programs), which in turn makes cutting the deficit harder to do...and so on. This means that, even as fiscal policy has become much tighter, the debt-to-GDP ratios of most of the distressed economies of the Eurozone have continued to rise. The challenge for the Eurozone is to kick-start growth—as a growing percentage of the Eurozone electorate is demanding. This requires a number of elements: 1) more flexibility on deficit reduction in the midst of recessions; 2) more stimulus and growth from Northern Europe (especially Germany); and 3) more structural reforms to boost long-term growth.

- **Japan.** While Japan does not have a sovereign-debt "crisis" on its hands (just yet), in some respects it faces challenges that are as daunting as those in Europe. It has suffered through three recessions since 2008 and has been unsuccessful in getting rid of persistent deflation. Recently, the Bank of Japan announced a more aggressive bond-buying program and raised its inflation target from 1% to 2%. At the same time, the government announced fiscal stimulus this year to the tune of 2% of GDP—although the net new stimulus is less than half that amount. In the meantime, the government has its eye on the long-term fiscal situation, which is clearly unsustainable. The ratio of Japan's net debt (the equivalent of the US debt held by the public) to GDP has risen from 60% in 2000 to 135% last year. On current trends, it is expected to keep rising. With this in mind, last year Japan passed two consumption tax hikes, which will take effect in 2014 and 2015. These are expected to lower the deficit-to-GDP ratio in 2014 and 2015. But eventually Japan will have to do more deficit reduction—much more.

Bottom line. At one level, the challenges facing the key developed economies (United States, Europe, and Japan) are the same: put fiscal policy on a more sustainable trajectory. However, the challenges are also of different orders of magnitude, given initial conditions, demographics, and, especially, economic growth. In this regard, Europe and Japan may have a much deeper hole to dig themselves out of than the United States.

Key forecast assumptions

Fiscal policy: Automatic spending cuts. We have assumed that the automatic spending cuts (or "sequester"), which began on 1 March, continue through 30 September. We assume cuts of $85 billion in budget authority that translate into cuts in actual outlays of $44 billion this fiscal year and $57 billion this calendar year (spending cuts lag behind cuts in budget authority). We assume that the sequester is ultimately replaced by an agreement on a combination of increases in income taxes (mostly upper income, through restrictions on deductions, not higher tax rates) and spending cuts that fall on Medicare, Medicaid, and Social Security, not just discretionary spending. These measures mostly begin in January 2014. Among other changes, we assume that Social Security payments are indexed to the chained CPI from 2014 onwards.

Fiscal policy: Discretionary spending. We assume that real nondefense federal government spending on goods and services falls 4.3% in calendar 2013 and rises 0.1% in 2014. We assume that real defense spending falls 5.8% in 2013 and rises 0.1% in 2014. In both cases the steep cuts in 2013 result from the sequester.

Fiscal policy: Expiring stimulus. Emergency unemployment insurance benefits have been extended for 2013. We assume they are phased out over several years, rather than disappearing overnight in 2014. We assume that the 50% bonus depreciation incentive is not extended for 2014.

Oil price assumption unchanged. We expect only modest growth in global oil demand during 2013, and despite geopolitical fears, oil prices have slipped in recent weeks. This decline is consistent with our assumption for the average price of Brent crude oil in 2013 of $105/barrel.

Federal Reserve: Unemployment the key to the first rate hike. We assume that the Fed will keep its federal funds target in the 0.00-0.25% range until late 2015, consistent with our forecast that the unemployment rate will hit 6.5% in the fourth quarter of 2015. We assume that quantitative easing will end during 2014.

Euro expected to weaken. We see further declines ahead for the euro, which we expect to gradually depreciate to a low of $1.22 in May 2014, during the run-up to Greece's assumed Eurozone exit in the second quarter of 2014. We expect no change (year-end to year-end) in the Chinese renminbi in 2013.

Global growth still sluggish. We expect GDP growth in the United States' major-currency trading partners to weaken even further to 0.8% in 2013, from 1.1% in 2012, largely because we expect growth in Japan to slow to 0.6%% from 2.0%. GDP growth for other important trading partners is projected to improve slightly to 4.4% in 2013, from 4.1% in 2012.

by Nariman Behravesh and Nigel Gault

Risks to the Forecast

The US economy is expected to rebound from anemic real GDP growth of 0.4% in the fourth quarter of 2012 to close to 4.0% in the first quarter of this year. However, with a sequester in effect in the second quarter, and tentative signs of a spring slowdown in the employment and ISM data, will domestic policy gridlock stall the recovery, or will growth reignite as efficient policymaking and effective monetary policy guidance allow the private-sector recovery to take off?

In the pessimistic scenario, the US economy suffers from poor policymaking domestically and weak growth abroad. Policymakers are unable to prevent a full-year sequester, and subsequently decide to replace the sequester cuts with further cuts that are less weighted towards defense spending. The tighter fiscal stance puts further pressure on a fragile economy, while weak global growth and a worsening Eurozone crisis weigh down on US exports. Domestic households and businesses lose confidence, housing activity slows, credit tightens again, and the recovery stalls in 2013.

In the optimistic scenario, faster employment growth and sustained improvements in the housing sector lead to a stronger economy. In Washington, policymakers replace automatic spending cuts with a credible plan for long-term deficit reduction by midyear, while pro-growth policy decisions in Europe and China boost the foreign economic outlook.

Recovery stalls (20% probability). In the pessimistic scenario, the US economy goes on a rollercoaster ride in late 2012 and early 2013. After a relatively strong performance in the first quarter of the year, real GDP declines 1.4% in the second quarter (versus an increase of 0.4% in the baseline). In this scenario, it turns out that the economy has less underlying momentum than it had seemed, so that there is less of a cushion to absorb the drag from the sequester. As a result, growth downshifts to 1.0% in 2013 (versus 2.0% in the baseline) with the economy barely avoiding a recession. Partisan gridlock contributes to this setback as hopes of a fiscal "grand bargain" fade quickly, and the sequester's automatic spending cuts take their course, extending for the whole of 2013. In the baseline, a bipartisan agreement is assumed to end the sequester by late September. Facing a weak economy, policymakers decide that fiscal prudence is the best approach, and they resolve to further cut discretionary spending in 2014, taking another chunk out of growth. The inability of policymakers to resolve policy issues in a timely manner weighs on private-sector confidence, stock prices, and overall private-sector activity.

