



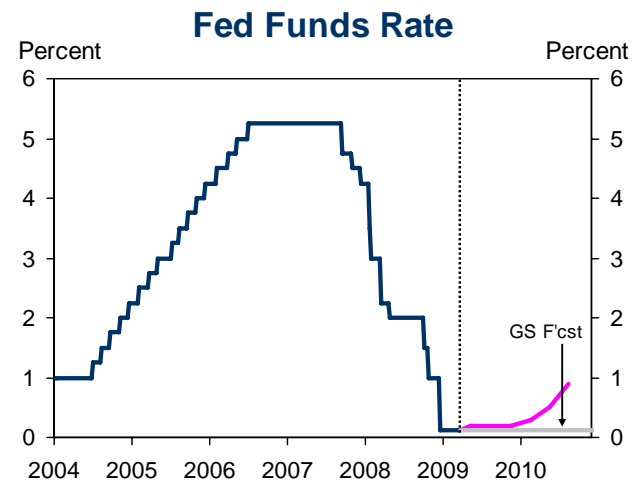
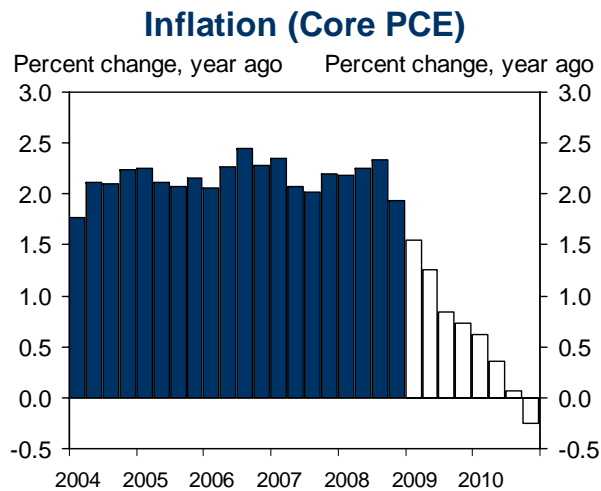
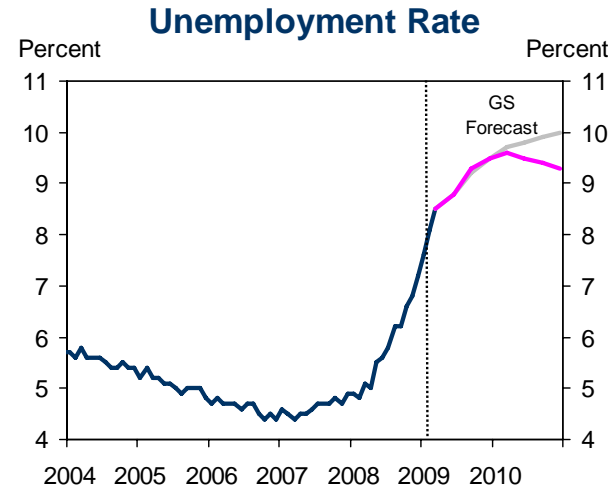
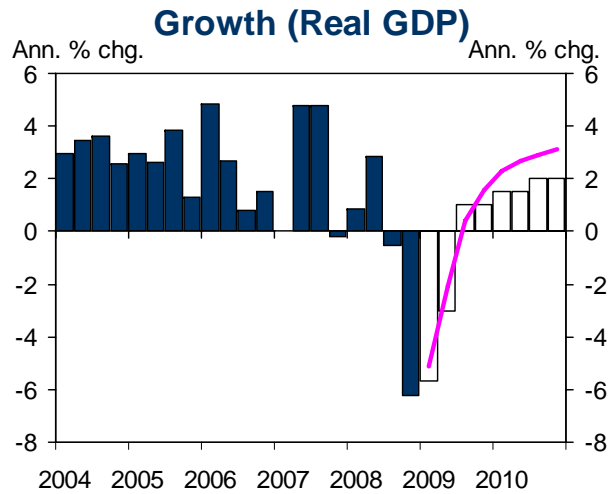
The Way ForwardSM
2009

United States Economic Overview: GDP, Employment and Housing

Jan Hatzius, Chief US Economist
Goldman, Sachs & Co.

April 23, 2009

A Deep Recession and a Sluggish Recovery

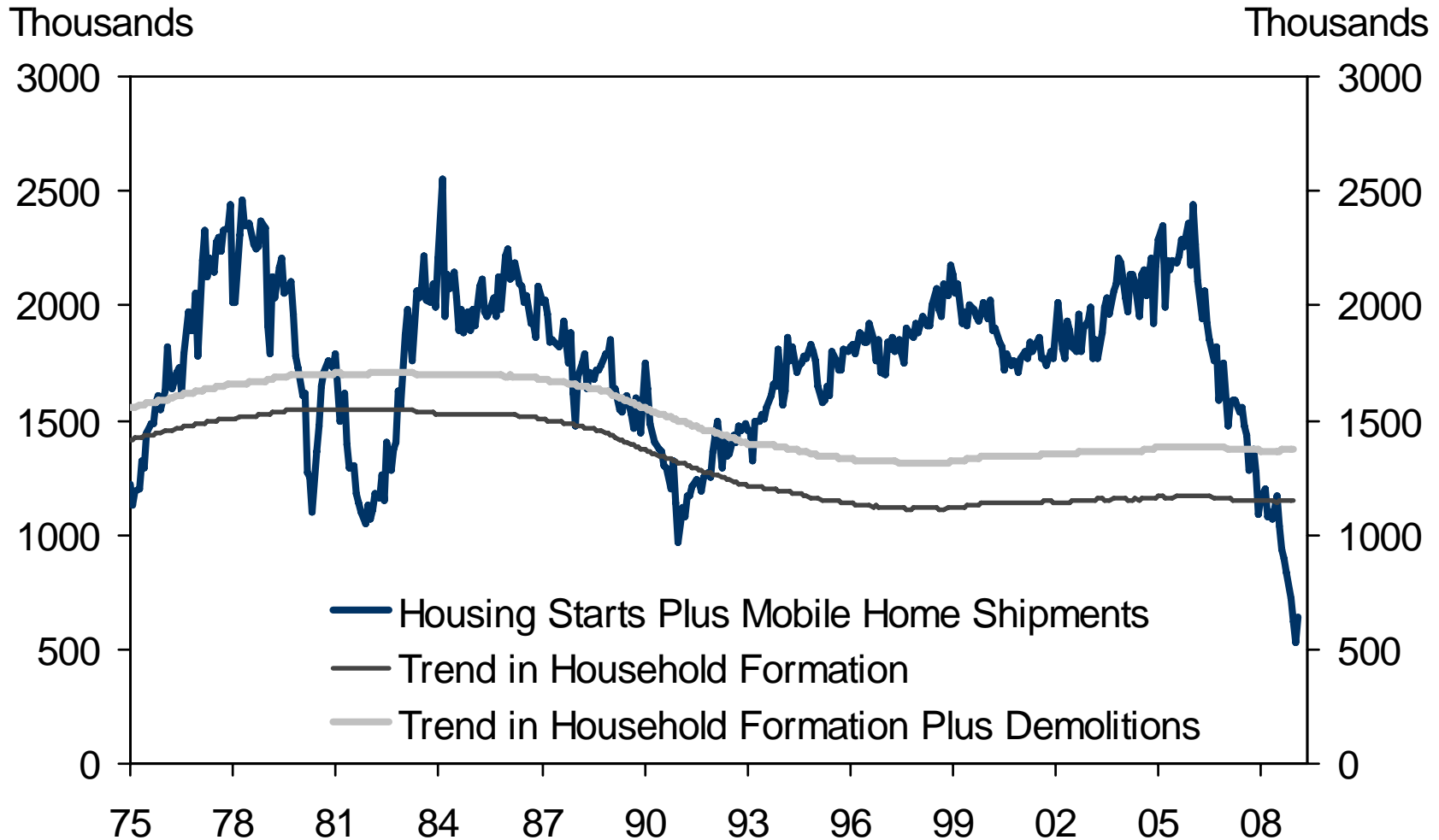


Actual Data
 GS Forecasts
 Blue Chip Consensus Forecasts (April 2009)

Main Points

1. The contraction will end in mid-2009.
2. The recovery will be sluggish.
3. A period of deflation is likely.
4. House prices likely to fall another 15%.
5. Banks need more capital.
6. We can afford the deficits, for now.

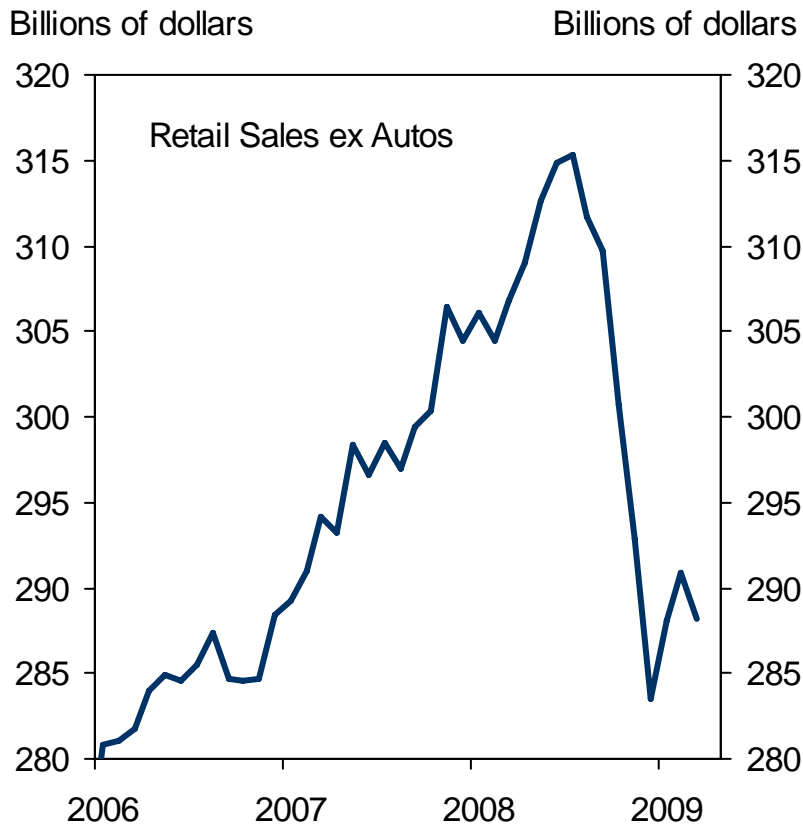
1. The Contraction Will End in Mid-09 (I): Signs of Stabilization in Homebuilding



Source: Department of Commerce. Our calculations.

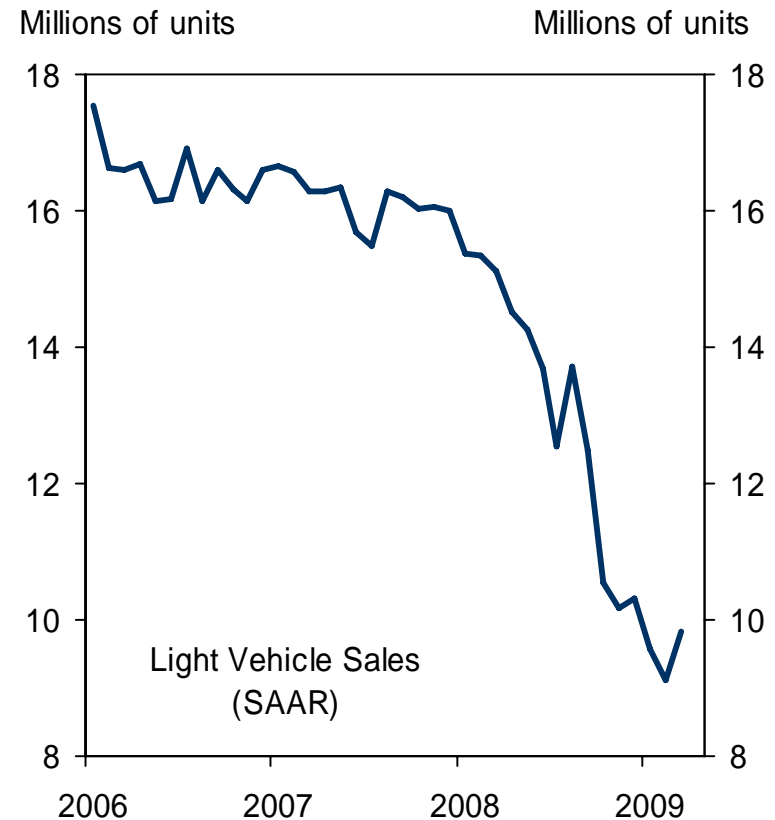
1. The Contraction Will End in Mid-09 (II): The Spending Freefall Has Ended...

