

Forecast Notes

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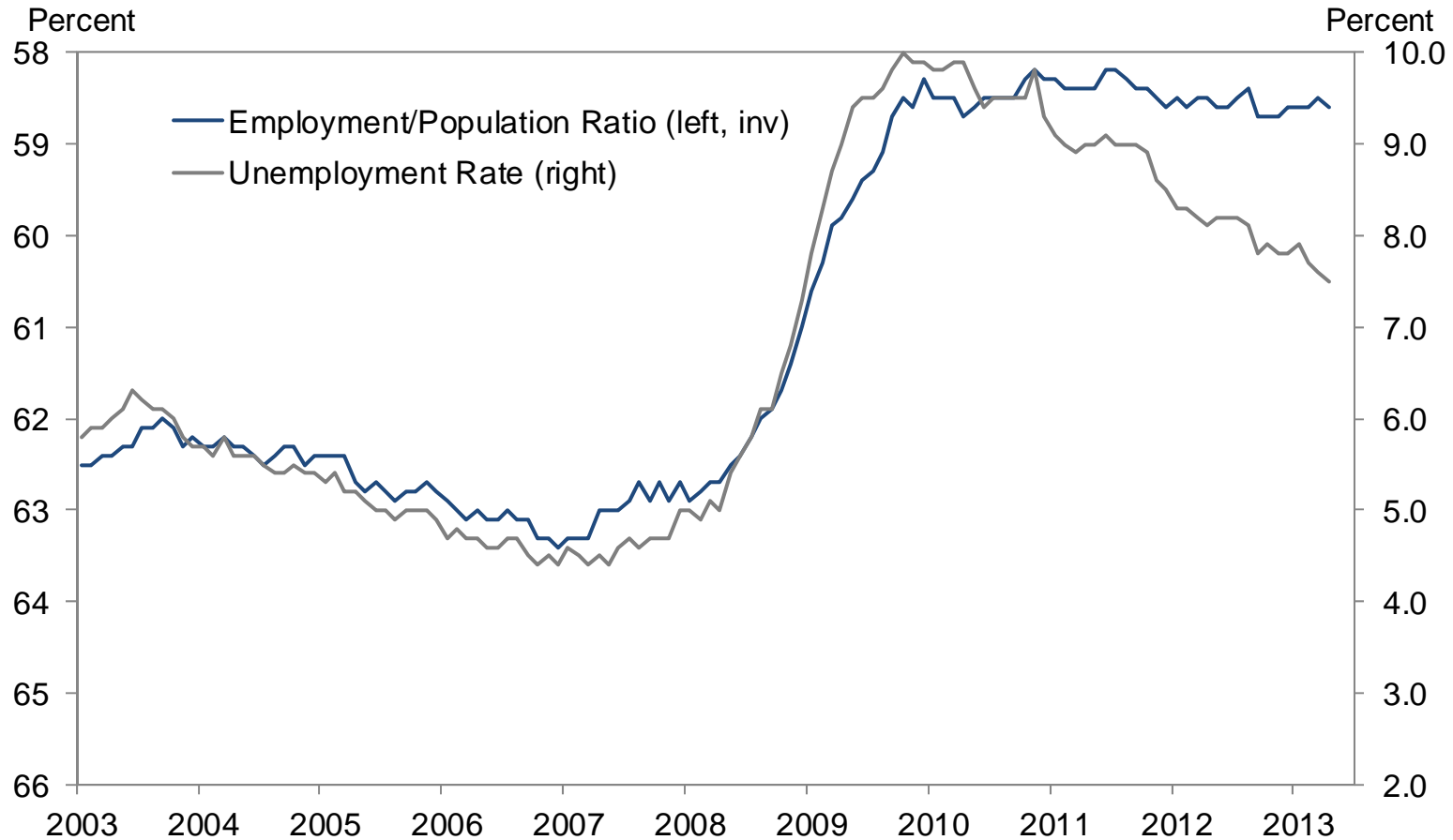
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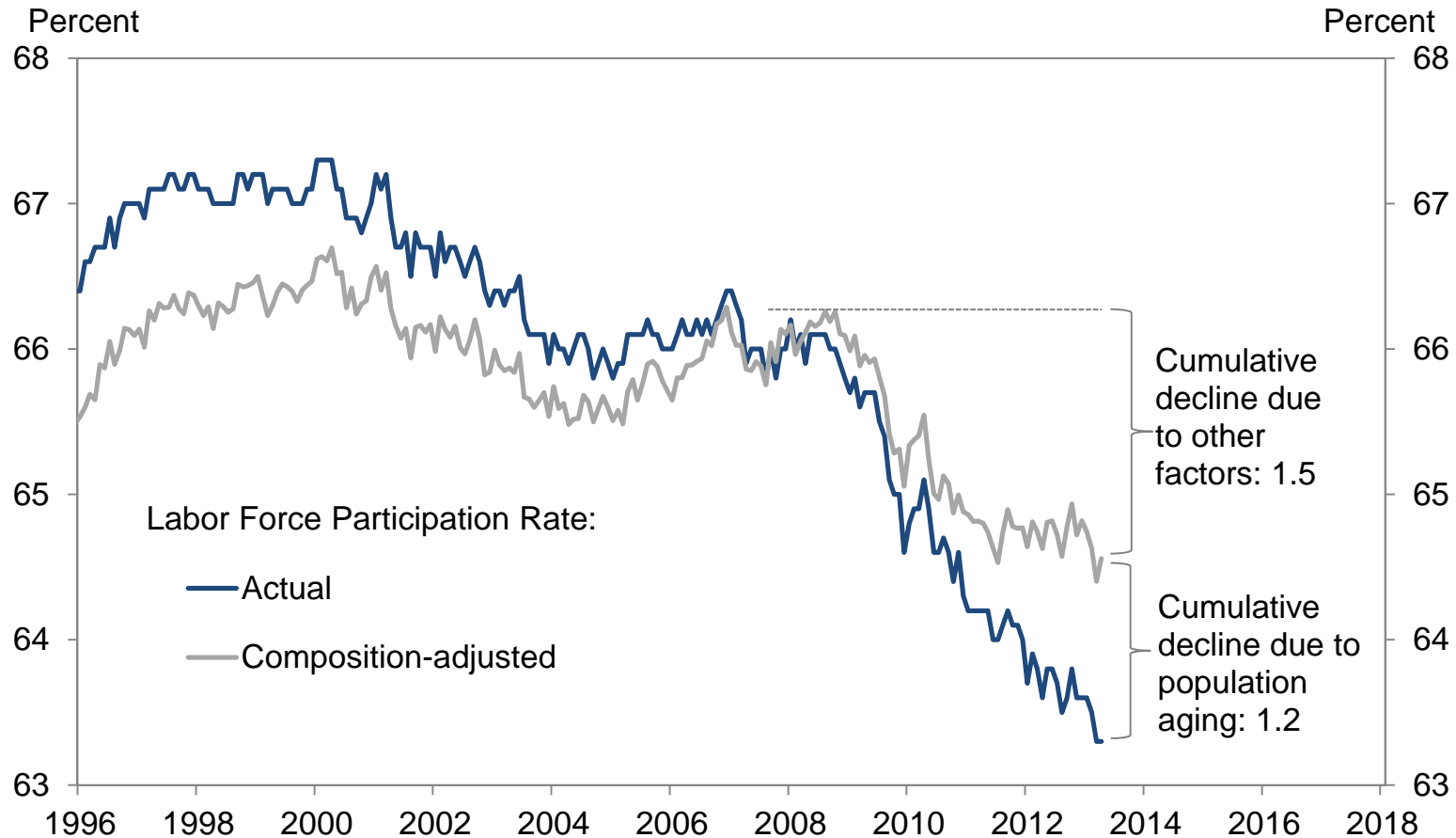
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How Much Labor Market Improvement?