In addition to the domestic policy missteps, the global outlook deteriorates rapidly, thus reducing the demand for US exports. This scenario assumes a more severe Europe-wide recession than in the baseline. Austerity measures, painful structural reform plans, and political instability increase the financial strains in Europe's southern periphery. Greece eventually exits the Eurozone in the second half of 2013 as funding from the "troika" dries up. Spain and Italy, in particular, face severe economic contractions and a renewed rise in interest rates to finance their debts, and Spain eventually must restructure its debt. In addition, global growth is restrained by a harder landing in China and weaker growth in other emerging economies. Weak sales lead to depressed income, low profits, and in turn declining employment, with the unemployment rate rising back toward 9%.

The Federal Reserve does what it can to support the economy, expanding the size of its third quantitative easing (QE3) program and keeping the federal funds rate in the 0.00-0.25% range until mid-2017.

In this scenario, real GDP grows 1.0% in 2013 and 0.6% in 2014 (versus 2.0% and 2.8% in the baseline, respectively). Policy inaction and spending restraint lead to much weaker private-sector confidence and consumer spending growth of only 1.3% in 2013 and 1.1% in 2014 (versus 2.2% and 2.5%, respectively, in the baseline). With businesses unwilling to extend further in a time of such great policy uncertainty, nonresidential fixed investment grows only 2.3% (versus 6.6% in the baseline). Light-vehicle sales turn down again, reaching only 14.6-million units in 2013 (versus 15.3 million in the baseline), and they fall back to 14.0 million units in 2014.

Just as housing appeared to be on the upswing, stagnating employment and weak wage gains produce a housing-sector relapse. Low demand, persistent oversupply, and a high number of foreclosures undermine housing prices as the median price of a single-family existing home falls more than 6% below the baseline in 2015. Housing starts weaken again, and average only 873,000 in 2013 (versus 970,000 units in the baseline).

The Brent crude oil price falls back to $96 per barrel in 2013 (versus $105 per barrel in the baseline), providing some cushion for real incomes, as global growth remains depressed. The result is lower inflation, with headline consumer price inflation at 1.0% in 2013 and core CPI inflation at 1.7%. 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 caused by worries about fiscal debt and weak growth. CPI inflation exceeds the baseline by 2015, but it remains below the critical 2.5% inflation threshold until 2017. As a result, the Fed decides to finally raise the federal funds rate only in September 2017, too late to prevent a higher inflation rate from becoming entrenched.

Recovery reignites (20% probability). In the optimistic scenario, the private-sector recovery continues, while policymakers avoid imposing excessive fiscal restraint on the economy. Real GDP grows 2.8% in 2013 and 4.3% in 2014, versus 2.0% and 2.8% in the baseline. This scenario is driven in part by a stronger recovery in residential construction. Housing starts continue to rise rapidly and eclipse 1.25-million units by the end of 2013, three quarters earlier than in the baseline.

On the policy front, the sequester spending cuts remain in place through the second quarter, but public discomfort from their effects compels Congress to agree on a credible long-term deficit-reduction plan replacing the automatic cuts. Equity markets react favorably to the promising measures, and the S&P 500 rises nearly 15% above the baseline in the third quarter.

Across the Atlantic, policymakers develop a credible pro-growth plan to tackle sovereign-debt issues and prevent a financial meltdown. There are no exits from the Eurozone, as members take decisive steps towards a banking and fiscal union that stabilize markets. In the rest of the world, favorable news from the United States and Europe leads to stronger emerging-market growth.

With a stronger outlook and less fiscal uncertainty, consumer and business confidence rise sharply. Consumer spending growth is 2.8% in 2013, compared with 2.2% in the baseline. Already a bright spot in the recovery, light-vehicle sales breach the 16-million-unit threshold in 2013, and eclipse 17-million units in 2014. The labor market continues to pick up steam, and by early 2014 the economy is adding about 300,000 jobs per month; in the baseline, payroll growth is not consistently above 200,000 per month until mid-2014. The unemployment rate drops below 7.0% by early 2014—a level not reached in the baseline until 2015—and nears the Federal Reserve's critical 6.5% threshold in the early part of 2014.

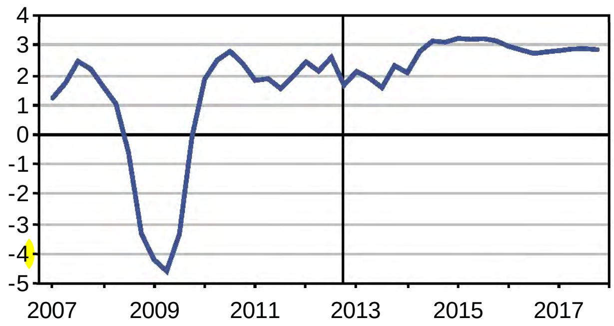
In response to much stronger growth in output and sharp, sustained improvements in the labor market, the Fed decides to halt its latest quantitative easing program before the end of 2013, deciding that its aggressive policies have achieved their objective of boosting growth and lowering unemployment. It then raises the federal funds rate in the second quarter of 2014, six quarters sooner than in the baseline. Financial markets take the monetary tightening in stride—in fact, they welcome it as an appropriate and timely response to a much stronger economy. The Fed's tightening helps to keep inflation benign. Lower inflation in the long term allows the Fed to reduce interest rates below baseline levels near the end of the decade.

by Gregory Daco and Erik Johnson

Forecast at a glance

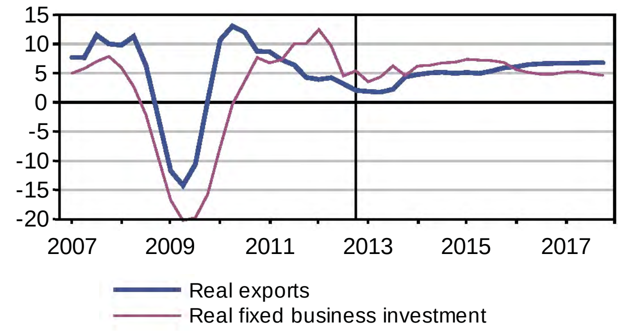
Sustained but modest growth

(Real GDP, percent change from a year earlier)



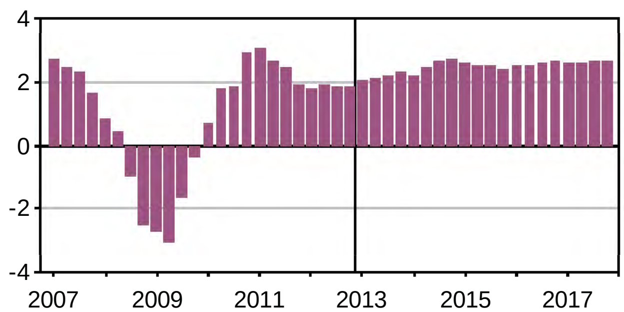
Exports, business spending have slowed

(Percent change from a year earlier)



