

Economic Outlook

Another Push for the Dual Mandate

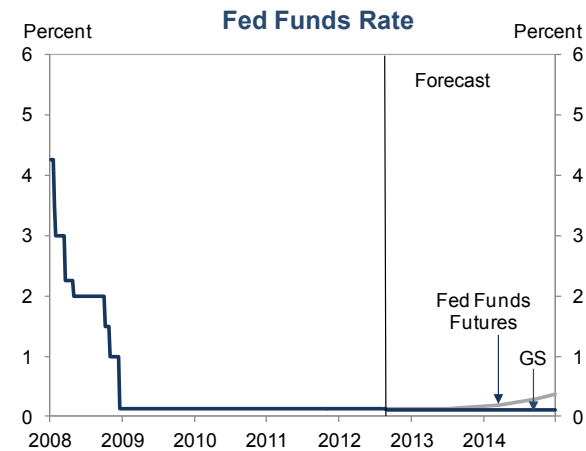
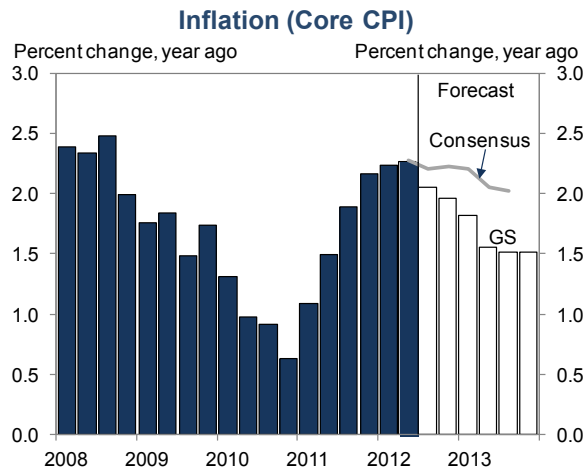
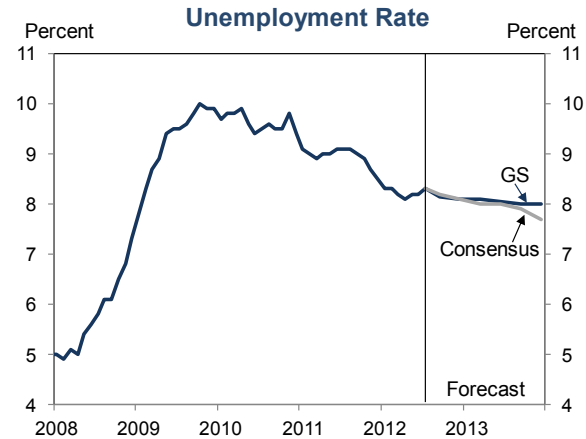
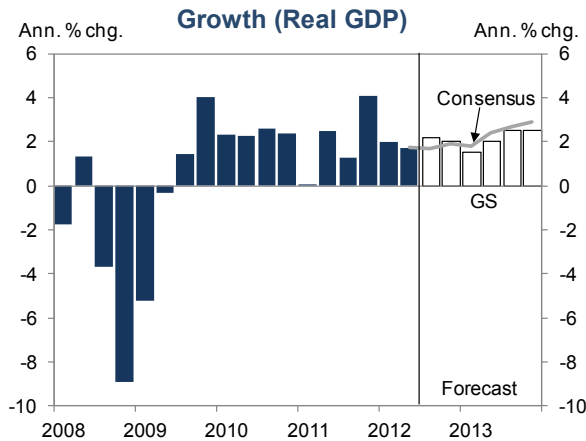
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Key US Economic Indicators: GS vs. Consensus

