ECONOMIC INSIGHTS

BY BOB BAUR, ROBIN ANDERSON, AND THE ECONOMIC COMMITTEE / APRIL 2015

WEEKLY HEADLINES

U.S. GDP: IT'S NOT ALL TRANSITORY:
The advance report for first-quarter U.S. GDP was dismal.

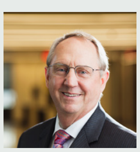
EUROZONE GROWTH DESPITE GREECE:
Recent economic data softened a touch, but, the stage is set for better numbers in the second half.

CHINA PULLING OUT THE STOPS:
With most economic data lethargic, flat at low levels or actually falling, officials decided it's time for easier policy, raging bull market or no

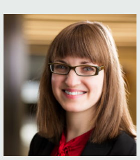
THE FED SAYS "NO COMMENT:"
The Fed could have phoned in for the meeting. The interest rate low for the year was likely hit in January.

OLD SAYINGS, TRENDS IN ASSET ALLOCATION:
A look at some investor questions.

MEET THE AUTHORS



Robert F. Baur, Ph.D.
Chief Global Economist



Robin Anderson, Ph.D.
Economist

FIRST-QUARTER U.S. GDP: IT'S NOT ALL TRANSITORY

There's no way around it; first-quarter U.S. growth, according to the advance estimate, was dismal. Real GDP rose a miserly 0.2% annualized. There's lots of blame to go around: winter weather was lousy; labor issues kept West Coast port activity very slow; the shale oil industry is shrinking after the historic plunge in oil prices; and the dollar's nine-month surge through mid-March put the skids to U.S. exports. In addition, on a statistical note, the Bureau of Economic Analysis, which authors these estimates, says their seasonal adjusting may be faulty; first-quarter growth has been regularly dreary since 2009 and the three years of revisions due July 30th may tell us that first quarter was not so bad after all. So, pick your poison.

The impacts of a stronger dollar and the collapse of oil prices have likely been underestimated. Business fixed investment shrunk 3.4%, all of that due to a horrendous 49.7% nosedive in spending on mining structures, mostly oil exploration and drilling. Equipment investment was also weak, up only 0.1%. It's hard to disentangle the trade (1.3% drag) and inventory (0.7% gain) numbers: port strike, stronger dollar, or just too much production for the low level of demand. While the trade drag may reverse a bit, the big pop in inventories will be a huge headwind for this quarter.

DECENT CONSUMPTION:

Consumer spending growth slowed down but was actually pretty decent, up 1.9% for the quarter. Unfortunately, the main upside surprise was a 2.8% boost from services spending driven by 5.5% surge in health care, likely from new government spending pushed by the Affordable Care Act, i.e., not from positive consumer choices. But, if winter weather did keep some people at home instead of shopping, consumer spending should pick up in subsequent quarters to a high-3% plus pace of growth. After all, real personal disposable income rose over 6% last quarter driven by low inflation. Residential construction was also pretty decent given bad weather. That should continue as household formation is finally picking up. The number of new households has averaged 1.6 million for the last two quarters; that compares to a meager 400,000 to 500,000 average pace since the start of the recovery.

TRUST, BUT VERIFY:

Was the first quarter letdown just a statistical aberration? Could be. With the West Coast port strikes settled, a tentative bottom in oil prices, a plateau in the dollar, potential fading of the collapse in oil capex, and winter weather behind us, the rebound should be underway. So far, though, the bounce has been tentative; April data have been mixed. Only four of the seven regional Fed business surveys were above 50, showing expansion. The national PMI held steady at a two-year low of 51.5, but new orders did increase and export orders rose above 50 for the first time this year. Consumer confidence numbers have been mixed but most still show intact uptrends. One negative was how consumers view the job market, i.e., jobs plentiful minus hard to get, which dropped from an expansion high, suggesting downside risk to next week's payroll gains.