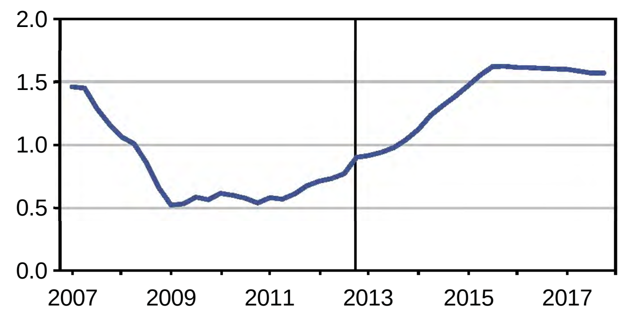
Restrained consumer spending growth

(Real spending, percent change from a year earlier)



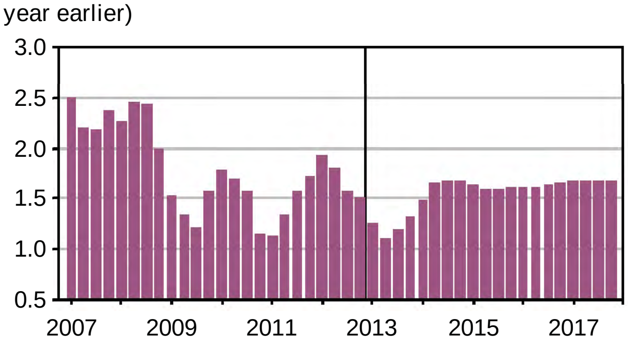
Housing starts beginning a long climb

(Million units)



Core inflation easing

(Core consumption price index, percent change from a year earlier)



Fed holds rates near 0% until late 2015

(Percent)