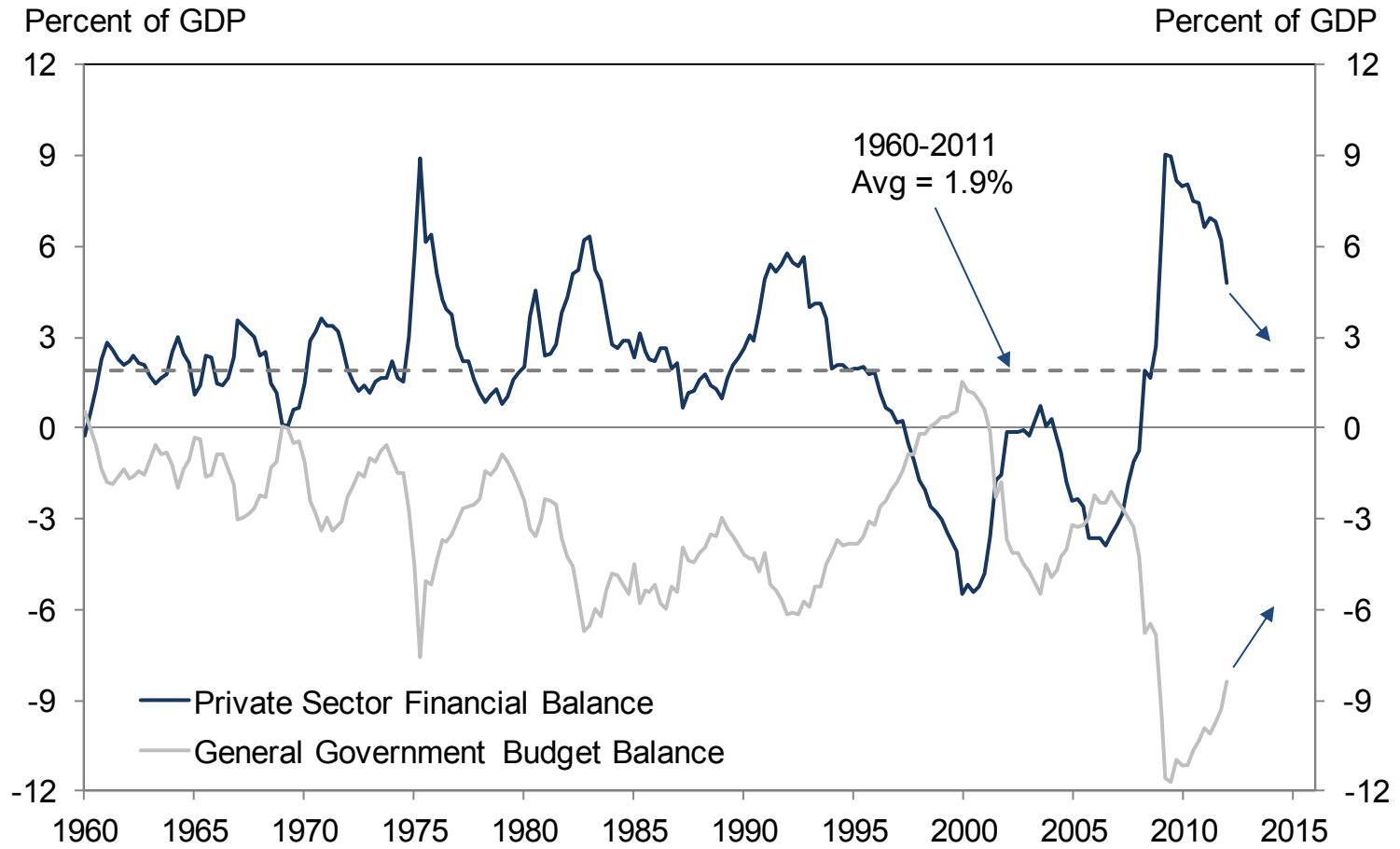


Actual Data
 Blue Chip Consensus Forecasts (August 2012)*
 *Inflation Consensus from Philadelphia Fed (Survey of Professional Forecasters);
 Fed Funds Futures from Bloomberg

Source: Dept. of Commerce. Dept. of Labor. Federal Reserve. GS Global ECS Research.