WAGE GROWTH ARRIVES:

One undisputed positive was the wage-growth evidence in the Bureau of Labor Statistics' Employment Cost Index (ECI). The ECI measures wage and compensation growth more cleanly than the average hourly and weekly earnings series in the monthly payroll report. It tracks compensation within jobs removing the effects of labor turnover and job changes imbedded in payrolls. The latest ECI data showed faster wage and compensation gains. The headline ECI increased 2.6% year-over-year, the most since the fourth quarter 2008. Private sector wages increased 2.8%, much better than the low 2%-ish growth in the average hourly earnings series. Fed watchers are raising the odds of a September rate hike.

BOTTOM LINE:

This start-stop expansion trudges on. It's likely evidence of further need to deleverage, ongoing fears of relapse, and a chastening about too much debt by consumers plus a lack of confidence by business on the need to expand and to wade through the new taxes and regulation put in place in the last five or six years. The weak first-quarter GDP print dulled our optimism a bit; we cut our forecast for 2015 from 3% to the mid-2% range. We still expect a couple of quarters of rebound in the second half after which growth settles back to the upper 2.5% to 3% range; that's still a bit above potential growth. The tables are at the back of the report.

EUROZONE GROWTH DESPITE GREECE

One of the biggest market shifts has been the rebound in German bund yields to 0.366% at month end: less deflation worry, falling chances of downside risk from Greece, and positive growth surprises. The euro area headline consumer price index was flat for April after declining for four months. Germany's and Spain's headline CPI both improved after bottoming in January. In Greek news, Prime Minster Tspiras was optimistic about reaching a deal with debtholders by Sunday with the goal of signing by Finance Ministers on May 11th. The good news is that Finance Minister Varoufakis no longer has a day-to-day role in negotiations. Money problems had gotten so dire in Greece that the government required local governing bodies to hand over their spare cash.

BETTER DATA AHEAD:

Some data softened a bit after months of upside surprises. The Eurozone sentiment index edged lower to 103.7 but held a good level. Italy's unemployment rate notched up 0.3% to 13%. German and French retail sales unexpectedly declined month-over-month The U.K. survey of manufacturers dropped sharply to 51.9, perhaps related to election uncertainty. But, there were positives: Spanish GDP rose 2.6% year-over-year; the M3 version of money supply hit the fastest pace since the end of the financial crisis;

German business confidence is holding up as the number of unemployed fell again in April and the unemployment rate stayed at the reunification record low of 6.4%. We still expect 2% to 2.5% annualized Eurozone growth in the second half.

CHINA PULLING OUT THE STOPS

For many months, the pace of economic growth in China has been slowing or flat at low levels. The tempo of investment, retail sales, house prices and sales, construction, money supply and lending, consumer confidence, and business surveys have all fallen to nearly the lowest since the financial crisis. Two more defaults were recorded in mid-April: Kaisa Group, a property developer, and Baoding Tinawei Group, a state-owned manufacturer of power equipment, that latter, the first SOE to default.

TIME FOR STIMULUS:

Officials decided monetary easing was overdue. The People's Bank of China (PBOC) chopped reserve requirements by 100 basis points, the second cut this year and the largest drop since 2009; the ratio was sliced even more for selected banks and rural credit cooperatives. Lending rates have already been lowered twice since November and more falls are coming. There are press reports that the PBOC may initiate a program reminiscent of the LTROs, where the European Central Bank (ECB) would offer long-term, low-cost loans to banks in exchange for (perhaps dodgy) collateral on the promise to relend to small business. Easier monetary policy should help stabilize China's economic growth.

IS THIS A BULL MARKET OR WHAT?

With the boom in real estate long since over and empty apartments everywhere, what better replacement than a frenzy in stock prices. The Shanghai Composite, Shenzhen Composite, and China Next indices have all soared about 120% in the last 12 months. The public is rushing in, opening hundreds of thousands to over a million new stock-trading accounts practically every week since late last year. Margin lending for stock purchases is sky-rocketing into a new orbit.

