Economic Outlook
Another Push for the Dual Mandate

Jan Hatzius
Chief Economist
Jan.Hatzius@gs.com
212-902-0394
Key US Economic Indicators: GS vs. Consensus

Actual Data

Blue Chip Consensus Forecasts (August 2012)*

*Inflation Consensus from Philadelphia Fed (Survey of Professional Forecasters); Fed Funds Futures from Bloomberg

Our View of the US Outlook
Private Boost, Public Drag

1960-2011 Avg = 1.9%

Source: Department of Commerce. GS Global ECS Research.
Our View of the US Outlook
Homebuilding Set for Large Gains…

* Assumed demolition rate of 300,000 per year.

Source: Department of Commerce. GS Global ECS Research.
Our View of the US Outlook

...But Fiscal Policy Weighs on Growth...

Effect of Federal, State, and Local Fiscal Policy on GDP Growth*:

- State/Local
- Federal
- Current Assumption**
- Current Law (Everything Expires)***
- Everything Extended

* Annualized; excludes second round effects.
** Current assumption: Payroll tax cut expires after 2012; jobless benefits phased down to a maximum of 59 weeks; income tax cuts extended through 2013; automatic spending cuts do not take effect.

Source: GS Global ECS Research.
Our View of the US Outlook

...And Europe Lurks in the Background

Source: GS Global ECS Research.
The European Crisis
Simultaneous Retrenchment in the Periphery

**Income less spending; households and businesses.**
Source: OECD.
The European Crisis
Large Fiscal Multipliers at the Zero Bound

Response of Real GDP to 1% of GDP Consolidation at the Zero Bound

- Spending-based
- Tax-based

Source: GS Global ECS Research.
The European Crisis
The Speed Limit of Fiscal Consolidation

Source: GS Global ECS Research.
More Fed Easing
Unconventional Tools Retain Some Traction…

Effect of An Unanticipated Unconventional Easing

Contribution to Change in GSFCI:
- House Prices
- Equity price
- Rates
- Trade-weighted Dollar
- Spreads
- GSFCI

Days since announcement

Source: GS Global ECS Research.
More Fed Easing

…But New Framework Could be More Effective

Nominal GDP:
- Actual
- Trend*

*Estimated as level of nominal GDP in 2007Q4 extrapolated backward at historical trend rate of 5.3% and extrapolated forward at assumed 4.5%.
Source: Department of Commerce. GS Global ECS Research.
I, Jan Hatzius, hereby certify that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm's business or client relationships.

Global product; distributing entities
The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; in Canada by Goldman Sachs Canada & Co. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 196602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. AG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures
This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst’s judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have corporate advisory, corporate finance and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman Sachs & Co., the United States broker dealer, is a member of SIPC (http://www.sipc.org).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analysts’ published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts’ fundamental equity rating for such stocks, which rating reflects a stock’s return potential relative to its coverage group as described therein.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at http://www.theocc.com/about/publications/character-risks.jsp. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

In producing research reports, members of the Global Investment Research Division of Goldman Sachs Australia may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For all research available on a particular stock, please contact your sales representative or go to http://360.gs.com.

Disclosure information is also available at http://www.gs.com/research/hedge.html or from Research Compliance, 200 West Street, New York, NY 10282.

© 2012 Goldman Sachs.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.