



Global Investment Research

The Goldman Sachs Group, Inc.

Economic Outlook

Too Much of a Good Thing

April 18, 2018

Jan Hatzius

Goldman, Sachs & Co.
Chief Economist

+1 212-902-0394

jan.hatzius@gs.com

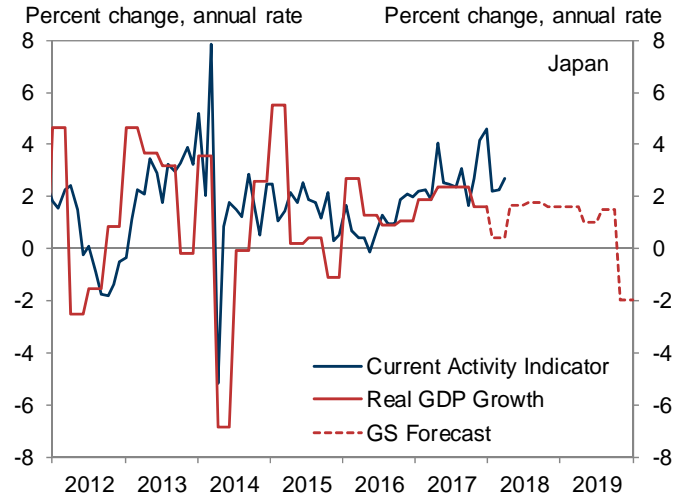
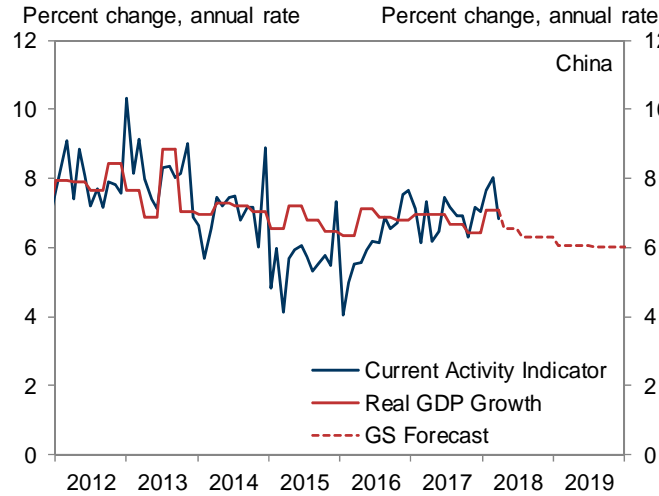
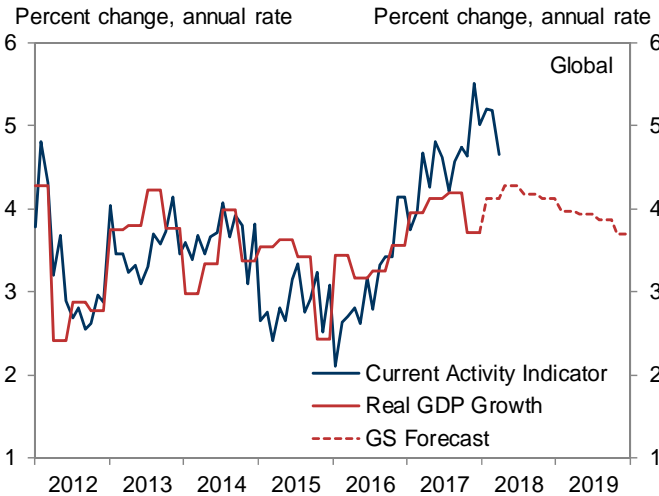
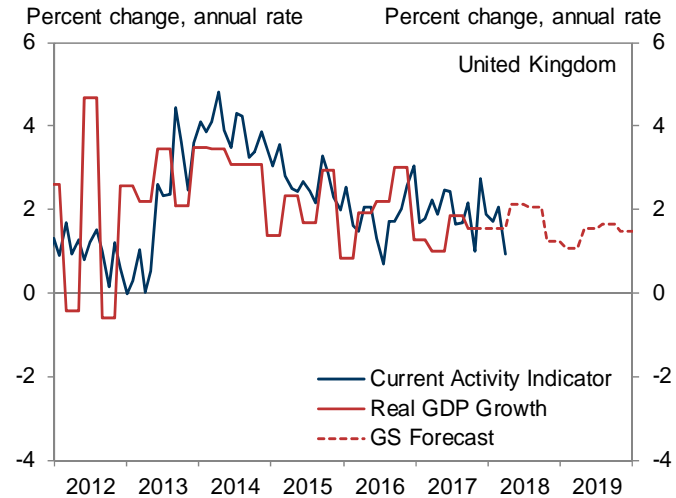
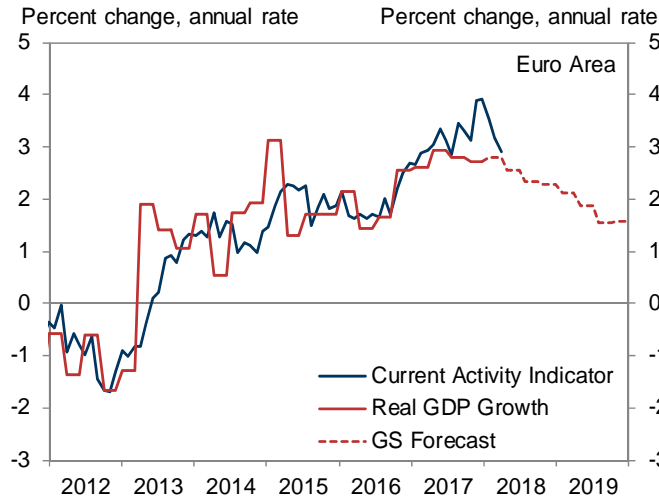
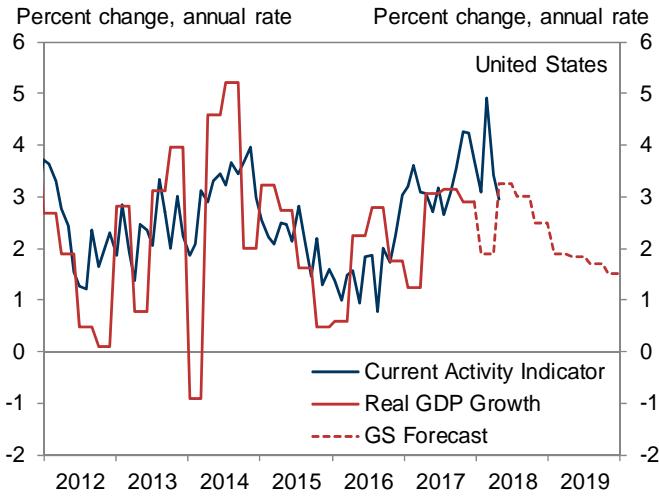
Goldman Sachs does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

Key Forecasts

Global Growth

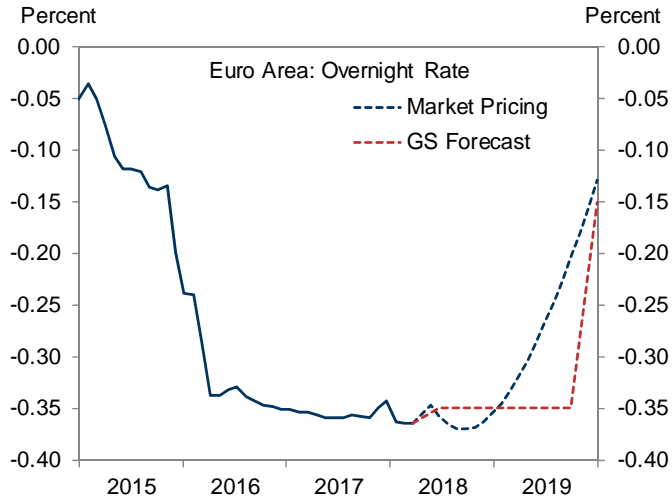
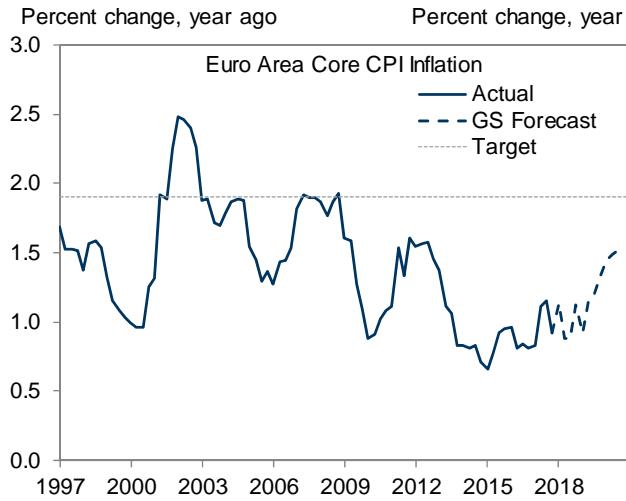
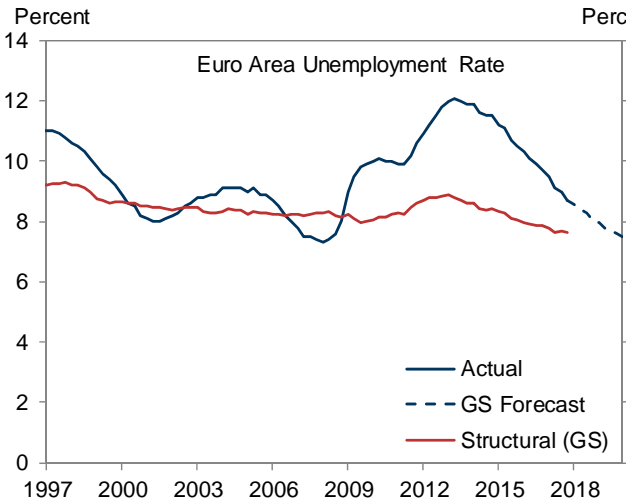
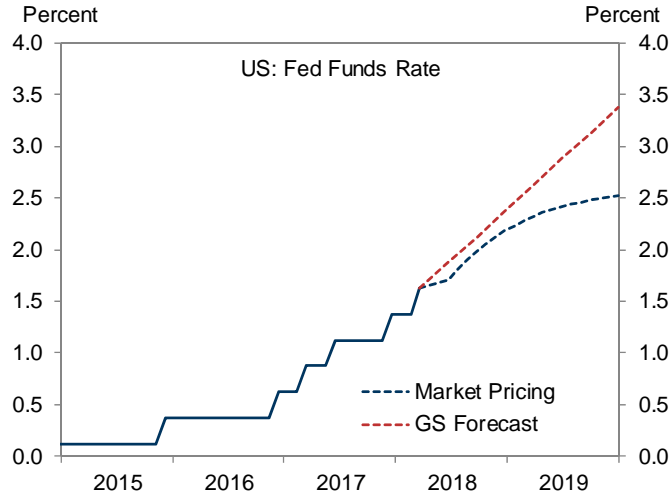
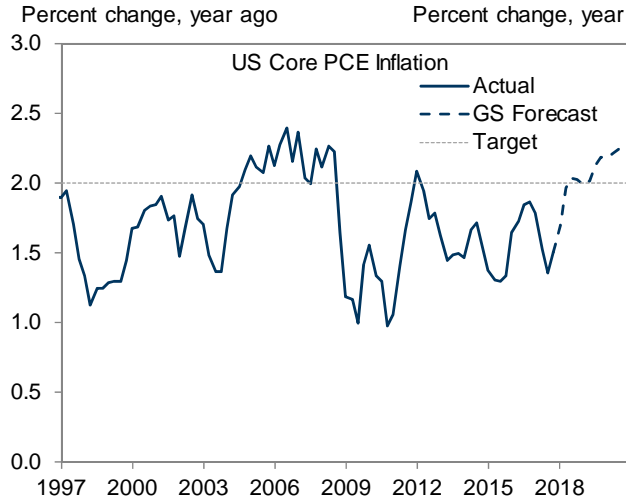
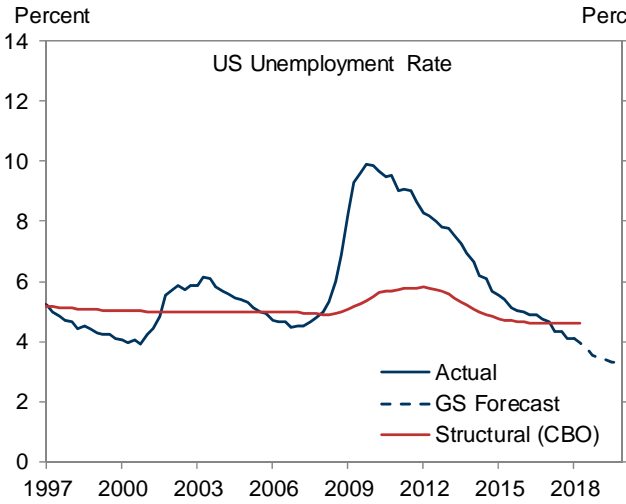