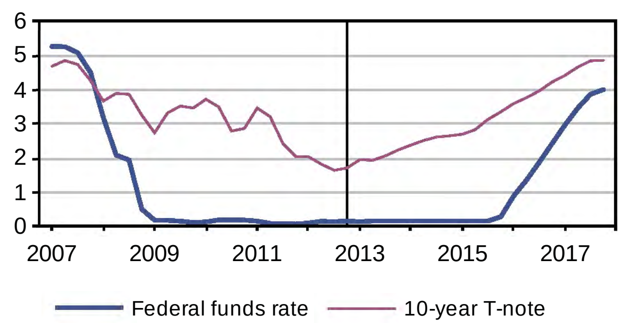


TABLE 1
Monthly Economic Indicators

	Feb. 2012	Mar. 2012	Aug. 2012	Sep. 2012	Oct. 2012	Nov. 2012	Dec. 2012	Jan. 2013	Feb. 2013	Mar. 2013	2010	2011	2012
Industrial Markets													
Industrial Prod. Total (2007=100.0)	96.7	96.1	96.8	97.0	96.8	98.0	98.2	98.3	99.0		90.6	93.6	97.0
Percent Change	0.5	-0.5	-0.8	0.2	-0.1	1.2	0.1	0.1	0.8		5.7	3.4	3.6
Percent Change Year Earlier	4.9	3.2	2.8	2.9	2.2	3.2	2.8	2.2	2.5				
Capacity Utilization, Manufacturing (%)	76.2	75.7	75.4	75.3	74.9	75.8	76.4	76.2	76.6		71.3	74.0	75.8
Unemployment Rate (%)	8.3	8.2	8.1	7.8	7.9	7.8	7.8	7.9	7.7	7.6	9.6	8.9	8.1
Payroll Employment (Mil.)	133.080	133.285	133.927	134.065	134.225	134.472	134.691	134.839	135.107	135.195	129.911	131.500	133.737
Change (Mil.)	0.271	0.205	0.165	0.138	0.160	0.247	0.219	0.148	0.268	0.088	-0.948	1.589	2.237
Leading Indicator (2004=1.000)	0.929	0.931	0.927	0.932	0.934	0.934	0.938	0.943	0.948		0.869	0.913	0.931
Percent Change	0.8	0.2	-0.4	0.5	0.2	0.0	0.4	0.5	0.5		8.0	5.1	2.0
New Orders, Mfg. (Bil. $)	478.9	468.9	453.4	473.8	477.4	476.1	482.4	477.5	492.0		410.6	459.2	471.6
Percent Change	1.5	-2.1	-5.1	4.5	0.8	-0.3	1.3	-1.0	3.0		18.0	11.8	2.7
Inv. Chg., Mfg. & Trade (Bil. $)	9.9	4.0	9.7	10.8	4.3	3.6	4.5	16.8			110.0	110.9	80.7
Merchandise Trade Bal. (Bil. $)	-59.6	-66.8	-58.5	-56.8	-58.4	-64.9	-55.5	-61.3	-59.5		-634.9	-727.4	-727.9
Consumer Markets													
Disposable Income (Bil. 2005$)	10216	10240	10280	10285	10269	10390	10673	10241	10311		10017	10150	10304
Percent Change	0.3	0.2	-0.2	0.1	-0.2	1.2	2.7	-4.0	0.7		1.8	1.3	1.5
Personal Income (Bil. $)	13235	13298	13396	13446	13452	13598	13956	13442	13585		12322	12947	13407
Percent Change	0.7	0.5	0.1	0.4	0.0	1.1	2.6	-3.7	1.1		3.8	5.1	3.6
Personal Saving Rate (%)	3.5	3.7	3.7	3.3	3.4	4.1	6.5	2.2	2.6		5.1	4.2	3.9
Consumer Expenditures (Bil. $)	11026	11054	11137	11223	11220	11255	11274	11315	11392		10216	10729	11120
Percent Change	0.8	0.3	0.3	0.8	0.0	0.3	0.2	0.4	0.7		3.8	5.0	3.6
Retail Sales (Bil. $)	402.8	406.2	407.7	412.7	412.0	414.0	416.1	417.0	421.4		4306.4	4650.8	4883.7
Percent Change	0.7	0.8	1.0	1.2	-0.2	0.5	0.5	0.2	1.1		5.5	8.0	5.0
Non-Auto. Retail Sales (Bil. $)	330.0	333.2	333.1	336.7	337.2	337.2	338.2	339.4	342.9		3559.6	3823.2	3992.8
Percent Change	0.6	0.9	0.8	1.1	0.2	0.0	0.3	0.4	1.0		4.5	7.4	4.4
New Light-Vehicle Sales (Mil.)	14.4	14.1	14.5	14.9	14.2	15.5	15.3	15.2	15.3	15.2	11.6	12.7	14.4
Housing Starts (Mil.)	0.718	0.706	0.750	0.843	0.889	0.841	0.982	0.910	0.917		0.586	0.612	0.782
New Home Sales (Mil.)	0.366	0.352	0.367	0.379	0.364	0.394	0.381	0.431	0.411		0.321	0.307	0.366
Existing Home Sales (Mil.)	4.520	4.460	4.840	4.780	4.830	4.960	4.900	4.940	4.980		4.183	4.278	4.661
Chg. Consumer Install. Credit (Bil. $)	11.9	10.7	18.6	9.9	16.2	13.9	14.4	12.7	18.1		102.1	93.4	152.6
Prices and Wages													
CPI, All Urban Consumers	2.283	2.290	2.300	2.312	2.316	2.311	2.311	2.312	2.328		2.181	2.249	2.296
Percent Change Year Earlier	2.9	2.6	1.7	2.0	2.2	1.8	1.8	1.6	2.0		1.6	3.1	2.1
Core Cons. Price Defl. (2005=100.0)	113.1	113.3	113.9	114.0	114.1	114.2	114.3	114.5	114.5		110.2	111.8	113.7
Percent Change Year Earlier	1.9	2.0	1.5	1.5	1.6	1.5	1.4	1.3	1.3		1.5	1.4	1.7
PPI, Finished Goods	1.939	1.940	1.952	1.972	1.969	1.961	1.956	1.960	1.973		1.800	1.908	1.945
Percent Change Year Earlier	3.4	2.7	2.0	2.1	2.3	1.4	1.3	1.4	1.8		4.2	6.0	1.9
PPI, Industrial Commodities (NSA)	2.024	2.051	2.021	2.038	2.028	2.006	2.004	2.016	2.040		1.870	2.020	2.021
Percent Change Year Earlier	3.1	2.3	-0.8	-0.3	0.4	-0.7	-0.1	0.1	0.8		7.0	8.0	0.0
Avg. Private Hourly Earnings ($)	19.64	19.68	19.76	19.80	19.82	19.88	19.93	19.98	20.04	20.03	19.08	19.46	19.76
Percent Change Year Earlier	1.6	1.8	1.3	1.4	1.3	1.5	1.8	1.9	2.0	1.8	2.4	2.0	1.5
Brent Crude, Spot Price ($/bbl.)	118.29	124.50	112.37	113.35	111.80	109.32	109.29	112.08	116.39	109.66	79.84	110.95	111.78
Percent Change Year Earlier	15.1	9.1	2.0	2.4	3.0	-1.3	1.1	0.5	-1.6	-11.9	29.7	39.0	0.7
Henry Hub Spot Natural Gas ($/mmbtu)	2.51	2.16	2.83	2.84	3.31	3.55	3.34	3.33	3.34	3.82	4.39	4.00	2.75
Percent Change Year Earlier	-38.6	-45.6	-30.1	-26.9	-7.2	9.3	5.4	24.7	33.0	76.6	11.1	-8.9	-31.2
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	0.13	0.12
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	0.12	0.08	0.07
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	5.03	4.87	3.77
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	3.36	2.99	1.89
Conv. Mortgage Rate, FHLMC (%)	3.99	3.96	3.80	3.68	3.55	3.60	3.50	3.38	3.35	3.35	4.82	4.56	3.82
M1 Money Supply (Bil. $)	2160	2160	2261	2265	2311	2339	2374	2420	2404	2440	1709	1924	2242
Percent Change	0.8	0.0	0.4	0.2	2.0	1.2	1.5	1.9	-0.7	1.5	5.9	18.8	11.2
M2 Money Supply (Bil. $)	9601	9637	9868	9919	10010	10083	10159	10243	10294	10402	8522	9009	9824
Percent Change	0.5	0.4	0.4	0.5	0.9	0.7	0.8	0.8	0.5	1.1	3.0	9.5	6.5
Trade-Weighted US$, 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	84.2	79.5	81.7
Percent Change	0.7	1.0	1.4	1.3	-0.6	-1.1	-1.8	0.0	0.9	-0.4	-5.3	-5.6	2.8
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	84.2	85.6	85.9	87.9	88.2	87.1	85.3	85.2	86.3	86.3	87.4	81.8	85.4
Percent Change	0.9	1.6	1.9	2.4	0.3	-1.2	-2.2	-0.1	1.3	0.0	-5.4	-6.4	4.5
Percent Change Year Earlier	0.5	1.4	7.9	9.4	10.2	8.3	3.3	2.1	2.5	0.8	3.88	4.25	5.24

