

Economic Outlook

Moving Over the Hump

Jan Hatzius

Chief Economist

Jan.Hatzius@gs.com

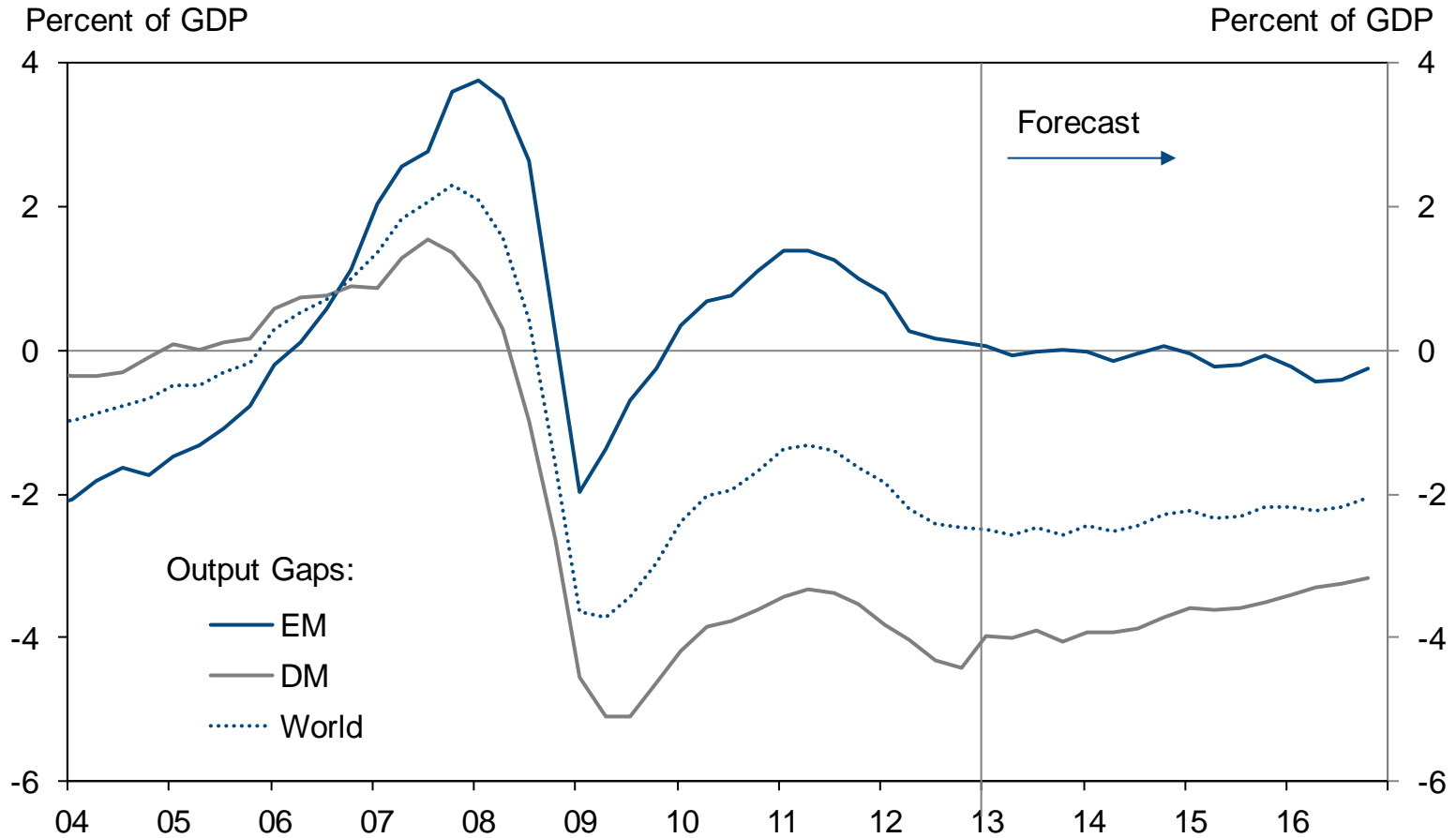
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A Gradual Acceleration in Global Growth

Real GDP Growth						
% yoy	2011	2012	2013	2014	2015	2016
USA	1.8	2.2	1.8	2.9	3.2	3.0
Japan	-0.6	2.0	0.9	1.3	0.7	1.2
Euro Area	1.5	-0.4	-0.2	0.9	1.3	1.5
Germany	3.1	0.9	0.7	1.9	2.1	2.2
France	1.7	0.1	0.0	0.6	1.2	1.5
Italy	0.6	-2.0	-0.8	0.6	0.9	1.2
Spain	0.4	-1.3	-1.7	-0.2	1.0	1.8
UK	0.9	0.0	1.4	2.0	2.3	2.6
China	9.3	7.8	8.2	8.4	8.3	8.2
India	7.5	5.4	6.5	7.2	7.2	7.5
Brazil	2.7	1.0	3.5	4.3	4.0	4.0
Russia	4.3	3.4	3.8	4.8	4.3	3.1
Developed Markets	1.7	1.3	1.3	2.2	2.3	2.5
Emerging Markets	6.9	5.5	6.1	6.6	6.5	6.4
World	3.8	3.0	3.3	4.1	4.2	4.3

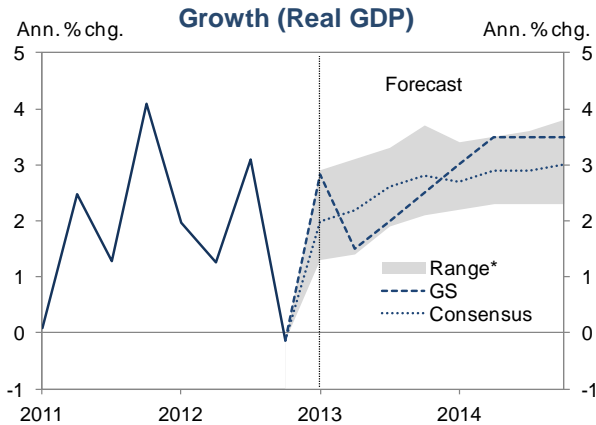
Source: GS Global ECS Research.

Spare Capacity in DM But Not EM

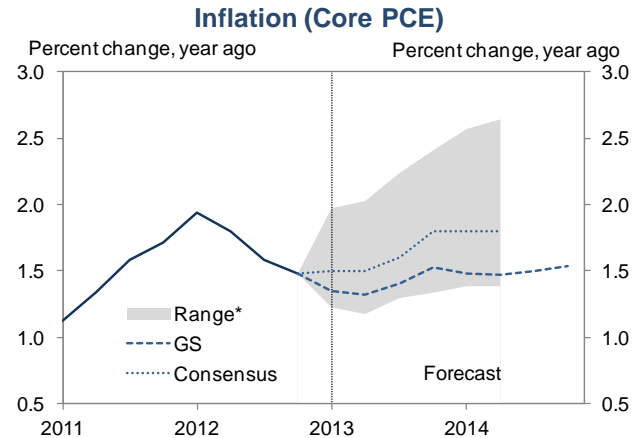


Source: GS Global ECS Research.

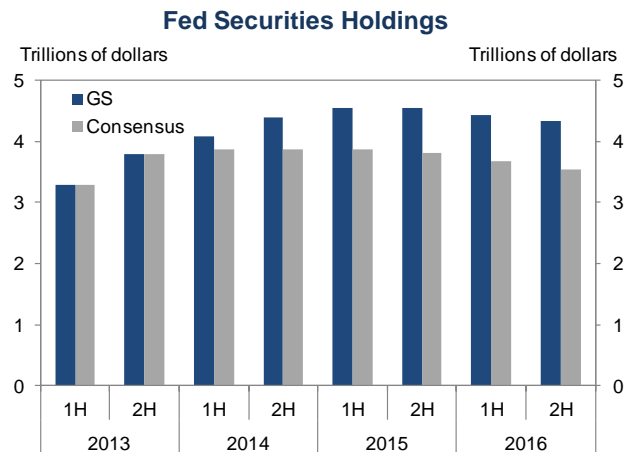
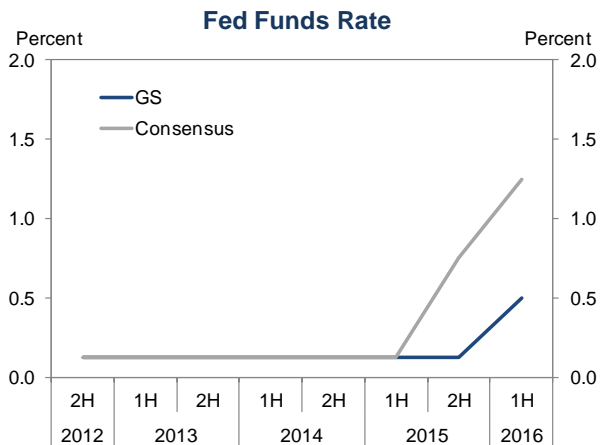
Key US Economic Indicators: GS vs. Consensus



* Top 10 avg - bottom 10 avg.



* Top 10 avg-bottom 10 avg.

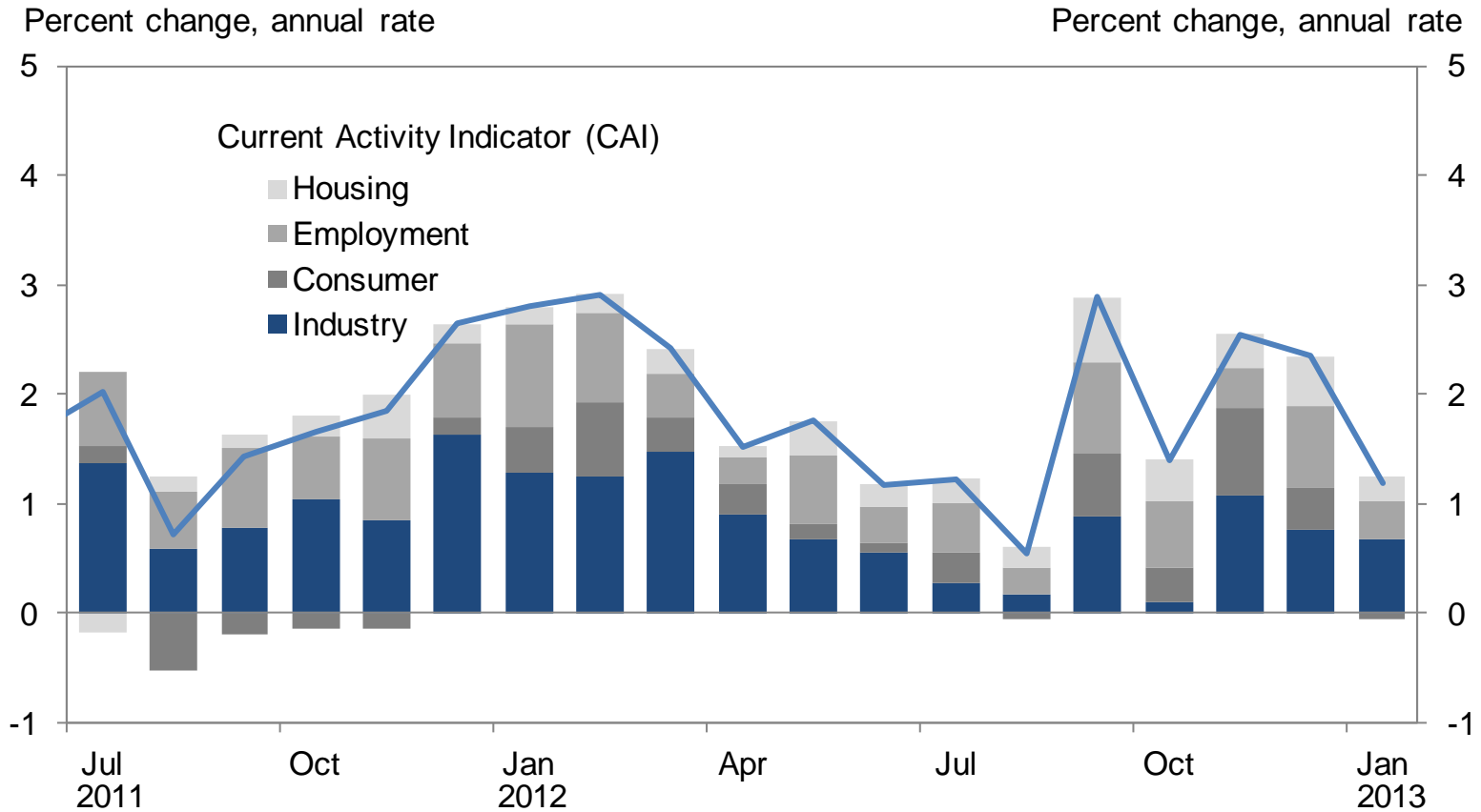


Actual Data
 Growth consensus from Blue Chip Consensus Forecasts (February 2013)
 Inflation consensus from Bloomberg
 Fed consensus from Survey of Primary Dealers (December 2012)

Source: Dept. of Commerce. Bloomberg. FRB New York. GS Global ECS Research.