Source: Department of Commerce. Federal Reserve. Eurostat. Goldman Sachs Global Investment Research.



Key Forecasts

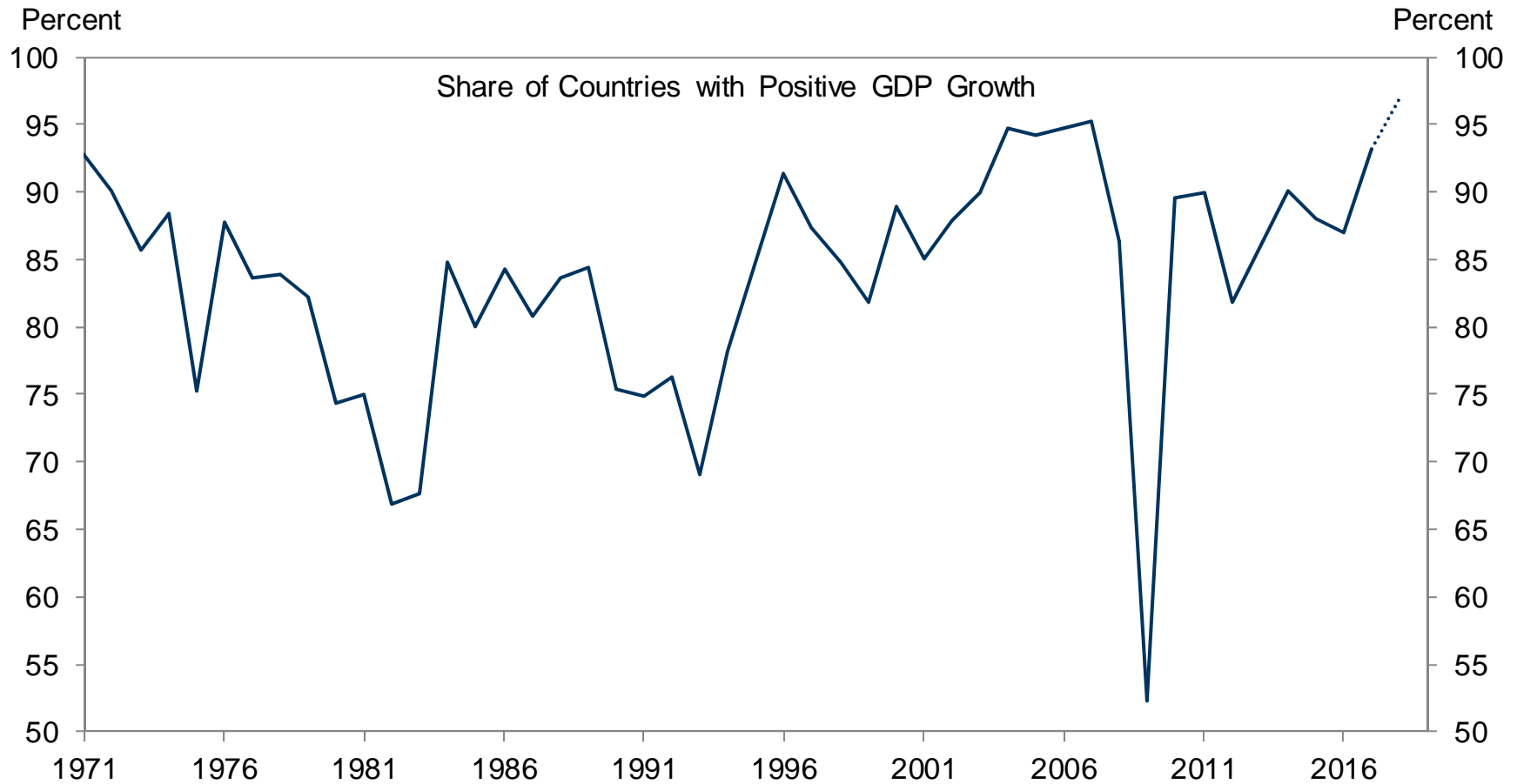
Unemployment, Inflation, and Rates



Source: Department of Commerce. Federal Reserve. Eurostat. Goldman Sachs Global Investment Research.

Good Growth

Positive GDP Growth in a Record Share of Countries

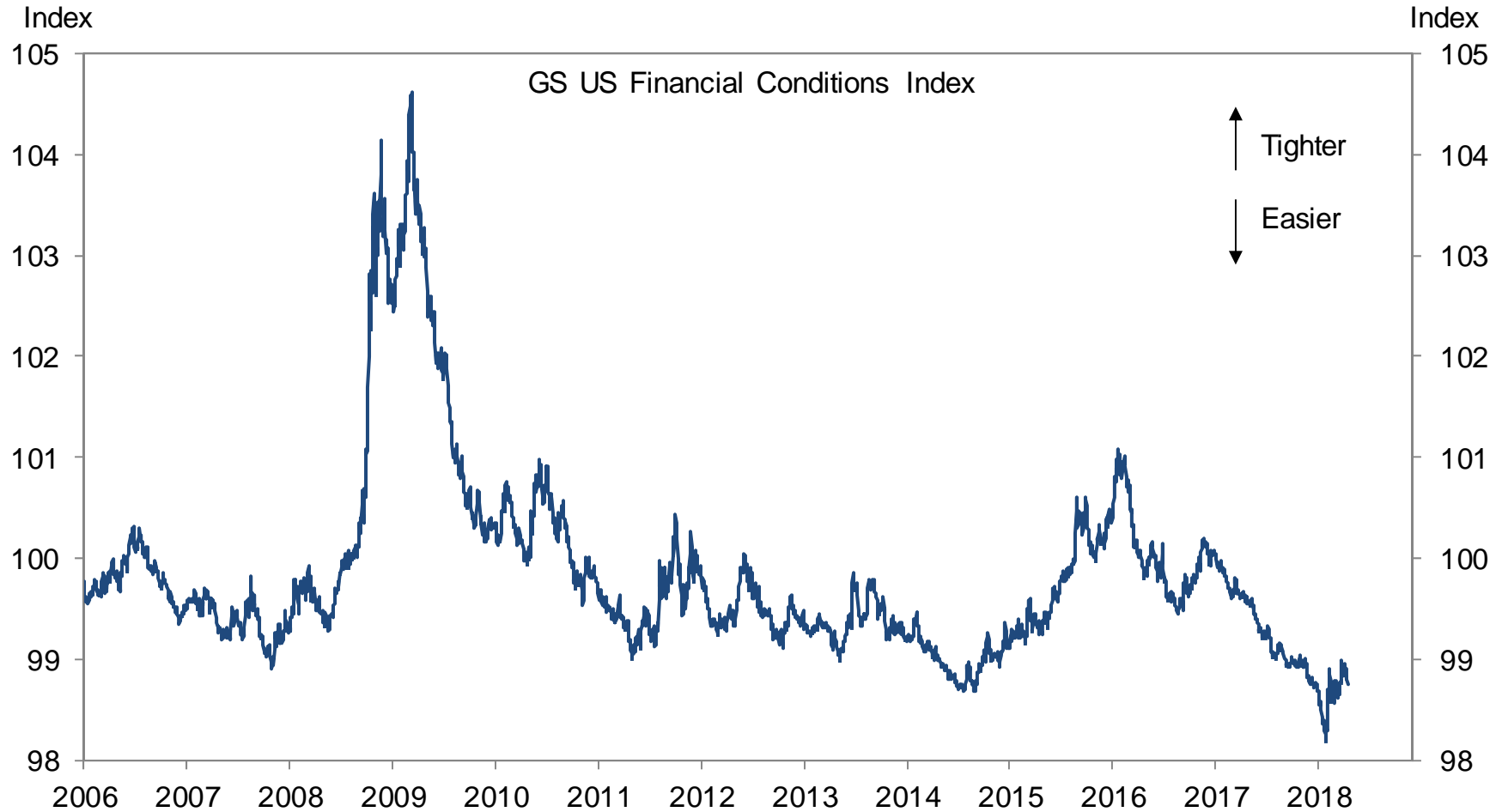


Note: IMF World Economic Outlook from 1980 to 2018 (Forecast). IMF International Statistics 1970-1979.