TABLE 2

Summary of the US Economy

	2012:3	2012:4	2013:1	2013:2	2013:3	2013:4	2014:1	2014:2	2014:3	2014:4	2015:1	2015:2	2015:3
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	3.1	0.4	3.8	0.4	1.8	3.3	2.8	3.3	3.2	3.2	3.3	3.1	3.3
Final Sales of Domestic Product	2.4	1.9	2.1	1.1	1.8	3.0	2.9	3.4	3.2	3.3	3.3	3.2	3.2
Total Consumption	1.6	1.8	3.3	1.8	1.8	2.4	2.8	2.7	2.7	2.8	2.2	2.6	2.4
Durables	8.9	13.6	9.4	2.1	2.7	4.6	4.3	5.9	5.6	6.5	3.6	5.8	4.3
Nondurables	1.2	0.1	4.1	3.1	2.1	2.5	2.2	1.9	2.0	1.7	1.5	1.6	1.8
Services	0.6	0.6	2.1	1.3	1.6	2.0	2.8	2.5	2.5	2.5	2.2	2.3	2.4
Nonresidential Fixed Investment	-1.8	13.1	0.2	6.8	5.4	6.4	6.6	7.2	7.1	6.8	8.7	6.7	6.8
Equipment & Software	-2.6	11.8	4.3	11.2	6.1	8.0	7.1	6.5	7.0	5.9	7.8	5.9	6.7
Information Processing Equipment	-2.5	15.9	4.8	10.3	9.1	9.6	7.7	8.4	7.4	7.7	7.8	6.7	6.8
Computers & Peripherals	-33.3	73.8	-10.5	23.5	25.0	25.7	14.1	18.9	13.7	14.4	13.9	12.6	12.2
Communications Equipment	53.8	2.4	23.8	9.7	4.0	5.9	6.6	8.3	6.6	8.7	9.6	7.1	8.7
Industrial Equipment	0.1	9.7	9.7	5.1	9.8	12.9	13.9	6.4	6.6	7.0	7.7	4.5	4.4
Transportation equipment	-16.1	7.3	-10.4	34.7	-0.1	2.4	3.6	4.3	8.8	-1.3	7.7	2.8	7.4
Aircraft	-66.3	215.7	-69.9	161.1	1.1	4.8	4.0	3.5	5.1	2.6	5.8	5.4	6.7
Other Equipment	9.3	7.5	12.6	0.7	0.7	4.2	2.2	3.5	4.6	7.1	7.6	8.2	7.9
Structures	0.0	16.7	-9.5	-3.6	3.7	2.3	5.3	9.2	7.6	8.9	11.0	8.6	7.1
Commercial & Health Care	8.5	6.8	4.8	1.6	3.8	6.3	16.0	19.2	20.8	27.4	28.2	27.1	22.3
Manufacturing	-8.9	24.4	1.2	2.6	1.3	1.8	12.3	9.4	-6.3	-6.4	5.5	5.8	3.3
Power & Communication	-9.1	69.9	-21.8	-27.0	-5.1	-11.1	-14.3	2.0	8.1	2.8	6.7	0.3	-3.0
Mining & Petroleum	3.6	1.9	-10.0	6.4	10.7	7.5	2.3	2.0	-0.5	2.2	1.2	-2.9	-1.8
Other	0.1	-0.7	-18.1	0.1	2.8	3.7	17.6	18.5	16.0	12.9	10.6	9.9	9.8
Residential Fixed Investment	13.6	17.5	21.9	16.4	11.9	13.3	16.9	24.9	25.0	23.7	20.6	19.4	15.5
Exports	1.9	-2.8	3.6	4.7	4.1	5.3	5.3	5.8	4.6	4.6	5.8	5.1	6.2
Imports	-0.6	-4.2	4.6	5.4	4.4	5.0	5.9	6.1	4.7	4.3	4.1	4.0	3.7
Federal Government	9.5	-14.8	-5.4	-11.7	-1.3	6.2	0.6	1.7	-2.8	-2.3	-0.9	-1.8	-1.7
State & Local Government	0.3	-1.5	-0.9	-0.5	-1.1	-0.7	-0.3	0.5	1.2	0.7	0.5	0.6	0.6
Billions of Dollars													
Real GDP	13652.5	13665.4	13793.3	13807.1	13868.6	13982.5	14080.4	14194.3	14305.2	14416.9	14536.1	14649.0	14766.6
Nominal GDP	15811.0	15864.1	16031.6	16112.2	16252.0	16448.3	16644.8	16852.6	17049.2	17242.2	17456.0	17652.6	17852.9
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	2.7	1.0	0.5	1.6	1.7	1.5	2.0	1.8	1.5	1.4	1.7	1.4	1.3
Consumer Prices	2.1	2.2	1.5	0.2	1.6	1.4	1.9	1.9	1.6	1.5	1.6	1.5	1.5
Producer Prices, Finished Goods	5.0	2.1	0.7	0.9	-0.2	0.1	1.1	1.0	0.7	0.7	0.8	0.5	-0.4
Employment Cost Index - Total Comp.	1.7	2.1	1.6	1.9	2.0	2.2	2.9	2.3	2.4	2.3	2.7	2.5	2.5
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	109.33	110.13	112.71	107.25	101.75	98.00	95.25	93.75	92.25	90.75	89.37	87.87	87.87
Productivity (%ch., saar)	3.1	-1.9	2.9	-0.8	-0.2	1.3	1.0	1.3	1.1	1.2	1.4	1.2	1.4
Total Industrial Production (%ch., saar)	0.3	2.4	5.6	2.4	3.1	4.0	2.3	2.9	3.1	3.4	3.6	3.4	2.9
Factory Operating Rate	75.5	75.7	76.4	76.7	76.9	77.5	77.6	77.8	77.9	77.9	78.1	78.1	78.2
Nonfarm Inven. Chg. (Bil. 2005 $)	88.2	34.8	71.9	48.0	46.3	54.5	52.3	49.8	49.4	46.2	48.1	46.7	47.9
Consumer Sentiment Index	75.0	79.4	76.7	81.5	80.3	81.5	82.4	82.8	84.1	84.9	85.1	85.8	86.6
Light Vehicle Sales (Mil. units, saar)	14.46	15.01	15.25	15.24	15.29	15.35	15.49	15.63	15.77	15.90	16.03	16.17	16.27
Housing Starts (Mil. units, saar)	0.774	0.904	0.918	0.942	0.980	1.042	1.123	1.237	1.315	1.387	1.469	1.553	1.621
Exist. House Sales (Total, Mil. saar)	4.740	4.897	4.964	4.975	5.037	5.206	5.283	5.669	5.789	5.865	5.964	6.075	6.126
Unemployment Rate (%)	8.0	7.8	7.8	7.7	7.7	7.6	7.5	7.4	7.2	7.1	6.9	6.8	6.6
Payroll Employment (%ch., saar)	1.2	1.6	1.7	1.4	1.2	1.6	1.6	1.6	1.9	1.9	1.7	1.7	1.9
Federal Surplus (Unified, nsa, bil. $)	-185.0	-293.3	-357.3	-34.8	-182.4	-231.6	-304.3	1.4	-161.4	-205.6	-270.9	29.5	-143.5
Current Account Balance (Bil. $)	-449.8	-441.7	-476.9	-423.8	-418.2	-406.7	-413.5	-411.8	-412.1	-421.0	-425.2	-427.1	-435.2
Financial Markets, NSA													
Federal Funds Rate (%)	0.14	0.16	0.14	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
3-Month Treasury Bill Rate (%)	0.10	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.16
10-Year Treasury Note Yield (%)	1.64	1.71	1.95	1.93	2.06	2.24	2.38	2.52	2.62	2.65	2.69	2.83	3.13
30-Year Fixed Mortgage Rate (%)	3.55	3.36	3.51	3.55	3.55	3.57	3.62	3.70	3.99	4.16	4.25	4.39	4.74
S&P 500 Stock Index	1402	1418	1515	1575	1585	1600	1615	1630	1645	1660	1675	1690	1705
(Four-Quarter % change)	14.2	15.7	12.4	16.6	13.0	12.8	6.6	3.5	3.8	3.7	3.7	3.7	3.6
Exchange Rate, Major Trading Partners	0.882	0.872	0.891	0.917	0.917	0.904	0.899	0.912	0.912	0.903	0.898	0.889	0.882
(% change, annual rate)	0.5	-4.6	8.9	12.2	0.0	-5.6	-2.2	5.9	0.0	-3.9	-2.1	-3.9	-3.3
Incomes													
Personal Income (% ch., saar)	2.4	8.1	-3.3	4.7	4.2	5.3	6.2	4.5	4.6	4.3	5.7	4.5	4.3
Real Disposable Income (%ch., saar)	0.7	6.2	-5.3	3.8	2.1	3.9	4.1	3.3	3.1	3.0	3.2	3.1	3.0
Saving Rate (%)	3.6	4.7	2.5	3.0	3.0	3.3	3.6	3.7	3.8	3.8	4.0	4.1	4.3
After-Tax Profits (Billions of $)	1742	1774	1689	1637	1632	1664	1789	1817	1826	1834	1765	1775	1771
(Four-quarter % change)	17.9	13.3	1.1	-1.7	-6.3	-6.2	5.9	11.0	11.9	10.3	-1.3	-2.3	-3.0