This phenomenon will impact investors outside China who index their portfolios. With the Shanghai to Hong Kong leg of the "through train" for Chinese investors opening recently and Chinese H shares underpriced relative to Shanghai A shares, the Hang Seng index, where H shares trade, is catching the fever, up 19% just since mid-March. Index investors will be forced to buy stocks soaring beyond fundamentals just to keep tracking error within bounds, one of the pitfalls of indexing. Beijing is doing little to curb the enthusiasm as a raging bull market may help counter capital-account outflows. Maybe sky-rocketing stock prices can bring in more foreign capital to refinance the banking system and buy more initial public offerings of state-owned enterprises.

THE FED SAYS "NO COMMENT"

Anyone wanting clarity on interest-rate normalization got no satisfaction from this week's Fed confab. Members could have "phoned it in" because little happened. The only clarification was to note that the desultory first-quarter slowdown was from unidentified "transitory factors." They likely included severe winter weather, labor strikes at West Coast ports in February, and weak investment from sharp cutbacks in oil drilling. As those drags fade, the Committee expects that economic activity will expand at a moderate pace, job growth would stay satisfactory and inflation would gradually return to target. The Fed conveyed no sentiment either way about rate hikes later this year.

The Committee did remove its last forward guidance by dropping the phrase about April being an unlikely time for the first rate hike. Policy decisions will be completely dependent on current and forward-looking data, which could still leave June in the picture. More likely is for the "transitory factors" to fade by late summer and a firming in wages and commodity prices to bring the first policy normalization in September. One or two policy tightening actions by yearend is where U.S. monetary policy is headed.

OTHER CENTRAL BANK ACTION:

Russia's central bank cut rates 1.5% to 12.5%, a bit more than expectations. They are taking advantage of a surge in the ruble, up 36% against the dollar since February, slashing rates to help a sinking economy. Brazil's central bank announced a 0.5% hike in the Selic Rate to 13.25%. The Bank of Japan took no action but delayed its timeline for inflation to return to target to the first half of fiscal year 2016. Japan's index of consumer prices did rise, up 0.2% year-over-year (ex-sales tax) up from flat last month.

IS THE LOW IN FOR INTEREST RATES?

More than likely, yes, on January 30th at 1.64% on 10-year U.S. Treasurys and 2.22% on the 30-year. At that time, global growth was faltering, oil prices were plunging, deflation fears were rampant, and emerging markets were edging nearer a cliff. How times change. That disaster panic has since faded (as it usually does) and yields have moved higher based on improved growth prospects in the Eurozone, loosening policy in China, and a seeming bottom for commodity prices. Yields on 10-year U.S. Treasury bonds moved up 0.24% in just the last two weeks through May 1st. Trends in rates are shown in the table below.

Interest Rates	12/31/2012	12/31/2013	12/31/2014	05/12/2014 (High)*	01/30/2015 (Low)*	04/30/2015 Current
2-year	0.26%	0.38%	0.66%	0.40%	0.45%	0.57%
10-year	1.76%	3.03%	2.17%	2.66%	1.64%	2.03%
10-2 spread	1.50%	2.65%	1.51%	2.26%	1.19%	1.46%
30-year	2.95%	3.97%	2.75%	3.50%	2.22%	2.74%

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

SOME HOPE FOR SAVERS?

Yes, but later in the year. We expect further positive growth and earnings surprises in Europe and Japan and stabilization in China and emerging markets. U.S. growth should rebound from the anemic first quarter as the dollar weakens from its huge run the last nine months. In that environment, the Fed should expect the U.S. economy to survive some initial normalization of policy.

Super-low German bund yields will incent Euro-area investors to buy U.S. Treasuries, but there are limits to that support. Certain sources of potential U.S. bond purchases, like banks, pension funds and insurance companies, have limitations on how much of their euro area liability needs can be covered by U.S. bonds without increasing overall portfolio risk or increasing capital requirements. Besides, evidence of faster local growth could raise bund yields even with the ECB in full purchase mode. That happened in late April as 10-year bund yields jumped from 0.073% to 0.36% in eight days. Still, arbitrage opportunities between Eurozone and U.S. rates may cap the spread.

The fact remains that U.S. Treasury bonds are priced for a very low return, given a U.S. economic rebound. A trough for oil prices and faster wage growth will provide some upward pressure on rates. As Fed rate hikes approach, European and U.S. fundamentals should begin to raise U.S. yields. In this new world of policy and interest-rate normalization, our yearend interest-rate expectations for 2015 and 2016 are shown in the table below.