Source: IMF, Goldman Sachs Global Investment Research.

Good Growth

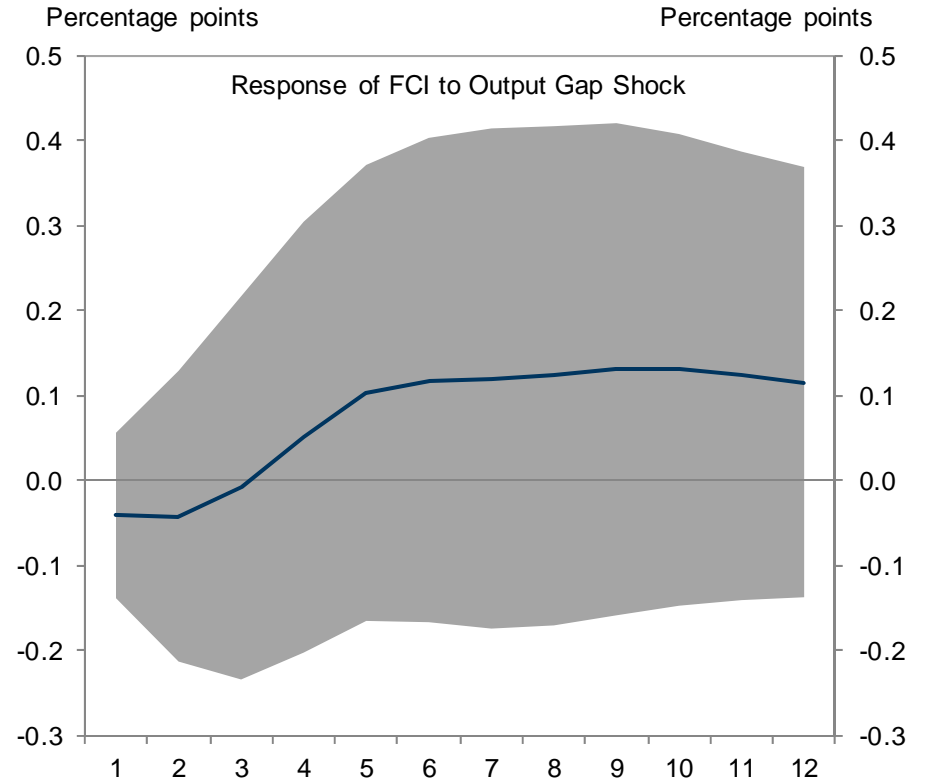
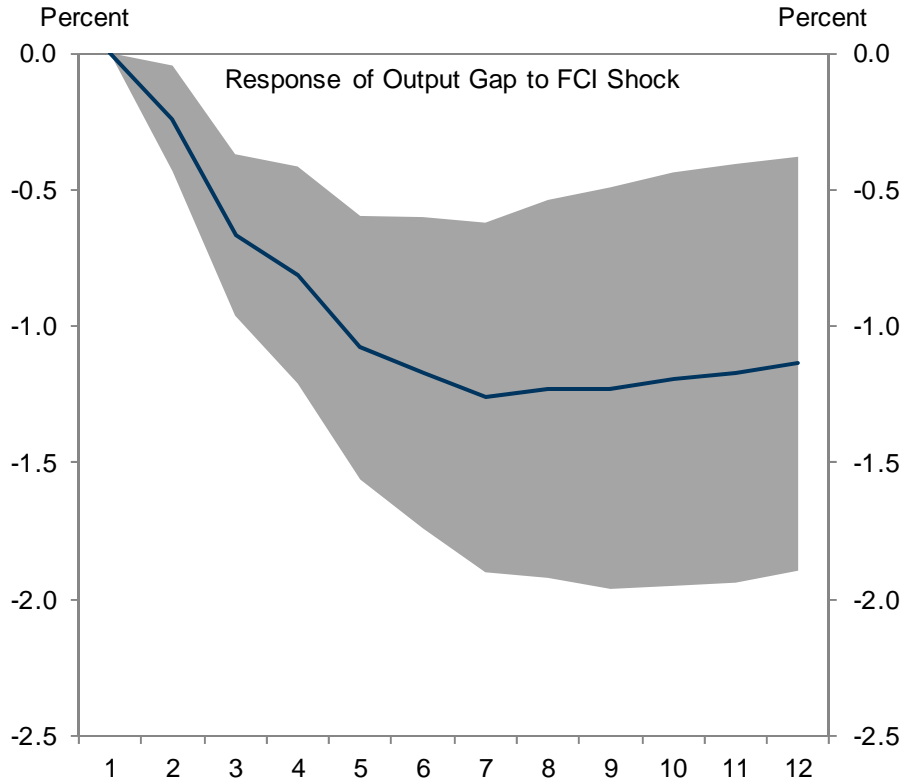
Financial Conditions Are Very Accommodative



Source: Goldman Sachs Global Investment Research.

Good Growth

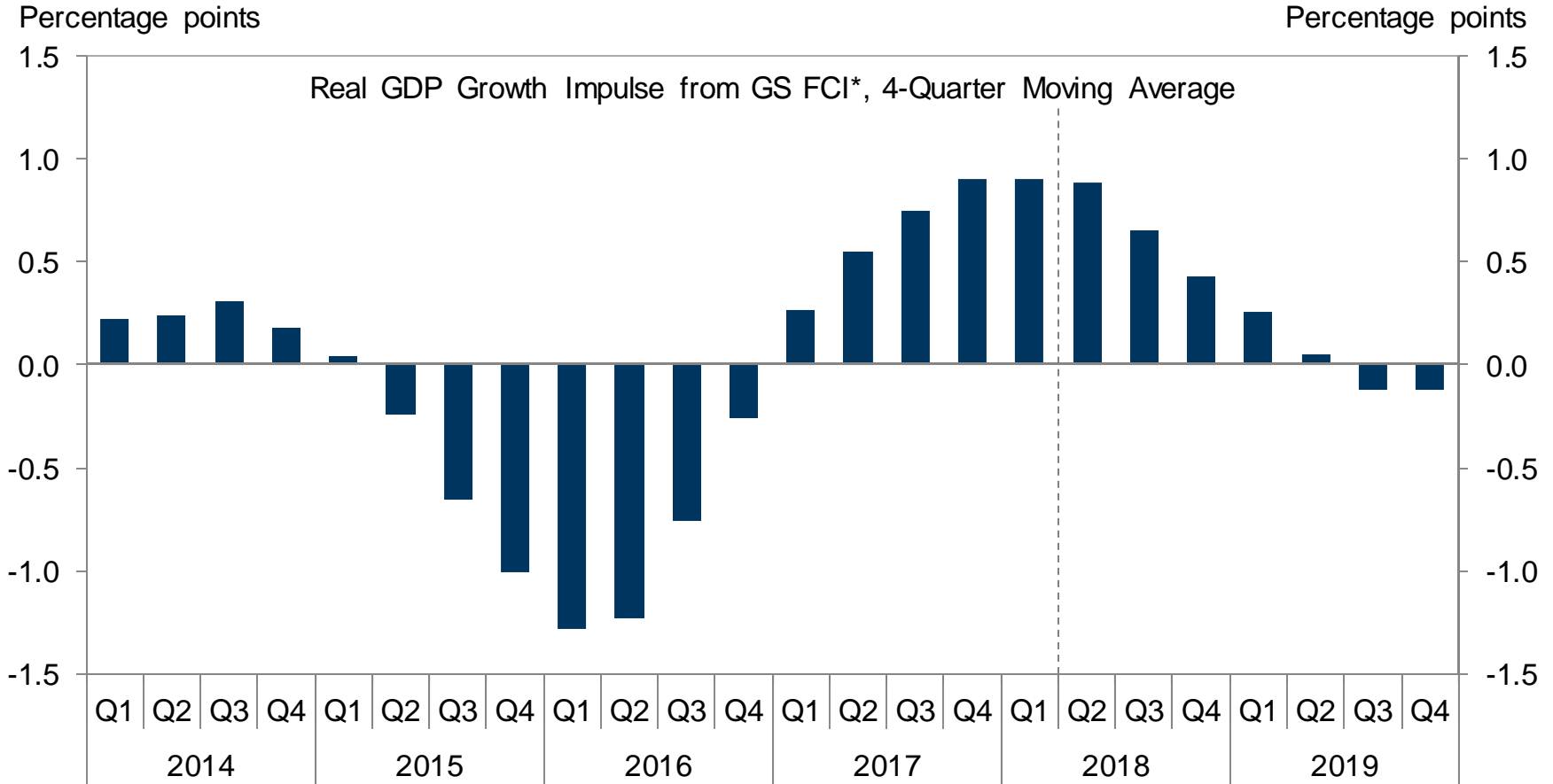
FCI Shocks Are Important Growth Drivers



Source: Goldman Sachs Global Investment Research.