Retail sales have stabilized so far in 2009...



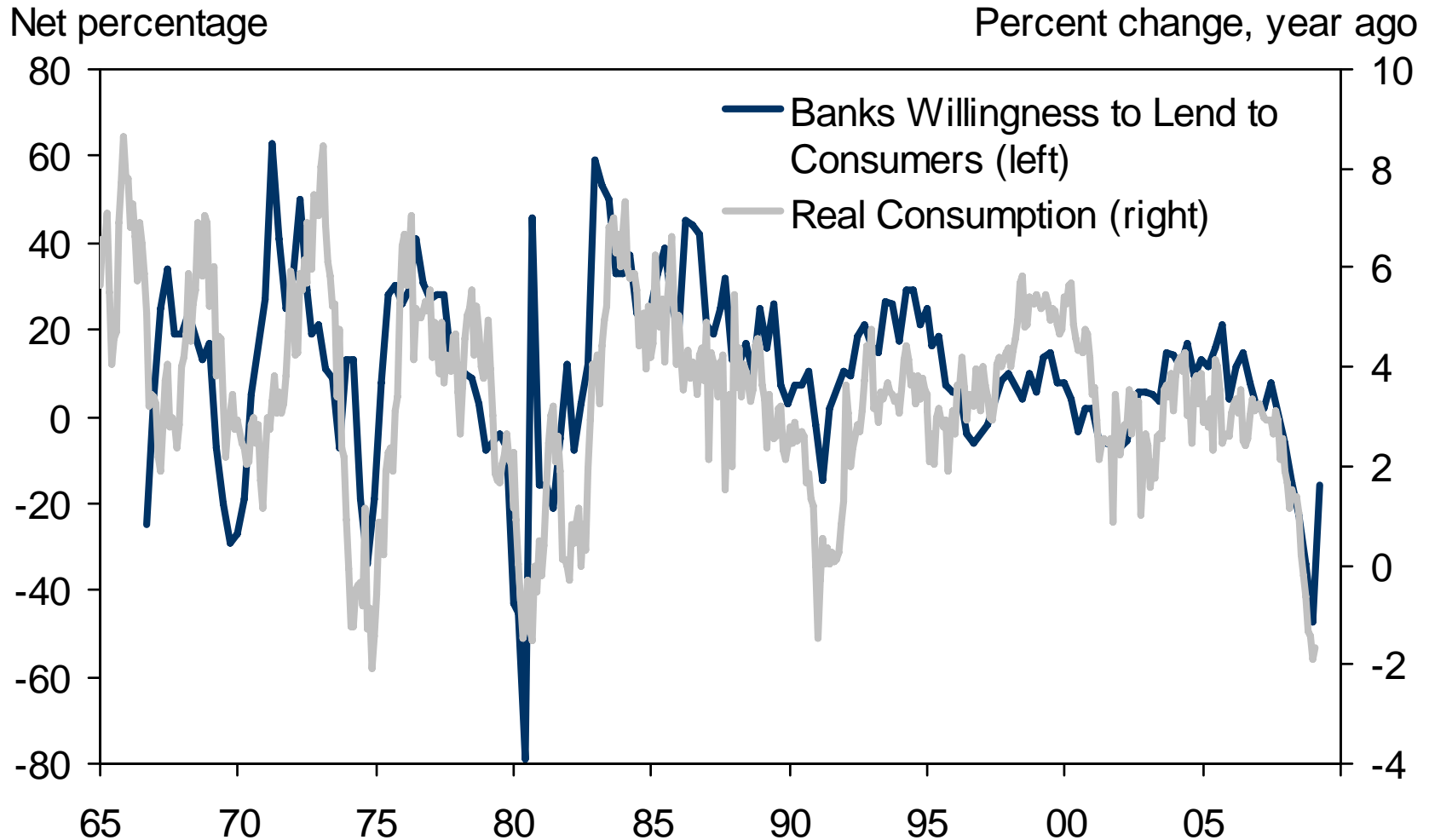
Source: Department of Commerce.

...and even auto sales turned up in March



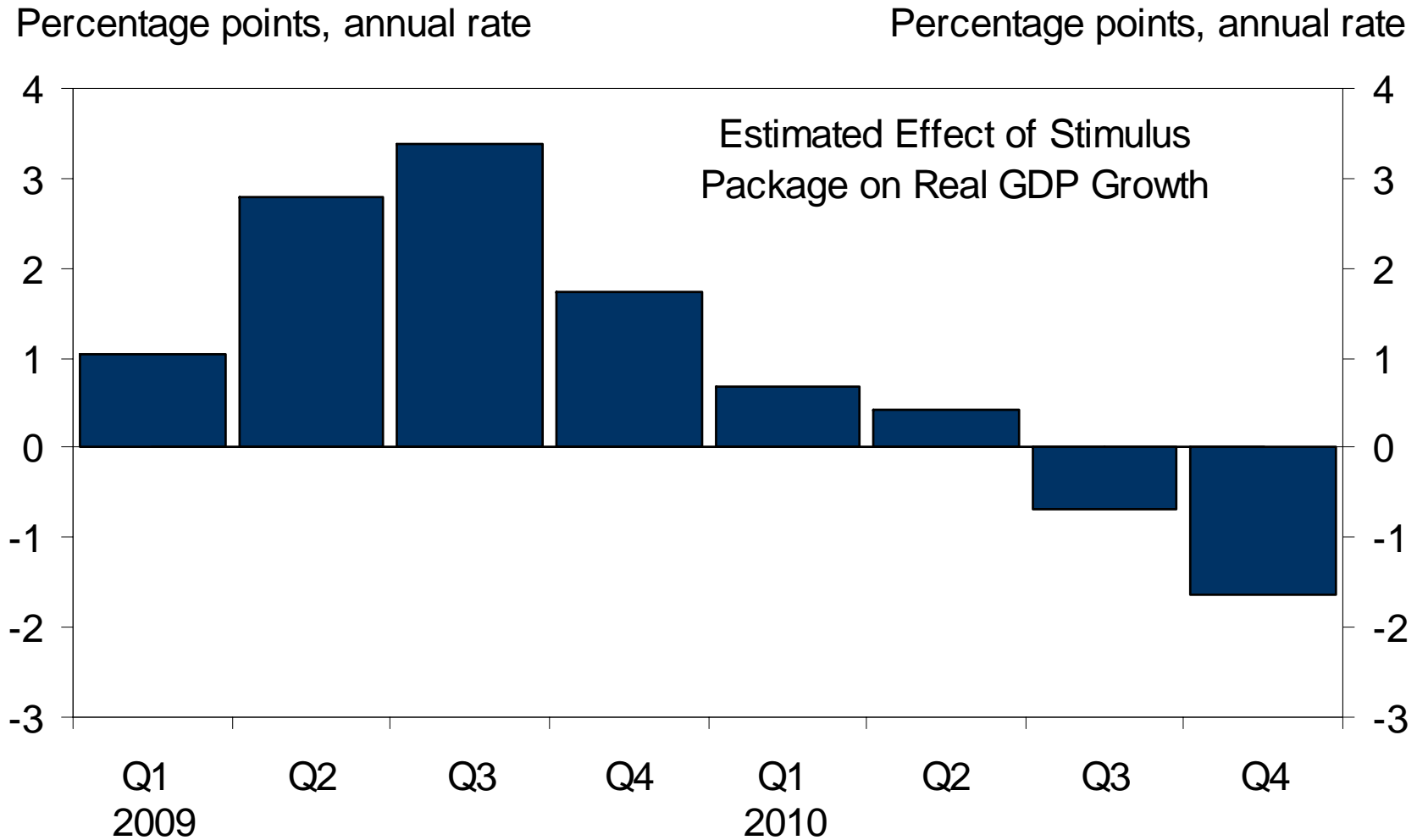
Source: Autodata Corporation.

1. The Contraction Will End in Mid-09 (III): ...As Credit Is Stabilizing...



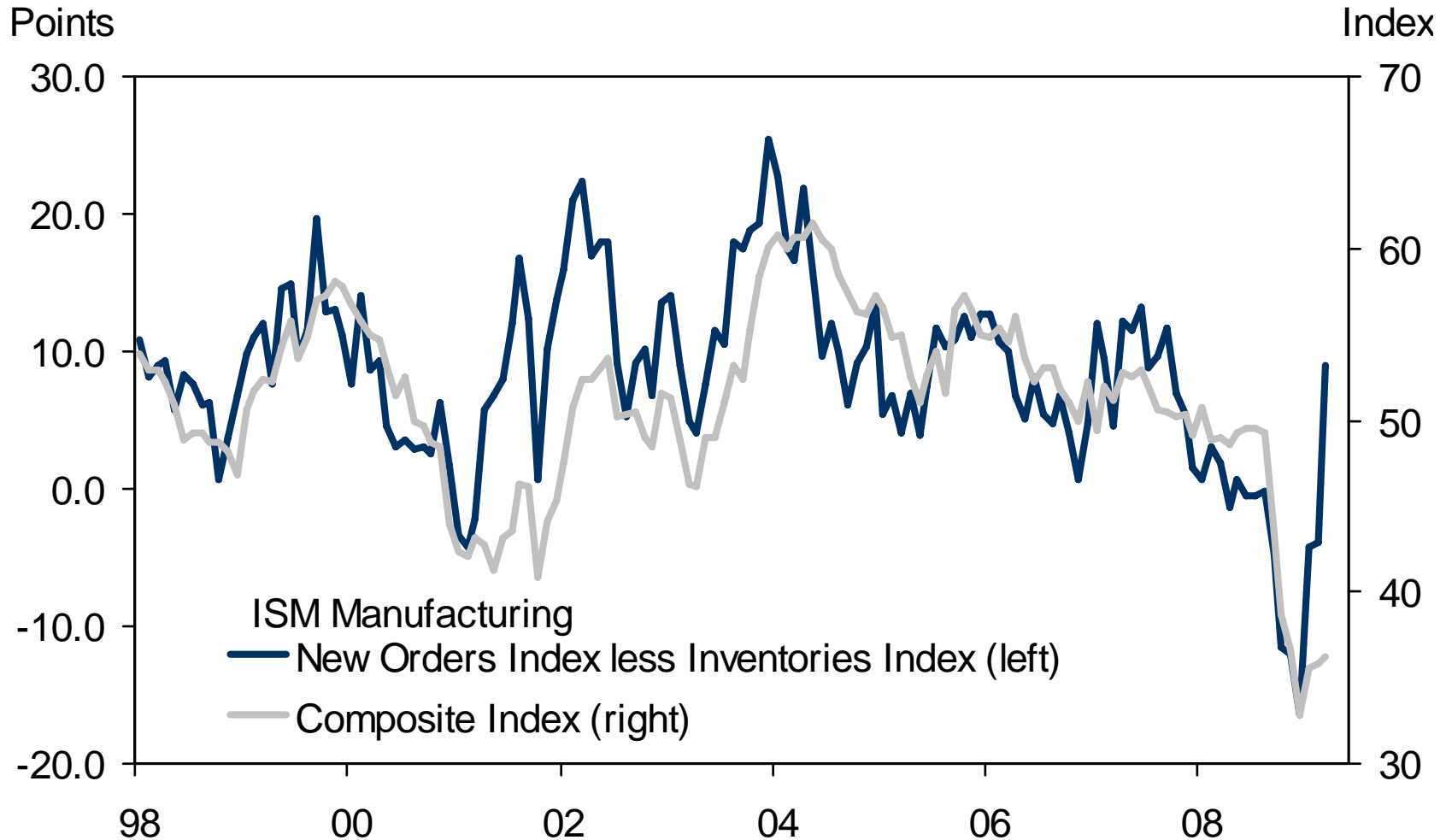
Source: Federal Reserve Board. Department of Commerce.