Source: Department of Labor.

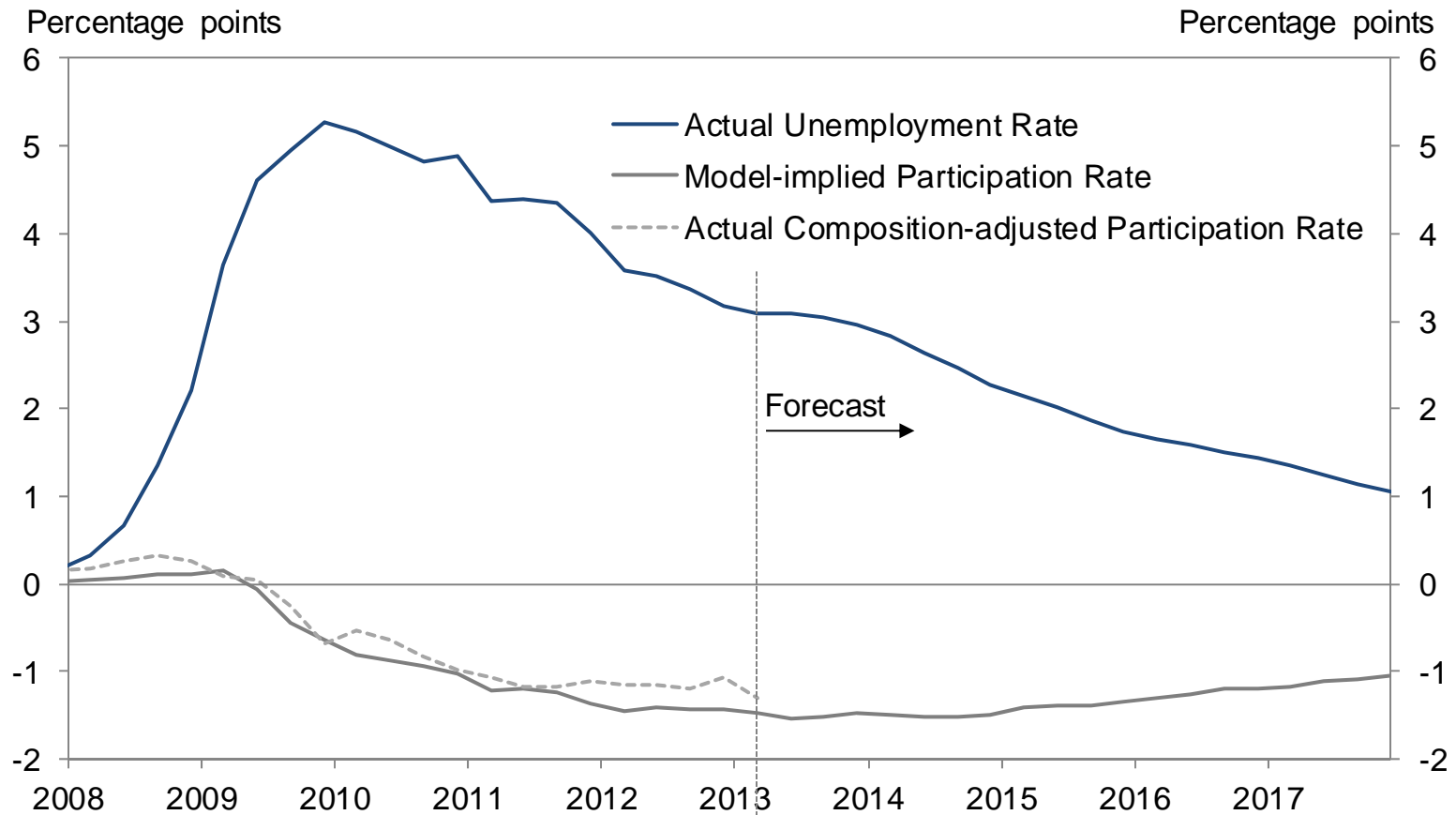
Demographics Explain 1.2pt Participation Drop



Source: Department of Labor. GS Global ECS Research.