Our View of the US Outlook

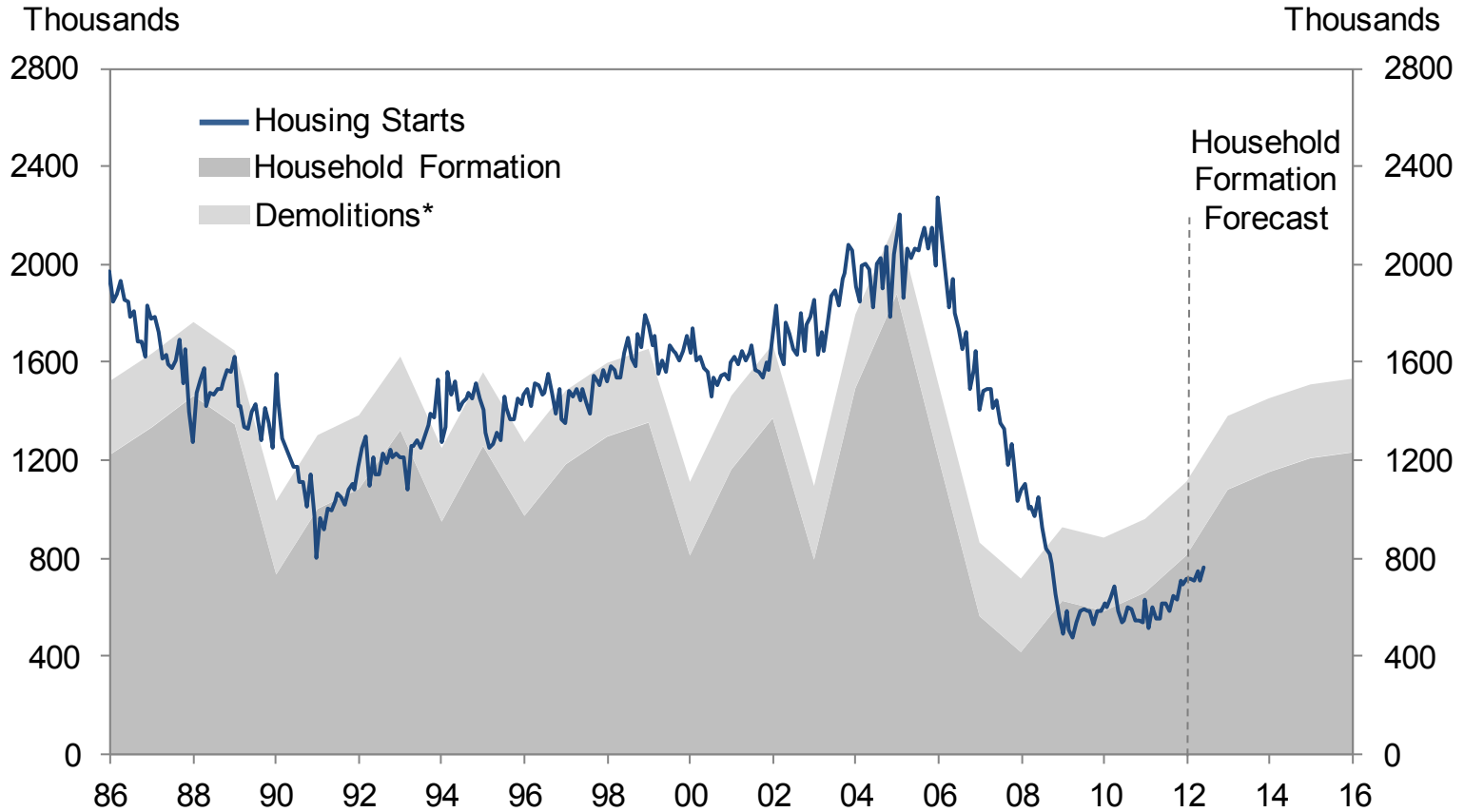
Private Boost, Public Drag



Source: Department of Commerce. GS Global ECS Research.