1. The Contraction Will End in Mid-09 (IV): ...And Fiscal Stimulus Starts to Help



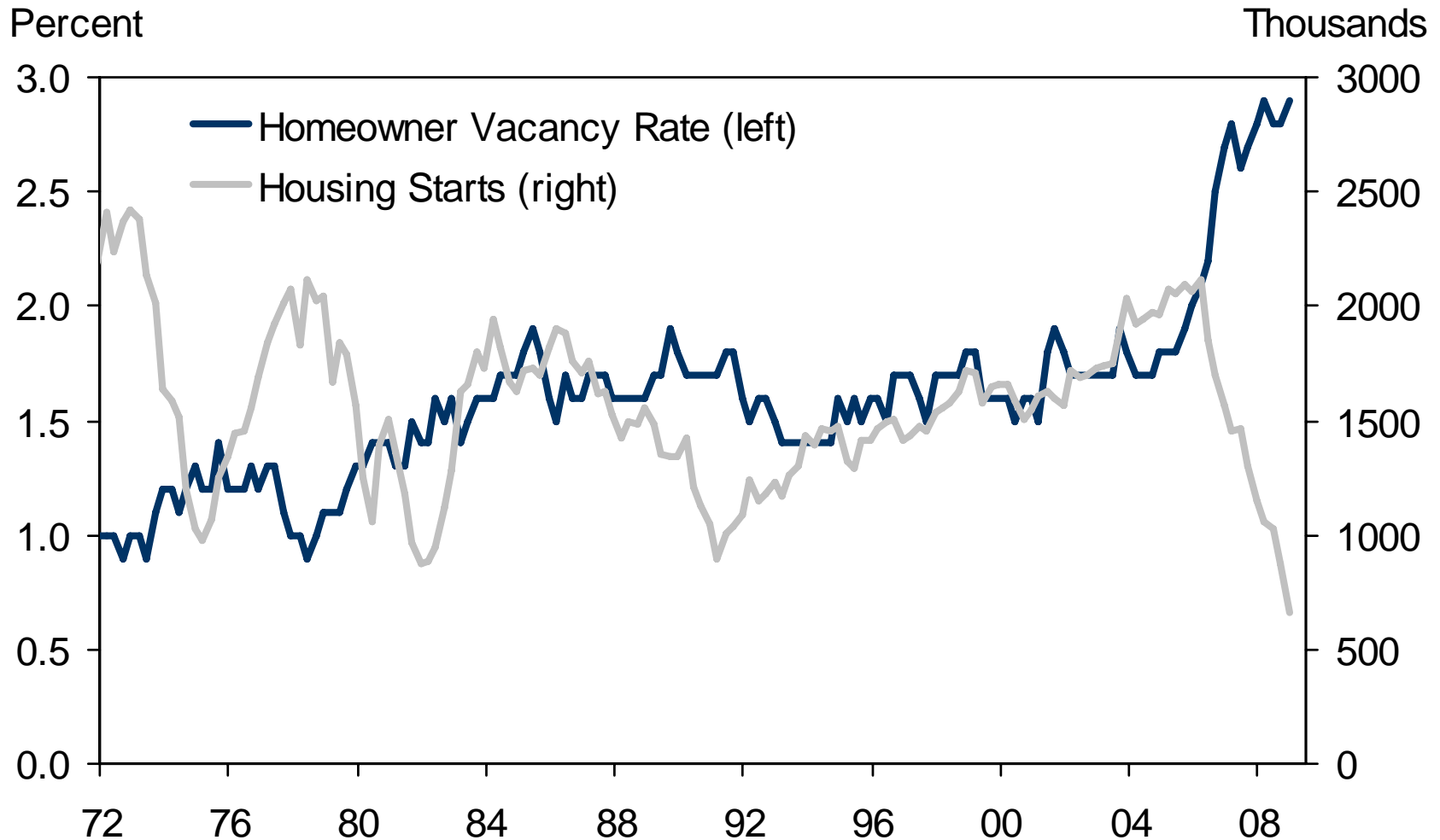
Source: Our estimates.

1. The Contraction Will End in Mid-09 (V): Inventory Cycle Boosts Factory Sector



Source: Institute for Supply Management.

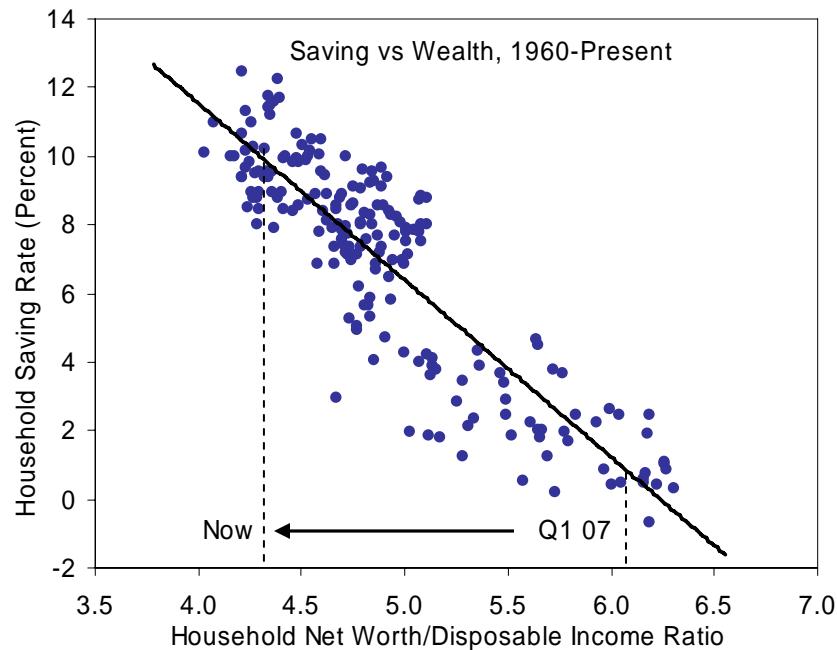
2. The Recovery Will Be Sluggish (I): Excess Supply Keeps Housing “Recovery” L-Shaped



Source: Department of Commerce.

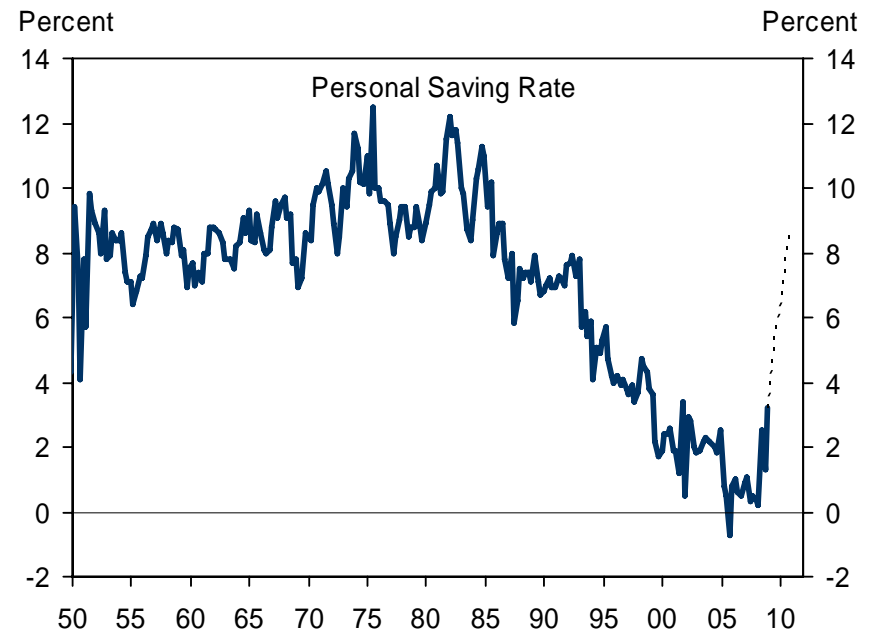
2. The Recovery Will Be Sluggish (II): Wealth Loss Pushes Up Saving

A Huge Drop in Household Net Worth....



Source: Federal Reserve. Department of Commerce. Our

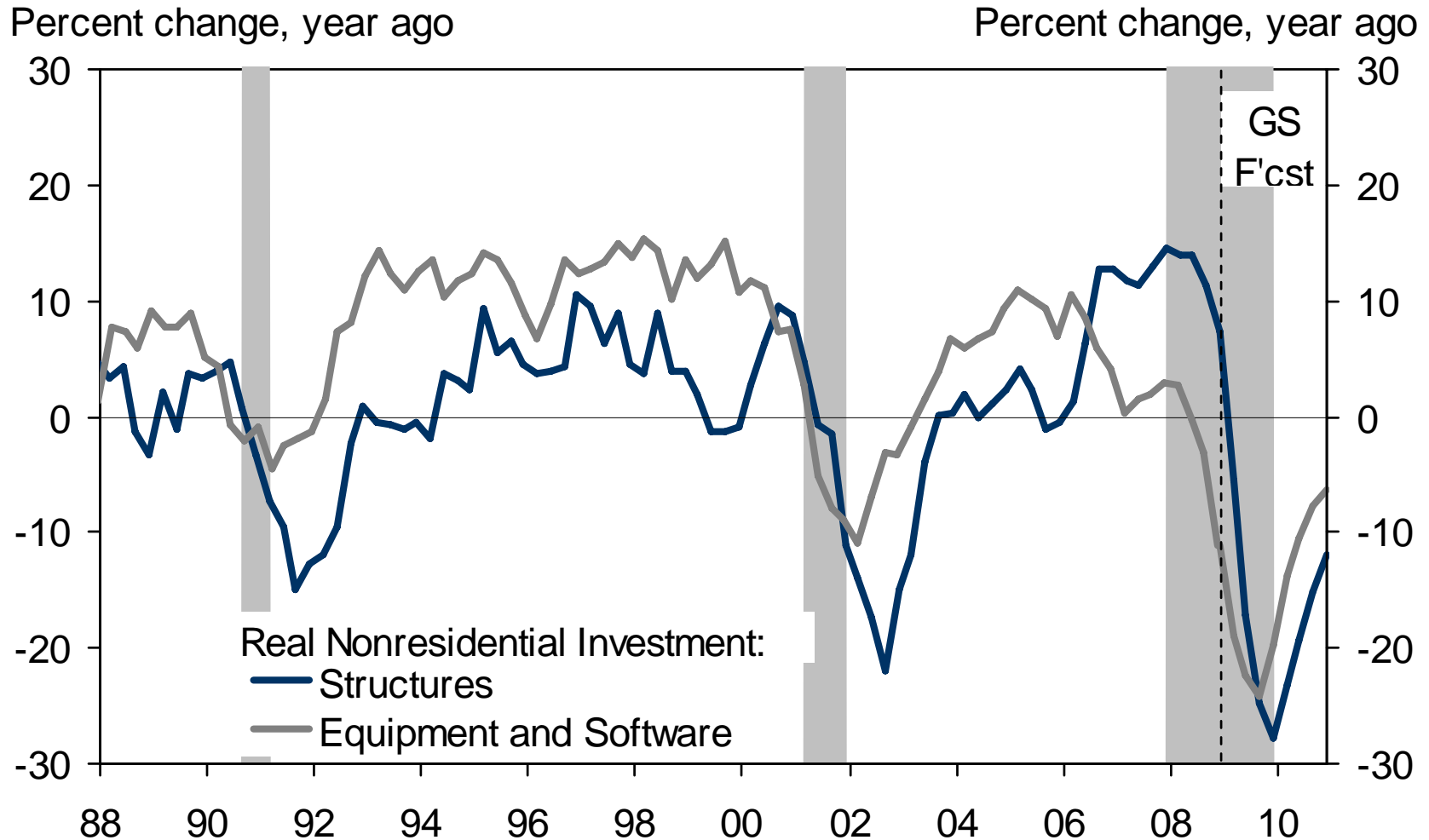
...Will Push Households to Spend Less



Note: Dotted line denotes GS forecast.