Good Growth

FCI Boost Explains 2016-2017 Growth Pickup, But Is Now Peaking

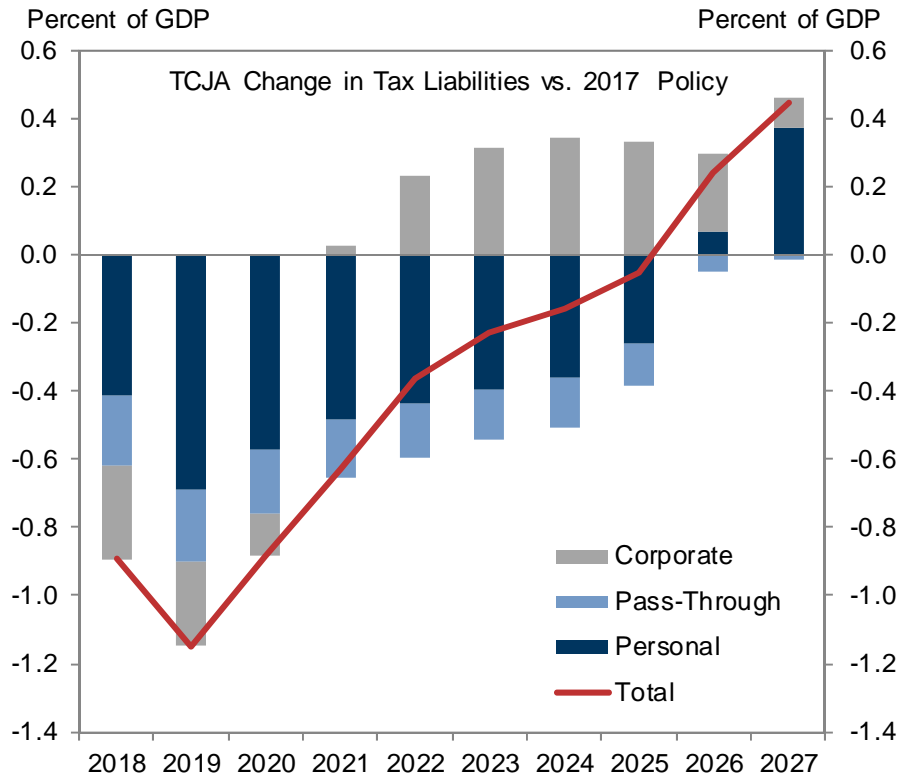
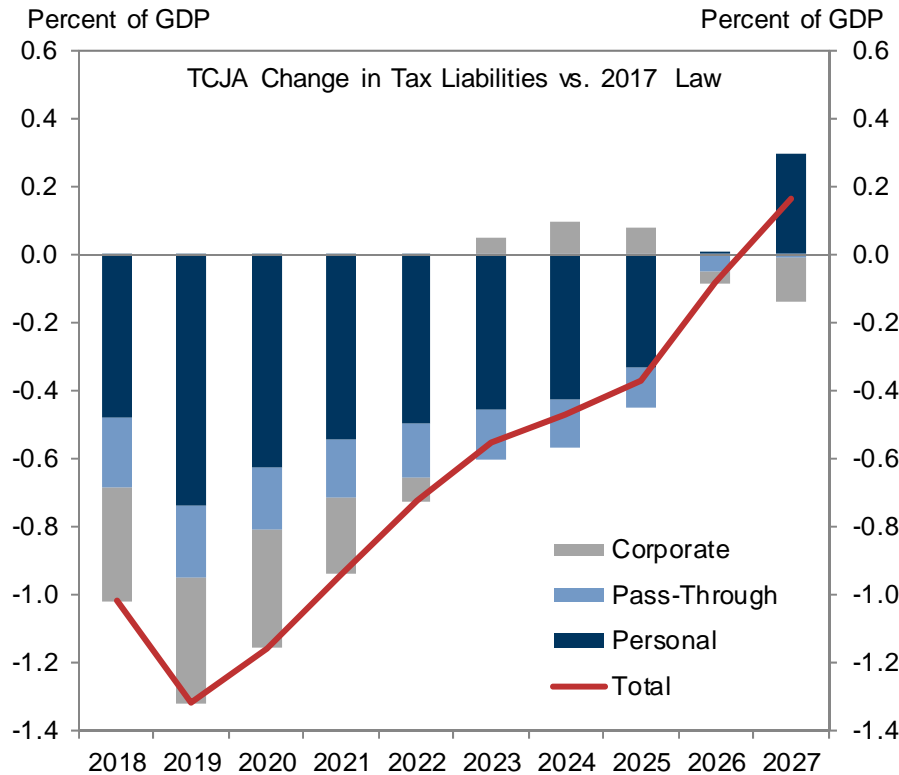


*Assumes GSFCE remains constant at April 16 close.

Source: Goldman Sachs Global Investment Research.

Good Growth

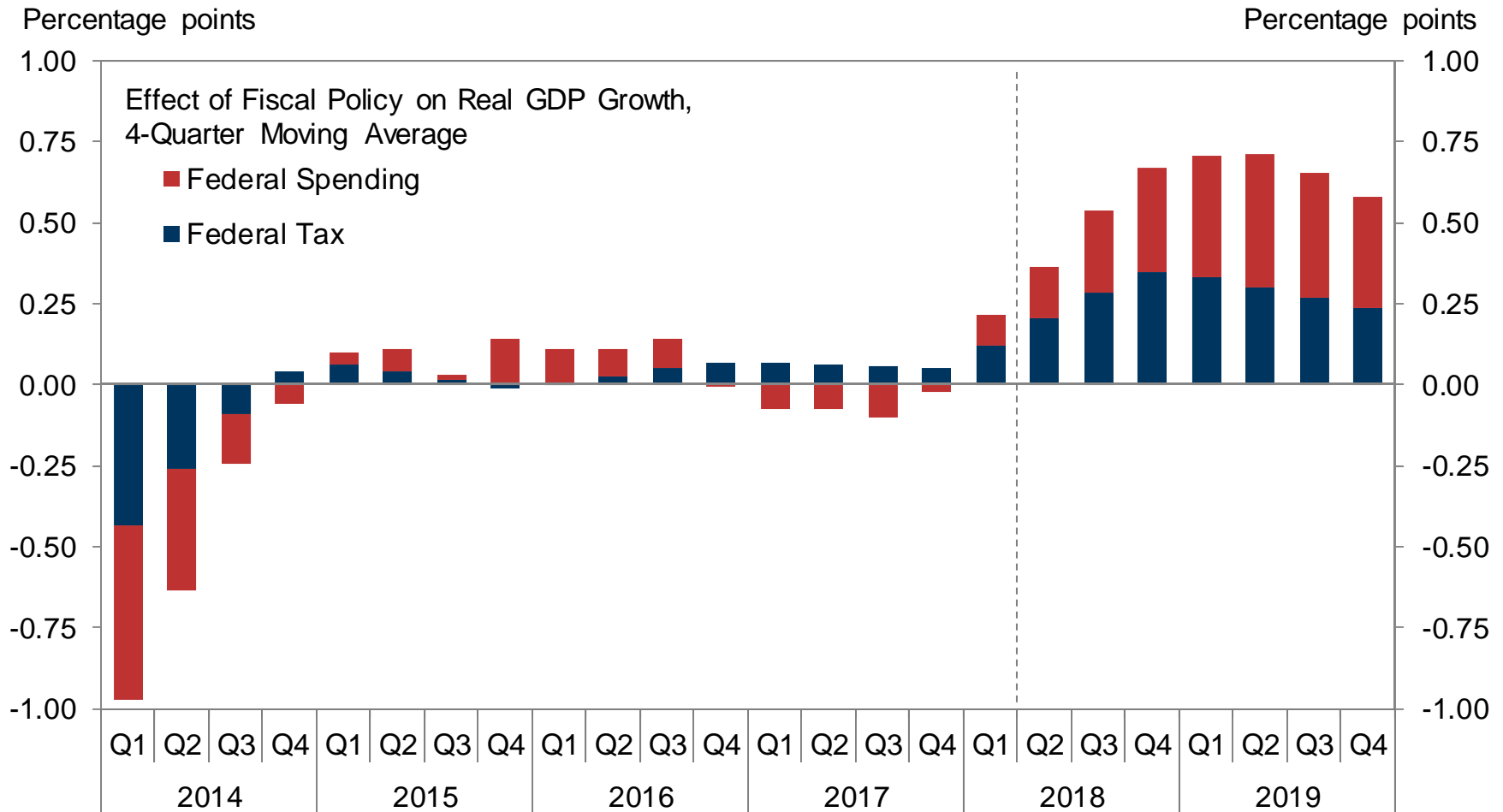
A Front-Loaded Tax Cut



Source: IMF, Goldman Sachs Global Investment Research.