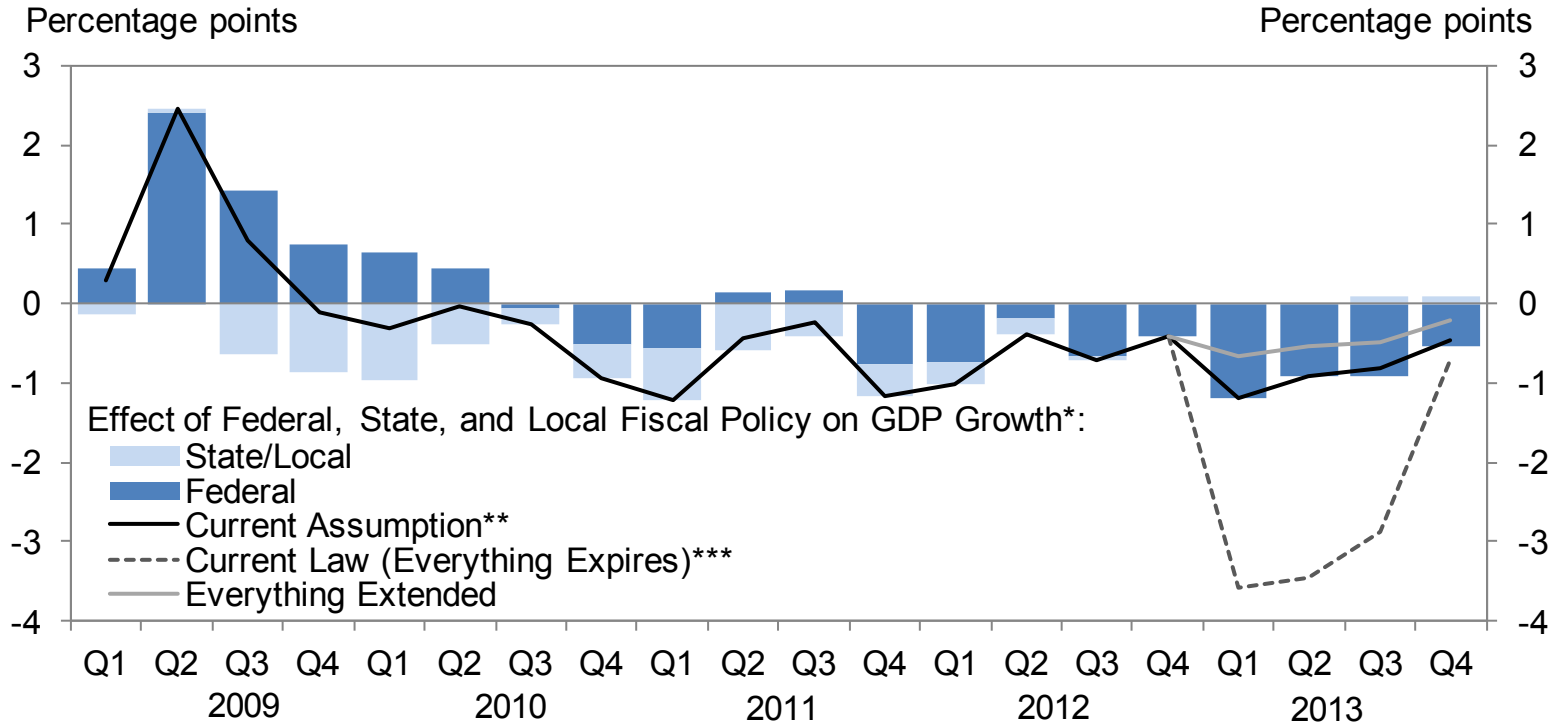
Our View of the US Outlook

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...



* 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.

*** Current law: Payroll tax cut, 2001/2003 tax cuts, and jobless benefits to expire after 2012, "sequester" spending cuts and the new 3.8% tax on certain passive income take effect January 2013.

Source: GS Global ECS Research.

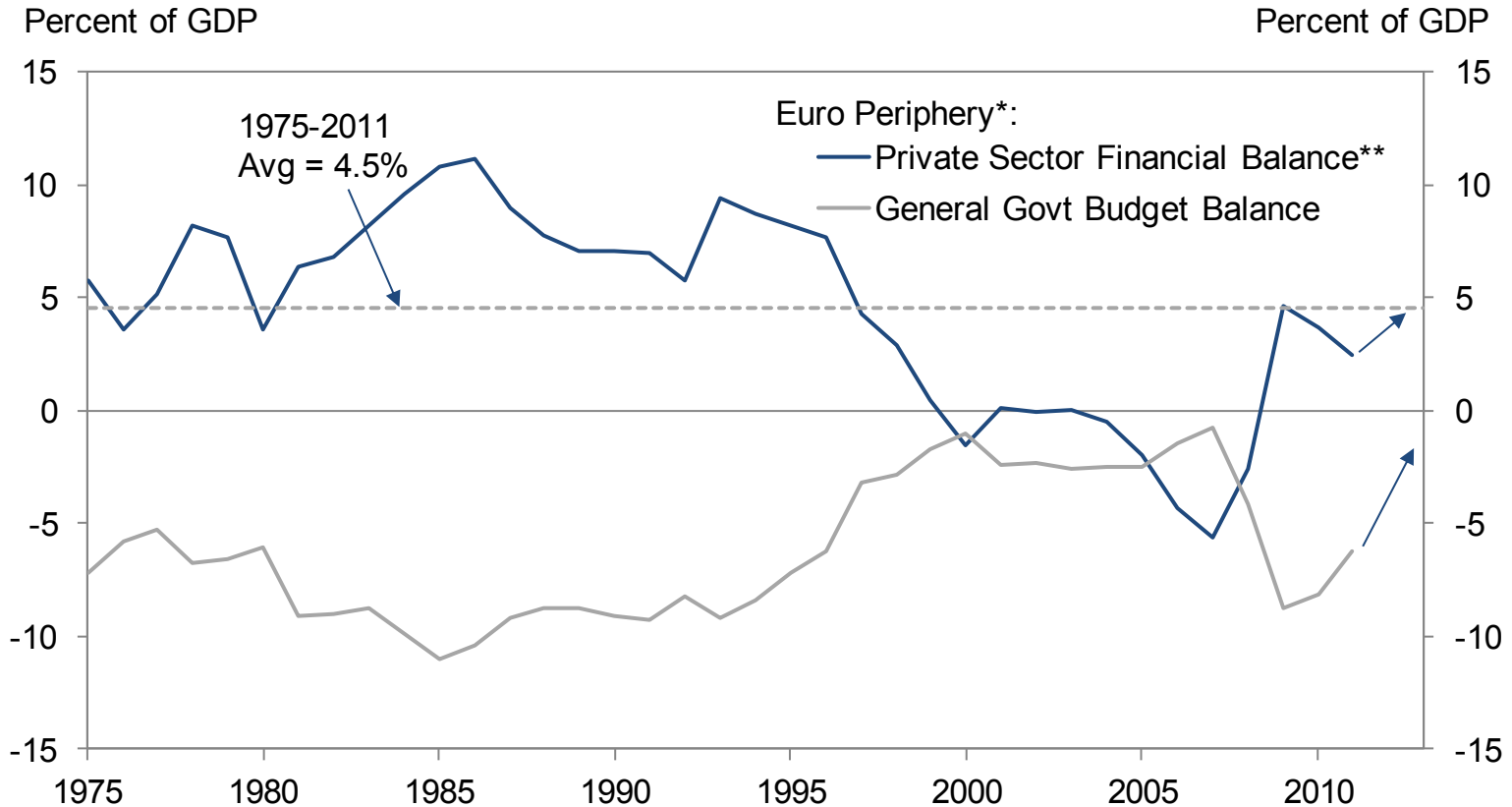
Our View of the US Outlook ...And Europe Lurks in the Background