Source: Department of Commerce. Goldman Sachs.

2. The Recovery Will Be Sluggish (III): Lagging Sectors Have Further to Fall



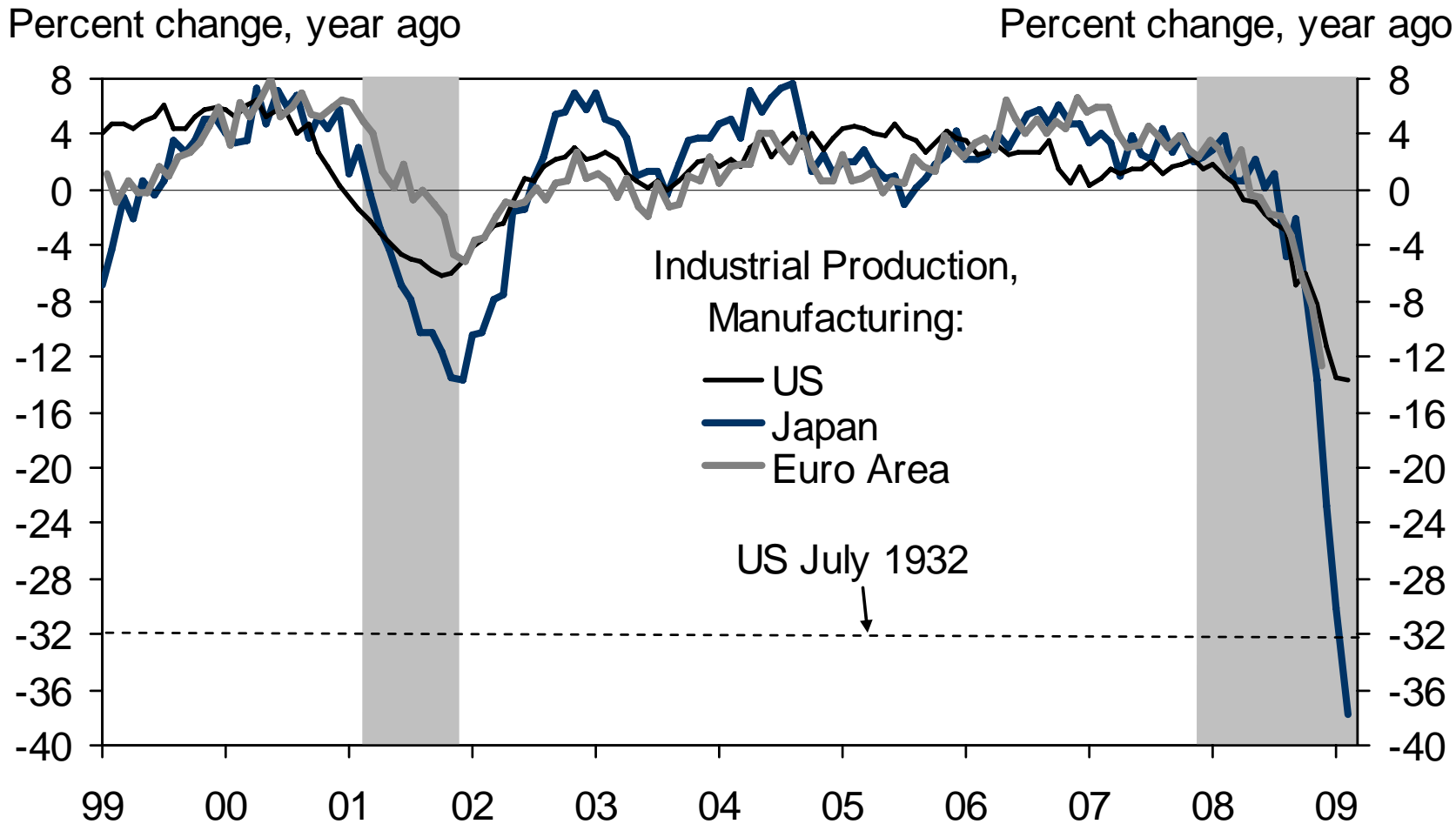
Source: Department of Commerce.

2. The Recovery Will Be Sluggish (IV): The Trade Boost of 2006-2008 Has Ended...



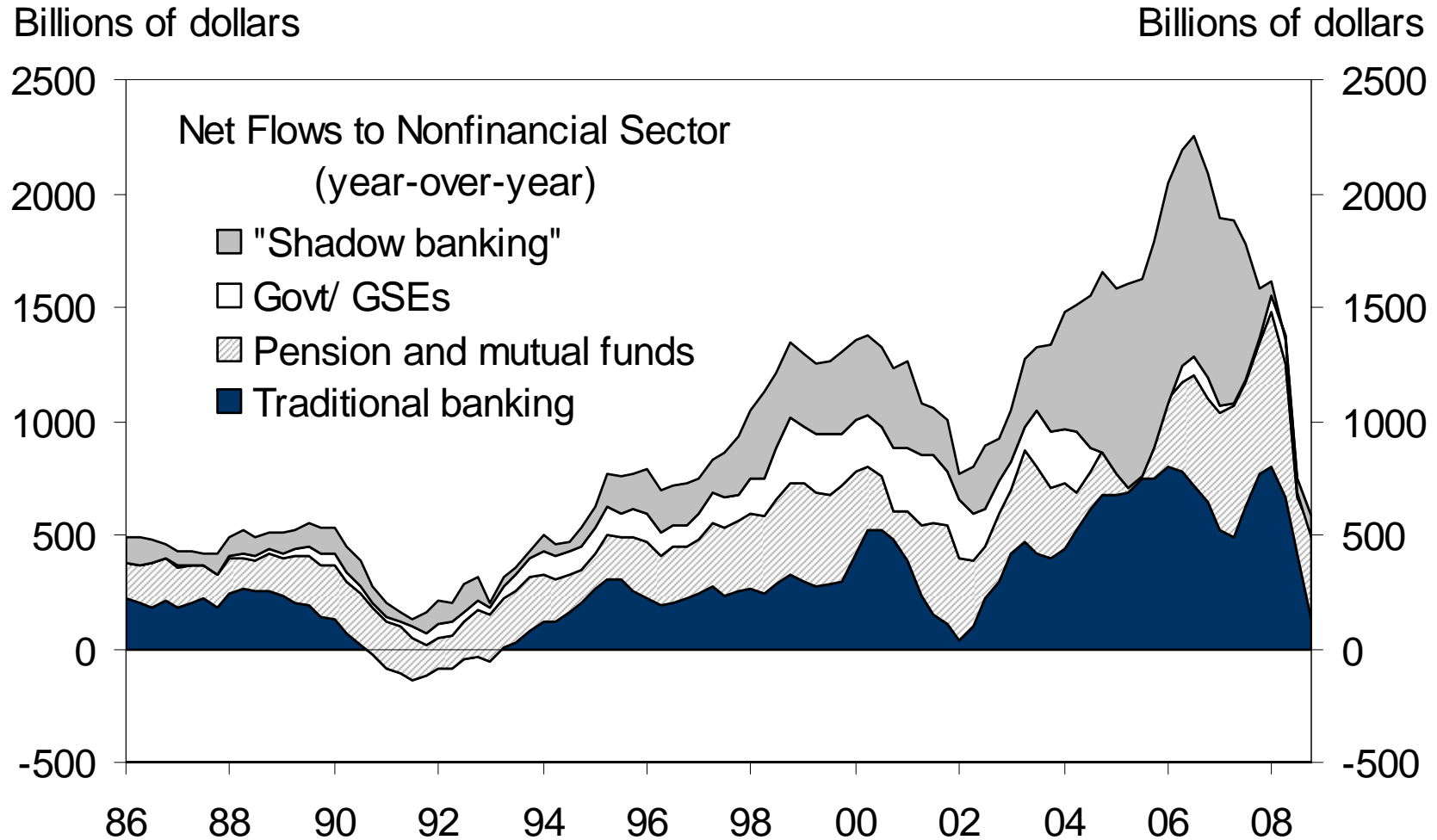
Source: Department of Commerce.

2. The Recovery Will Be Sluggish (V): ...As Europe/Asia Are at Least as Weak as US



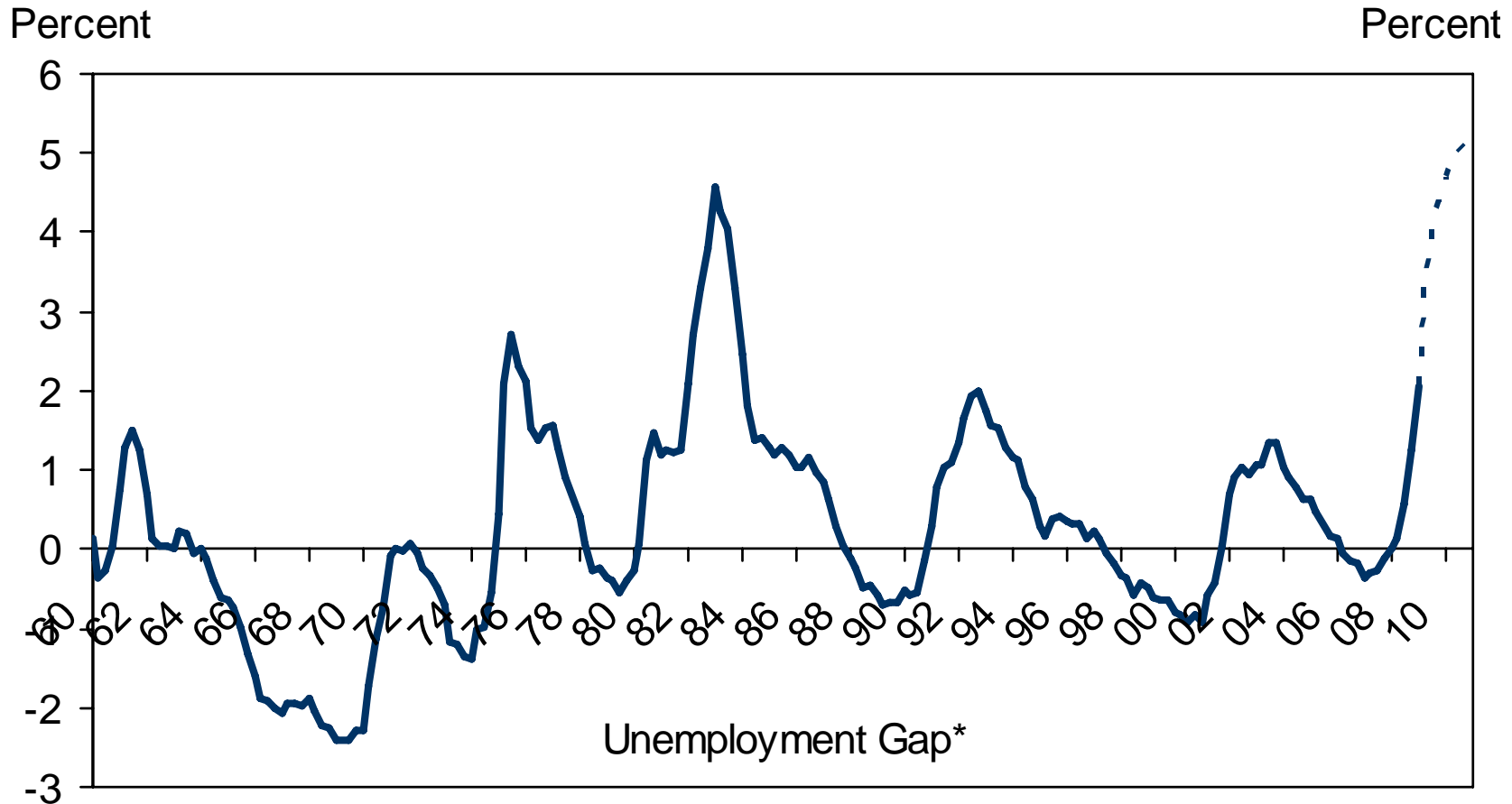
Source: Federal Reserve Board. Statistical Office of the European Communities. Ministry of Economy, Trade & Industry.