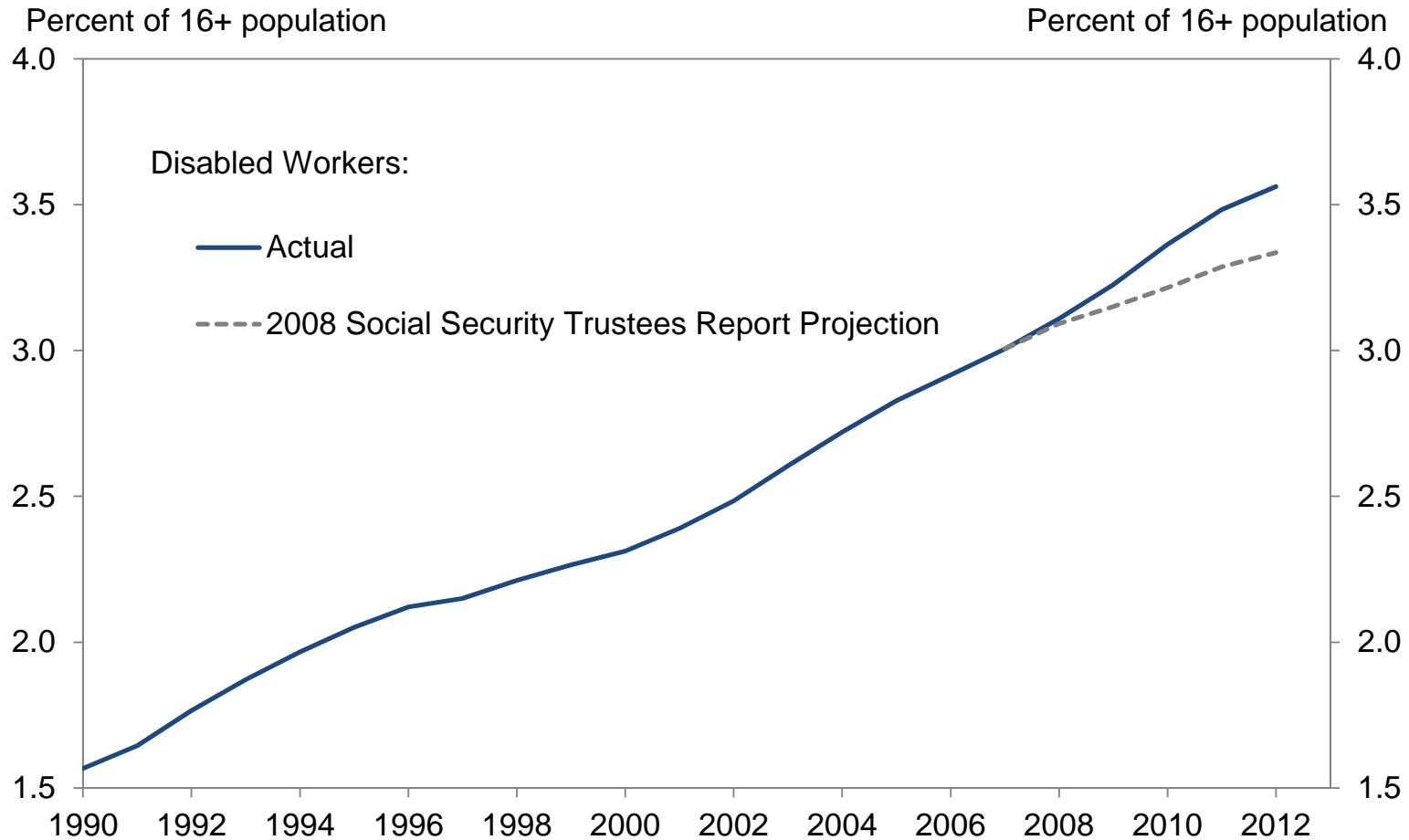
Labor Market Slack

The Cycle Explains the Remainder



Source: Department of