Source: GS Global ECS Research..

The European Crisis

Simultaneous Retrenchment in the Periphery



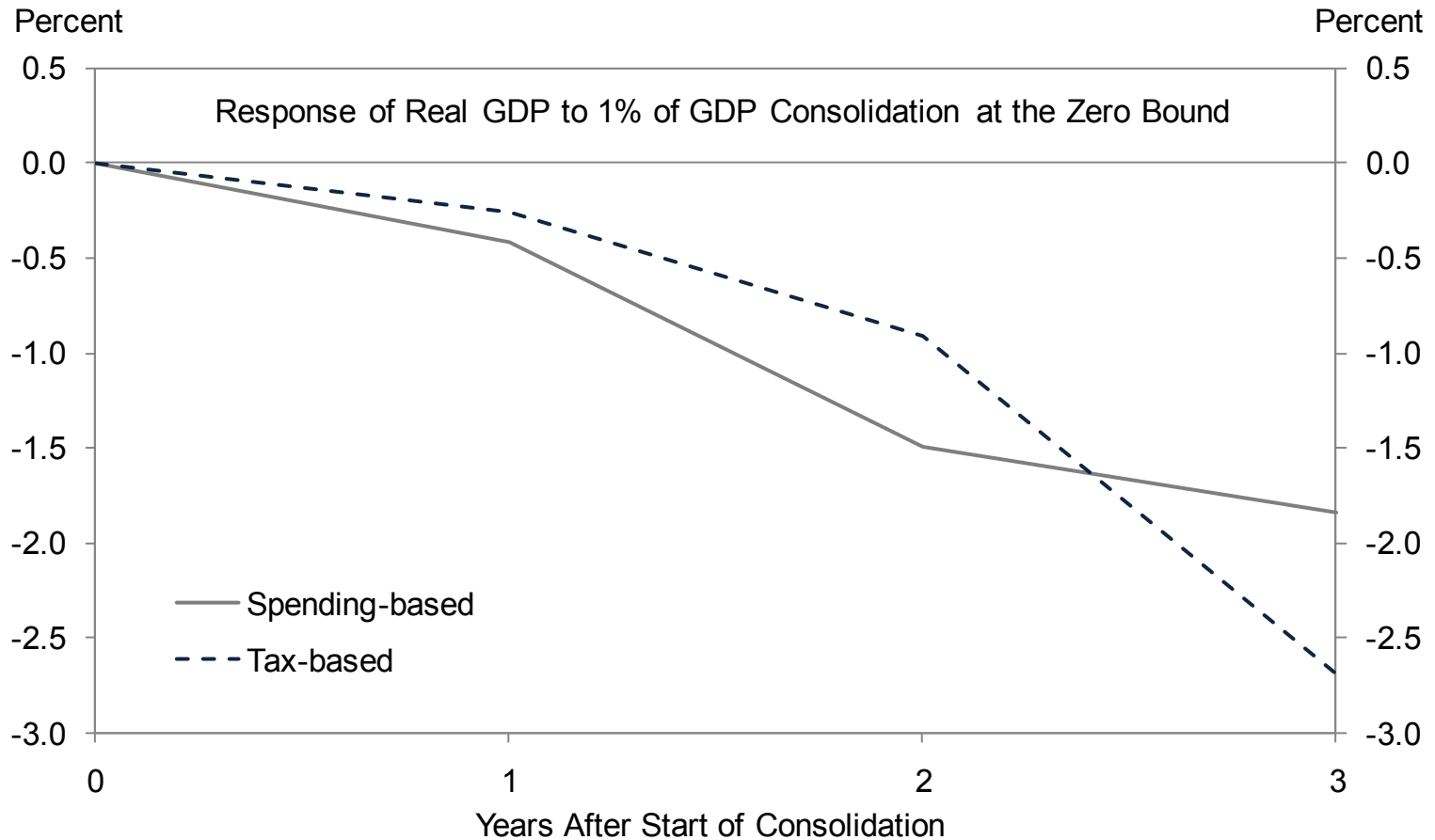
* Italy and Spain balances prior to 1977; Portugal added in 1977; Ireland added in 1990; Greece added in 1995.