Temperature Check

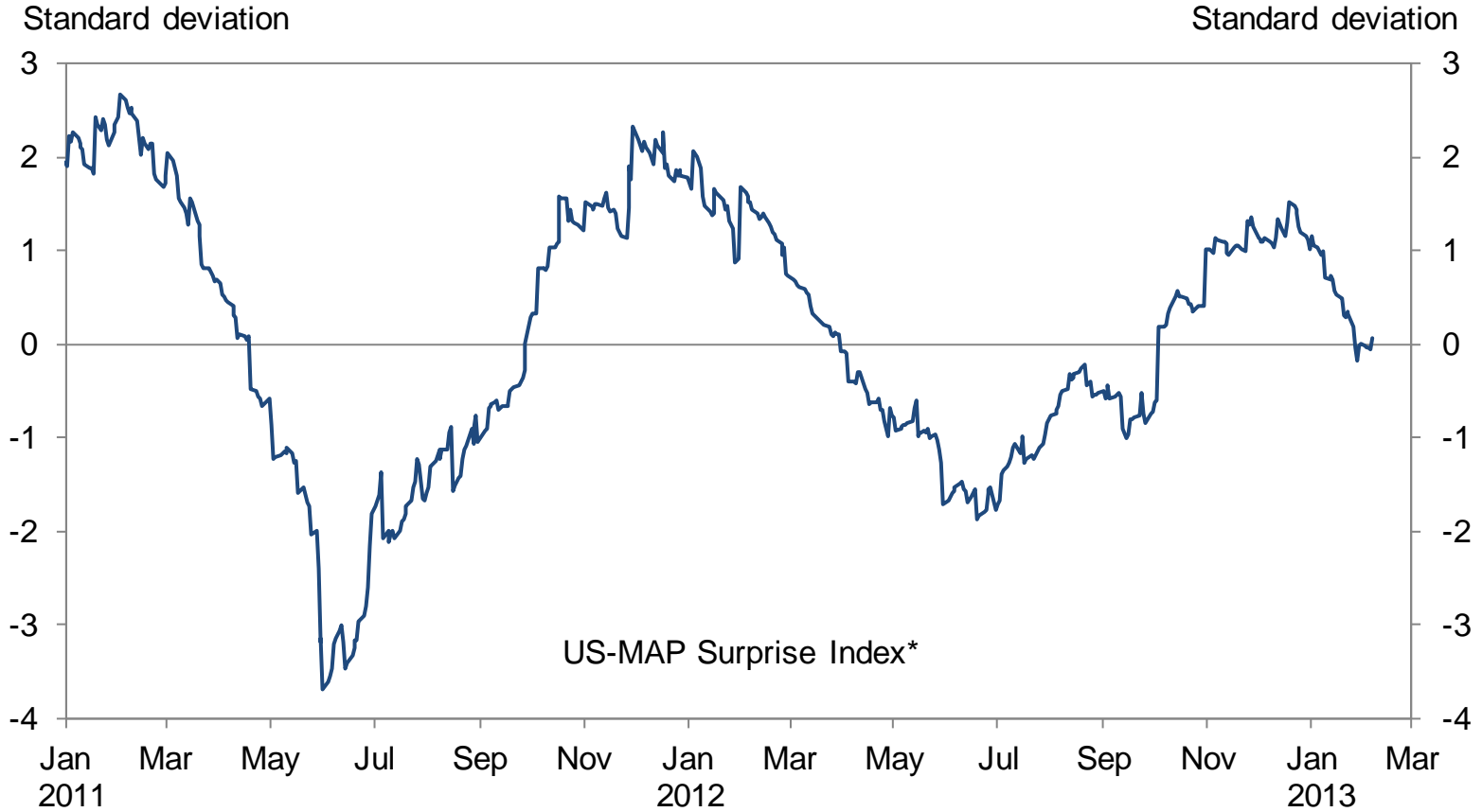
Current Activity Indicator Slows in January



* First principal component of 25 key weekly and monthly US economic indicators.
 Source: GS Global ECS Research.

Temperature Check

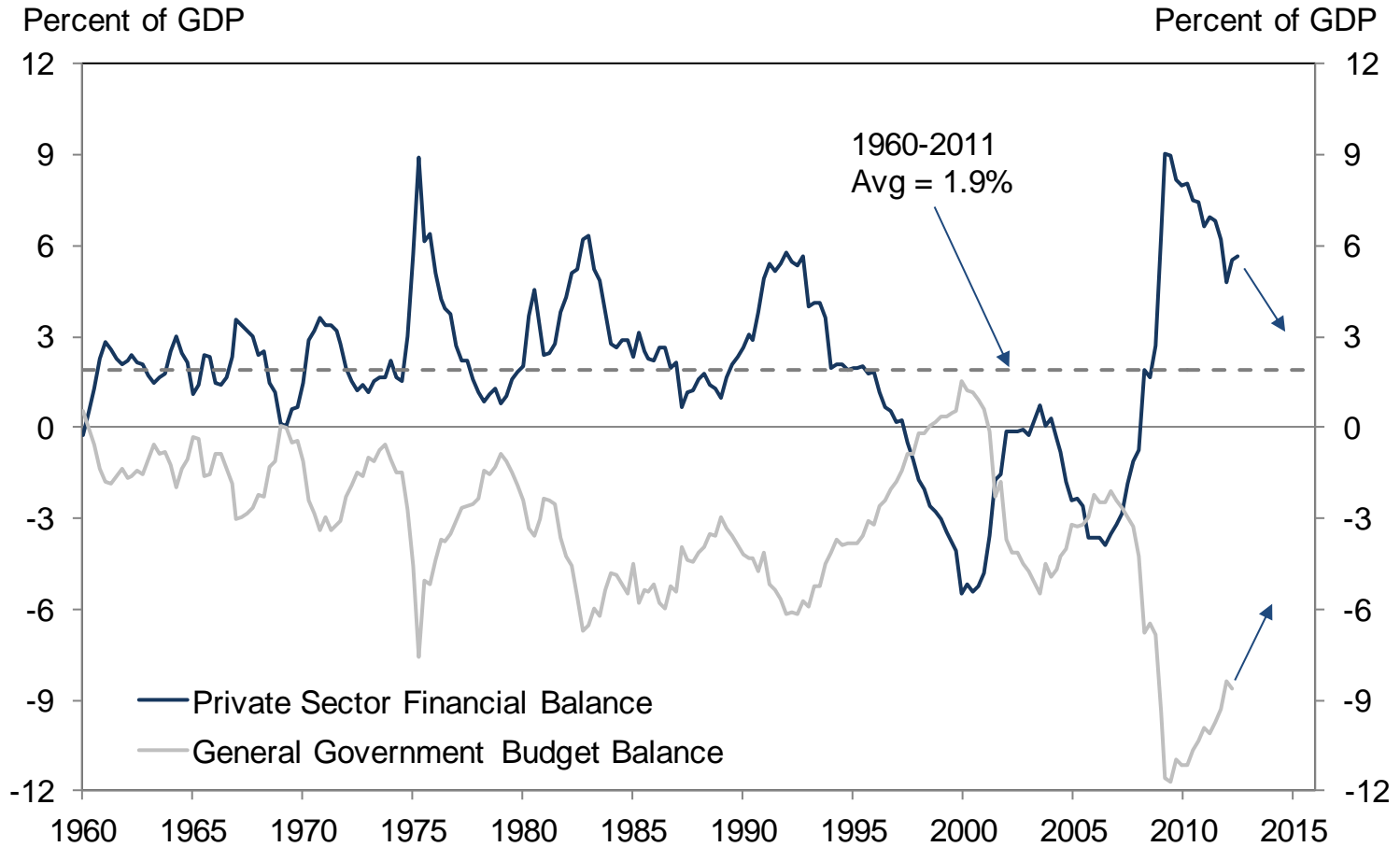
Upside Data Surprises Have Stopped



* Weighted index of US economic data surprises, linearly weighted 3-month average.
 Source: GS Global ECS Research.

US Growth Outlook

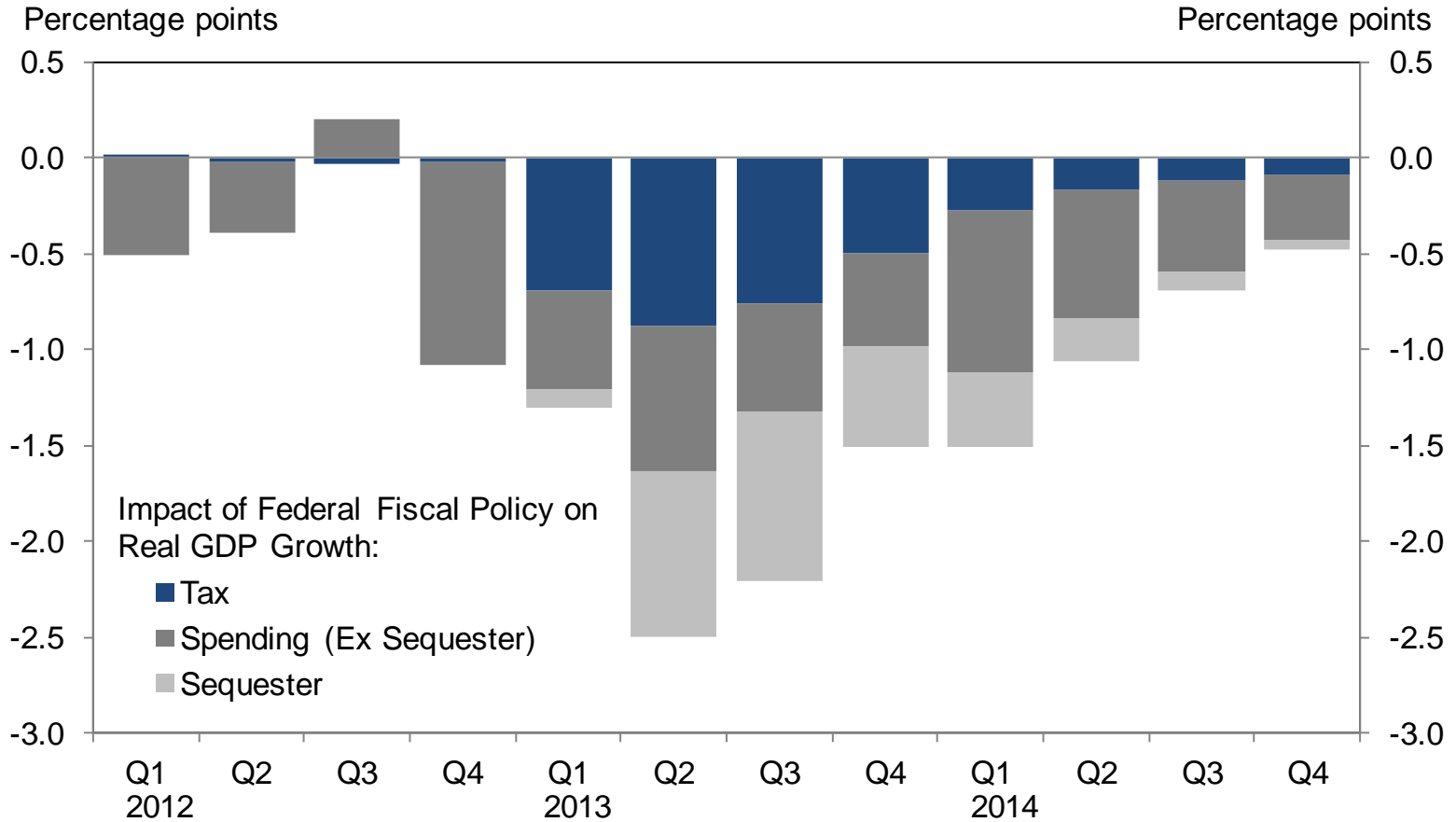
Private Boost, Public Drag



Source: Department of Commerce. GS Global ECS Research.