Labor. GS Global ECS Research.

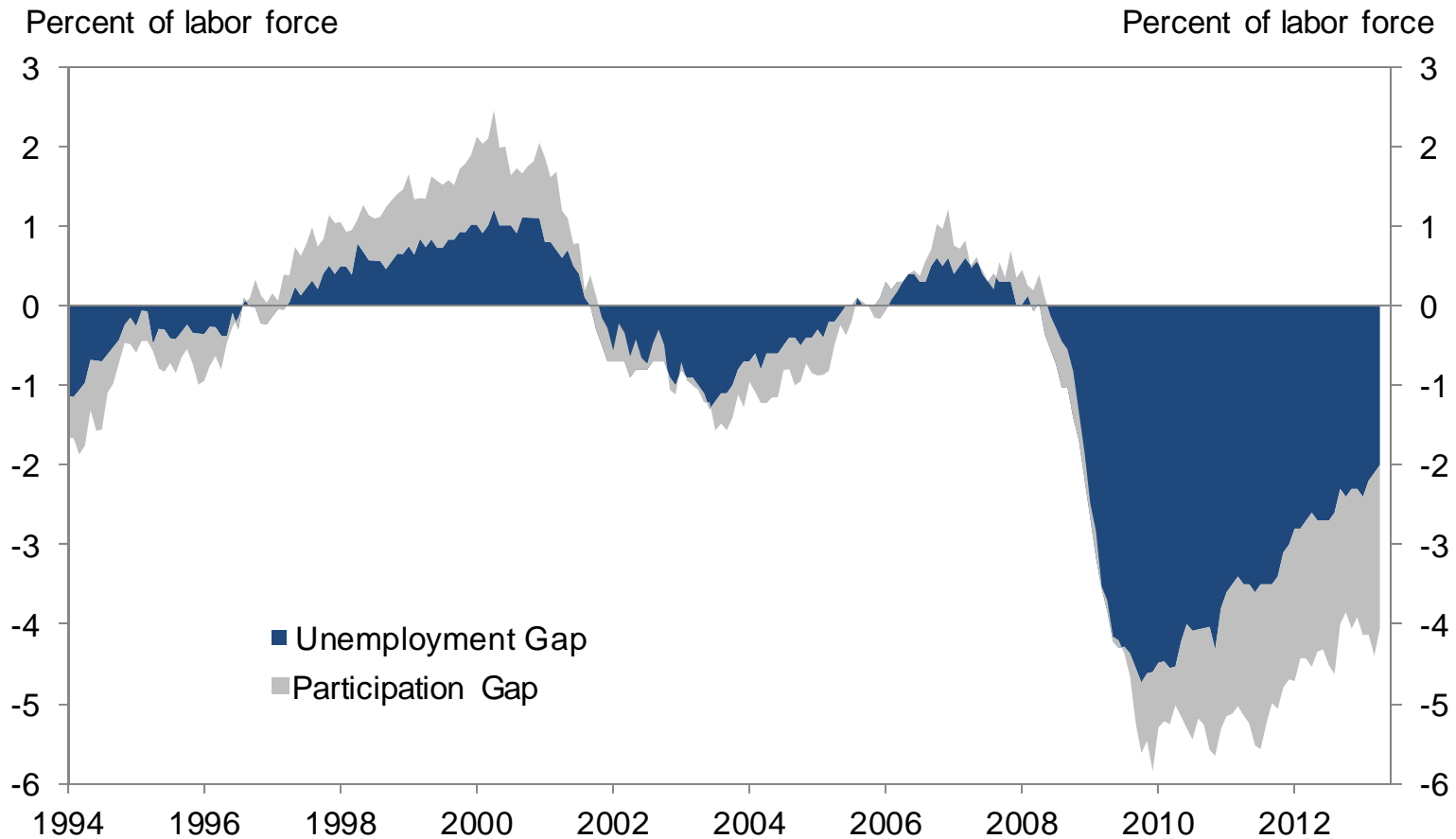
SSDI Hysteresis Effect Looks Small So Far