YEAREND RATES	2015	2016
Federal Funds	0.75%	1.25%-1.5%
2-Year UST Yield	1.0%	1.5%-1.75%
10-Year UST Yield	2.25%-2.5%	2.75%-3.0%
2-10 Year Spread	1.25%-1.5%	1.25%-1.5%

TRENDS IN ASSET ALLOCATION AND OLD SAYINGS

T. S. Eliot said "April is the cruelest month," but this latest rendition wasn't so bad, unless you owned U.S. or global REIT indices, off 6% and 3%, respectively. With oil appearing to have reached a trough (West Texas Intermediate crude up 22%) and the U.S. dollar peaking (trade-weighted dollar off 1%) developing countries were the monthly stock market winners; MSCI Emerging Markets up 9.4% and MSCI Asia ex Japan up 8.7%. Emerging and global bond indices also liked the action, but safe-haven bond yardsticks lost traction as sovereign yields jumped in Germany and the United States; Barclays' index of long maturity U.S. Treasurys fell 3.1%. Let's turn to some questions.

CAN THE SIX-YEAR U.S. EQUITY RALLY LAST?

We think so, probably at least through this year. It's been one of the strongest, most durable, and resilient moves in history. Investors have few alternatives to stocks; yields are so low that bonds are priced for outlet-mall returns. With the rally two months into its seventh year, as they say, the investment cycle is "long in the tooth." So, the upside will likely be limited to the pace of profit growth as U.S. valuations are near levels of past market peaks. There could be more earnings and growth surprises in Japan and Europe than in the United States, so price-earnings multiples could expand more in those local markets.

WHY ARE INTEREST RATES SUDDENLY SPIKING?

It likely has to do with U.S. dollar weakness. From JGBs to German bunds to U.S. Treasurys, yields are up tens of basis points in the last couple of weeks, yet global growth stays weak. It may be simply that hope springs eternal as bondholders look through the transitory slowdown to better growth and a U.S. labor market that is tightening despite anemic data. More likely is that the sudden peaking of the U.S. dollar after relentlessly rising since last June put losses to carry-traders who borrowed euros to buy higher-yielding U.S. securities. After all, ECB bond purchases were supposed to push German yields well into negative territory guaranteeing that the euro would keep falling to parity and beyond. Recall a line from Scottish poet Robert Burns: "the best laid schemes o' mice o' men oft go awry."

WILL RATES KEEP PUSHING HIGHER?

That is the real question. Likely not for a while, but we'd guess a bottom has been found. Yields should perk up some by yearend as global growth quickens in developed economies and stabilizes in emerging markets. The trillions still held by major central banks should keep some sort of cap on any real rally in yields, at least for a while.

WHAT ABOUT EMERGING MARKETS?

Yes, profits have been crushed and currencies have plunged, but much of the bad news is already reflected in the price and many quarters of poor relative returns. So, if global growth starts to pick back up as we expect, the multi-year underperformance of Emerging Market equities may be over. A sharp bump up in U.S. interest rates, though, could cause havoc throughout the emerging world, so we'd reduce any underweights. But stay cautious; you can't find a taxi when it's raining.

CAN COMMODITY PRICES RALLY?

Yes, at some point. The commodity super-cycle is certainly long since over. High prices accomplished their mission of curtailing demand and super-charging supply. The long and steep price ascent led to such excess production that prices might not see new inflation-adjusted peaks for another decade or more. Still, prices of many commodities have fallen so far, 60% or more off the highs, that a pickup in global growth could start a cyclical rally of sorts. Don't stay short too long; "fish and visitors smell after three days."