US Growth Outlook

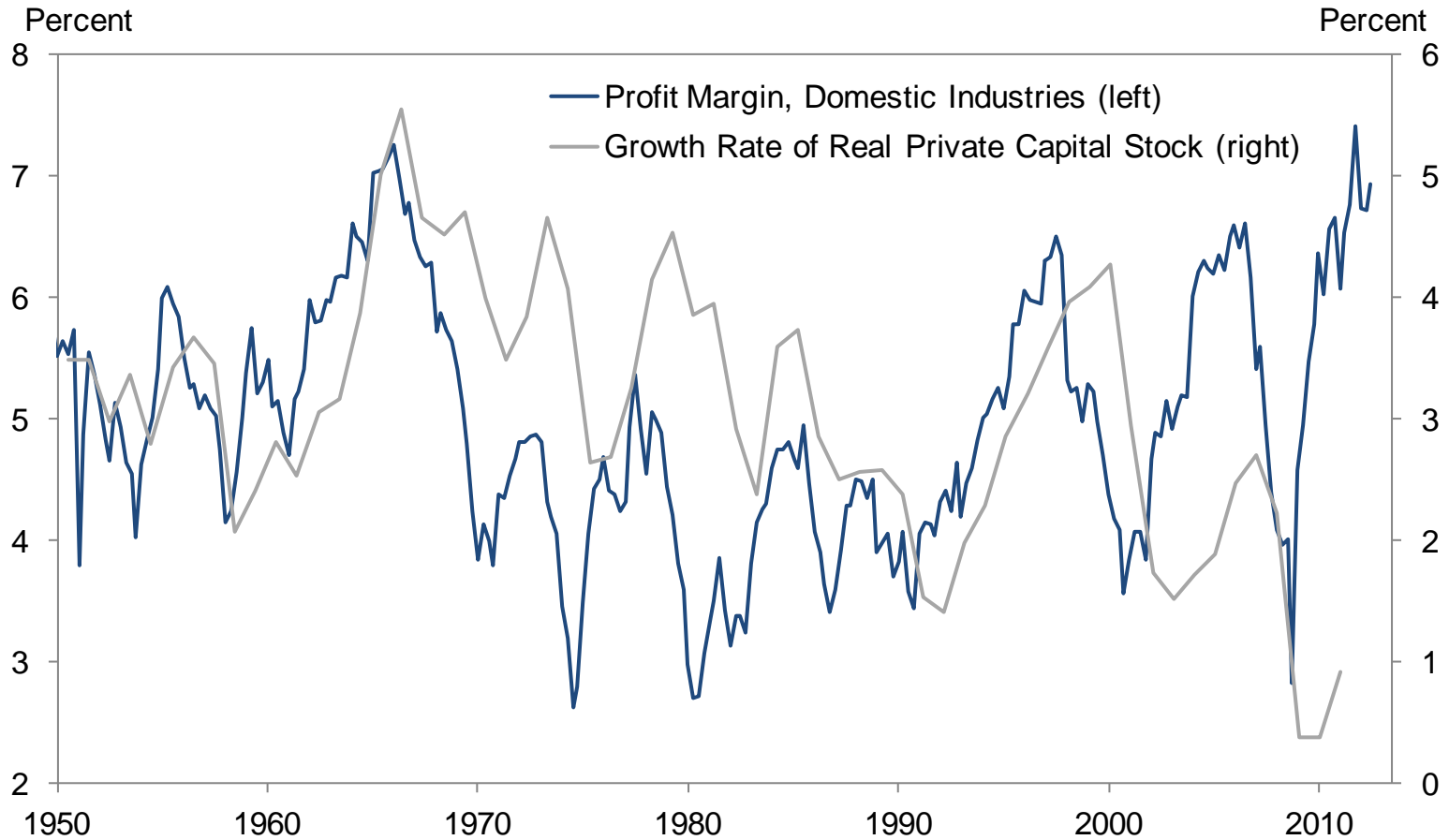
Fiscal Drag Peaks in Mid-2013



Source: GS Global ECS Research.

US Growth Outlook

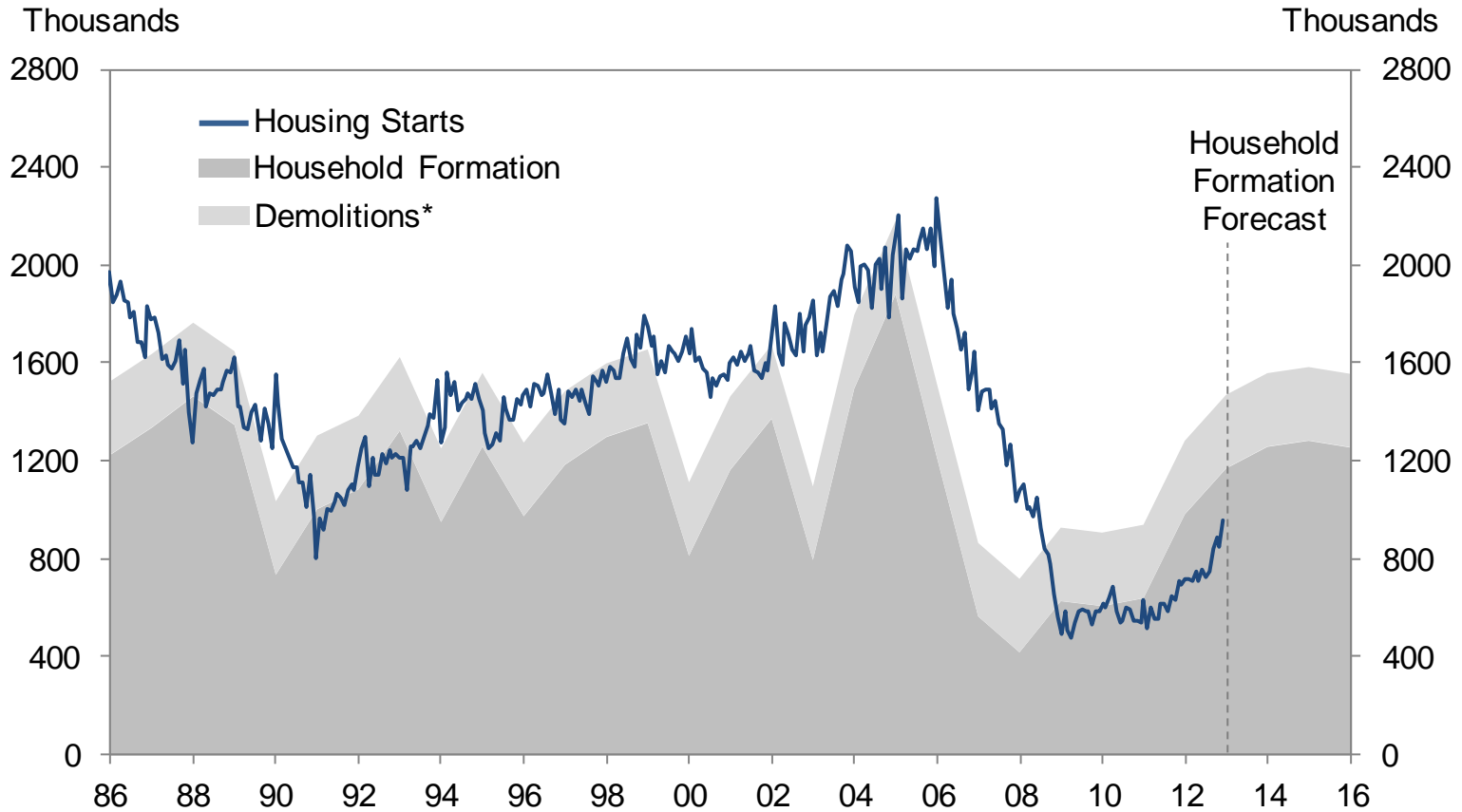
Capital Spending Looks Very Profitable



Source: Department of Commerce.

US Growth Outlook

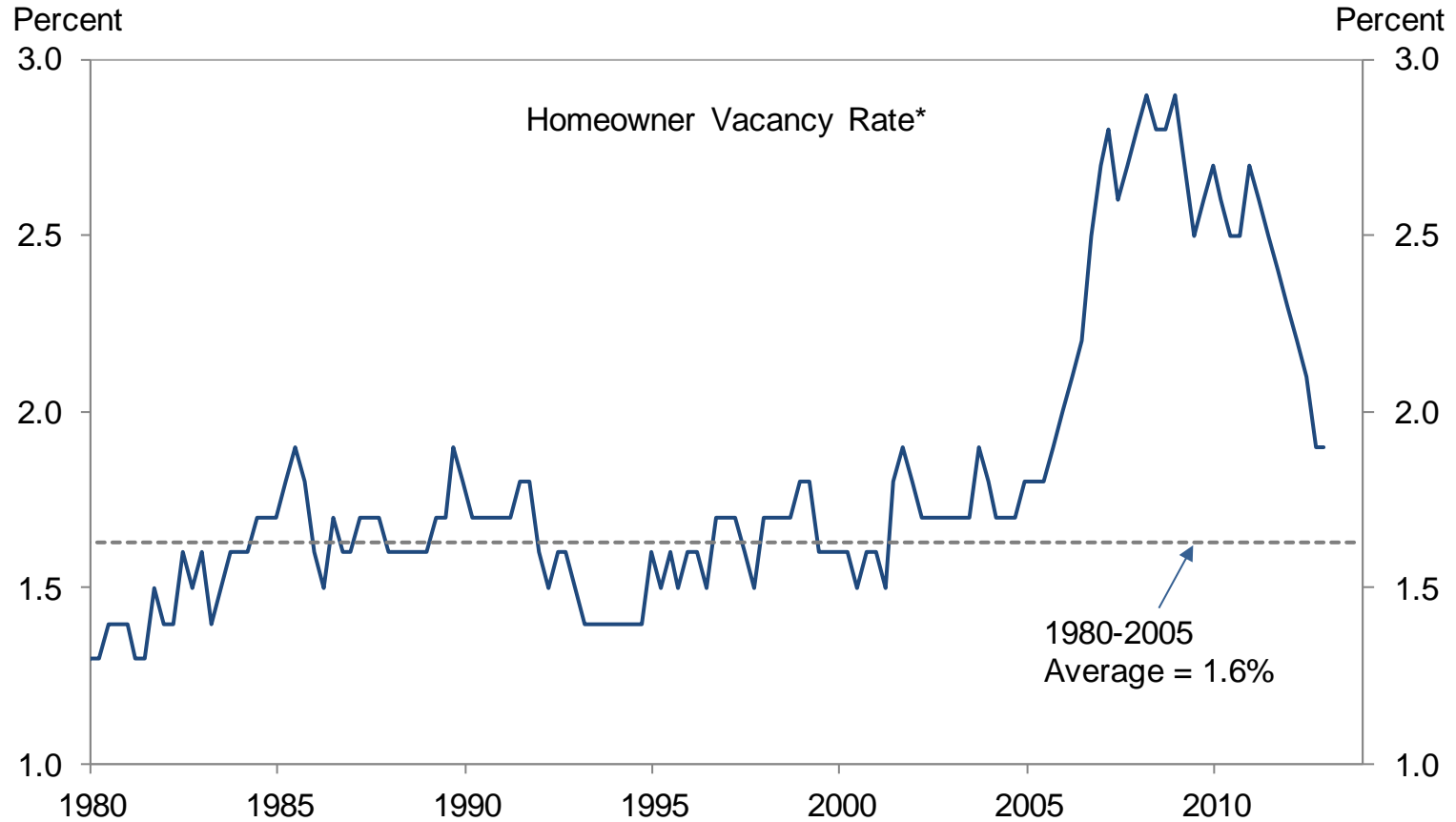
Homebuilding Has a Long Way to Rise



* Assumed demolition rate of 300,000 per year.
 Source: Department of Commerce. GS Global ECS Research.

US Growth Outlook

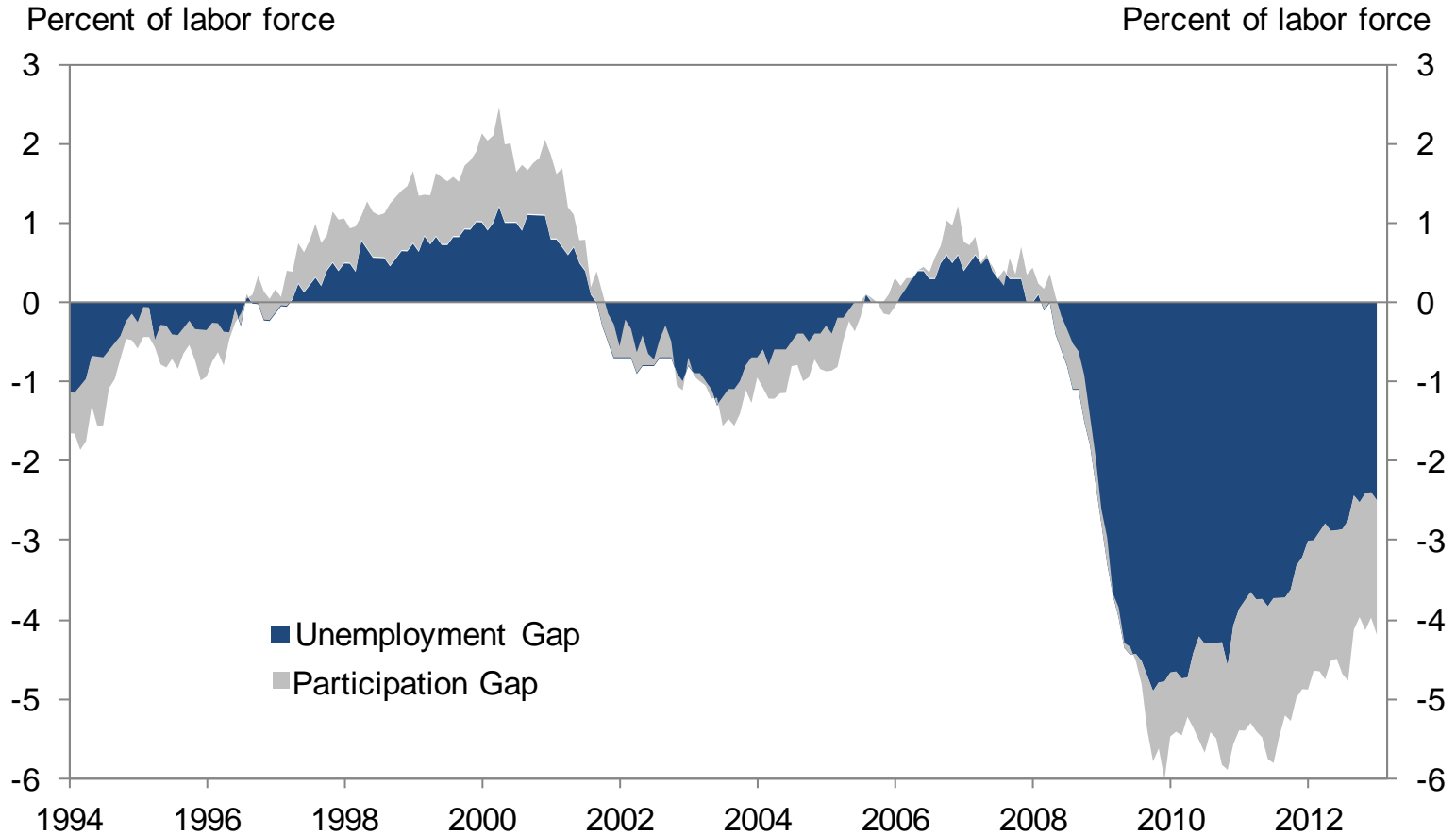
Excess Housing Supply Has Fallen Sharply



* Vacant homes for sale in percent of housing stock for owner occupation.
 Source: Department of Commerce.