Good Growth

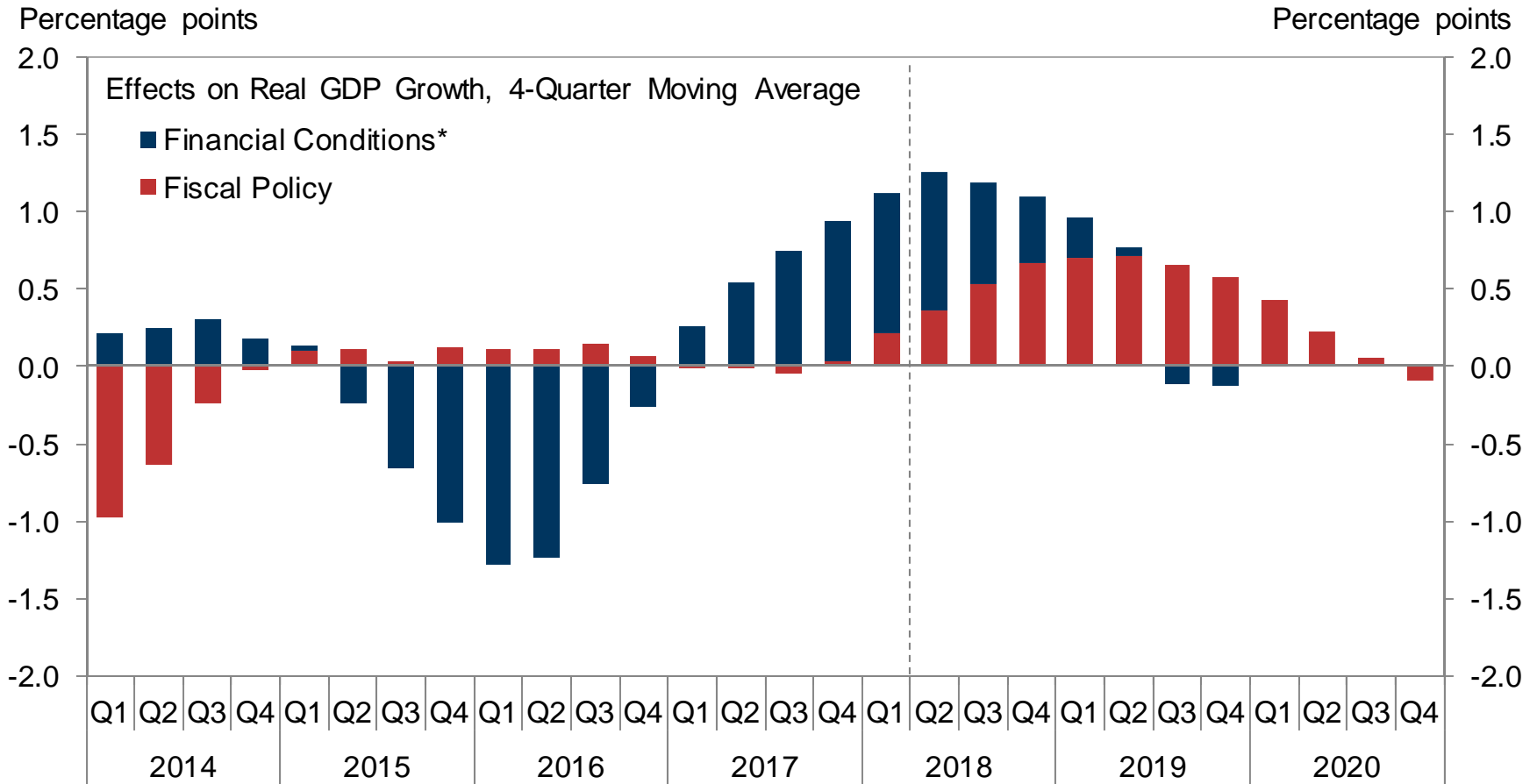
Tax Cuts and Spending Hikes Are Starting to Boost Growth



Source: Goldman Sachs Global Investment Research.

Good Growth

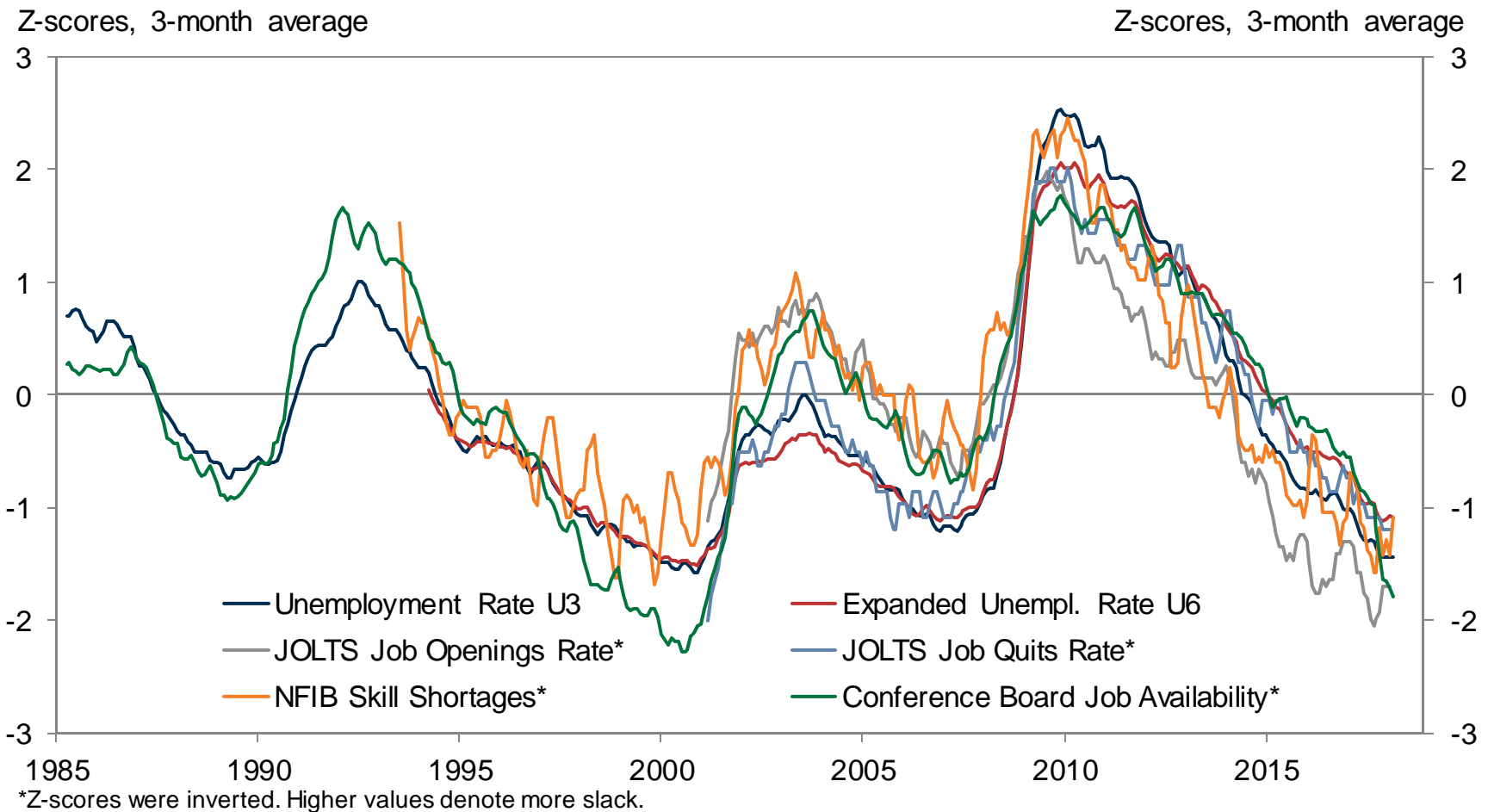
Impulses Are Positive, But Probably Peaking



*Assumes GS FCI remains constant at April 16 close.

Punchbowl Alert

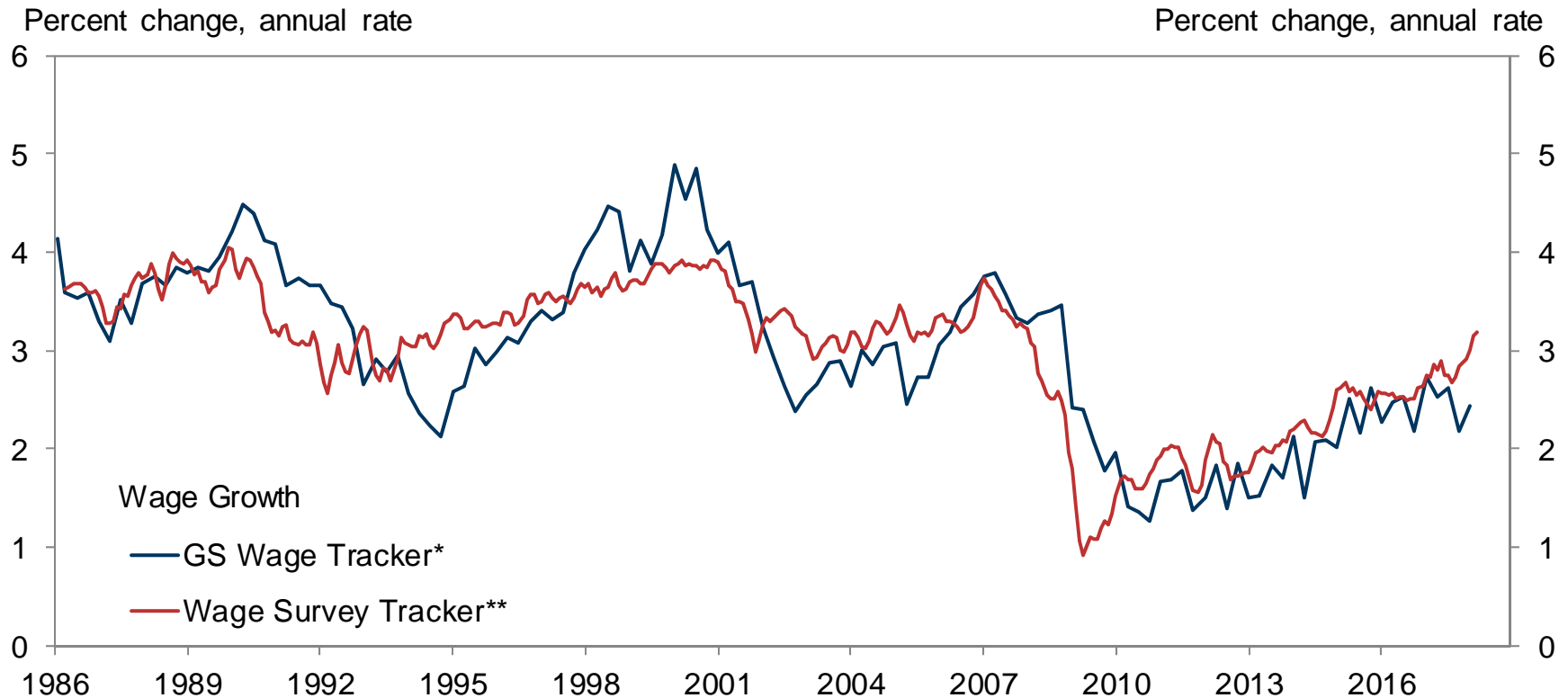
Labor Market Is At (or Beyond) Full Employment



Source: Department of Labor. Conference Board. JOLTS. NFIB. Goldman Sachs Global Investment Research.