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

TABLE II: Global Economic Trends

		Real GDP	CPI	Unemploy. Rate	Benchmark Rate (EOP)	10 yr. Rate (EOP)
US:	**2009**	-2.8%	-0.4%	9.6%	0.13%	3.84%
	2010	2.5%	1.7%	9.6%	0.25%	3.25%
	2011	1.6%	3.2%	8.9%	0.25%	1.88%
	2012	2.3%	2.1%	8.1%	0.25%	1.76%
	2013	1.9%	1.5%	7.4%	0.25%	3.03%
	2014	2.4%	1.6%	6.2%	0.25%	2.18%
	2015F	3.0%	0.2%	5.3%	0.65%	2.25%
	2016F	2.9%	2.1%	4.9%	1.50%	2.75%
Canada:	**2009**	-2.5%	0.3%	8.3%	1.25%	3.61%
	2010	3.1%	1.8%	8.0%	1.00%	3.12%
	2011	2.5%	2.9%	7.5%	1.00%	1.94%
	2012	1.7%	1.5%	7.3%	1.00%	1.79%
	2013	2.0%	0.9%	7.1%	1.00%	2.75%
	2014	2.4%	1.9%	6.9%	0.75%	1.78%
	2015F	2.2%	0.3%	6.7%	0.75%	1.75%
	2016F	2.3%	2.0%	6.5%	1.00%	2.25%
UK:	**2009**	-4.7%	2.0%	7.5%	0.50%	4.01%
	2010	1.6%	3.3%	7.8%	0.50%	3.40%
	2011	0.9%	4.5%	8.0%	0.50%	2.03%
	2012	0.2%	2.8%	8.0%	0.50%	1.82%
	2013	1.7%	2.6%	7.6%	0.50%	3.02%
	2014	2.7%	1.5%	6.3%	0.50%	1.75%
	2015F	2.7%	0.5%	5.5%	0.50%	2.00%
	2016F	2.5%	1.7%	5.3%	1.00%	2.50%
Euroland:	**2009**	-4.0%	0.3%	9.4%	1.00%	3.38%
	2010	1.7%	1.6%	10.0%	1.00%	2.96%
	2011	1.4%	2.7%	10.2%	1.00%	1.83%
	2012	-0.6%	2.5%	11.4%	0.75%	1.31%
	2013	-0.4%	1.3%	12.0%	0.25%	1.95%
	2014	0.9%	0.4%	11.5%	0.05%	0.54%
	2015F	1.7%	0.0%	11.3%	0.05%	0.40%
	2016F	2.0%	1.5%	11.0%	0.05%	0.60%
Japan:	**2009**	-5.5%	-1.3%	5.1%	0.10%	1.28%
	2010	4.6%	-0.7%	5.1%	0.10%	1.13%
	2011	-0.5%	-0.3%	4.6%	0.10%	0.99%
	2012	1.5%	-0.04%	4.3%	0.10%	0.78%
	2013	1.5%	0.4%	4.0%	0.10%	0.73%
	2014	0.3%	2.7%	3.6%	0.10%	0.31%
	2015F	1.0%	1.0%	3.5%	0.10%	0.50%
	2016F	1.9%	1.5%	3.3%	0.10%	0.60%
Australia:	**2009**	0.9%	1.9%	5.6%	3.75%	5.64%
	2010	3.4%	2.9%	5.2%	4.75%	5.54%
	2011	2.0%	3.4%	5.1%	4.25%	3.67%
	2012	3.6%	1.8%	5.2%	3.00%	3.27%
	2013	2.4%	2.5%	5.7%	2.50%	4.27%
	2014	2.7%	2.5%	6.1%	2.50%	2.75%
	2015 F	2.7%	1.9%	6.4%	2.25%	2.75%
	2016 F	3.1%	2.6%	6.1%	2.50%	3.00%

E - Estimate; F - Forecast
Source: Economic Intelligence Unit, International Monetary Fund, OECD & Sovereign Group