** Income less spending; households and businesses.

Source: OECD.

The European Crisis

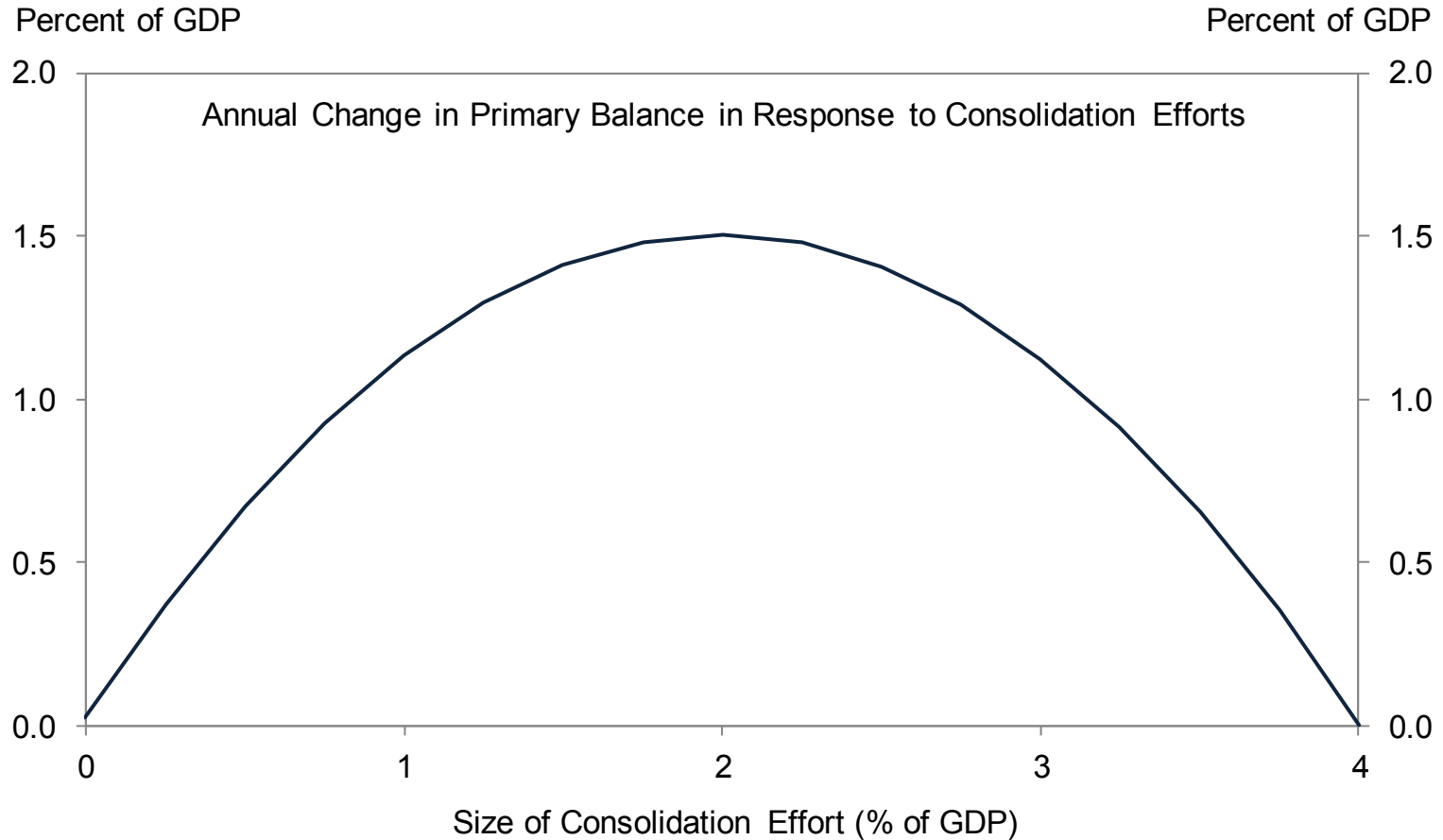
Large Fiscal Multipliers at the Zero Bound