Labor Market Slack and Its Implications

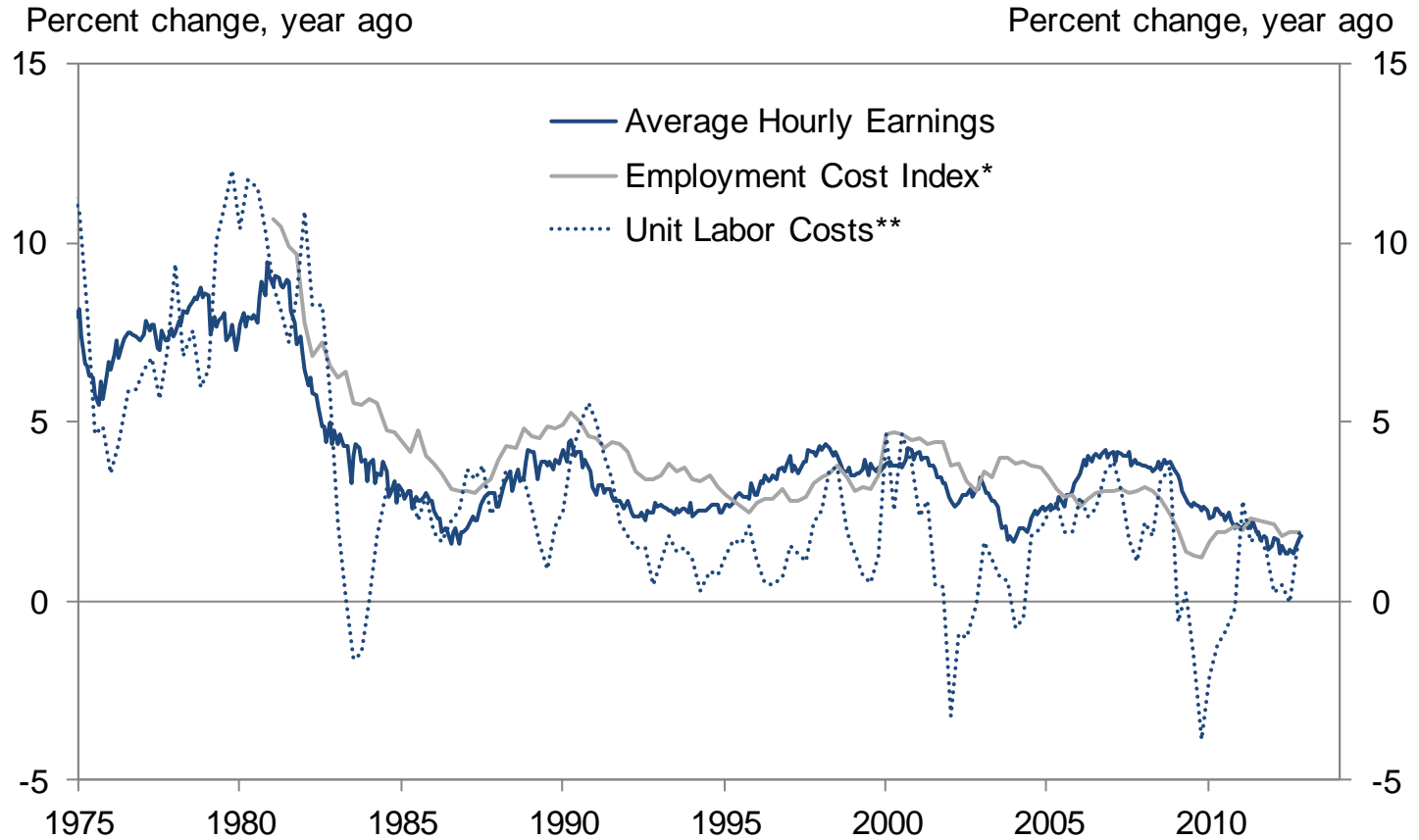
Employment Still Far Below Potential



Source: Department of Labor. GS Global ECS Research.

Labor Market Slack and Its Implications

Wages and Unit Labor Costs Still Weak

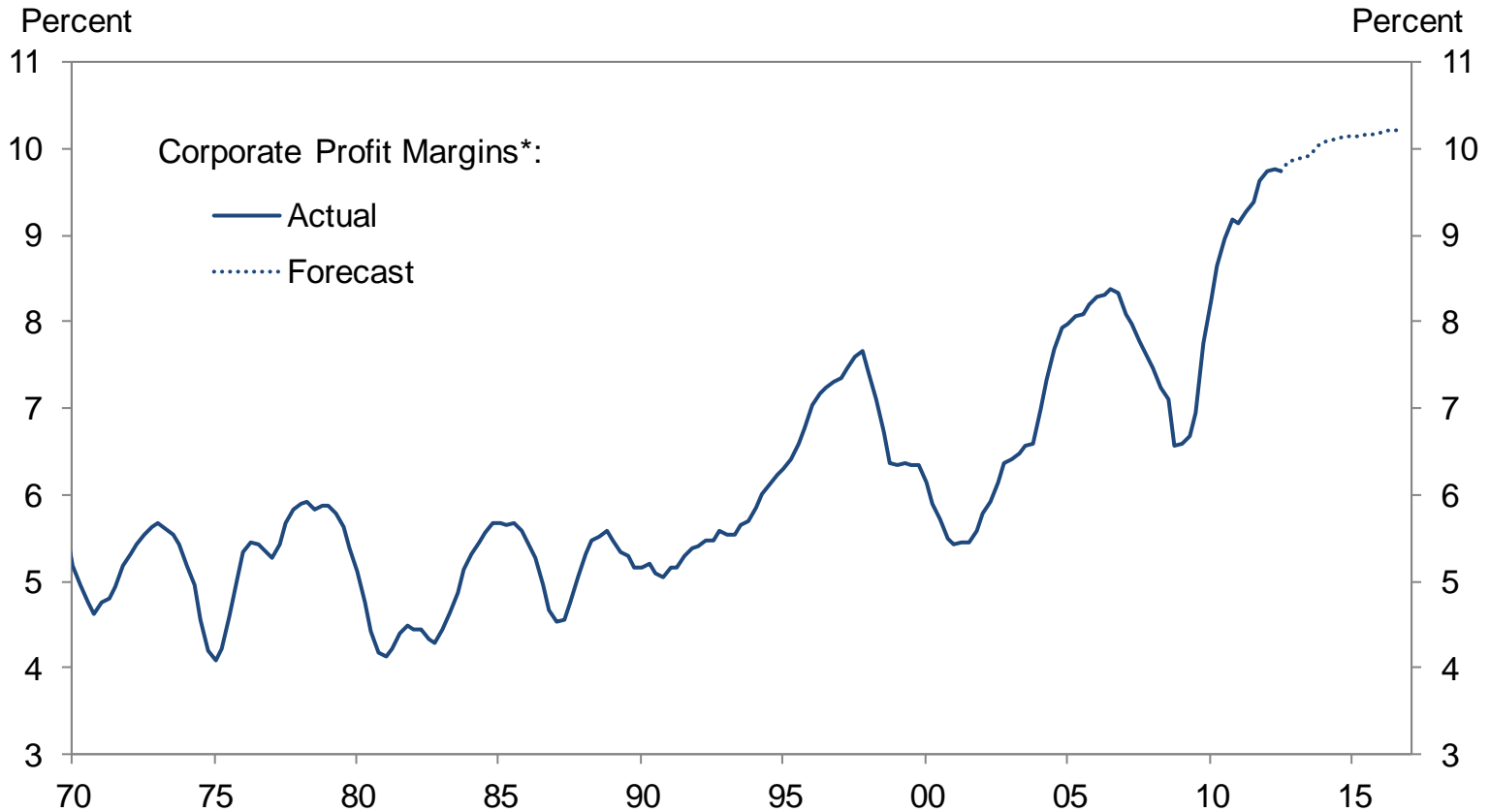


* Private industry workers. ** Nonfarm business sector.

Source: Department of Labor.