TABLE 3

Summary of the US Economy

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Composition of Real GDP, Percent Change													
Gross Domestic Product	2.7	1.9	-0.3	-3.1	2.4	1.8	2.2	2.0	2.8	3.2	2.8	2.9	2.6
Final Sales of Domestic Product	2.6	2.2	0.2	-2.3	0.9	2.0	2.1	1.9	2.8	3.2	2.9	2.8	2.6
Total Consumption	2.9	2.3	-0.6	-1.9	1.8	2.5	1.9	2.2	2.5	2.5	2.6	2.6	2.4
Durables	4.5	5.0	-4.9	-5.4	6.2	7.2	7.8	6.9	4.6	5.1	4.6	4.0	4.2
Nondurables	2.6	1.9	-1.2	-1.8	2.3	2.3	0.9	2.2	2.2	1.7	2.0	2.3	2.1
Services	2.6	1.9	0.4	-1.4	1.0	1.9	1.2	1.4	2.3	2.4	2.4	2.5	2.3
Nonresidential Fixed Investment	8.0	6.5	-0.8	-18.1	0.7	8.6	8.0	4.7	6.6	7.2	5.2	5.1	3.9
Equipment & Software	7.6	3.3	-4.3	-16.4	8.9	11.0	6.9	6.5	7.2	6.6	4.9	4.4	4.1
Information Processing Equipment	8.6	8.1	2.1	-4.1	4.6	5.0	3.8	7.2	8.5	7.4	6.6	6.1	5.7
Computers & Peripherals	23.1	14.0	7.9	-5.8	3.1	12.3	3.7	9.8	18.9	13.7	12.3	12.0	11.5
Communications Equipment	12.7	11.3	-5.1	-9.9	12.6	-5.8	4.9	13.8	6.8	8.4	9.1	6.8	6.2
Industrial Equipment	8.3	4.0	-3.9	-21.2	-1.2	13.3	7.1	8.0	9.8	6.1	3.4	3.0	2.5
Transportation equipment	8.1	-5.5	-23.2	-51.6	73.1	31.1	17.1	3.1	5.0	4.6	-0.9	-1.7	-0.3
Aircraft	-6.4	30.5	-3.2	-26.5	6.8	-2.7	27.6	-0.1	9.3	5.1	5.5	4.6	2.8
Other Equipment	3.7	-0.7	-3.5	-18.2	3.0	12.5	6.6	6.5	3.1	7.0	7.0	6.5	5.1
Structures	9.2	14.1	6.4	-21.1	-15.6	2.7	10.8	0.3	5.2	8.7	5.9	6.6	3.3
Commercial & Health Care	6.1	10.0	-3.7	-30.7	-25.0	-2.3	7.8	5.3	13.6	25.2	19.1	9.1	1.6
Manufacturing	10.3	18.2	24.8	4.6	-27.6	0.4	17.4	5.5	4.1	1.5	9.4	9.4	5.8
Power & Communication	7.8	39.2	9.1	0.7	-16.1	-9.1	21.9	-5.9	-7.0	2.5	-3.1	6.7	5.9
Mining & Petroleum	14.5	6.1	8.4	-34.8	16.9	22.6	5.7	0.8	4.1	-0.7	-7.0	2.0	2.6
Other	9.2	15.4	12.6	-18.3	-26.7	-6.7	7.4	-3.7	11.6	12.0	8.8	5.6	3.4
Residential Fixed Investment	-7.3	-18.7	-23.9	-22.4	-3.7	-1.4	12.1	16.3	18.5	20.1	4.0	-2.5	-1.3
Exports	9.0	9.3	6.1	-9.1	11.1	6.7	3.4	2.6	5.1	5.4	6.5	6.8	6.8
Imports	6.1	2.4	-2.7	-13.5	12.5	4.8	2.4	2.3	5.3	4.2	3.1	2.9	3.2
Federal Government	2.1	1.2	7.2	6.1	4.5	-2.8	-2.2	-5.3	0.1	-1.5	-1.4	-0.8	-0.5
State & Local Government	0.9	1.4	0.0	2.2	-1.8	-3.4	-1.4	-0.8	-0.1	0.7	0.6	0.7	0.9
Billions of Dollars													
Real GDP	12958.5	13206.4	13161.9	12758.0	13063.0	13299.1	13593.2	13862.9	14249.2	14705.9	15122.3	15555.2	15965.9
Nominal GDP	13377.2	14028.7	14291.6	13973.7	14498.9	15075.7	15684.8	16211.0	16947.2	17751.5	18524.0	19341.2	20169.0
Prices & Wages, Percent Change													
GDP Deflator	3.2	2.9	2.2	0.9	1.3	2.1	1.8	1.3	1.7	1.5	1.5	1.5	1.6
Consumer Prices	3.2	2.9	3.8	-0.3	1.6	3.1	2.1	1.4	1.6	1.6	1.7	1.8	1.9
Producer Prices, Finished Goods	2.9	3.9	6.4	-2.5	4.2	6.0	1.9	1.2	0.6	0.6	0.8	1.2	1.6