TABLE III: OTHER ECONOMIC INDICATORS

Indicator	Latest Data		Percent Change*	2014	Percent Change*	2015 (E)	Percent Change*	2016 (E)	Percent Change*
Index of Industrial Production (2007=100)	March-15	105.2	2.0%	104.1	4.2%	106.8	2.6%	110.0	2.0%
Total Private Housing Starts (000)	March-15	926.0	-2.5%	1,003.3	8.5%	1,100.3	10.0%	1,219.1	10.8%
Capacity Utilization Rate Total Industry (1997=100)	March-15	78.4%	0.0%	79.1	1.5%	79.0	-0.1%	79.6	0.8%
Index of Hourly Compensation Non-farm Business Sector (2009=100)	December-14	111.6	2.5%	110.9	2.5%	111.0	2.5%	113.8	2.5%
After-Tax Corporate Profits (Billions $)	December-14	1,837.5	2.9%	1,827.3	3.8%	1,918.7	5.0%	2,014.6	5.0%
Total Light Vehicle (SAAR)	March-15 YTD	3,960.0	5.6%	16,522.0	5.9%	17,182.0	4.0%	17,525.6	2.0%

* Change over same period of prior year.
**Discontinuity in series due to change in estimates of Inventory Valuation Adjustment (IVA) and Capital Consumption Allowances (CCA)
(E) - Estimated, (P) - Preliminary, (A) - Actual, (SAAR) - Seasonally Adjusted Annual Rate

Source:
Index of Industrial Production, Capacity Utilization Rate - Federal Reserve Board (http://www.federalreserve.gov/releases/G17/)
Total Private Housing Starts - U.S. Census Bureau (http://www.census.gov/construction/nrc/)
Index of Hourly Compensation Non-farm Business Sector - U.S. Dept. of Labor, Bureau of Labor Statistics (http://stats.bls.gov/news.release/prod2.t02.htm)
After-Tax Corporate Profits - U.S. Dept. of Commerce, Bureau of Economic Analysis (http://www.bea.doc.gov/bea/dn/nipaweb/NIPATableIndex.htm#P)
Vehicle Sales-U.S. Dept. of Commerce (http://www.doc.gov)
Projections - Internal Forecasts

TABLE IV: EMPLOYMENT TRENDS

Labor Force (in thousands)

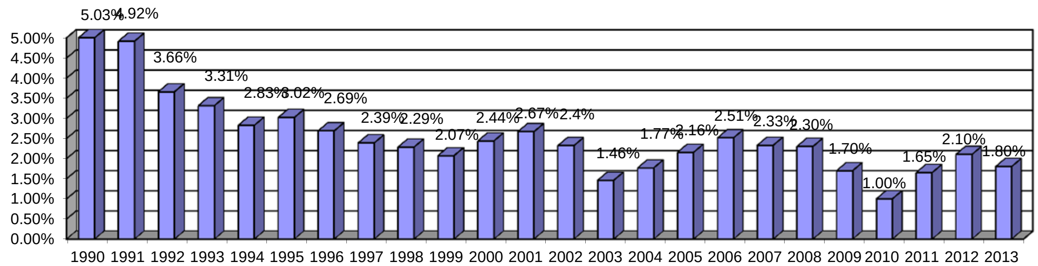
	2013 Average	%change*	2014 Average	%change*	2015 March	%change*	2015 Average (E)	%change*	2016 Average (E)	%change*
Civilian Labor Force	155,387	0.3%	155,899	0.3%	156,906	0.5%	157,510	1.0%	159,408	1.2%
Civilian Employment	143,312	1.0%	146,303	1.7%	148,331	-1.8%	149,207	2.0%	151,636	1.6%
Total Unemployment	11,485	-8.1%	9,596	-16.4%	8,575	-10.4%	8,303	-13.5%	7,772	-6.4%

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

Selected Unemployment Rates (%)
(Seasonally Adjusted)

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

CORE CPI: ALL ITEMS LESS FOOD AND ENERGY



<u>HISTORICAL CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS:</u>

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

(Annual Average: 1982-84=100)