Source: Social Security Administration. GS Global ECS Research.

Labor Market Slack

Employment Is Still Far Below Potential



Source: Department of Labor. GS Global ECS Research.

Labor Market Momentum

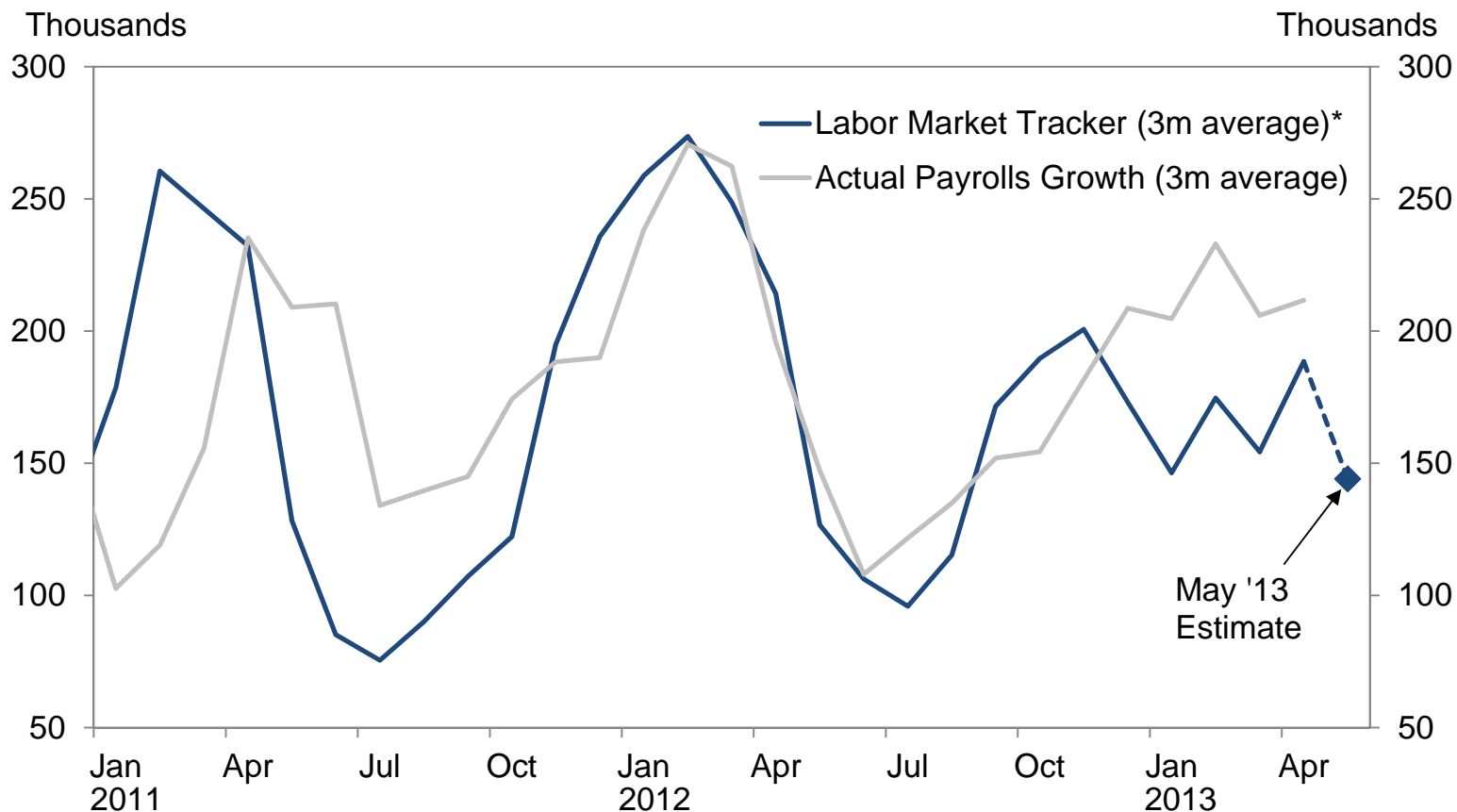
Payrolls Are at the Top End of the Range...