Employment Cost Index - Total Comp.	2.9	3.1	2.9	1.5	1.9	2.2	1.9	1.9	2.4	2.5	2.8	2.8	2.9
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	65.21	72.68	97.94	61.57	79.84	110.95	111.78	104.93	93.00	89.00	92.00	95.50	99.00
Productivity (%ch.)	0.9	1.5	0.6	2.9	3.1	0.6	0.9	0.7	0.9	1.3	1.4	1.9	2.0
Total Industrial Production (%ch.)	2.2	2.5	-3.4	-11.3	5.7	3.4	3.6	3.2	3.0	3.3	2.7	3.0	2.8
Factory Operating Rate	78.4	78.6	74.5	65.7	71.3	74.0	75.8	76.9	77.8	78.1	77.8	77.7	77.4
Nonfarm Inven. Chg. (Bil. 2005 $)	63.2	28.7	-37.6	-137.9	58.0	36.5	59.6	55.2	49.4	46.7	36.7	41.2	44.0
Consumer Sentiment Index	87.3	85.6	63.8	66.3	71.8	67.4	76.5	80.0	83.6	86.1	85.3	84.8	85.8
Light Vehicle Sales (Mil. units)	16.50	16.09	13.19	10.40	11.55	12.73	14.43	15.28	15.70	16.21	16.61	16.60	16.40
Housing Starts (Mil. units)	1.812	1.342	0.900	0.554	0.586	0.612	0.782	0.970	1.265	1.567	1.609	1.582	1.589
Exist. House Sales (Total, Mil. units)	6.516	5.041	4.106	4.329	4.183	4.278	4.661	5.046	5.652	6.046	5.753	5.460	5.409
Unemployment Rate (%)	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.7	7.3	6.7	6.3	6.0	5.8
Payroll Employment (%ch.)	1.8	1.1	-0.6	-4.4	-0.7	1.2	1.7	1.5	1.6	1.8	1.7	1.3	0.9
Federal Surplus (Unified, FY, bil. $)	-248.2	-161.5	-454.8	-1415.7	-1294.2	-1296.8	-1089.2	-867.8	-695.8	-590.5	-558.0	-647.8	-723.9
Current Account Balance (Bil. $)	-800.6	-710.3	-677.1	-381.9	-442.0	-465.9	-475.0	-431.4	-414.6	-431.8	-432.6	-429.2	-422.0
Financial Markets, NSA													
Federal Funds Rate (%)	4.96	5.02	1.93	0.16	0.18	0.10	0.14	0.16	0.16	0.19	1.64	3.57	4.0
3-Month Treasury Bill Rate (%)	4.73	4.35	1.37	0.15	0.14	0.05	0.09	0.09	0.09	0.19	1.69	3.42	3.74
10-Year Treasury Note Yield (%)	4.79	4.63	3.67	3.26	3.21	2.79	1.80	2.05	2.54	3.00	3.88	4.69	4.85
30-Year Fixed Mortgage Rate (%)	6.41	6.34	6.04	5.04	4.69	4.46	3.66	3.55	3.87	4.61	5.67	6.49	6.66
S&P 500 Stock Index	1311	1477	1221	947	1139	1269	1380	1569	1637	1697	1760	1824	1888
(Percent change)	8.6	12.7	-17.3	-22.5	20.3	11.4	8.7	13.7	4.4	3.7	3.7	3.6	3.5
Exchange Rate, Major Trading Partners	0.985	0.930	0.888	0.926	0.898	0.845	0.876	0.907	0.906	0.887	0.867	0.851	0.841
(Percent change)	-1.5	-5.6	-4.5	4.3	-3.0	-5.9	3.7	3.6	-0.1	-2.1	-2.2	-1.9	-1.2
Incomes													
Personal Income (% ch.)	7.5	5.7	4.6	-4.8	3.8	5.1	3.6	2.8	5.1	4.7	4.7	4.9	4.7
Real Disposable Income (%ch.)	4.0	2.4	2.4	-2.8	1.8	1.3	1.5	1.2	3.5	3.1	3.0	3.2	2.7
Saving Rate (%)	2.6	2.4	5.4	4.7	5.1	4.3	3.9	2.9	3.7	4.2	4.5	4.9	5.0
After-Tax Profits (Billions of $)	1349	1293	1051	1171	1443	1475	1713	1655	1817	1772	1703	1675	1669
(Percent change)	9.9	-4.2	-18.7	11.4	23.2	2.2	16.1	-3.4	9.7	-2.5	-3.9	-1.6	-0.3