2. The Recovery Will Be Sluggish (VI): Lending Capacity Is Constrained



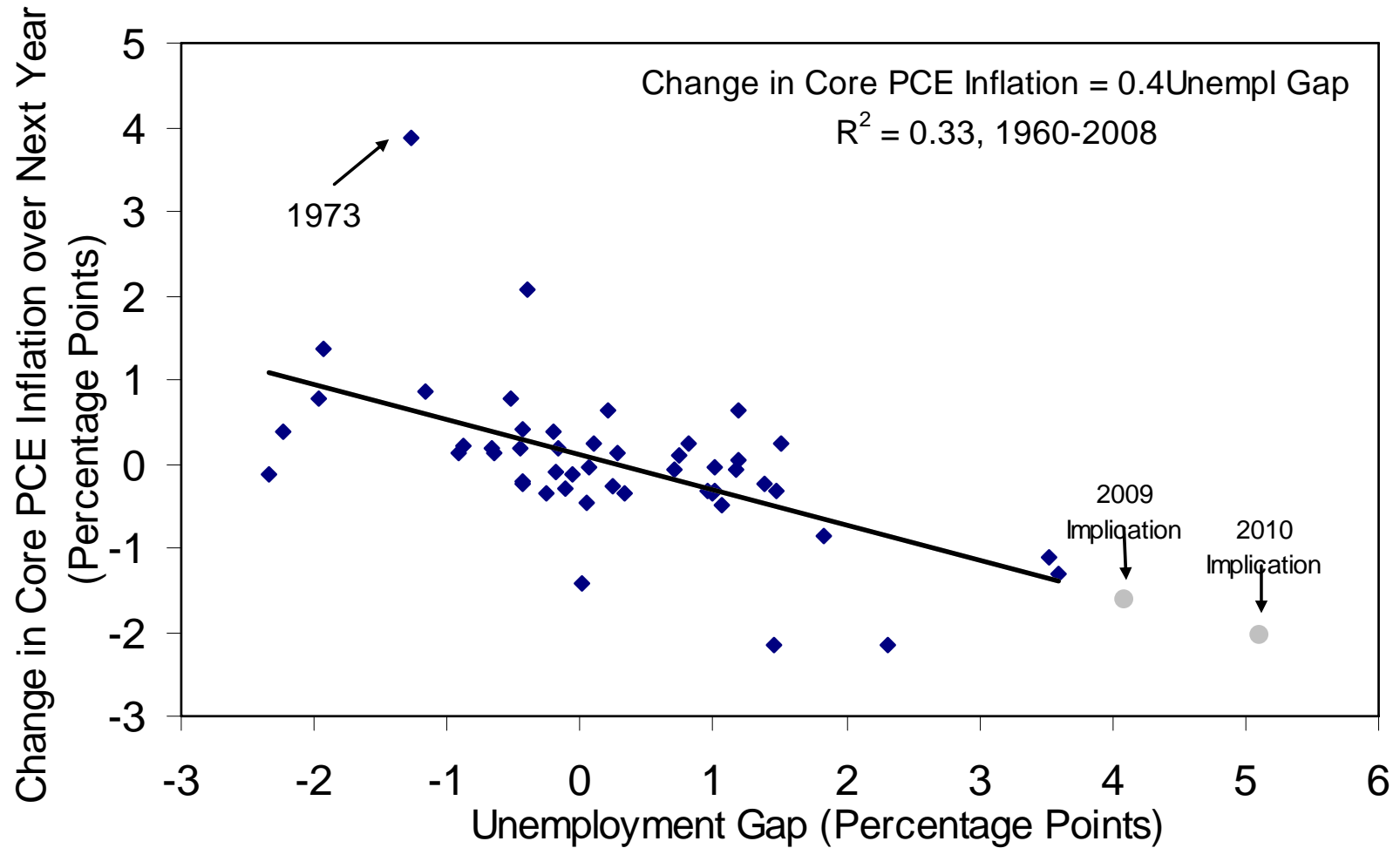
Source: Federal Reserve Board. Our calculations.

3. A Period of Deflation Is Likely (I): The Biggest Unemployment Gap Since 1960



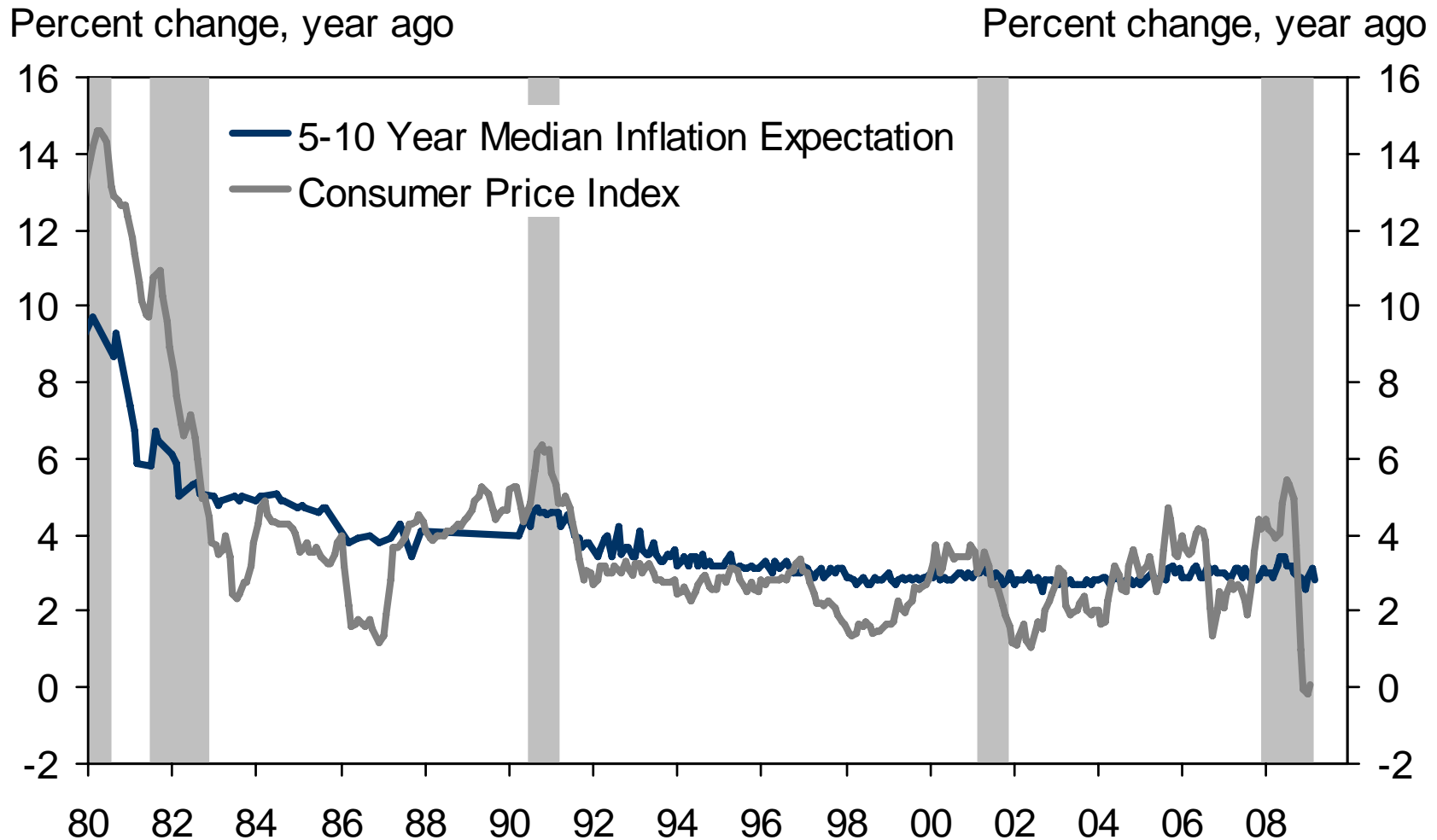
* Unemployment rate minus CBO's estimate of sustainable rate. Dotted lines are our estimates.
Source: Congressional Budget Office. Goldman Sachs.

3. A Period of Deflation Is Likely (II): Historical Link Suggests Big Core Inflation Drop



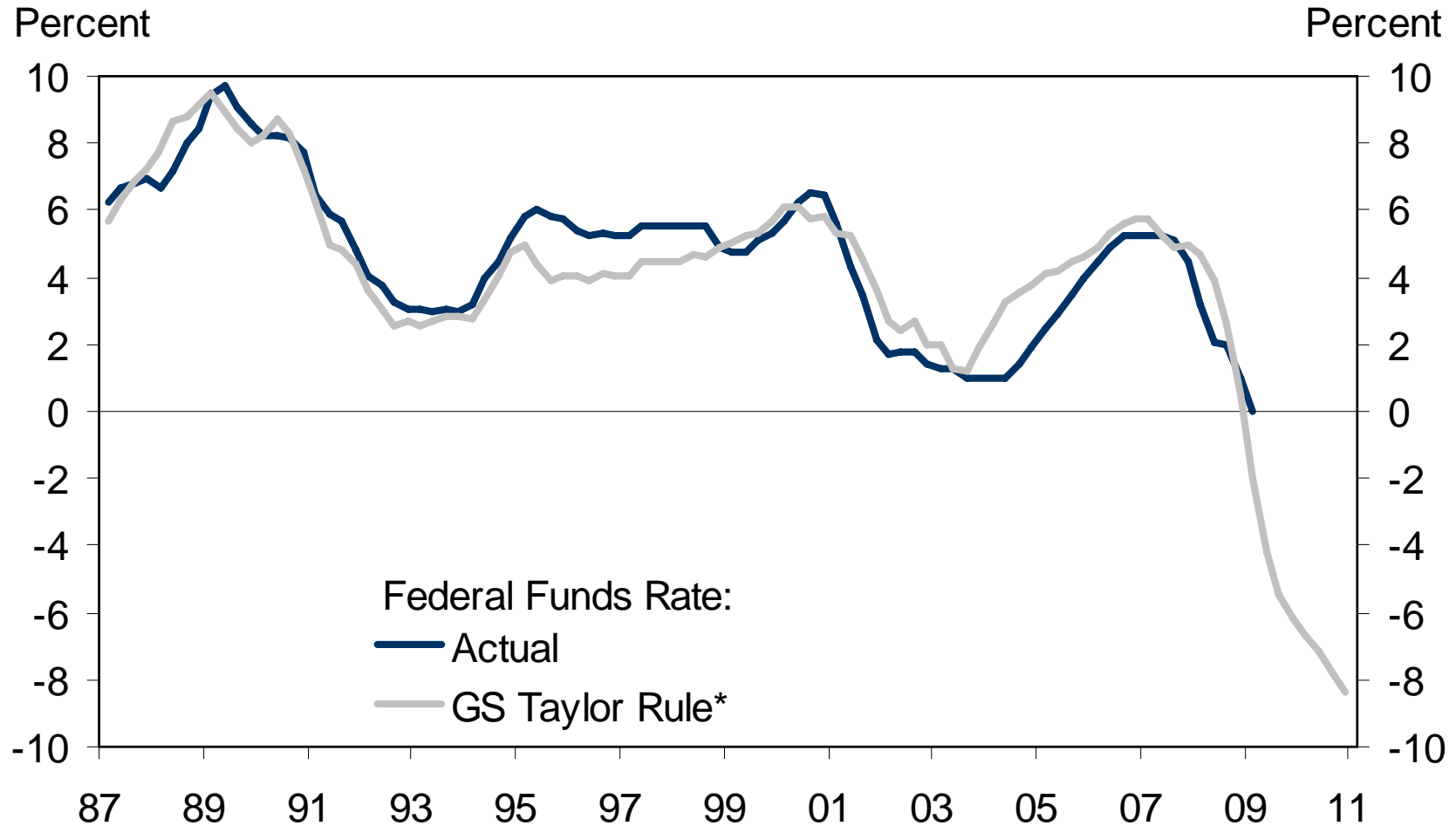
Source: Congressional Budget Office. Dept. of Commerce. Dept. of Labor. Our calculations.