Indicator	Group	Transformation	Weight*	Reference Month	Implied Payrolls
Layoff Rate	Layoffs	change	-4.7%	Mar-13	252
Payrolls	Employment	change	8.6%	Apr-13	212
Long-Term Unemployment	Unemployment	change	-5.0%	Apr-13	210
Unemployment Rate	Unemployment	change	-6.5%	Apr-13	202
Continuing Claims	Layoffs	change	-7.1%	May-13	177
Hours Worked	Employment	% change	6.3%	Apr-13	168
Insured Unemployment Rate	Layoffs	change	-7.0%	May-13	165
Initial Claims	Layoffs	change	-4.2%	May-13	141
Exhaustion Rate	Layoffs	change	-1.1%	Mar-13	137
Job Availability (Conf Board)	Survey	level	4.8%	Apr-13	132
Job Openings Rate	Hiring	change	2.2%	Mar-13	130
Flows from Nonpart. To Empl.	Hiring	change	1.8%	Apr-13	128
Part-time Workers	Unemployment	change	-3.8%	Apr-13	127
Quits Rate	Hiring	change	1.0%	Mar-13	127
Separations Rate	Layoffs	change	0.0%	Mar-13	127
Hires Rate	Hiring	change	1.0%	Mar-13	125
Participation Rate	Unemployment	change	1.8%	Apr-13	122
Pop/Empl Ratio	Employment	change	6.4%	Apr-13	119
Hard-to-Fill (NFIB)	Survey	level	1.8%	Apr-13	112
HH Employment	Employment	change	6.7%	Apr-13	112
Duration of Unemployment	Unemployment	change	-2.3%	Apr-13	92
Hiring Plans (Manpower)	Hiring	level	3.3%	2013Q2	68
Expectations (Conf Board)	Survey	level	7.0%	Apr-13	54
Hiring Plans (NFIB)	Hiring	level	5.5%	Apr-13	4

* Share of total loadings. Note: Implied payroll growth is expressed as 3m avg.

Source: GS Global ECS Research.

...And Broader Measures Look More Moderate



* First principal component of key US labor market indicators; scaled to nonfarm payrolls growth.
 Source: GS Global ECS Research.

Core PCE Is at the Bottom End of the Range

Indicator	Group	Weight*	Reference Month	Last Value (YoY)	Implied Core PCE	Implied Headline PCE
Core PPI	Prices	2.2%	Apr-13	1.70	2.39	
Unit Labor Costs	Wages	4.3%	2013Q1	0.60	2.19	
Import Prices ex-Petroleum	Prices	2.7%	Apr-13	-0.26	2.05	
Michigan 5-year Expectations	Expectations	8.6%	Apr-13	2.90	1.78	
Median CPI	Prices	9.1%	Apr-13	2.06	1.63	
Core CPI	Prices	10.4%	Apr-13	1.70	1.59	
Market-based Core PCE	Prices	9.7%	Mar-13	1.31	1.54	
SPF 10-year Expectations	Expectations	8.3%	2013Q2	2.30	1.50	
Average Hourly Earnings	Wages	2.3%	Apr-13	1.72	1.48	
TIPS-implied 5-10-year Inflation	Expectations	6.8%	Apr-13	2.25	1.41	
Trimmed-mean CPI	Prices	10.4%	Apr-13	1.64	1.37	
Trimmed-mean PCE	Prices	10.0%	Mar-13	1.43	1.15	
Employment Cost Index	Wages	5.5%	2013Q1	1.72	1.14	
Core PCE	Prices	9.8%	Mar-13	1.13	1.13	
Food**	Prices	33.3%	Apr-13	(several)		2.16
Energy***	Prices	20.5%	Apr-13	(several)		1.57
Headline PCE	Prices	6.8%	Mar-13	0.97		0.97