Punchbowl Alert

Wages Have Been Accelerating Gradually

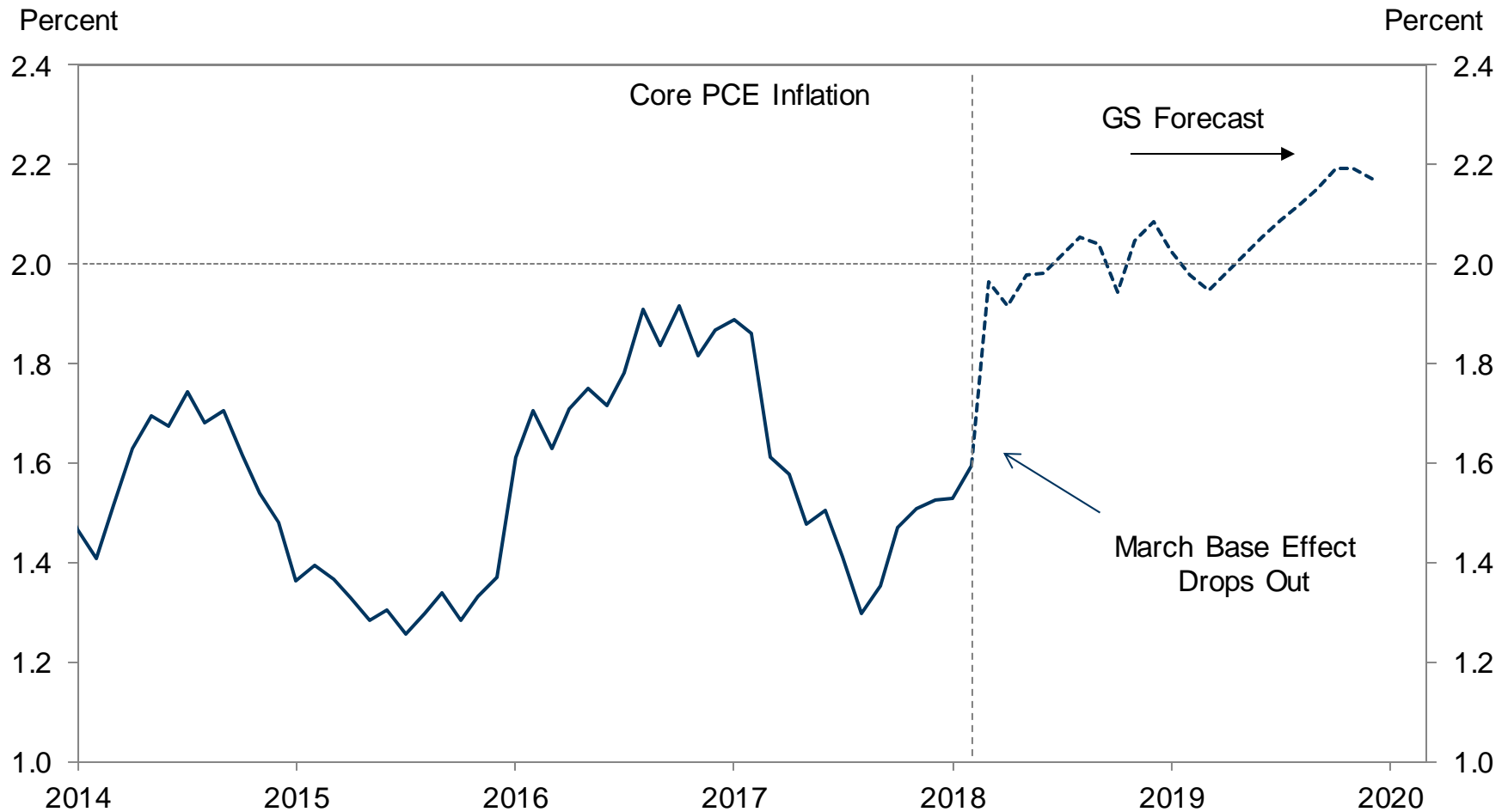


* The following enter the wage tracker: ECI wages and salaries ex-incentives, average hourly earnings, compensation per hour, median weekly wages, and the Atlanta Fed wage tracker

** The following enter the wage survey tracker: NFIB, Dallas Fed, Richmond Fed, and New York Fed manufacturing and service sector surveys, Bloomberg Consumer Comfort, Conference Board and University of Michigan Household Income Expectations, Duke/CFO Business Outlook Survey

Punchbowl Alert

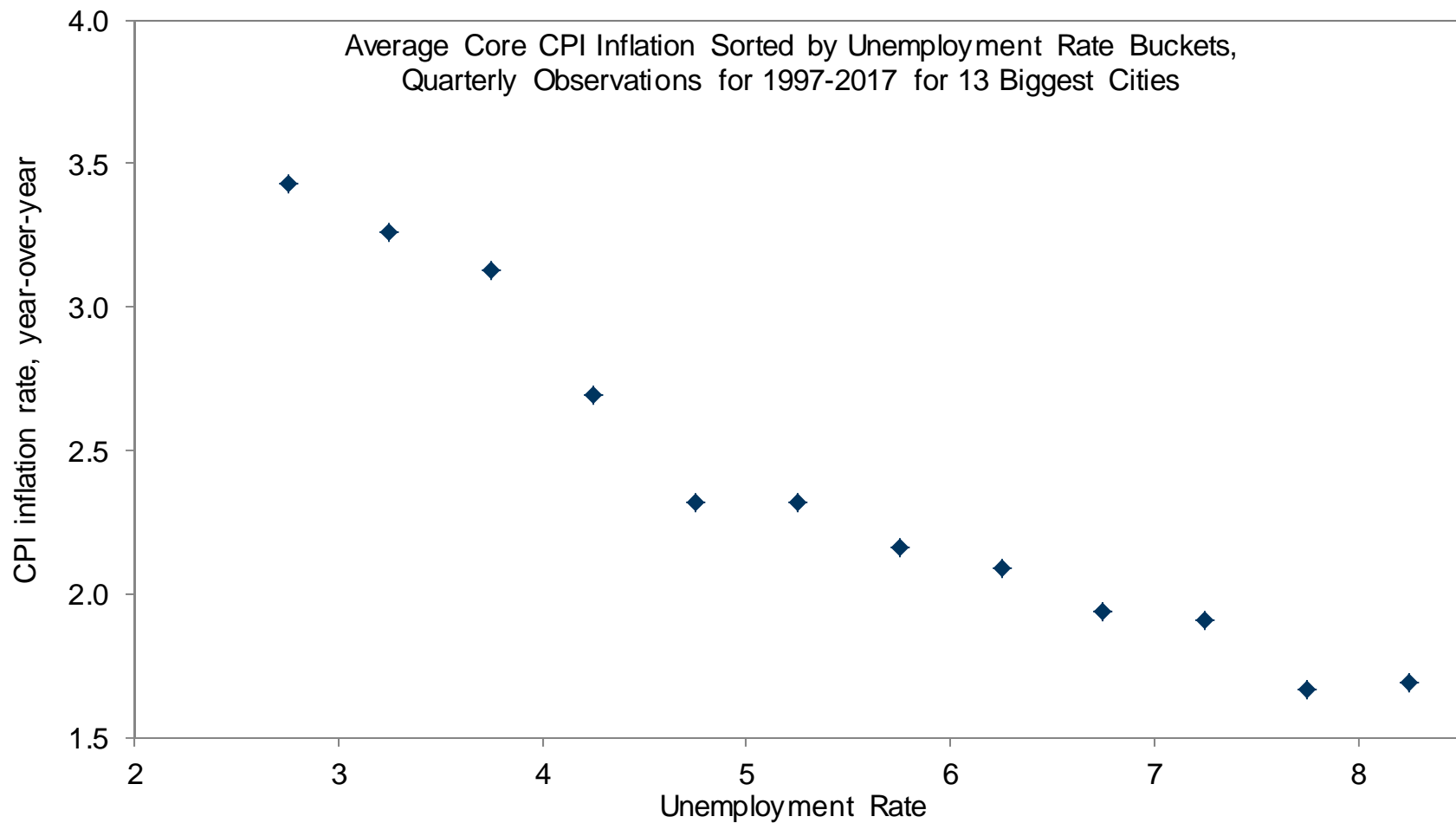
Inflation Is Likely to Overshoot the Fed's Target (Modestly)



Source: Department of Commerce. Goldman Sachs Global Investment Research.

Punchbowl Alert

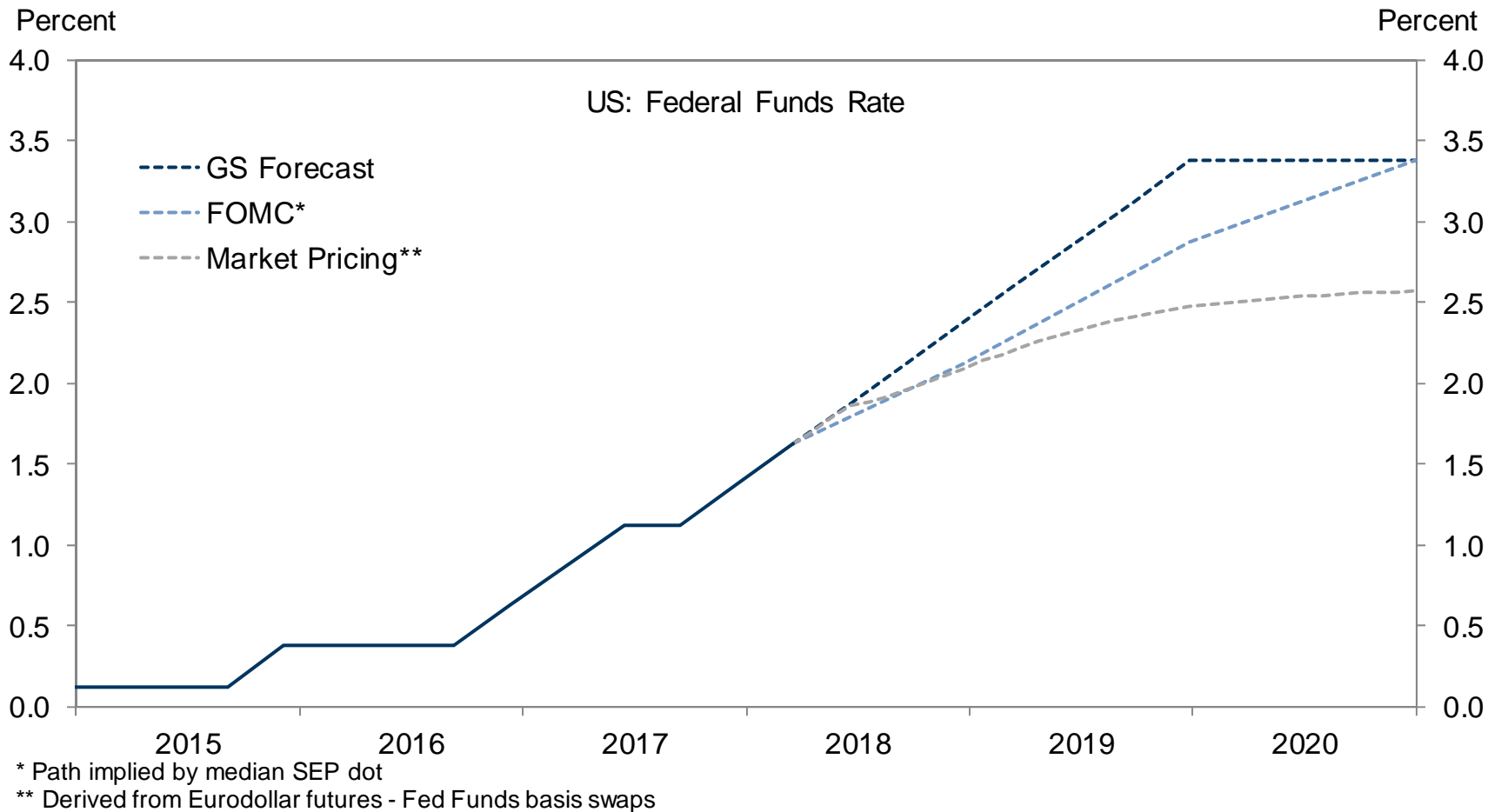
As Unemployment Falls Below 4%, Inflation *Could* Accelerate More Sharply