Labor Market Slack and Its Implications

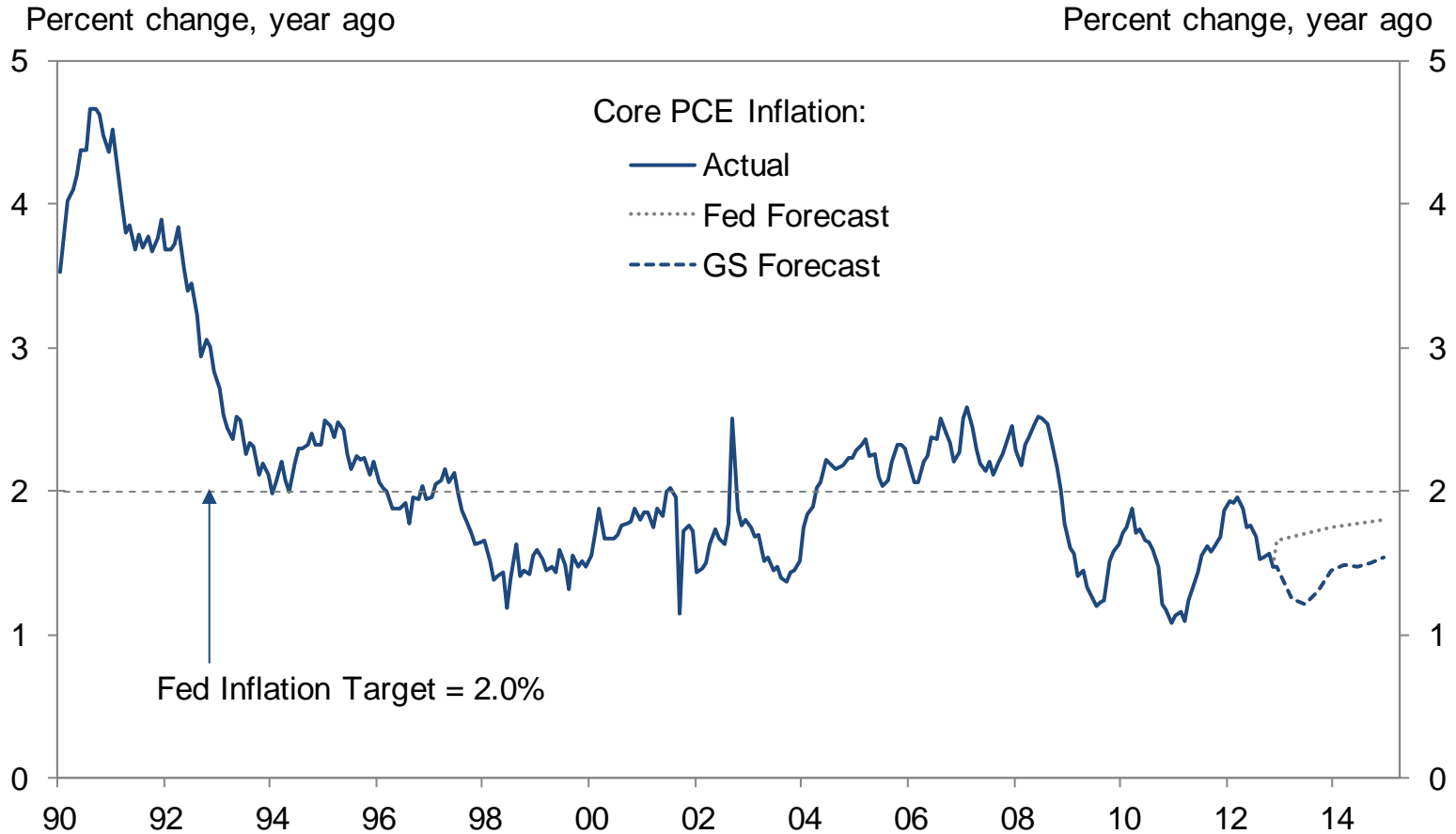
Implication #1: Profit Margins Expand



** After-tax adjusted profits as percent of GDP.
 Source: Department of Commerce. GS Global ECS Research.

Labor Market Slack and Its Implications

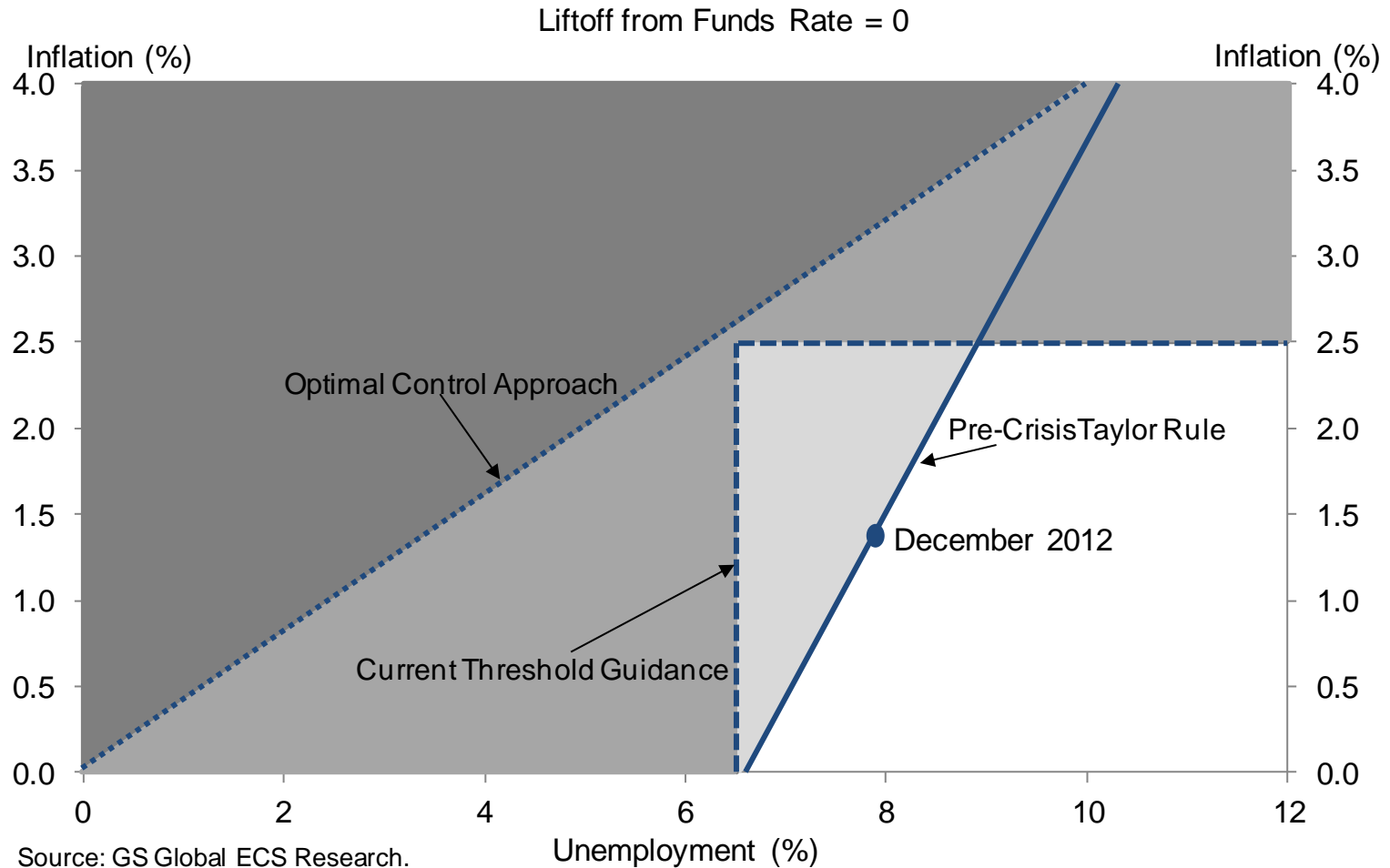
Implication #2: Low Core Inflation



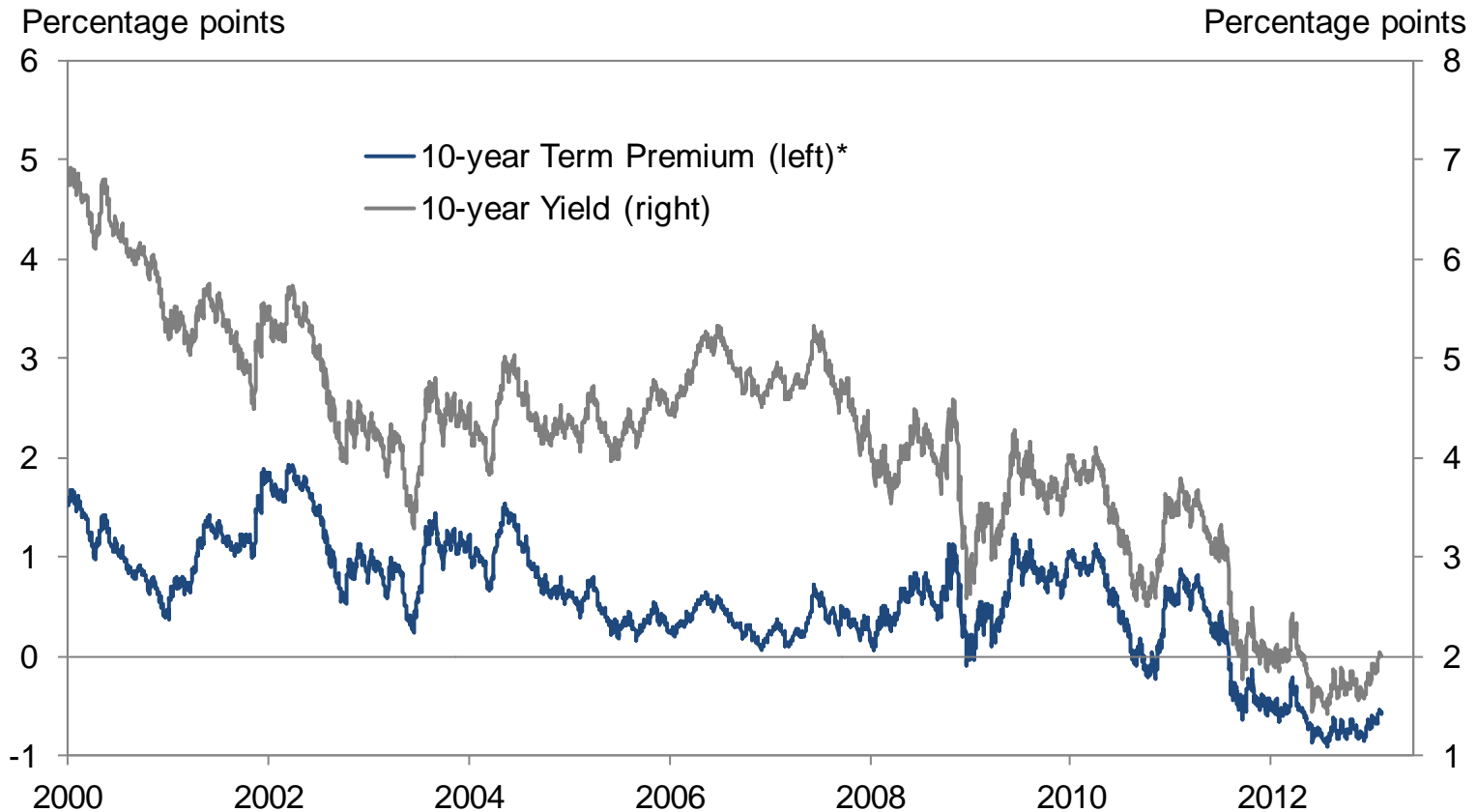
Source: Department of Commerce. Federal Reserve Board.

Fed Policy Stays Easy

Visualizing the Shifts in Fed Policy



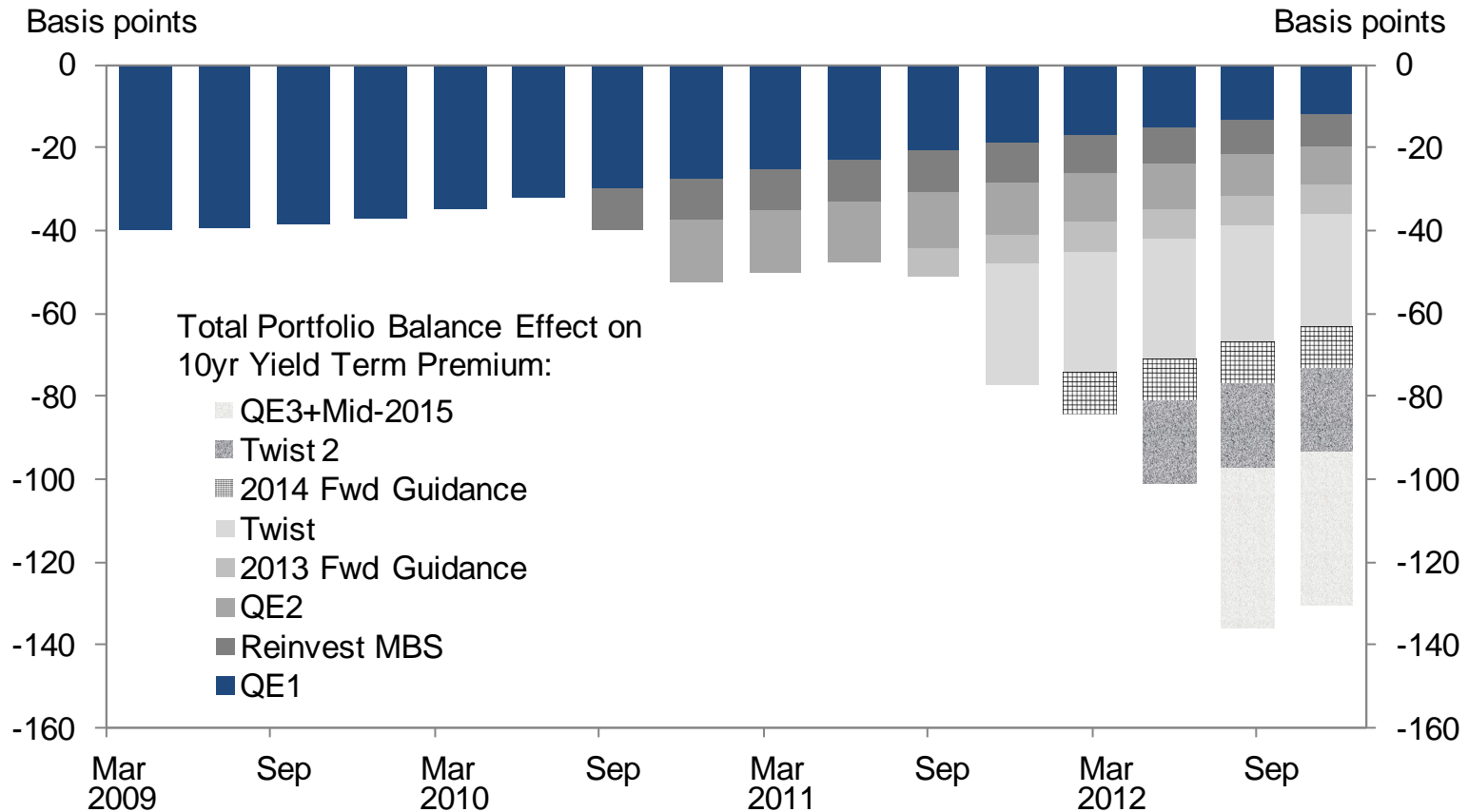
A Gradual Increase in Bond Yields The Bond Term Premium...



*As estimated by the Kim-Wright Term Structure Model.

Source: Federal Reserve Board. GS Global ECS Research.

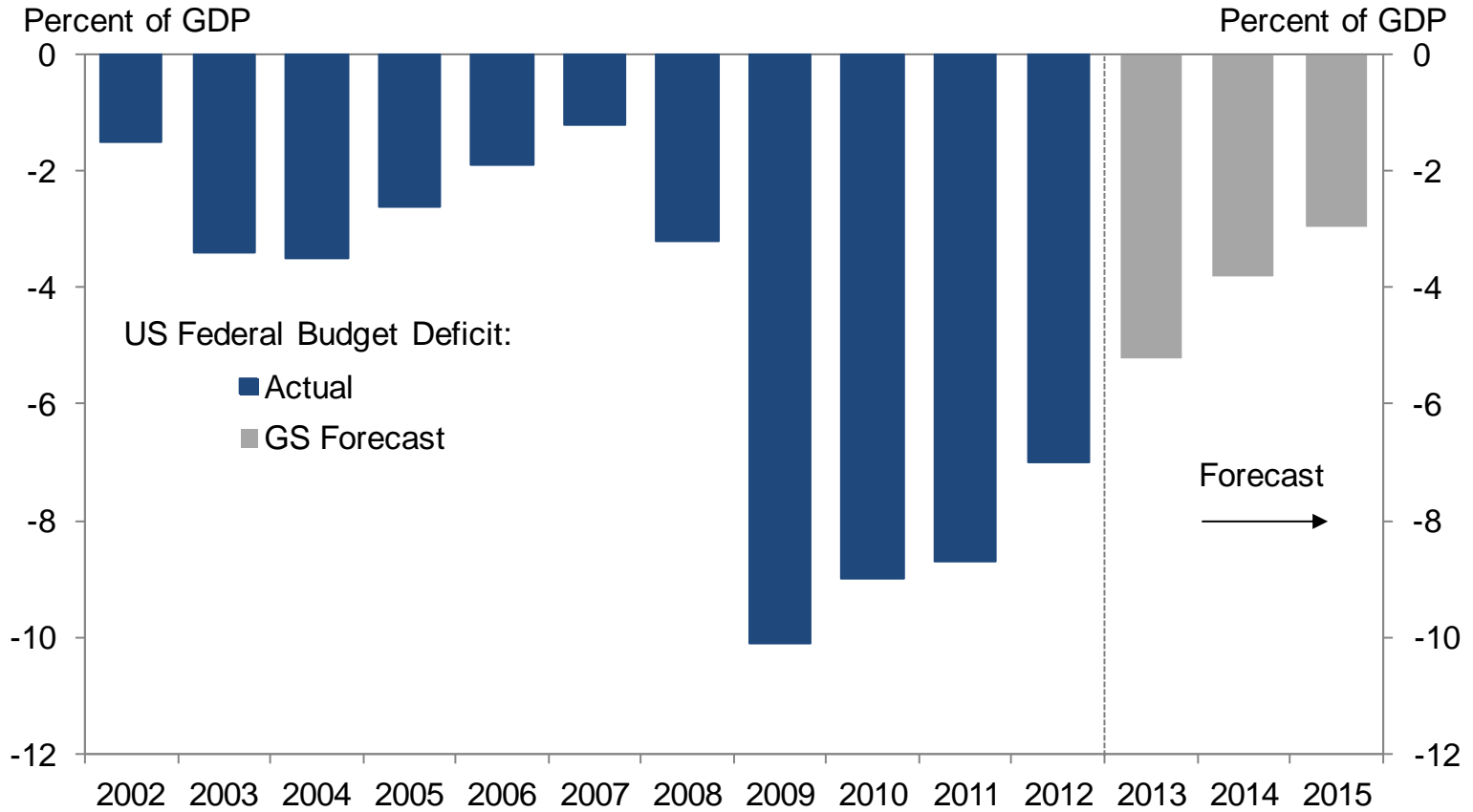
A Gradual Increase in Bond Yields ...Is Unlikely to Rise Quickly as QE Persists



Note: Assumes no change in expectations between announcements.
Source: GS Global ECS Research.