3. A Period of Deflation Is Likely (III): Stable Expectations May Temper Decline



Source: University of Michigan. Department of Labor.

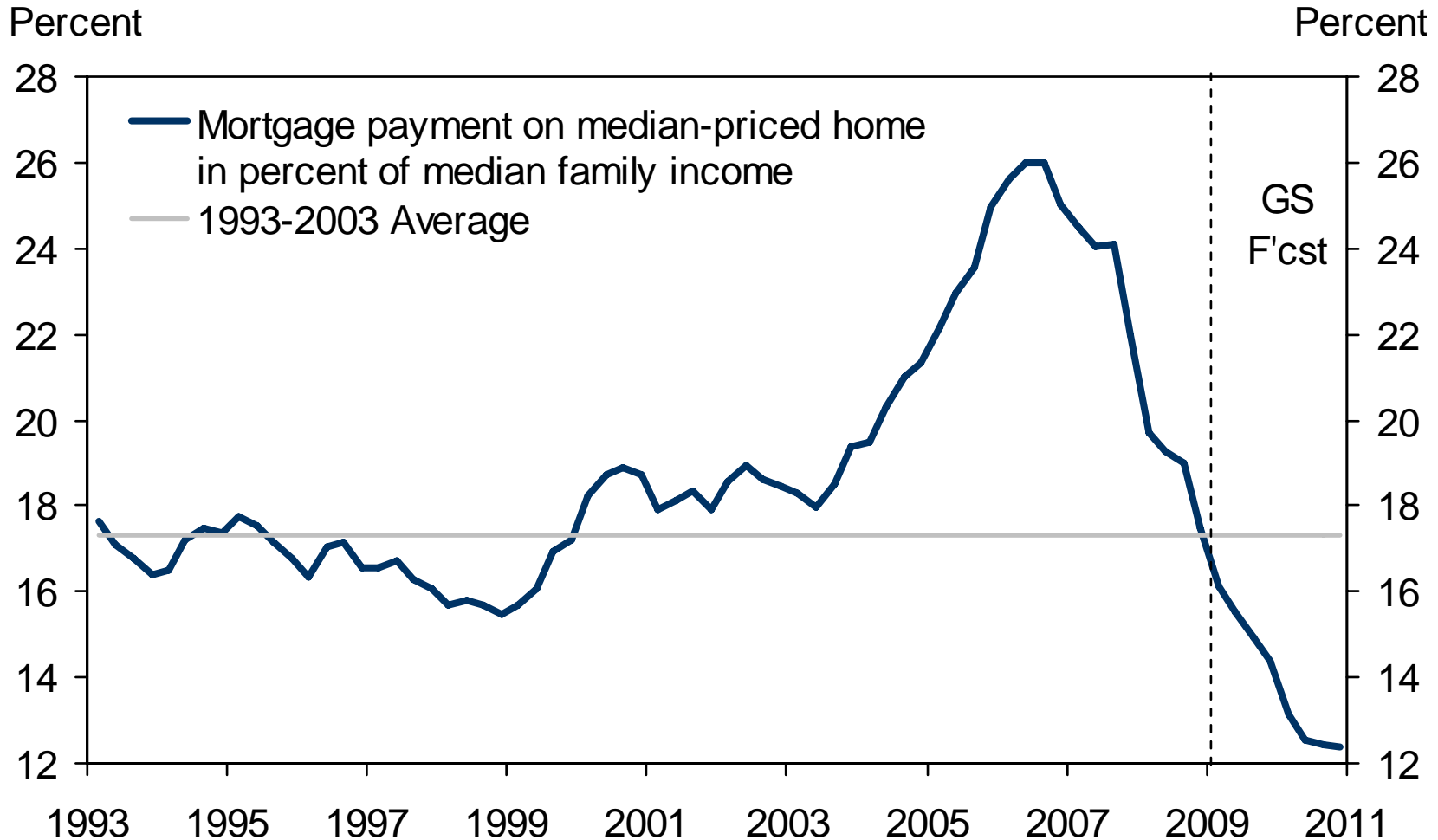
3. A Period of Deflation Is Likely (IV): Monetary Policy Constrained by Zero Bound



* GS forecasts beyond 2008Q4.

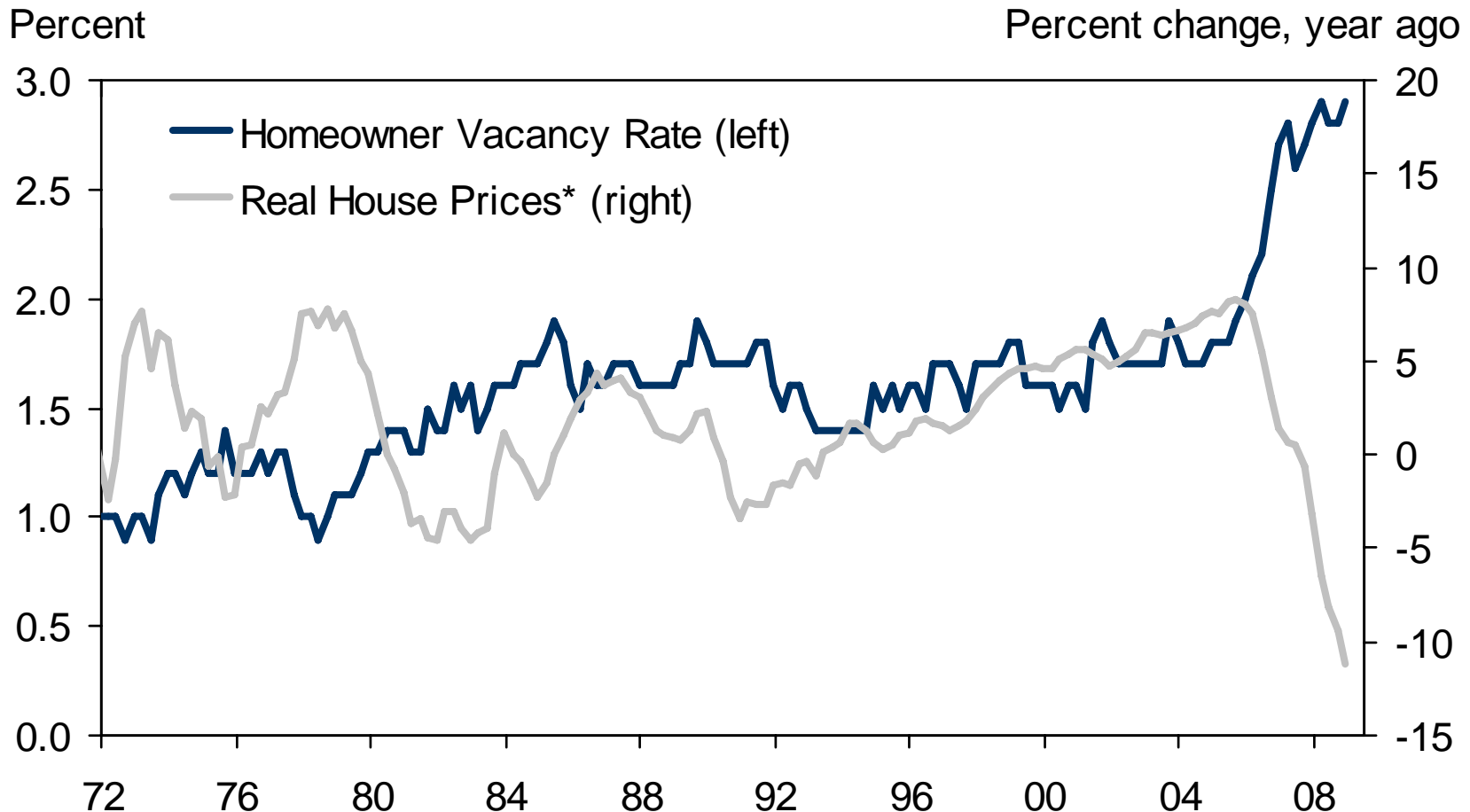
Source: Federal Reserve Board. Our calculations.

4. House Prices Likely to Fall Another 15% (I): Although Housing Valuations Have Normalized...



Source: Our calculations.

4. House Prices Likely to Fall Another 15% (II): ...Excess Supply Will Further Weigh on Prices



*FHLMC Conventional Mortgage Purchase-Only Home Price Index.

Source: Department of Commerce. Federal Home Loan Mortgage Corporation. Our calculations.

5. Banks Need More Capital (I): We Expect ~\$1.1 Trillion in Mortgage Losses...

		Balance	Losses for Different House Price Scenarios		
			Optimistic	Baseline	Pessimistic
(Billions of Dollars)					
Private Label Securities	Jumbo Prime	508	13	24	55
	Alt A	591	57	83	144
	Subprime (incl 2nds)	670	183	234	325
	Option Arm	252	55	78	118
	HELOC	5	2	2	3
	Sub-total	2,025	310	422	644
Whole Loans	Prime	1,251	36	65	148
	Alt A	670	59	87	152
	Subprime	208	33	43	60
	Option Arm	257	47	67	103
	Closed End 2nds	225	40	61	107
	HELOC	763	62	78	105
	Sub-total	3,375	278	402	675
Fannie/Freddie	Prime	3,545	39	71	164
	Alt A (incl IO & subp)	899	49	72	124
	Option Arm	35	2.2	3.1	4.9
	Sub-total	4,480	90	146	293
Ginnie/FHA/VA		515	22	33	61
Other (incl. Finance Companies, REITs)	1st liens	776	57	85	150
	2nd liens	84	9	12	18
	Sub-total	860	66	97	168
Total		11,254	765	1,100	1,842

Note: Baseline scenario: peak-to-trough house price decline of 20% for FHFA and 40% for C-S.

Sources: Goldman Sachs. Federal Reserve Board. Corporate disclosures. HMDA.