Source: Goldman Sachs Global Investment Research.

Punchbowl Alert

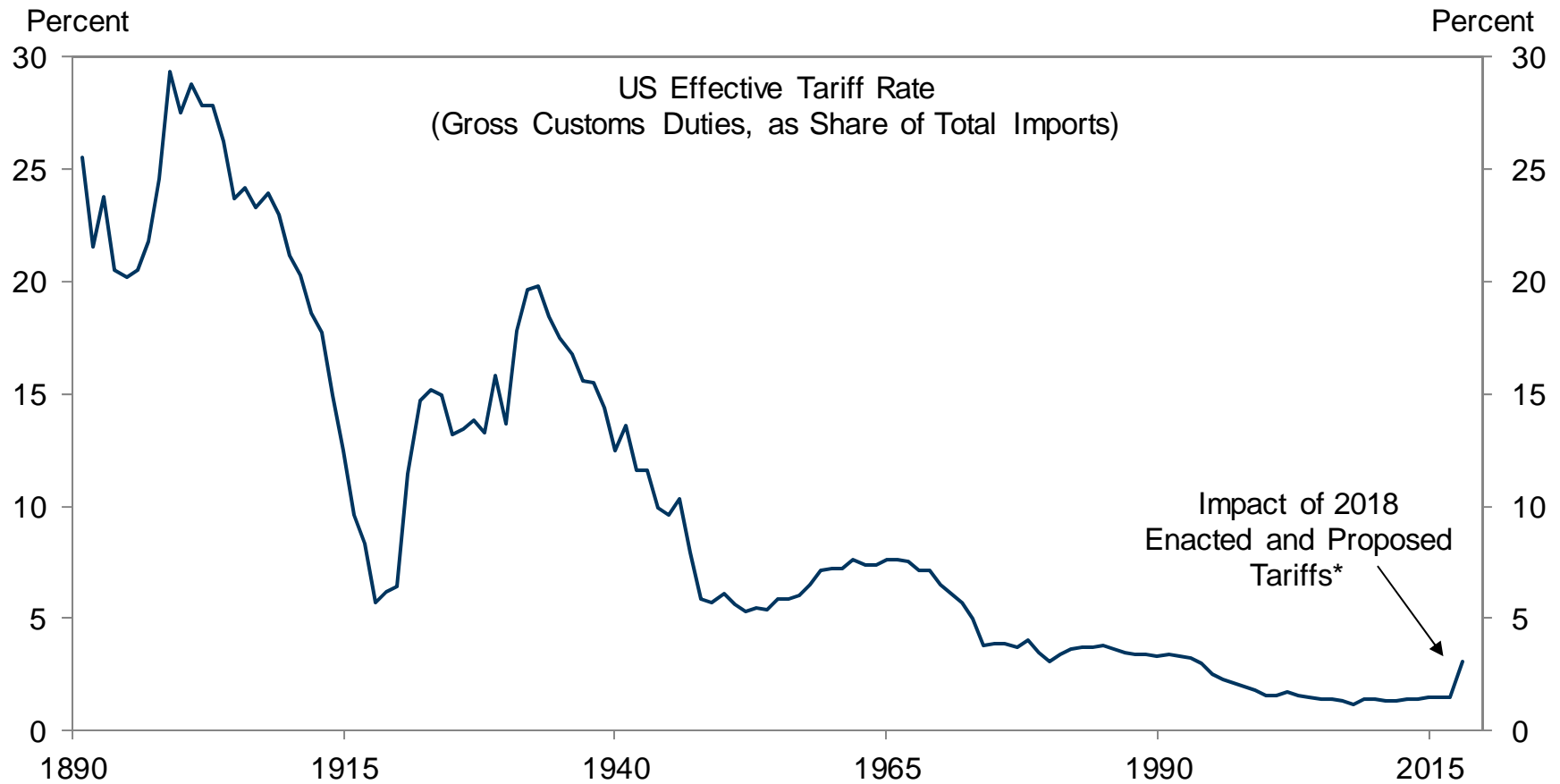
Bond Market Still Underprices Fed Tightening



Source: Bloomberg, Goldman Sachs Global Investment Research.

Risks

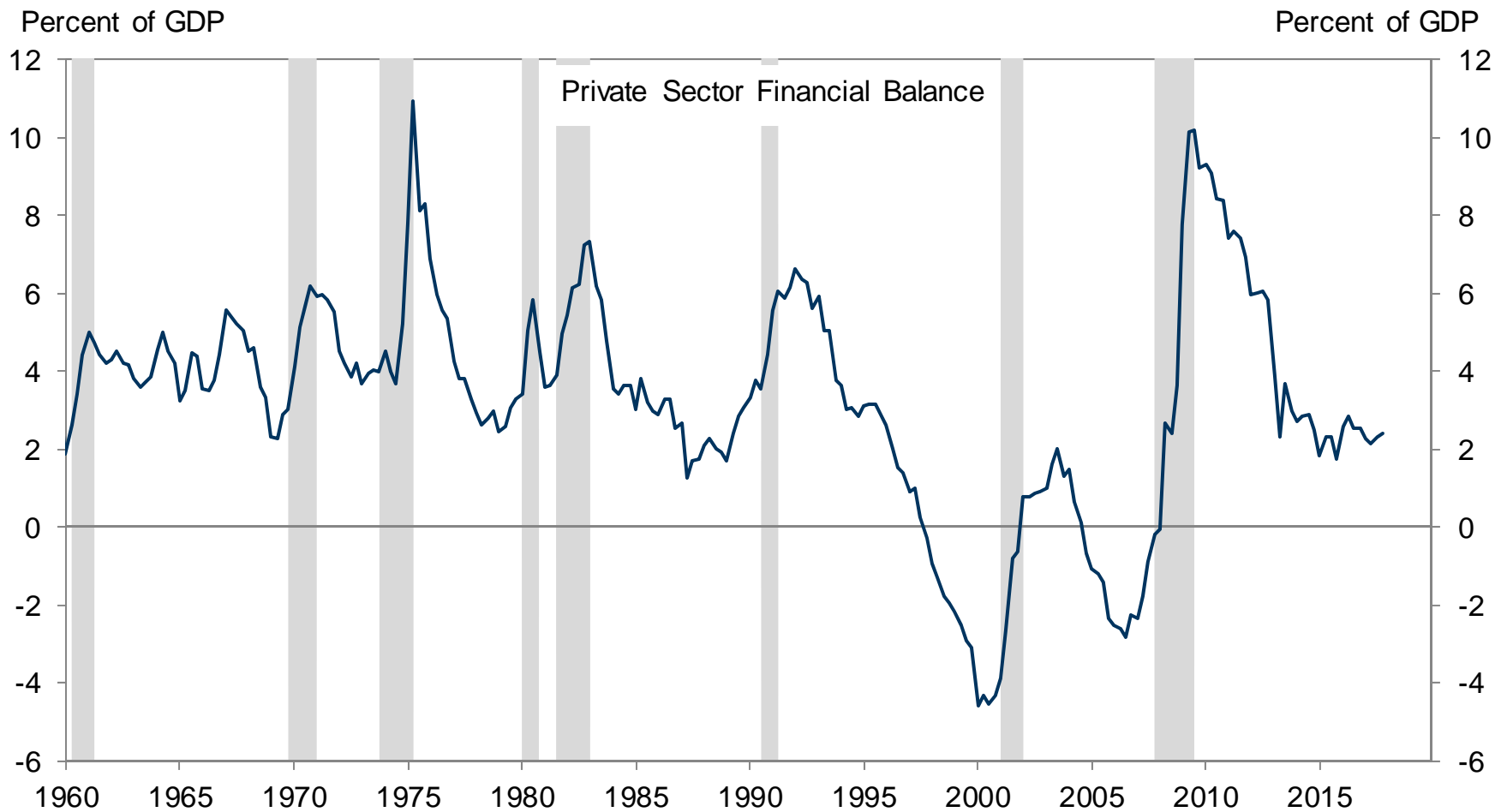
Tariffs Are Still Small from a Macro Perspective



*Includes tariffs on solar panels, washing machines, steel and aluminum under Section 232, and targeted tariffs worth approximately \$150bn on China under Section 301