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

BASELINE ECONOMIC FORECASTS FOR 2015-2016, BY QUARTER

Baseline Forecasts

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

	1st QUARTER 15 Actual		2nd QUARTER 15 Forecast		3rd QUARTER 15 Forecast		4th QUARTER 15 Forecast		2013 ACTUAL		2014 ACTUAL	
Real GDP	**16304.8**	**0.2%**	**16399.7**	**2.3%**	**16532.6**	**3.3%**	**16664.5**	**3.2%**	**15710.3**	**2.2%**	**16085.6**	**2.4%**
Personal Consumption Expenditures	**11173.1**	**1.9%**	**11276.5**	**3.8%**	**11367.4**	**3.3%**	**11455.4**	**3.1%**	**10699.7**	**2.4%**	**10969.0**	**2.5%**
Durable Goods	1457.4	1.1%	1475.3	5.0%	1493.4	5.0%	1511.7	5.0%	1319.0	6.7%	1410.1	6.9%
Non-Durables	2391.9	-0.3%	2409.6	3.0%	2427.5	3.0%	2445.5	3.0%	2322.6	1.9%	2364.8	1.8%
Services	7352.0	2.8%	7406.5	3.0%	7461.5	3.0%	7513.2	2.8%	7073.1	1.9%	7218.6	2.1%
Gross Private Domestic Invest.	**2790.4**	**2.1%**	**2755.8**	**-4.9%**	**2791.7**	**5.3%**	**2829.7**	**5.6%**	**2556.2**	**4.9%**	**2704.7**	**5.8%**
Bus. Fixed Invest.	2151.1	-3.4%	2177.7	5.0%	2206.1	5.3%	2231.3	4.6%	1990.6	3.0%	2116.4	6.3%
Structures	437.6	-23.0%	437.6	0.0%	443.0	5.0%	447.3	4.0%	421.7	-0.5%	456.2	8.2%
Equipment	1029.4	0.1%	1042.0	5.0%	1054.8	5.0%	1065.2	4.0%	947.2	4.6%	1008.2	6.4%
Intellectual Property Products	688.3	7.8%	700.0	7.0%	710.3	6.0%	720.7	6.0%	624.1	3.4%	654.2	4.8%
Residential Invest.	505.9	1.3%	518.1	10.0%	530.6	10.0%	543.4	10.0%	488.4	11.9%	496.2	1.6%
Change in Inventory	110.3	-	60.0	-	55.0	-	55.0	-	63.6	-	70.6	-
Net Exports	**-522.2**	**-**	**-528.6**	**-**	**-532.5**	**-**	**-536.5**	**-**	**-420.5**	**-**	**-452.6**	**-**
Exports	2088.0	-7.2%	2103.5	3.0%	2119.1	3.0%	2134.8	3.0%	2019.8	3.0%	2084.7	3.2%
Imports	2610.2	1.8%	2632.1	3.4%	2651.6	3.0%	2671.3	3.0%	2440.3	1.1%	2537.3	4.0%
Gov't Purchases of Goods & Services	**2891.8**	**-0.8%**	**2903.7**	**1.7%**	**2914.8**	**1.5%**	**2926.0**	**1.5%**	**2894.5**	**-2.0%**	**2889.7**	**-0.2%**
Federal	1120.9	0.3%	1123.0	0.7%	1125.2	0.8%	1127.5	0.8%	1145.3	-5.7%	1123.5	-1.9%
National Defense	697.4	-0.7%	699.1	1.0%	700.9	1.0%	702.6	1.0%	717.7	-6.6%	702.4	-2.1%
Non-Defense	423.3	1.9%	423.8	0.5%	424.4	0.5%	424.9	0.5%	427.5	-4.1%	421.0	-1.5%
State & Local	1769.8	-1.5%	1780.8	2.5%	1789.6	2.0%	1798.5	2.0%	1748.5	0.5%	1765.3	1.0%
Real Final Sales	16176.3	-0.5%	16339.7	4.1%	16477.6	3.4%	16609.5	3.2%	15636.7	2.2%	15996.9	2.3%
Real Domestic Final Sales	16701.3	0.7%	16868.3	4.1%	17010.1	3.4%	17146.0	3.2%	16057.9	1.9%	16451.6	2.5%
y/y	3.0%		2.4%		2.0%		2.3%					