5. Banks Need More Capital (II): ...Which Implies a ~\$600bn Bank Capital Hole

Cumulative Credit Losses in Billions of Dollars

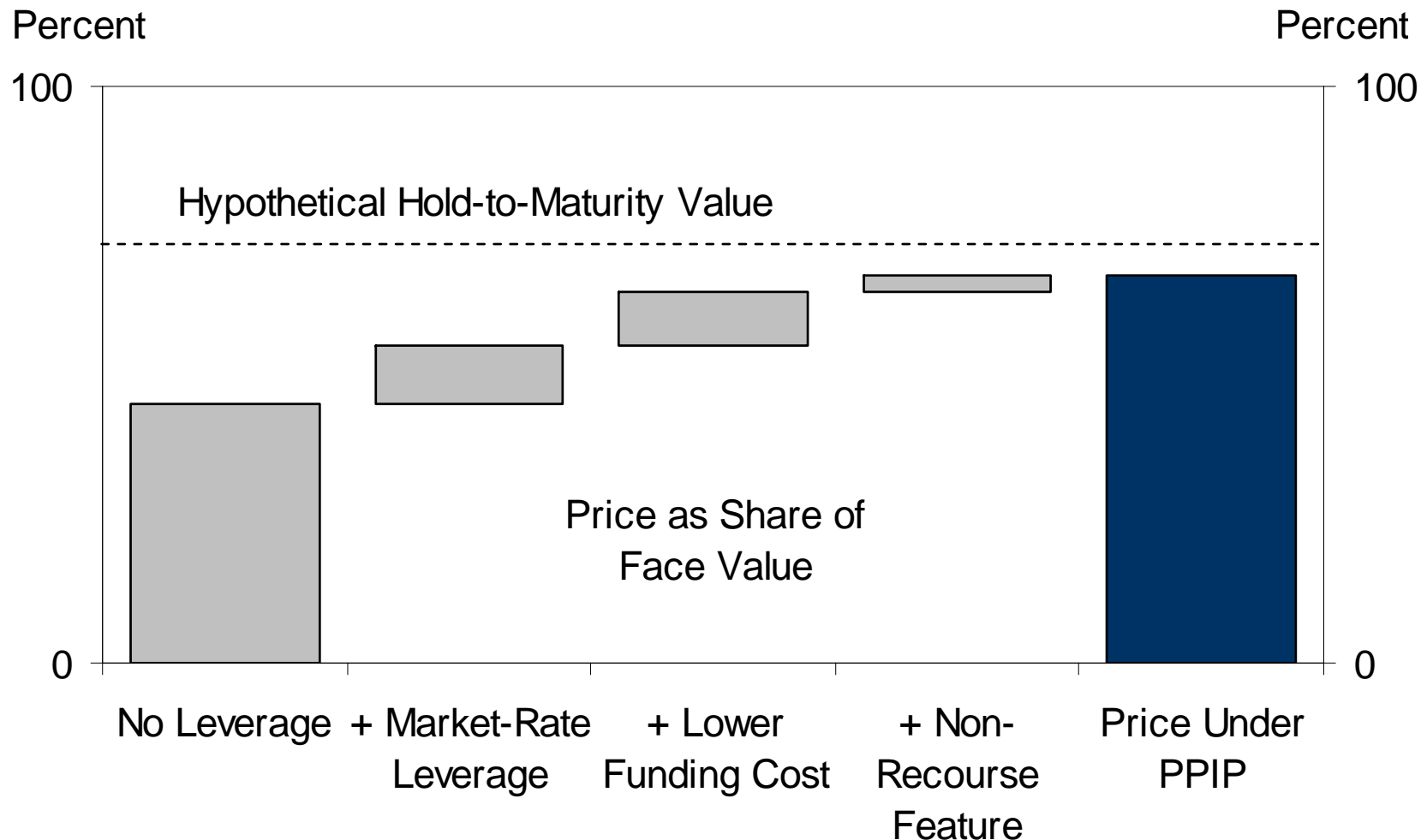
	Expected*	Recognized**	Expected Less Recognized	US banks share
Residential Mortgages	1100			
CRE/CMBS	300			
Credit Cards	280			
Auto loans	180			
C&I loans	540			
Total	2400	1145	1255	628

* The figures outside res. mortgages refer to our US banks equity analysts' "stress" case.

** Writedowns, loan loss provisions, and equity in failed institutions.

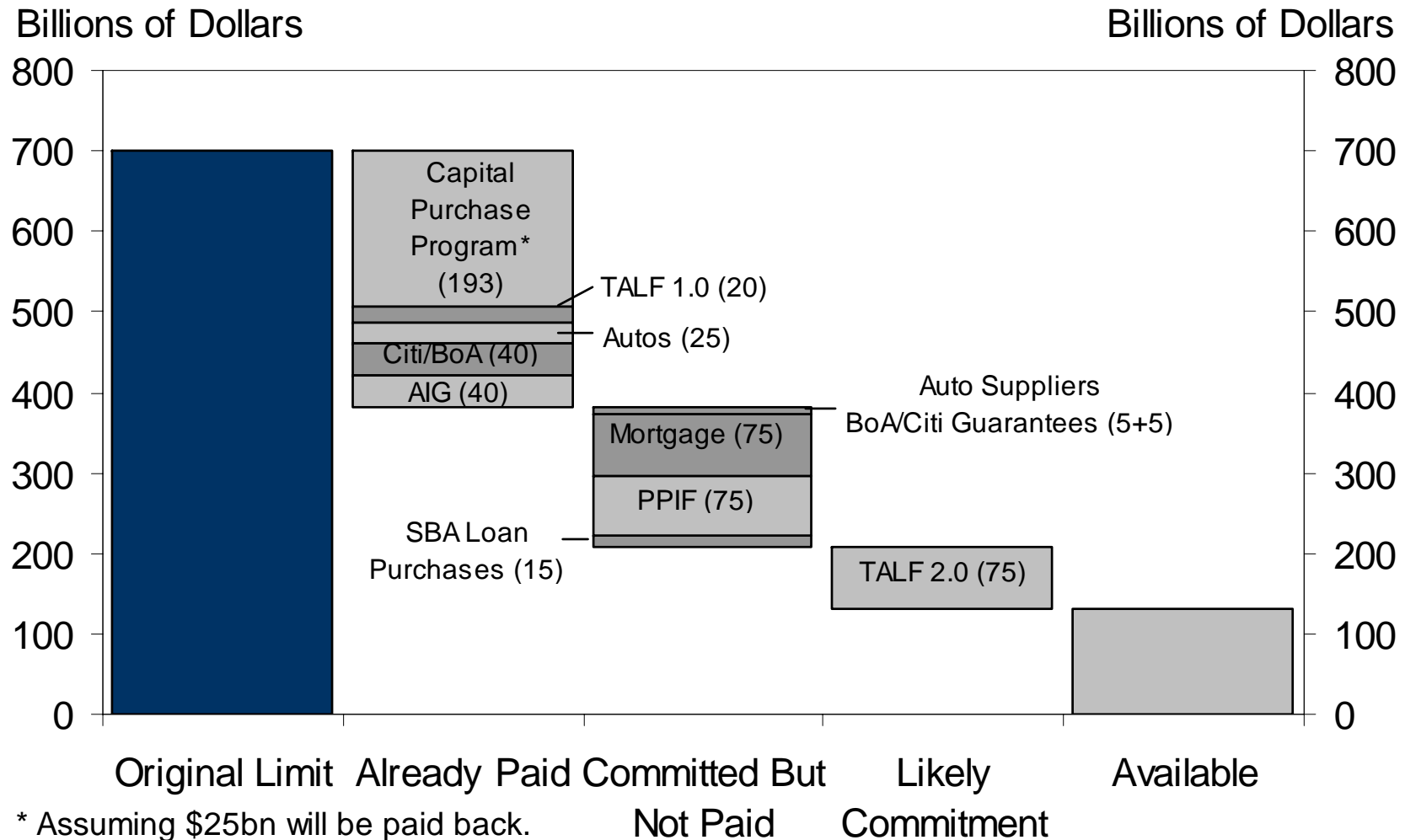
Source: Goldman Sachs Economics and Equity Research.

5. Banks Need More Capital (III): The PPIP Should Help Price Discovery



Source: Our calculations.

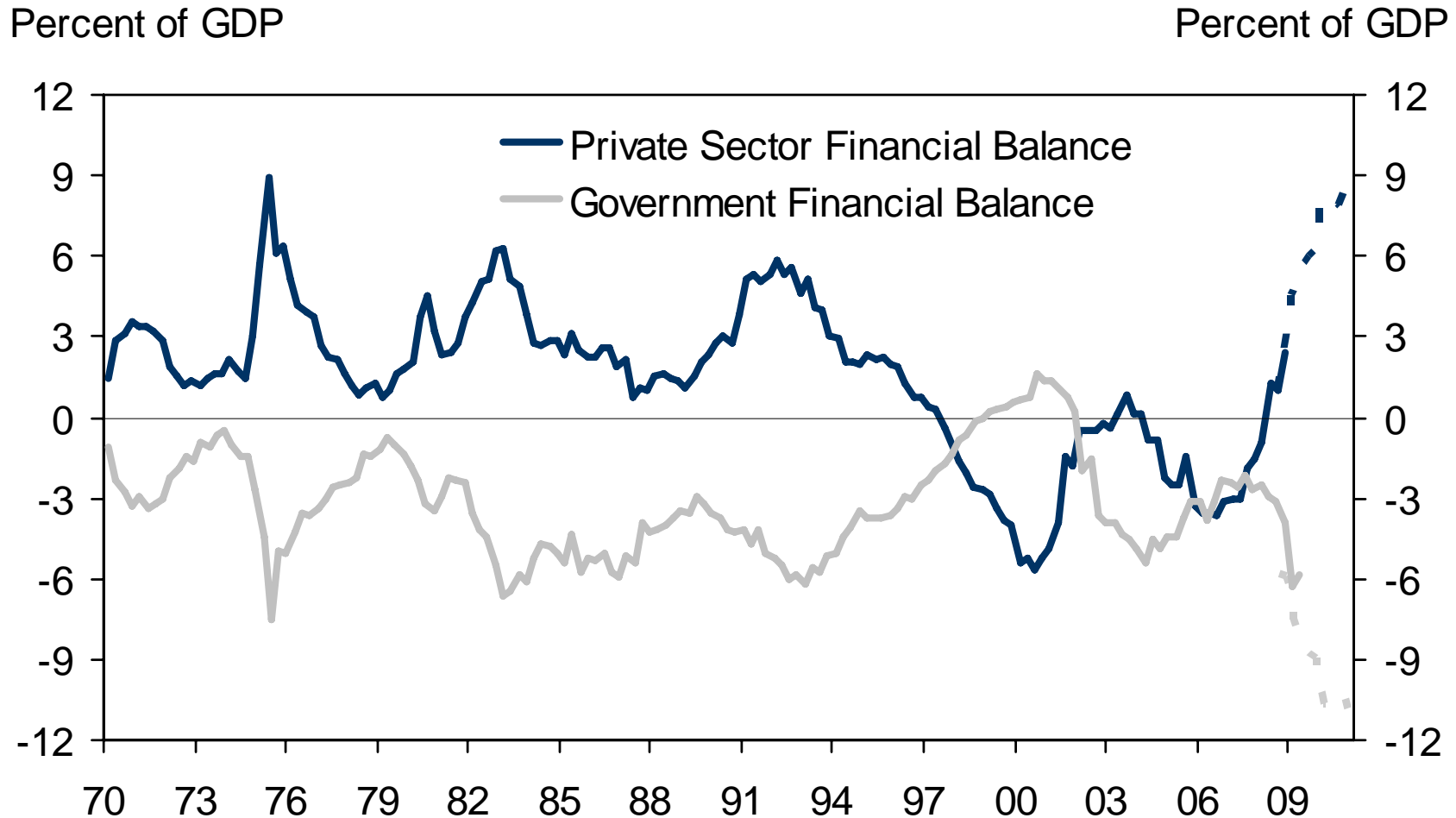
5. Banks Need More Capital (IV): Only ~\$135 Billion Is Left in the TARP



* Assuming \$25bn will be paid back.

Source: Treasury Department. Our calculations.