Risks

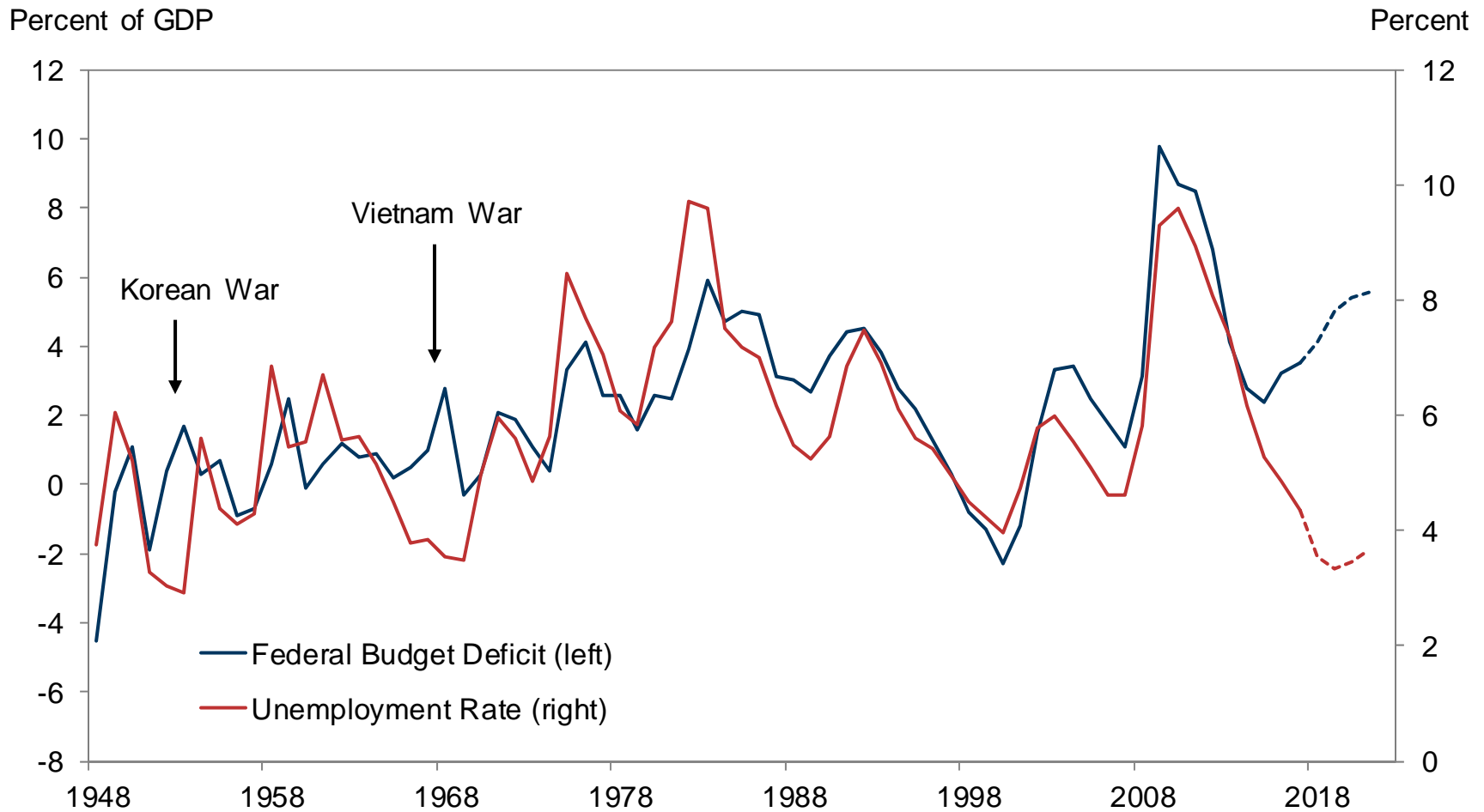
The Private Sector Is Still Running a Financial Surplus



Source: Federal Reserve. Goldman Sachs Global Investment Research.

Risks

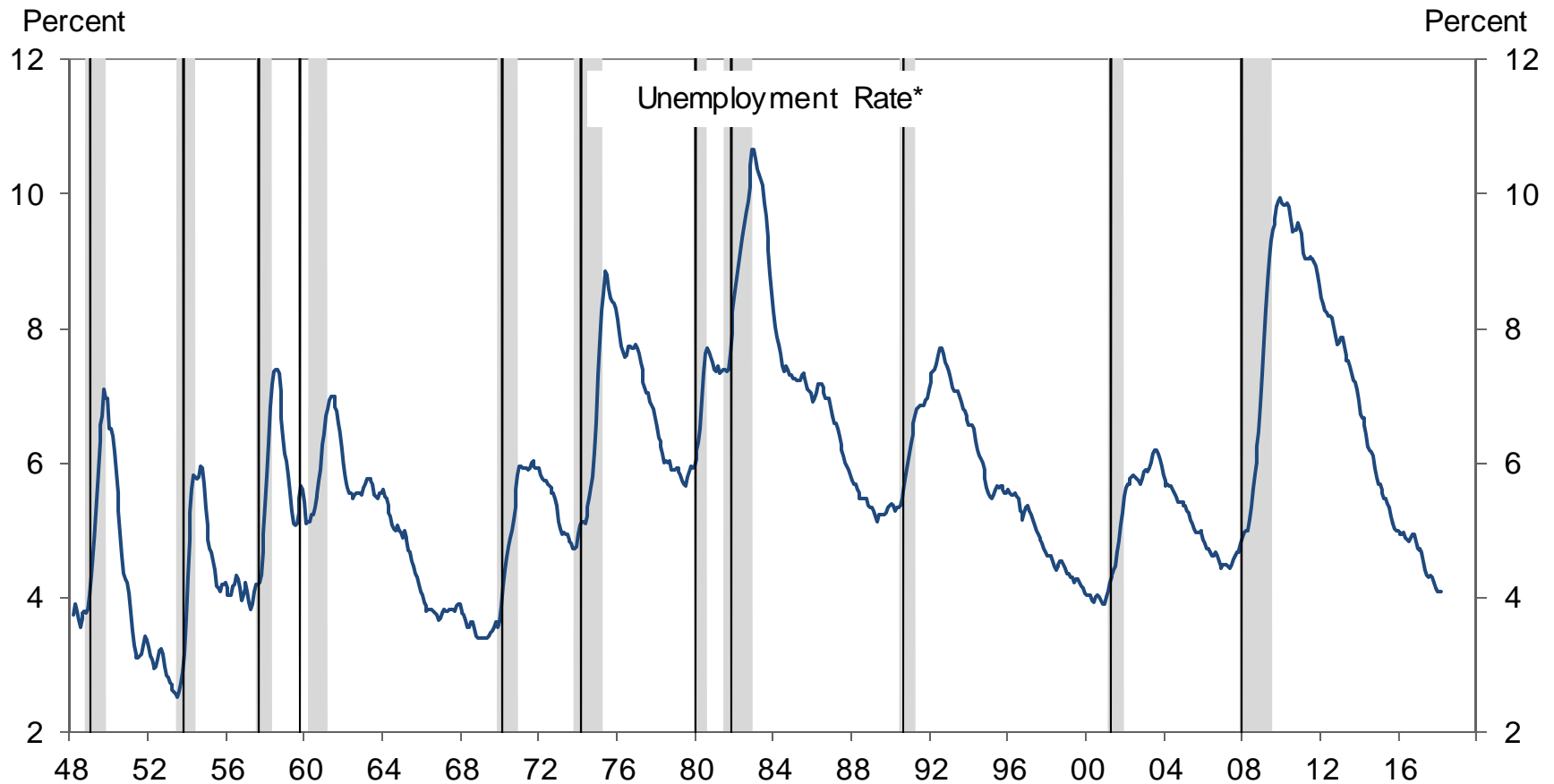
Deficit Is Unusually Large Relative to State of Economy



Source: Commerce Department, Congressional Budget Office.

Risks

History Says that Overshooting Full Employment Ends in Recession



*3-month moving average. Vertical lines denote months in which jobless rate rose more than 0.35 percentage points above the preceding low. Shaded areas denote recessions.

Source: Department of Labor. NBER.

Disclosure Appendix

April 17, 2018

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

Reg AC

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.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

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.; Ombudsman Goldman Sachs Brazil: 0800 727 5764 and / or ouvidoriagoldmansachs@gs.com. Available Weekdays (except holidays), from 9am to 6pm. Ouvidoria Goldman Sachs Brasil: 0800 727 5764 e/ou ouvidoriagoldmansachs@gs.com. Horário de funcionamento: segunda-feira à sexta-feira (exceto feriados), das 9h às 18h; in Canada by either Goldman Sachs Canada Inc. or Goldman Sachs & Co. LLC; 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: 198602165W); and in the United States of America by Goldman Sachs & Co. LLC. 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 by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs AG and Goldman Sachs International Zweigniederlassung Frankfurt, 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. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. 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 investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman Sachs & Co. LLC, 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 principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Disclosure Appendix

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 herein.

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.

The views attributed to third party presenters at Goldman Sachs arranged conferences, including individuals from other parts of Goldman Sachs, do not necessarily reflect those of Global Investment Research and are not an official view of Goldman Sachs.

Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report.

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.

Differing Levels of Service provided by Global Investment Research: The level and types of services provided to you by the Global Investment Research division of GS may vary as compared to that provided to internal and other external clients of GS, depending on various factors including your individual preferences as to the frequency and manner of receiving communication, your risk profile and investment focus and perspective (e.g., marketwide, sector specific, long term, short term), the size and scope of your overall client relationship with GS, and legal and regulatory constraints. As an example, certain clients may request to receive notifications when research on specific securities is published, and certain clients may request that specific data underlying analysts' fundamental analysis available on our internal client websites be delivered to them electronically through data feeds or otherwise. No change to an analyst's fundamental research views (e.g., ratings, price targets, or material changes to earnings estimates for equity securities), will be communicated to any client prior to inclusion of such information in a research report broadly disseminated through electronic publication to our internal client websites or through other means, as necessary, to all clients who are entitled to receive such reports.

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 research, models or other data related to one or more securities, markets or asset classes (including related services) that may be available to you, please contact your GS 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.

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.

© 2018 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.