TABLE 4

Alternative Scenarios of the US Economy

	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2012	2013	2014	2015	2016	2017	2018
Recovery Stalls (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.4	3.0	-1.4	0.1	0.1	0.3	2.2	1.0	0.6	2.4	2.3	2.5	2.2
Total Consumption	1.8	2.9	0.7	0.9	1.2	1.9	1.9	1.7	1.3	1.1	1.4	1.7	1.6
Nonresidential Fixed Investment	13.1	-2.5	1.6	3.6	2.0	0.6	8.0	2.6	2.3	5.4	5.4	5.4	4.0
Residential Fixed Investment	17.5	21.2	6.4	-5.3	-3.6	-1.1	12.1	10.7	3.9	17.5	4.7	0.7	1.4
Exports	-2.8	3.0	2.4	0.6	-0.4	0.1	3.4	1.3	1.0	3.9	5.6	6.6	6.4
Imports	-4.2	4.2	3.3	2.1	0.0	-0.8	2.4	1.2	0.2	0.5	1.1	1.8	2.6
Federal Government	-14.8	-5.4	-11.8	-1.3	-6.2	-7.7	-2.2	-6.0	-3.7	-0.4	-0.8	-0.5	-0.5
State & Local Government	-1.5	-1.3	-1.4	-2.1	-1.4	-1.1	-1.4	-1.2	-1.2	-0.3	0.2	0.4	0.7
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	2.2	1.4	-1.5	1.1	1.2	2.0	2.1	1.0	1.5	2.0	2.3	2.4	2.7
Producer Prices, Finished Goods	2.1	1.0	-1.7	-0.4	0.4	2.0	1.9	0.8	0.9	1.4	1.8	2.0	2.4
Employment Cost Index - Total Comp.	2.1	1.1	1.4	1.3	1.4	2.0	1.9	1.5	1.6	2.1	2.7	3.1	3.4
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	110.13	112.71	96.58	89.50	86.75	87.05	111.78	96.39	88.41	95.58	105.57	109.57	113.06
Productivity (%ch., saar)	-1.9	2.0	-2.0	-0.9	-0.6	0.1	0.9	0.1	0.1	1.5	1.2	1.5	1.5
Total Industrial Production (%ch., saar)	2.4	5.3	0.1	1.3	-0.3	-1.4	3.6	2.1	0.0	2.7	2.6	3.0	2.6
Nonfarm Inven. Chg. (Bil.2005 $)	34.8	67.9	36.3	30.4	24.0	5.5	59.6	39.7	-6.4	17.6	22.9	33.1	37.2
Consumer Sentiment Index	79.40	76.67	76.19	72.22	71.99	72.12	76.5	74.3	72.0	73.0	75.0	77.0	77.4
Light Vehicle Sales (Mil. units, saar)	15.01	15.25	14.82	14.29	14.12	14.00	14.43	14.62	14.02	14.19	14.73	15.15	15.06
Housing Starts (Mil. units, saar)	0.904	0.915	0.891	0.832	0.854	0.845	0.782	0.873	0.936	1.169	1.252	1.342	1.428
Unemployment Rate (%)	7.8	7.8	7.9	8.0	8.2	8.3	8.1	8.0	8.4	8.3	8.0	7.7	7.5
Payroll Employment (%ch., saar)	1.6	1.7	-0.1	0.1	0.3	0.1	1.7	1.0	0.2	0.8	1.3	1.3	0.9
Federal Surplus (Unified, FY, bil. $)	-293.3	-358.6	-43.3	-196.6	-239.5	-309.2	-1089.2	-891.8	-737.5	-695.7	-689.9	-757.5	-817.3
Financial Markets, NSA													
Federal Funds Rate (%)	0.16	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.48	2.31
10-Year Treasury Note Yield (%)	1.71	1.95	1.73	1.40	1.35	1.36	1.80	1.61	1.51	2.16	3.06	4.08	5.28
Incomes													
Personal Income (% ch., saar)	8.1	-3.7	3.7	2.8	2.8	3.1	3.6	2.2	2.7	3.4	4.3	4.9	5.2
After-Tax Profits (Four-qtr.% change)	13.3	0.2	-4.4	-8.4	-10.9	1.0	16.1	-6.0	6.0	-2.2	-3.7	-0.6	-1.8
Recovery Reignites (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.4	4.5	2.1	3.9	4.4	4.6	2.2	2.8	4.3	3.8	3.0	3.2	3.2
Total Consumption	1.8	4.4	2.9	2.7	3.0	3.5	1.9	2.8	3.4	3.7	3.6	3.4	3.3
Nonresidential Fixed Investment	13.1	2.0	11.0	6.9	8.7	12.2	8.0	6.3	10.5	8.6	4.0	5.3	5.5
Residential Fixed Investment	17.5	23.1	31.1	34.0	29.7	23.2	12.1	23.3	25.6	16.2	5.1	0.4	0.5
Exports	-2.8	4.0	5.2	5.5	8.2	9.2	3.4	3.2	7.3	5.6	5.9	6.5	6.7
Imports	-4.2	7.6	5.9	5.1	5.6	8.1	2.4	3.2	7.3	7.3	4.9	4.7	4.9
Federal Government	-14.8	-5.4	-11.7	8.9	1.1	0.6	-2.2	-4.4	0.4	-1.6	-1.4	-0.7	-0.5
State & Local Government	-1.5	-0.7	0.2	-0.3	-0.4	0.7	-1.4	-0.5	0.7	1.5	1.0	0.8	1.0
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	2.2	1.8	2.0	3.3	1.5	1.5	2.1	2.1	1.7	1.3	1.3	1.5	1.8
Producer Prices, Finished Goods	2.1	0.7	4.4	2.6	-0.2	-0.3	1.9	2.2	0.2	-0.5	-0.2	0.7	1.2
Employment Cost Index - Total Comp.	2.1	2.3	2.4	2.2	2.2	3.0	1.9	2.2	2.6	2.8	3.1	3.0	3.1
Other Key Measures													
Brent Crude, Spot Price ($/bbl)	110.13	112.71	116.50	118.37	112.41	104.59	111.78	115.00	96.31	83.71	82.01	85.41	88.91
Productivity (%ch., saar)	-1.9	3.7	-0.3	0.7	1.4	1.8	0.9	1.2	1.3	1.2	1.6	2.4	2.5
Total Industrial Production (%ch., saar)	2.4	6.4	4.5	4.8	6.0	5.1	3.6	4.1	5.0	3.3	1.9	3.0	3.1
Nonfarm Inven. Chg. (Bil. 2005 $)	34.8	76.5	54.7	48.3	57.4	64.2	59.6	59.2	76.8	77.0	43.3	50.7	59.2
Consumer Sentiment Index	79.4	76.7	83.1	83.4	86.9	89.9	76.5	82.5	92.5	97.2	95.4	94.1	93.9
Light Vehicle Sales (Mil. units, saar)	15.01	15.25	15.62	16.23	16.55	16.78	14.43	15.91	17.13	17.53	17.43	17.68	17.69
Housing Starts (Mil. units, saar)	0.904	0.920	1.039	1.168	1.274	1.40	0.782	1.100	1.530	1.797	1.838	1.827	1.810
Unemployment Rate (%)	7.8	7.7	7.4	7.3	7.0	6.8	8.1	7.4	6.3	5.4	5.0	4.8	4.5
Payroll Employment (%ch., saar)	1.6	1.7	1.9	2.2	2.6	2.6	1.7	1.8	2.5	2.4	1.8	1.3	1.0
Federal Surplus (Unified, FY, bil. $)	-293.3	-355.9	-27.6	-177.3	-221.7	-293.9	-1089.2	-854.2	-642.7	-519.0	-536.1	-623.2	-686.9
Financial Markets, NSA													
Federal Funds Rate (%)	0.16	0.14	0.20	0.21	0.21	0.21	0.14	0.19	0.84	2.97	4.00	4.00	4.00
10-Year Treasury Note Yield (%)	1.71	1.95	2.30	3.10	3.61	3.85	1.80	2.74	4.16	4.63	4.77	4.75	4.62
Incomes													
Personal Income (% ch., saar)	8.1	-3.0	5.5	5.6	6.6	8.1	3.6	3.3	6.6	6.1	5.2	4.9	4.9
After-Tax Profits (Four-qtr.% change)	13.3	2.3	1.3	-3.4	-4.3	7.9	16.1	-1.1	11.4	-3.4	-3.2	0.9	0.8