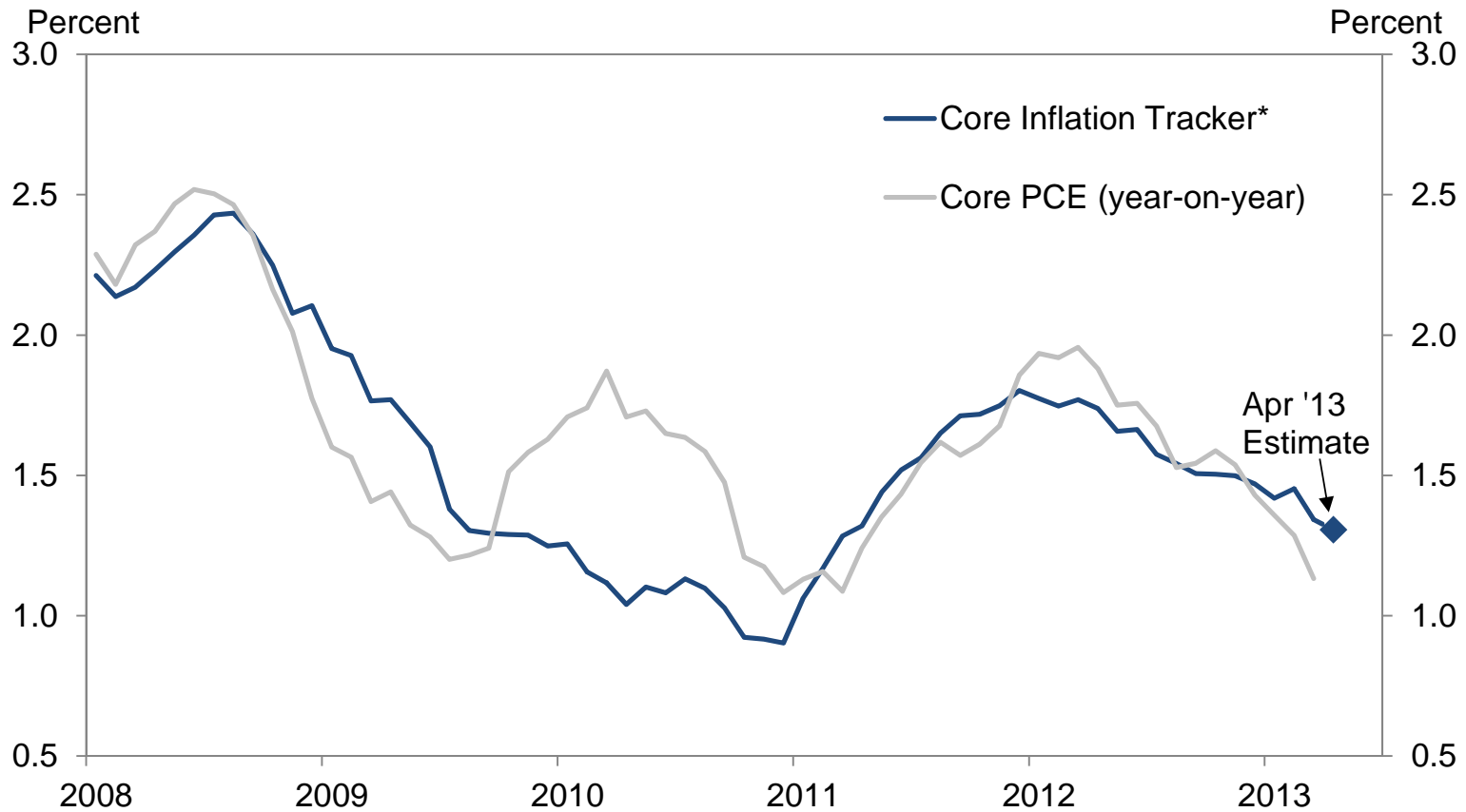
* Share of total loadings. Note: Implied inflation is expressed as year-over-year.