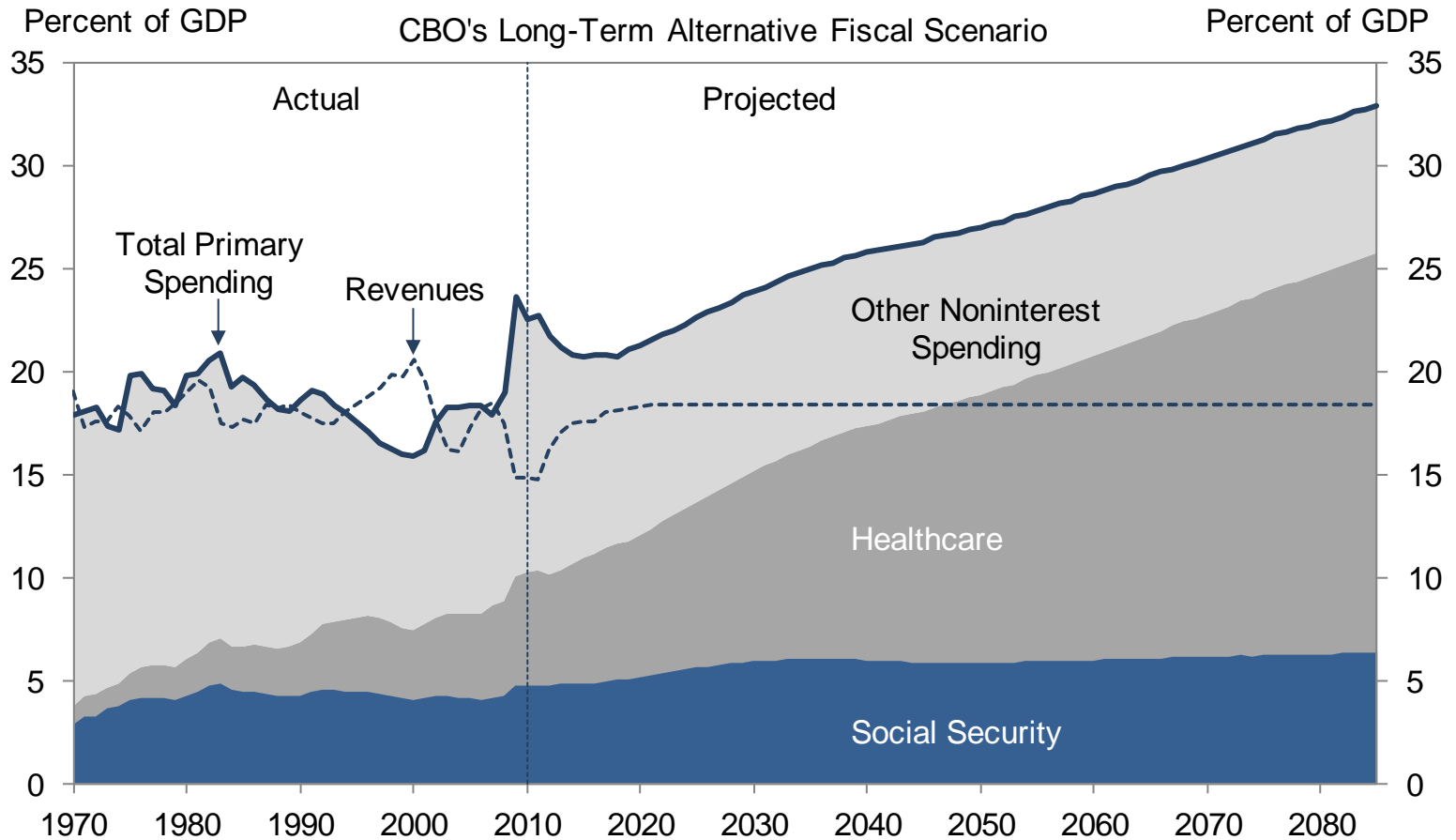
The Truth about the Deficit

Deficit Should Decline in Coming Years



Source: CBO. GS Global ECS Research.

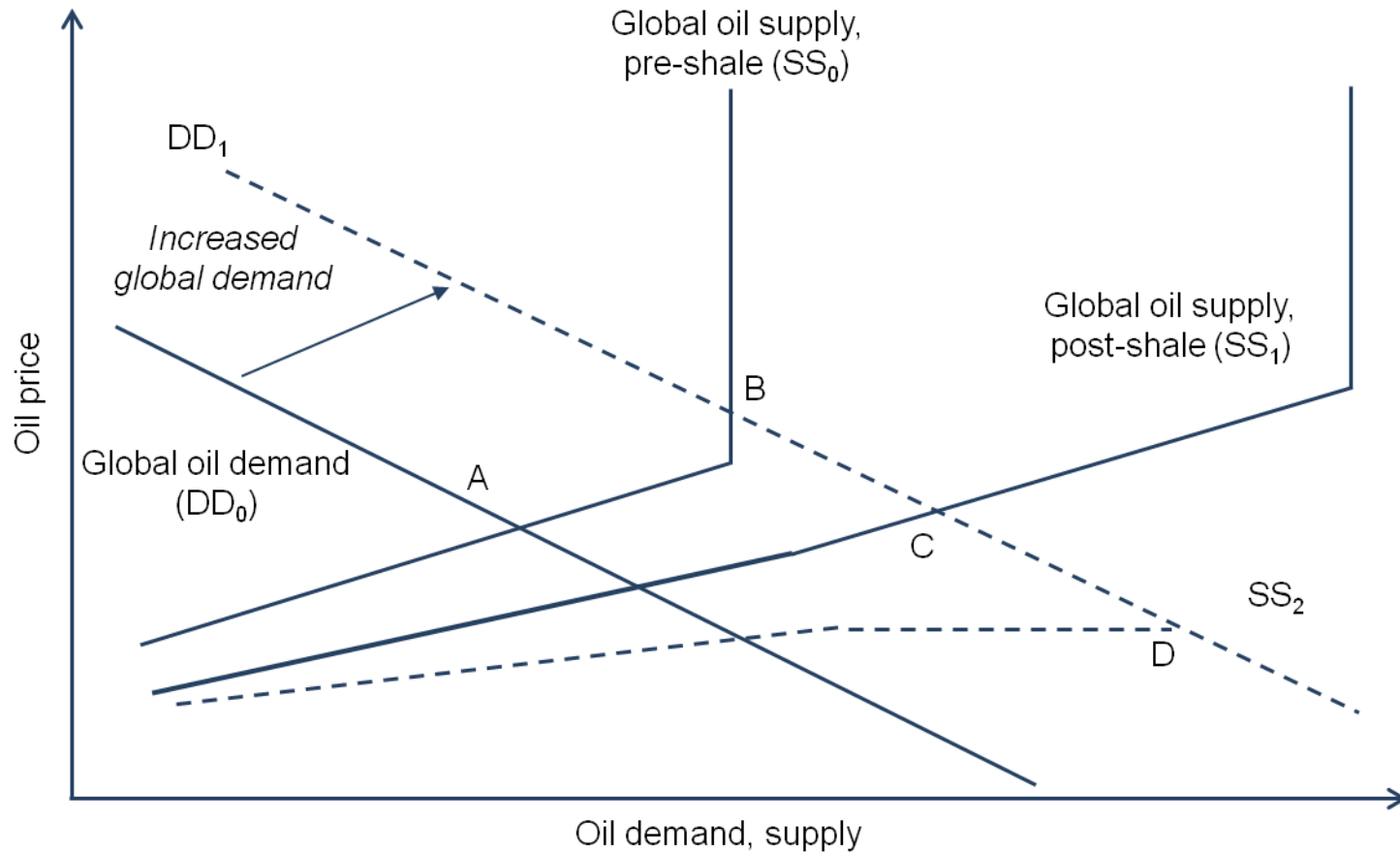
The Truth about the Deficit Healthcare Holds the Key



Source: Congressional Budget Office.