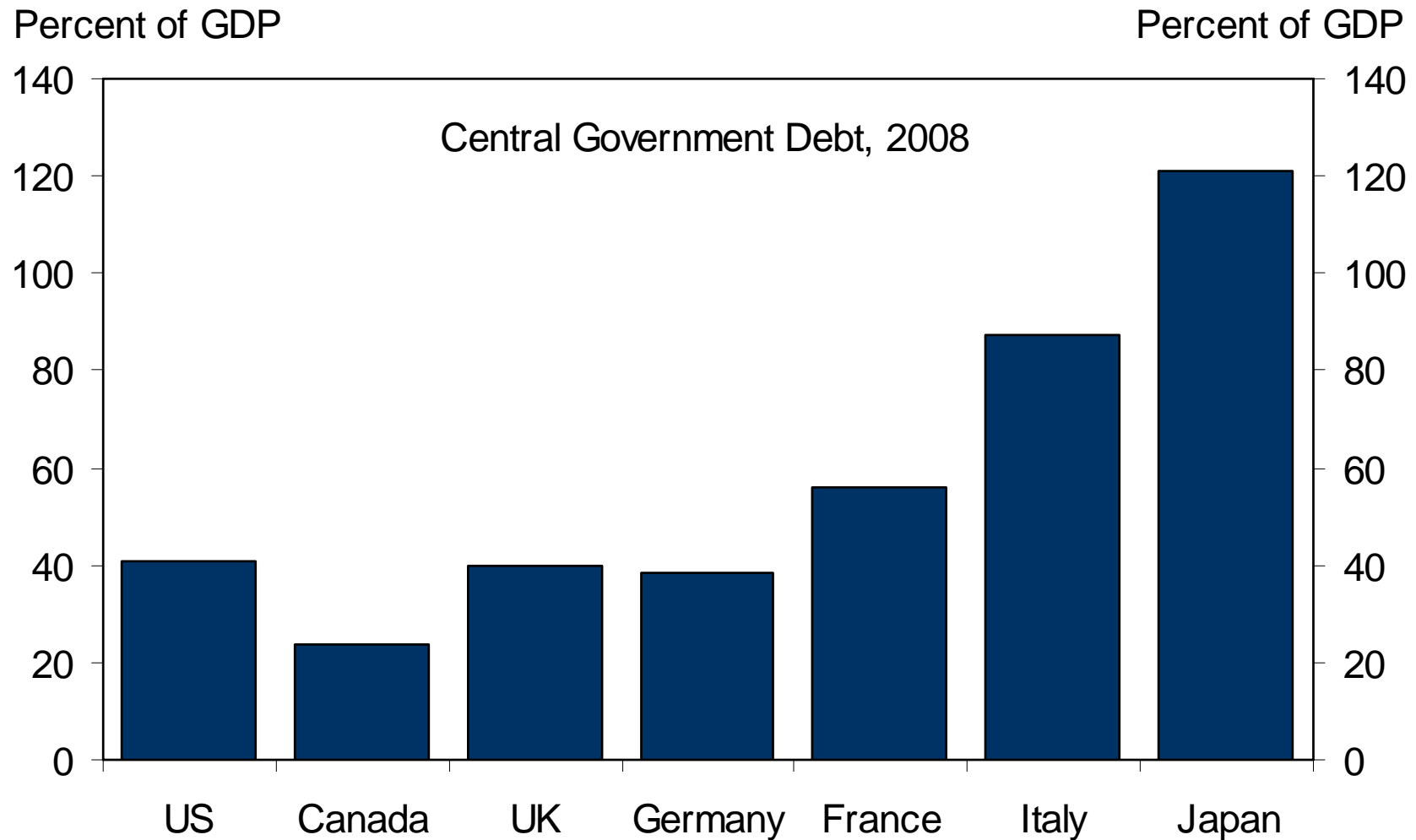
6. We Can Afford the Deficits, for Now (I): Public Deficit Is Matched by Private Surplus



Note: Dotted lines denote GS forecasts.

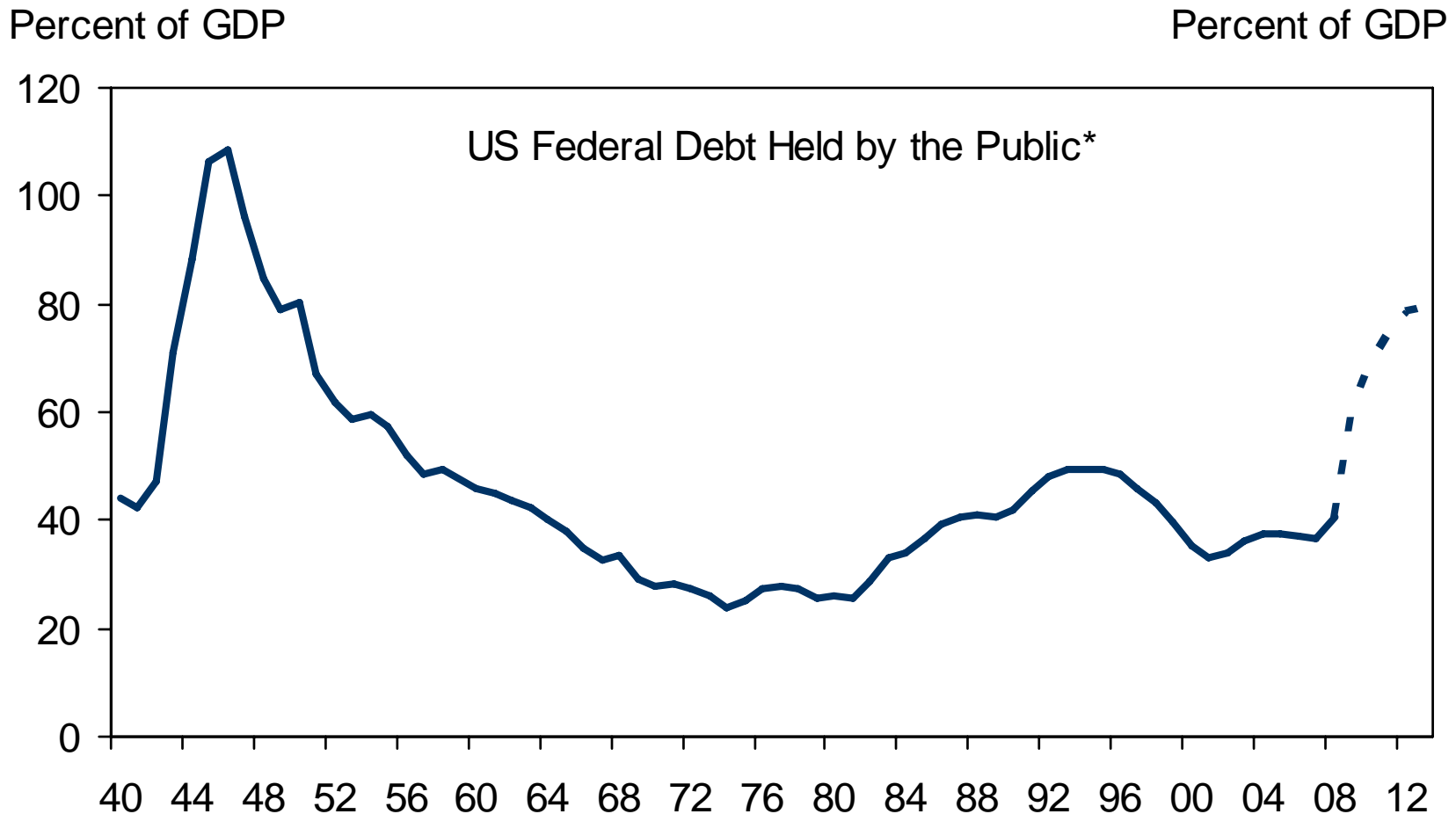
Source: Department of Commerce. Our calculations.

6. We Can Afford the Deficits, for Now (II): US Debt Fairly Low by International Standards



Source: Our calculations.

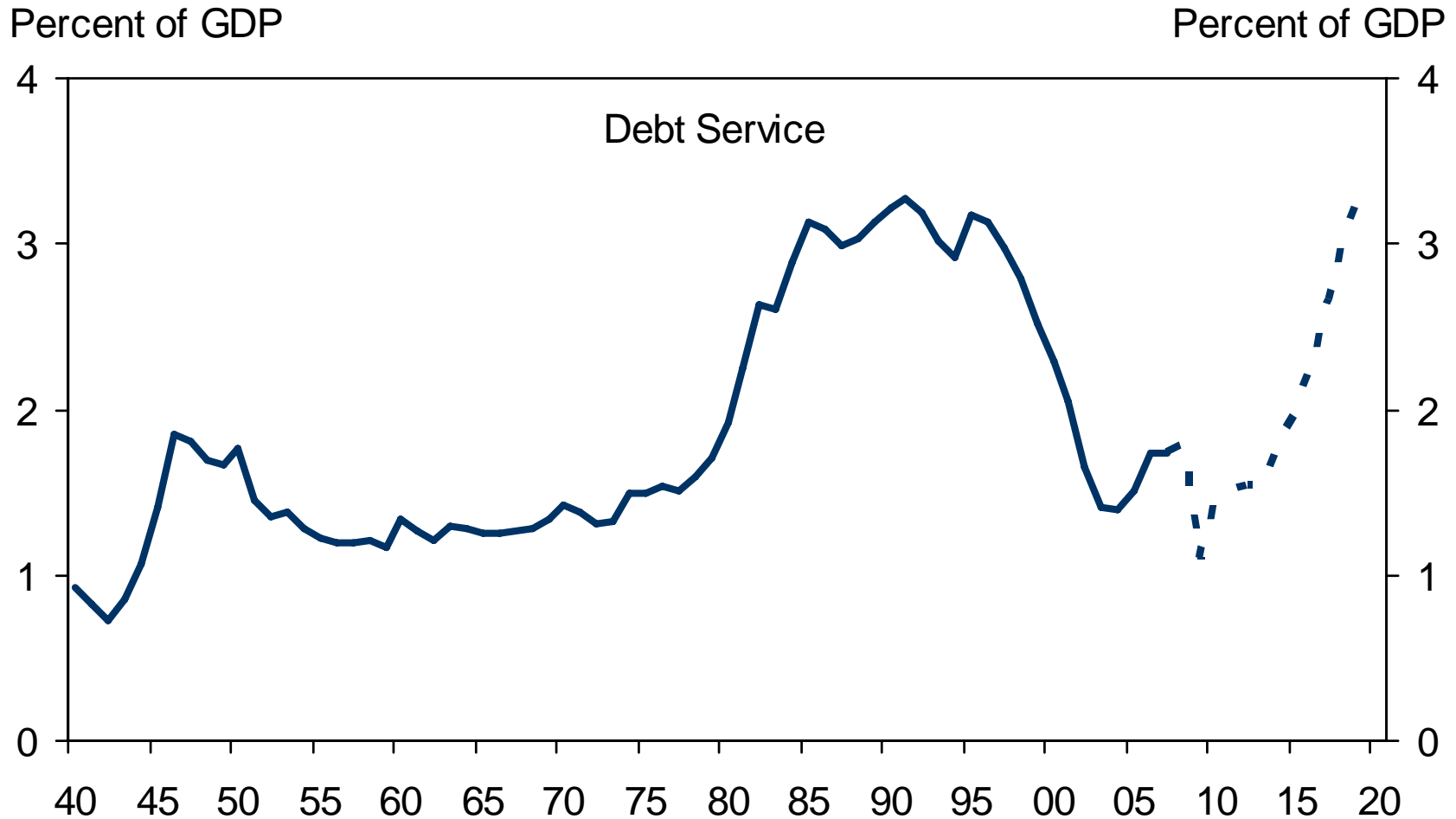
6. We Can Afford the Deficits, for Now (III): A Big Rise in Debt Is Coming



* Dotted line denotes GS forecasts.

Source: Department of Treasury.

6. We Can Afford the Deficits, for Now (IV): Debt Service Likely to Return to 1980s Levels



* Dotted line denotes GS forecasts assuming normalizing interest rates.

Source: Our calculations.

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