	1st QUARTER 16 Forecast		2nd QUARTER 16 Forecast		3rd QUARTER 16 Forecast		4th QUARTER 16 Forecast		2015 FORECAST		2016 FORECAST	
Real GDP	**16,783.2**	**2.9%**	**16,890.9**	**2.6%**	**16,992.6**	**2.4%**	**17,094.5**	**2.4%**	**16475.4**	**2.4%**	**16940.3**	**2.8%**
Personal Consumption Expenditures	**11,536.1**	**2.8%**	**11,610.2**	**2.6%**	**11,679.2**	**2.4%**	**11,748.6**	**2.4%**	**11318.1**	**3.2%**	**11643.5**	**2.9%**
Durable Goods	1,528.4	4.5%	1,543.5	4.0%	1,558.7	4.0%	1,574.1	4.0%	1484.4	5.3%	1551.2	4.5%
Non-Durables	2,466.6	3.5%	2,478.9	2.0%	2,491.2	2.0%	2,503.5	2.0%	2418.6	2.3%	2485.1	2.7%
Services	7,556.0	2.3%	7,602.8	2.5%	7,644.3	2.2%	7,686.0	2.2%	7433.3	3.0%	7622.2	2.5%
Gross Private Domestic Invest.	**2,854.8**	**3.6%**	**2,877.3**	**3.2%**	**2,898.7**	**3.0%**	**2,920.2**	**3.0%**	**2791.9**	**3.2%**	**2887.7**	**3.4%**
Bus. Fixed Invest.	2,249.8	3.4%	2,268.2	3.3%	2,286.8	3.3%	2,305.5	3.3%	2191.5	3.5%	2277.6	3.9%
Structures	451.7	4.0%	456.7	4.5%	461.8	4.5%	466.9	4.5%	441.4	-3.3%	459.3	4.1%
Equipment	1,075.7	4.0%	1,085.0	3.5%	1,094.4	3.5%	1,103.8	3.5%	1047.9	3.9%	1089.7	4.0%
Intellectual Property Products	724.3	2.0%	728.4	2.3%	732.6	2.3%	736.8	2.3%	704.8	7.7%	730.5	3.6%
Residential Invest.	550.1	5.0%	554.1	3.0%	556.9	2.0%	559.6	2.0%	524.5	5.7%	555.2	5.9%
Change in Inventory	55.0	-	55.0	-	55.0	-	55.0	-	70.1	-	55.0	-21.5%
Net Exports	**-532.2**	**-**	**-529.8**	**-**	**-527.4**	**-**	**-524.8**	**-**	**-530.0**	**-**	-528.5	**-0.3%**
Exports	2,158.9	4.6%	2,181.3	4.2%	2,203.8	4.2%	2,226.6	4.2%	2111.3	1.3%	2192.7	3.9%
Imports	2,691.1	3.0%	2,711.1	3.0%	2,731.2	3.0%	2,751.4	3.0%	2641.3	4.1%	2721.2	3.0%
Gov't Purchases of Goods & Services	**2,935.0**	**1.2%**	**2,944.0**	**1.2%**	**2,953.0**	**1.2%**	**2,962.1**	**1.2%**	**2909.1**	**0.7%**	**2948.5**	**1.4%**
Federal	1,129.8	0.8%	1,132.1	0.8%	1,134.4	0.8%	1,136.7	0.8%	1124.2	0.1%	1133.2	0.8%
National Defense	704.4	1.0%	706.1	1.0%	707.9	1.0%	709.7	1.0%	700.0	-0.3%	707.0	1.0%
Non-Defense	425.4	0.5%	425.9	0.5%	426.5	0.5%	427.0	0.5%	424.1	0.7%	426.2	0.5%
State & Local	1,805.2	1.5%	1,811.9	1.5%	1,818.7	1.5%	1,825.5	1.5%	1784.7	1.1%	1815.3	1.7%
Real Final Sales	16,728.2	2.9%	16,835.9	2.6%	16,937.6	2.4%	17,039.5	2.4%	16400.8	2.5%	16885.3	3.0%
Real Domestic Final Sales	17,260.3	2.7%	17,365.7	2.5%	17,465.0	2.3%	17,564.4	2.3%	16931.4	2.9%	17413.9	2.8%
y/y	2.93%		3.00%		2.78%		2.58%					

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