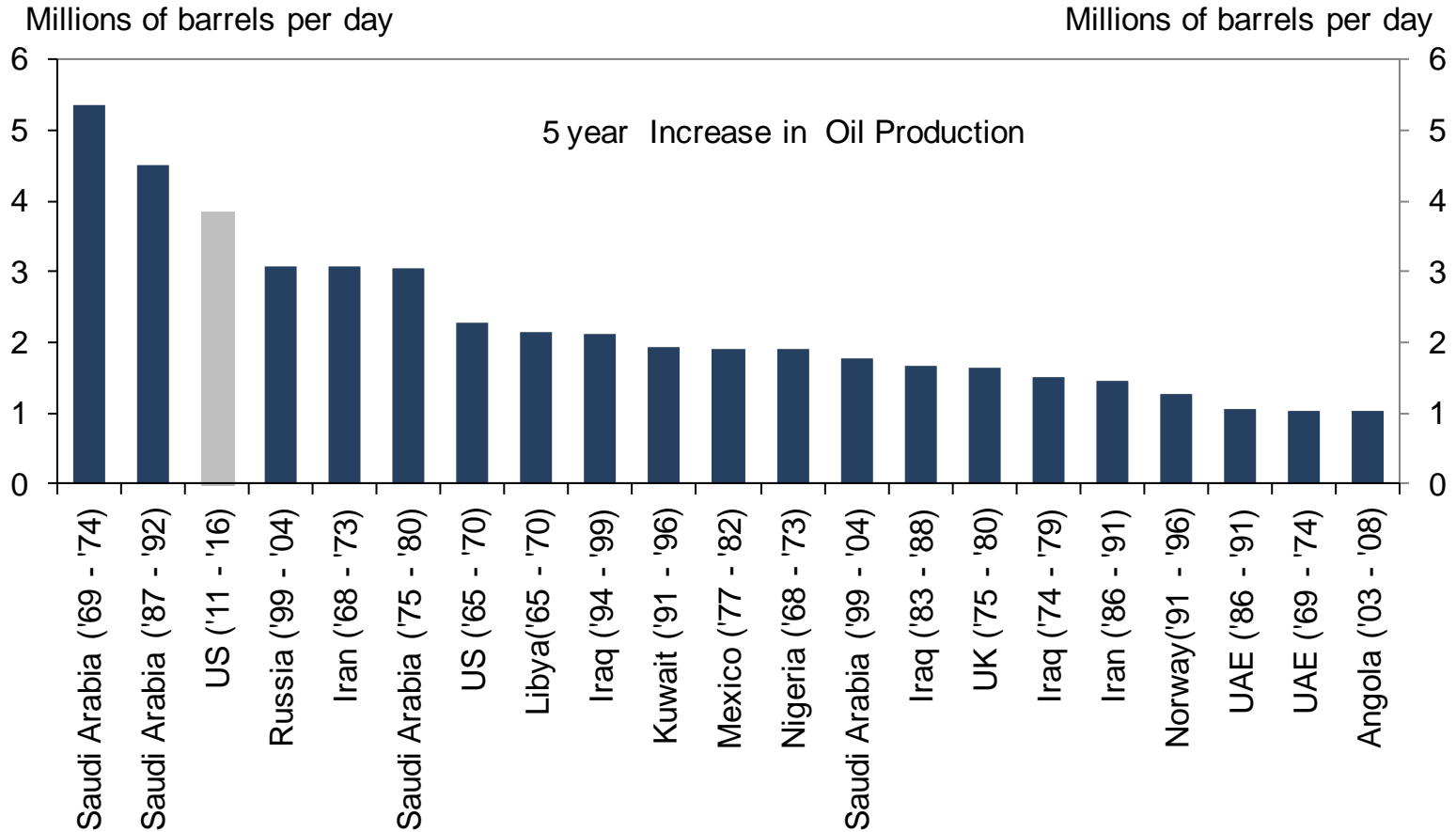
Where Shale Matters

Energy Supply Gets More Elastic



Where Shale Matters

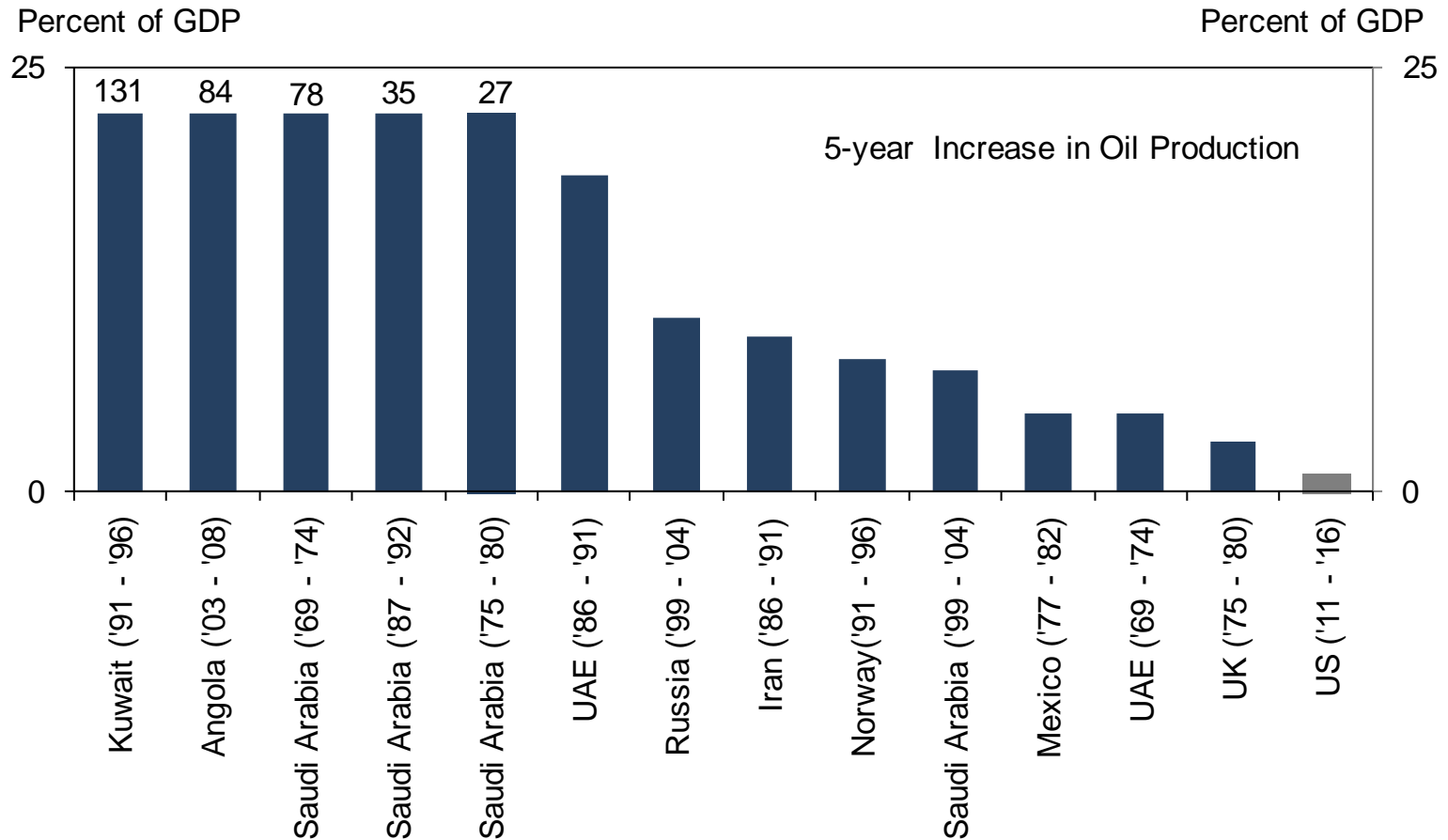
A Big Supply Boost in Absolute Terms...



Source: GS Global ECS Research.

Where Shale Matters

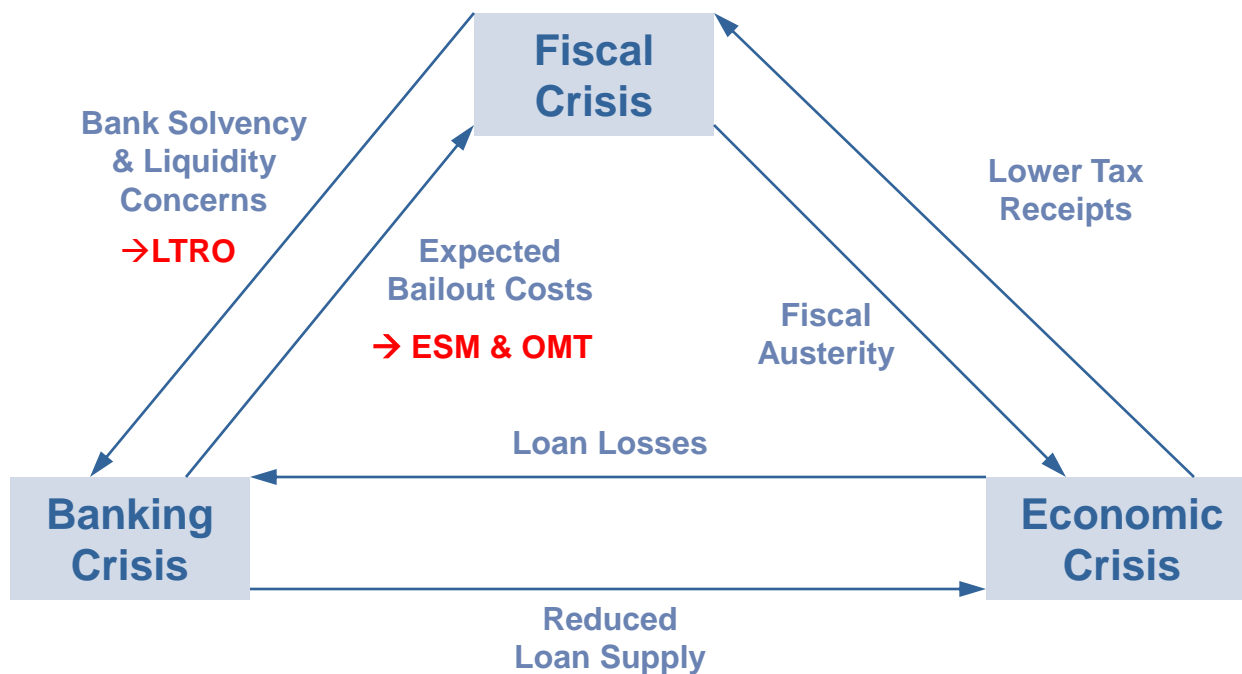
...But a Much Smaller One Relative to US GDP



Source: GS Global ECS Research.

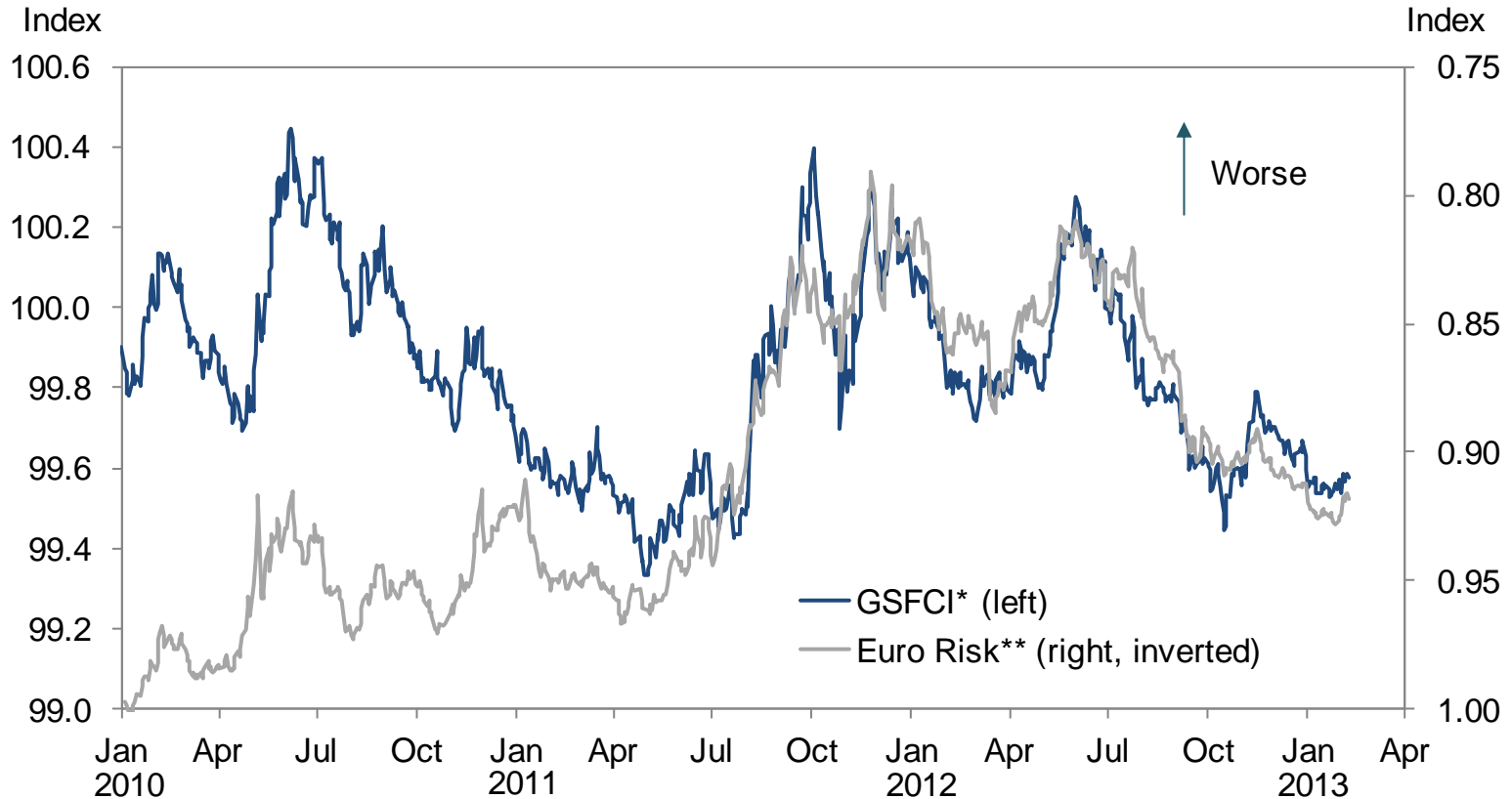
The European Crisis

ECB Addresses Part of the Vicious Cycle



The European Crisis

ECB Has Reduced Spillover Risk



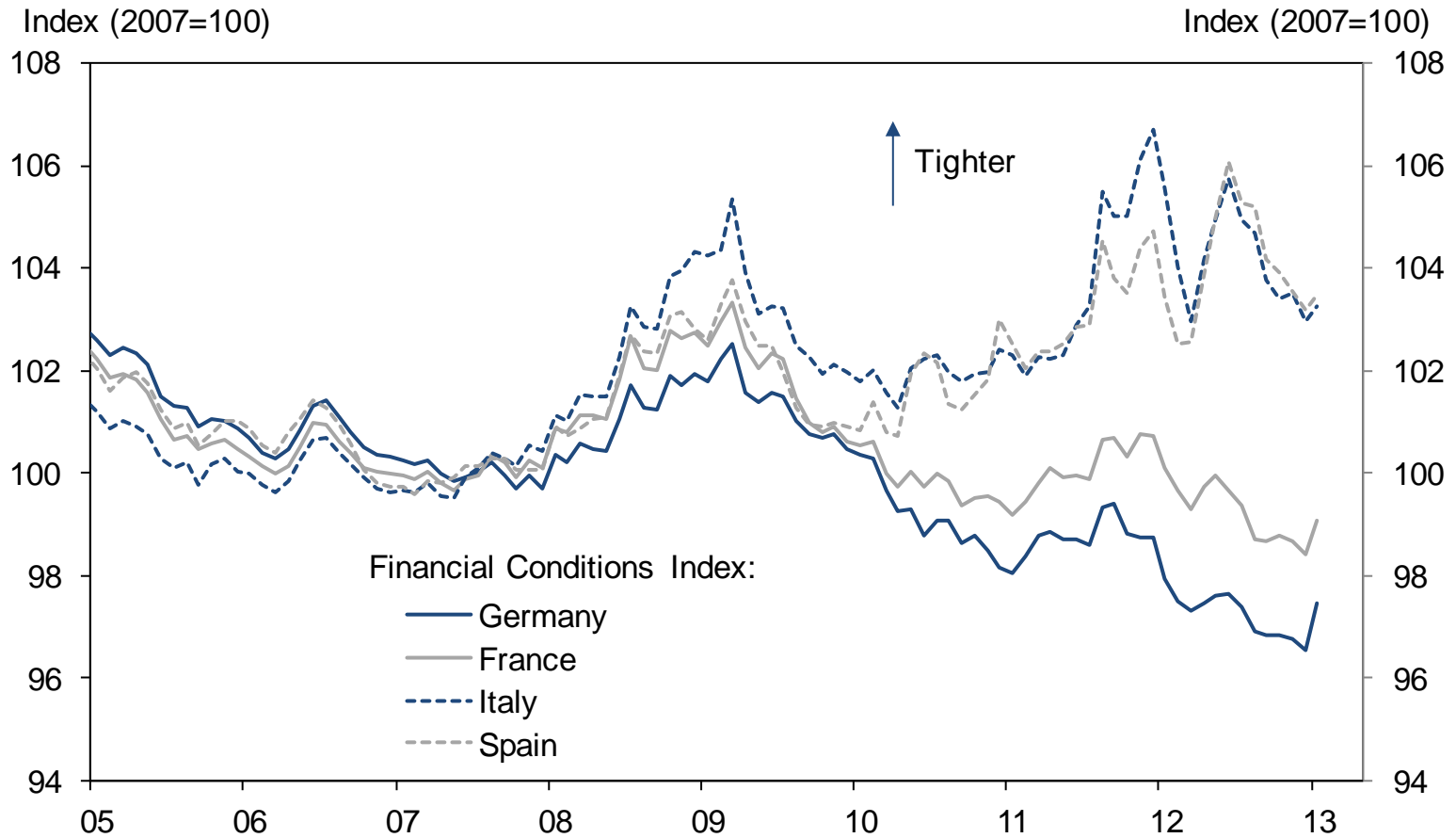
* Wt avg of riskless int rates, spreads, equities, FX and house prices, based on effects on 1-yr fwd US GDP growth.