Source: GS Global ECS Research.

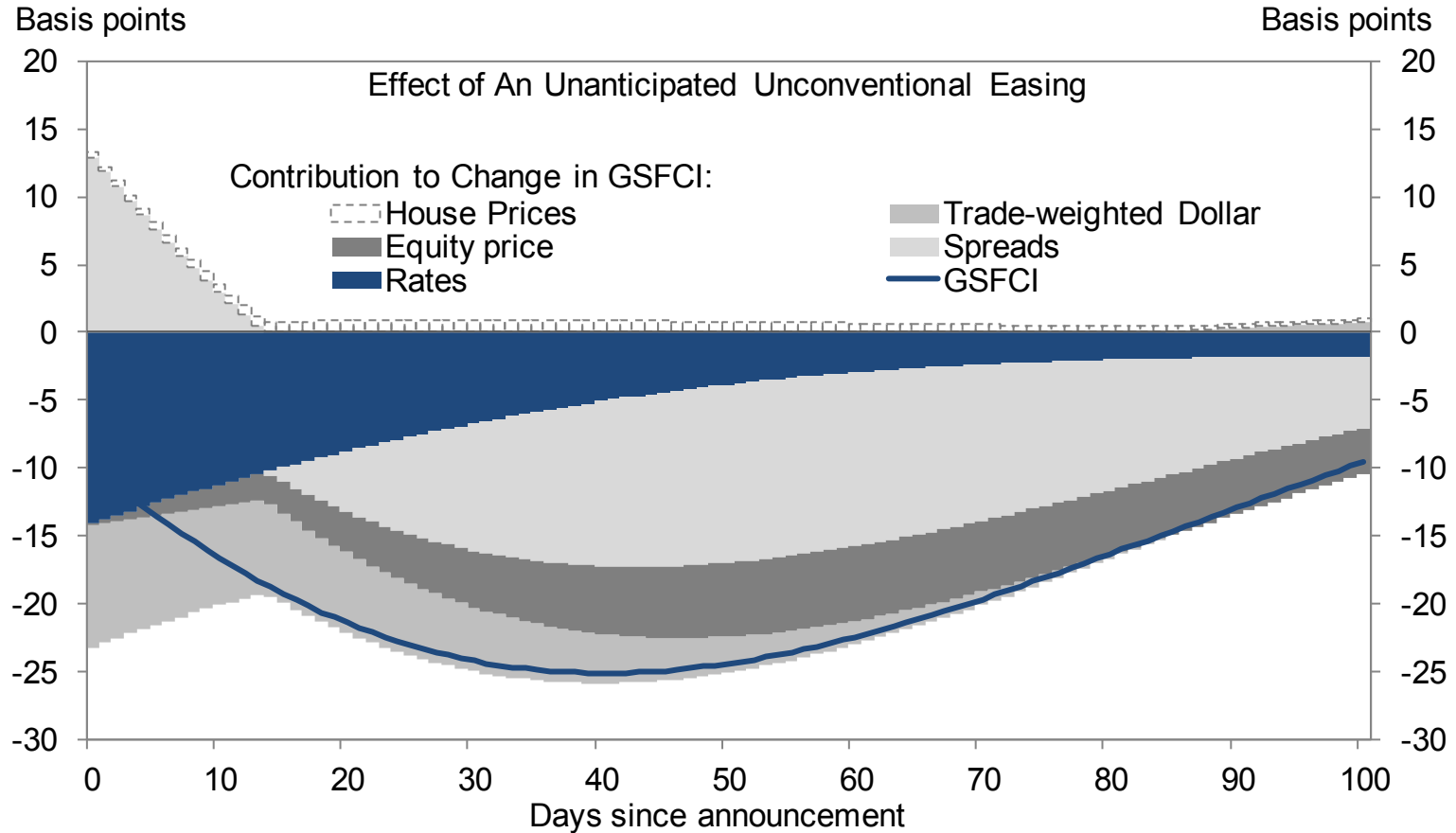
The European Crisis

The Speed Limit of Fiscal Consolidation



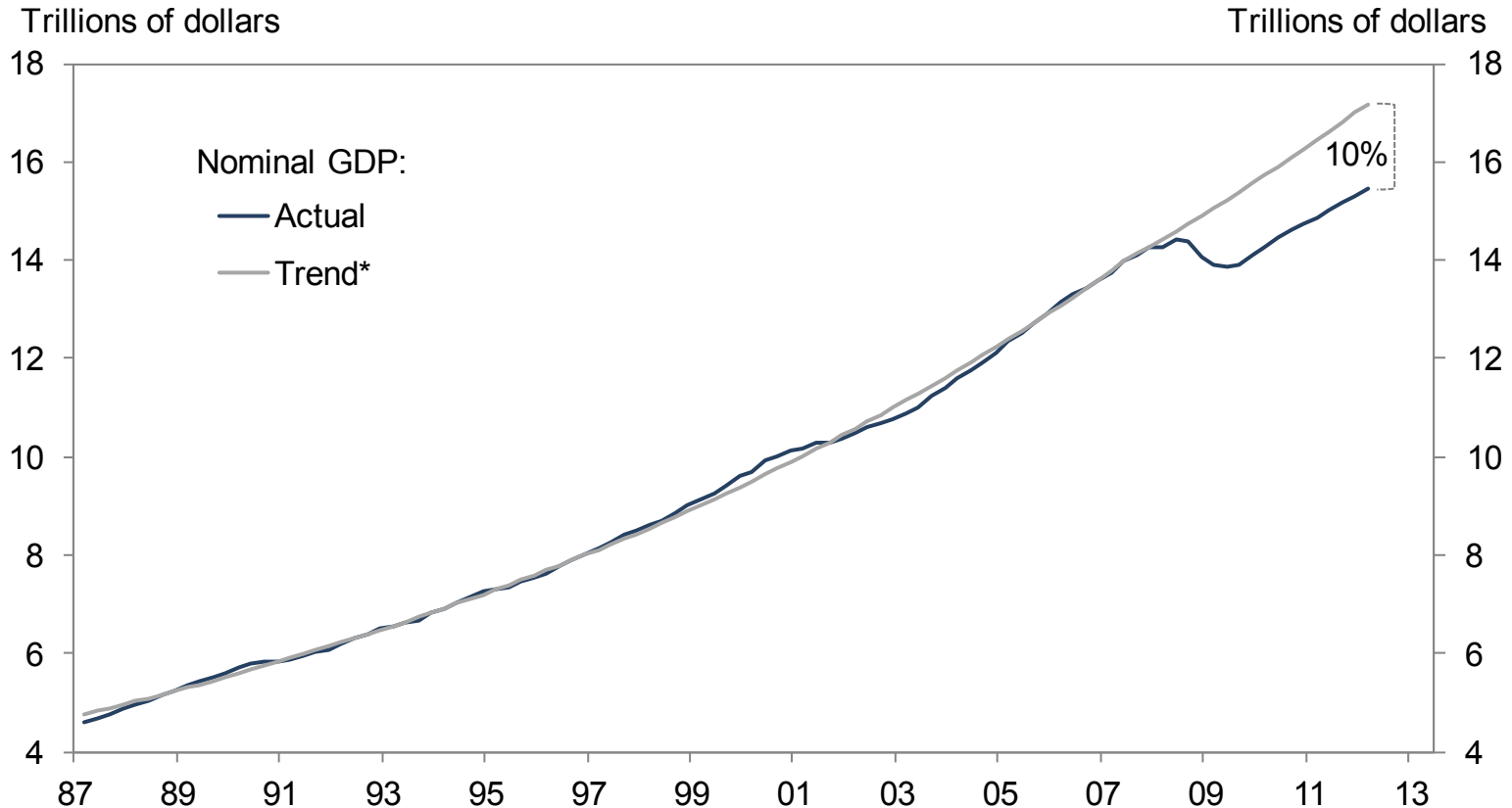
Source: GS Global ECS Research.

More Fed Easing Unconventional Tools Retain Some Traction...



Source: GS Global ECS Research.

More Fed Easing ...But New Framework Could be More Effective



* 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.

Disclosure Appendix

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.

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