** Includes prices paid to farmers, GSCI, CRB-food, wheat, soy, and corn.

*** Includes gasoline, natural gas, crude oil, and ethanol.

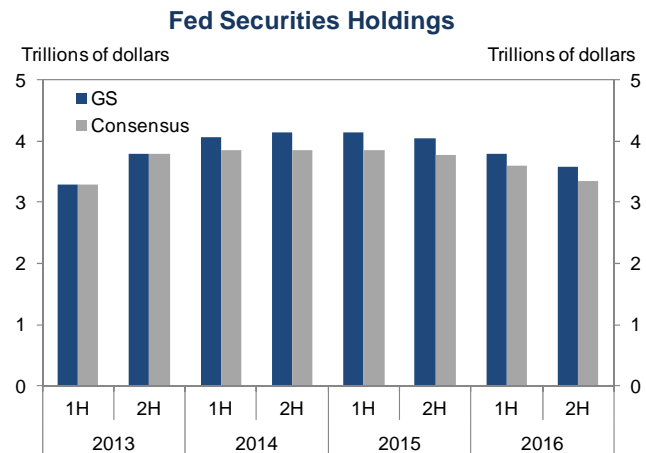
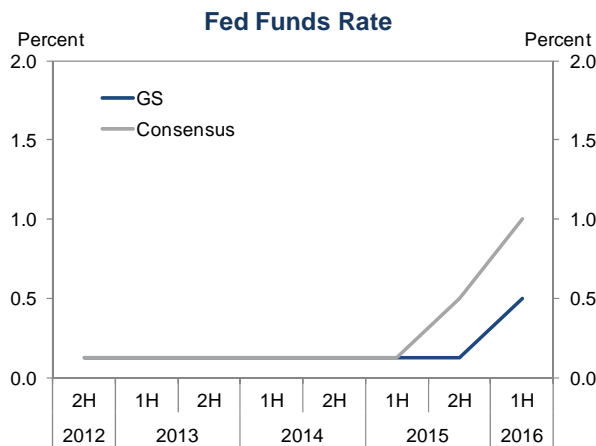
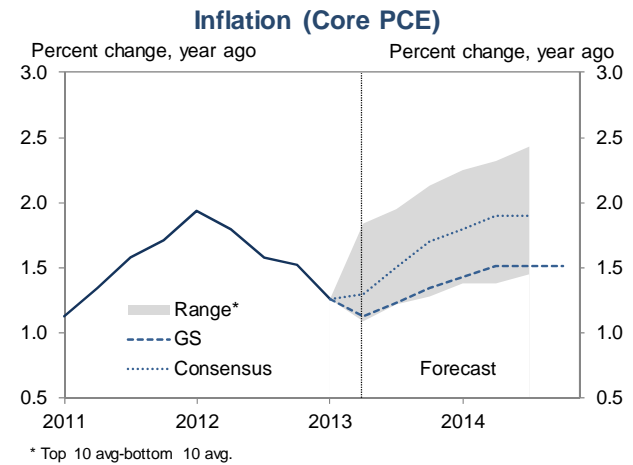
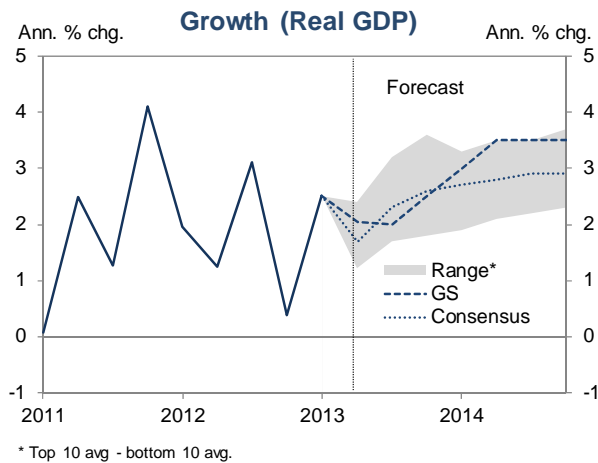
Source: GS Global ECS Research.

...But Broad Measures Have Also Slowed



* First principal component of key US inflation indicators; scaled to core PCE growth.
 Source: GS Global ECS Research.

Key US Economic Indicators: GS vs. Consensus



Actual Data
 Growth consensus from Blue Chip Consensus Forecasts (April 2013)
 Inflation consensus from Bloomberg
 Fed consensus from Survey of Primary Dealers (March 2013)

Source: Dept. of Commerce. Bloomberg. FRB New York. 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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