** First principal component of European bank stocks, bank CDS, svrgn CDS, and EUR/USD cross-currency basis spread.

Source: GS Global ECS Research.

The European Crisis

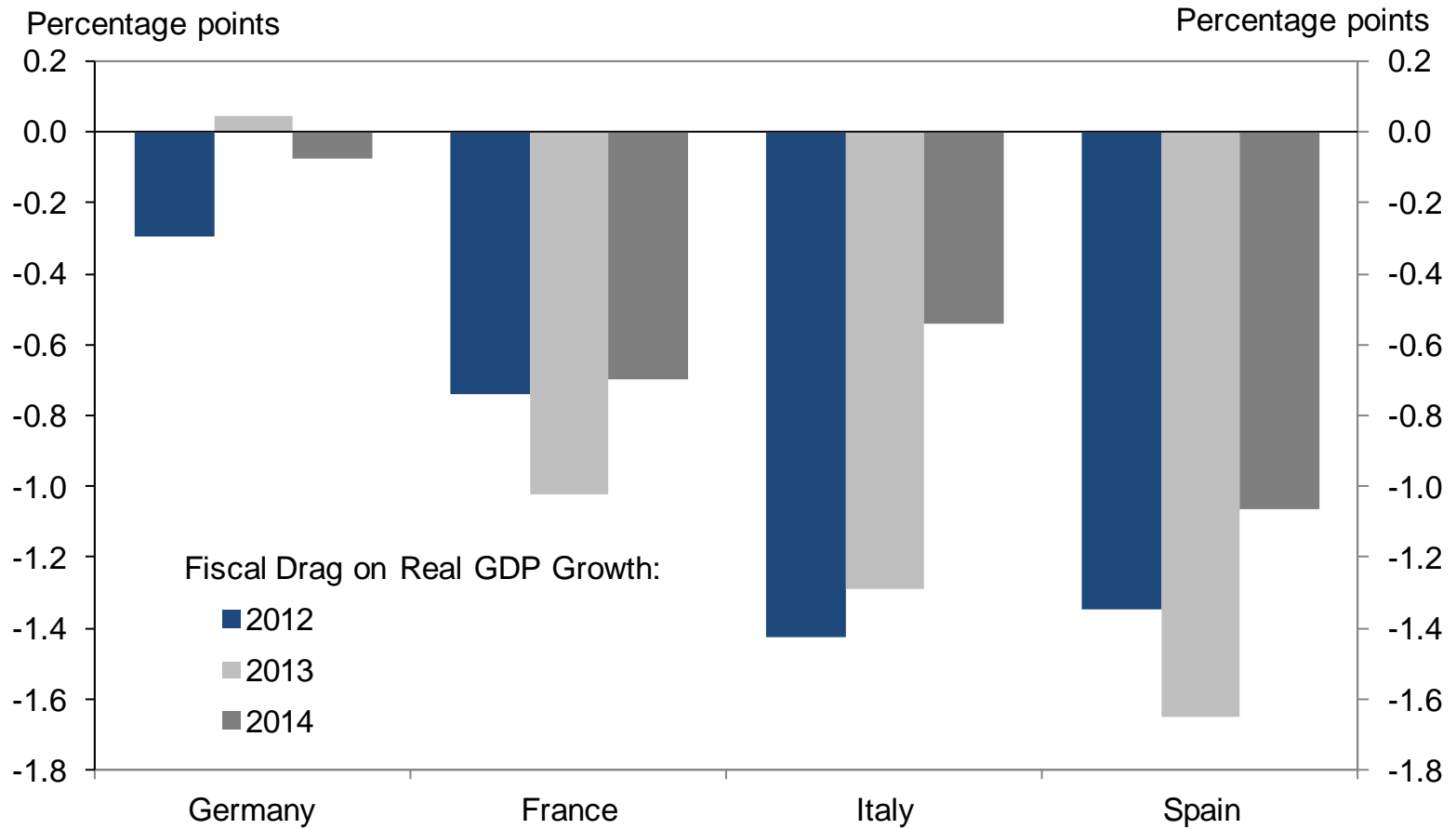
Periphery FCIs Only a Bit Easier



Source: GS Global ECS Research.

The European Crisis

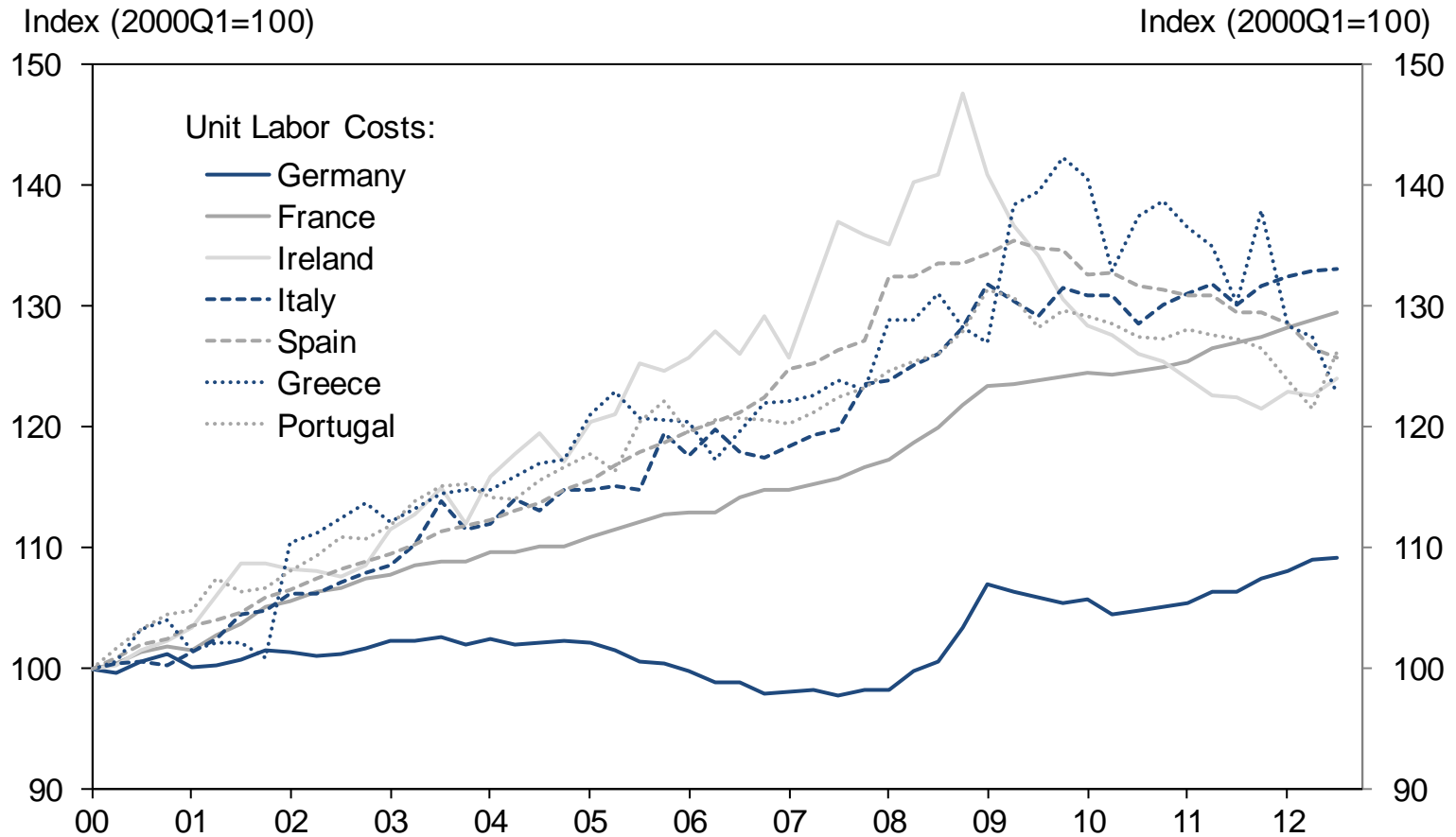
Fiscal Drag Intensifies in Spain and France



Source: GS Global ECS Research.

The European Crisis

ULCs Have Only Adjusted Partially



Source: National Statistics. Haver Analytics. GS Global ECS Research.

Key Numbers in the US Economic Outlook

	2011	2012	2013	2014	2015	2016	2012				2013			
		(f)	(f)	(f)	(f)	(f)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OUTPUT AND SPENDING														
Real GDP	1.8	2.2	1.8	2.9	3.2	3.0	2.0	1.3	3.1	-0.1	2.8	1.5	2.0	2.5
Consumer Expenditure	2.5	1.9	1.7	2.5	2.7	2.5	2.4	1.5	1.6	2.2	1.2	1.5	2.0	2.0
Residential Fixed Investment	-1.4	11.9	13.7	14.8	13.4	12.5	20.6	8.4	13.6	15.3	13.9	12.5	15.0	15.0
Business Fixed Investment	8.6	7.7	5.7	9.0	7.5	5.8	7.5	3.6	-1.8	8.4	5.0	6.5	8.6	9.3
Structures	2.8	9.6	2.5	7.0	5.9	5.0	12.8	0.6	0.0	-1.1	3.4	4.0	5.0	7.5
Equipment & Software	11.0	6.9	6.9	9.8	8.1	6.1	5.4	4.8	-2.6	12.5	5.6	7.5	10.0	10.0
Federal Government	-2.8	-2.2	-5.3	-5.9	-2.5	-1.2	-4.2	-0.2	9.5	-15.0	2.5	-12.5	-10.0	-5.0
State and Local Government	-3.4	-1.3	0.1	1.2	1.8	2.0	-2.2	-1.0	0.3	-0.7	0.1	0.0	1.0	1.0
Net Exports (\$bn, '05)	-408	-406	-393	-411	-433	-445	-416	-407	-395	-404	-393	-389	-392	-396
Inventory Investment (\$bn, '05)	31	45	42	49	57	57	57	41	60	20	38	45	43	43
Industrial Production, Mfg	4.3	4.1	0.9	2.8	3.7	3.1	9.8	0.7	-0.8	0.0	1.0	2.0	2.0	2.0
INFLATION (% ch, yr/yr)														
Consumer Price Index (CPI)	3.1	2.1	1.7	1.8	2.0	2.1	2.8	1.9	1.7	1.9	1.5	1.8	1.8	1.7
Core CPI	1.7	2.1	1.7	1.8	1.9	2.1	2.2	2.3	2.0	1.9	1.8	1.6	1.7	1.7
Core PCE*	1.4	1.7	1.3	1.5	1.6	1.8	1.9	1.8	1.6	1.5	1.2	1.2	1.3	1.5
Unit Labor Costs	1.9	0.6	1.2	1.5	1.7	2.1	0.2	0.4	0.0	1.9	0.4	1.1	2.1	1.4
LABOR MARKET														
Unemployment Rate (%)	8.9	8.1	7.7	7.3	6.7	6.3	8.2	8.2	8.0	7.8	7.8	7.8	7.7	7.6
FINANCIAL SECTOR														
Federal Funds** (%)	0.00	0.00	0.13	0.13	0.13	1.25	0.00	0.00	0.00	0.00	0.06	0.13	0.13	0.13
3-Month LIBOR (%)	0.07	0.16	0.30	0.30	0.30	1.50	0.13	0.16	0.14	0.16	0.23	0.30	0.30	0.30
Treasury Yield Curve** (%)														
2-Year Note	0.56	0.31	0.40	0.60	1.50	2.00	0.47	0.47	0.39	0.31	0.30	0.30	0.35	0.40
5-Year Note	0.26	0.26	1.20	1.75	2.50	3.00	0.34	0.29	0.26	0.26	0.58	0.90	1.00	1.20
10-Year Note	0.89	0.70	2.20	2.75	3.25	3.75	1.02	0.71	0.67	0.70	1.35	2.00	2.10	2.20
30-Year Bond	1.98	1.72	3.25	3.65	4.00	4.25	2.17	1.62	1.72	1.72	2.39	3.05	3.05	3.25
FOREIGN SECTOR														
Current Account (% of GDP)	-3.1	-3.0	-2.9	-3.2	-3.5	-3.8	-3.5	-3.0	-2.7	-2.9	-2.9	-2.9	-3.0	-3.0
Euro (\$/€)**	1.32	1.31	1.40	1.40	1.35	1.25	1.32	1.25	1.29	1.31	1.36	1.40	1.40	1.40
Yen (¥/\$)**	78	84	87	87	100	110	82	79	78	84	85	87	87	87

* PCE = Personal consumption expenditures. ** Denotes end of period. *** Profits are after taxes as reported in the national income. and product accounts (NIPA), adjusted to remove inventory profits and depreciation distortions.

NOTE: Published figures are in bold.

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