

Economic Update

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2011 Massachusetts Investor Conference

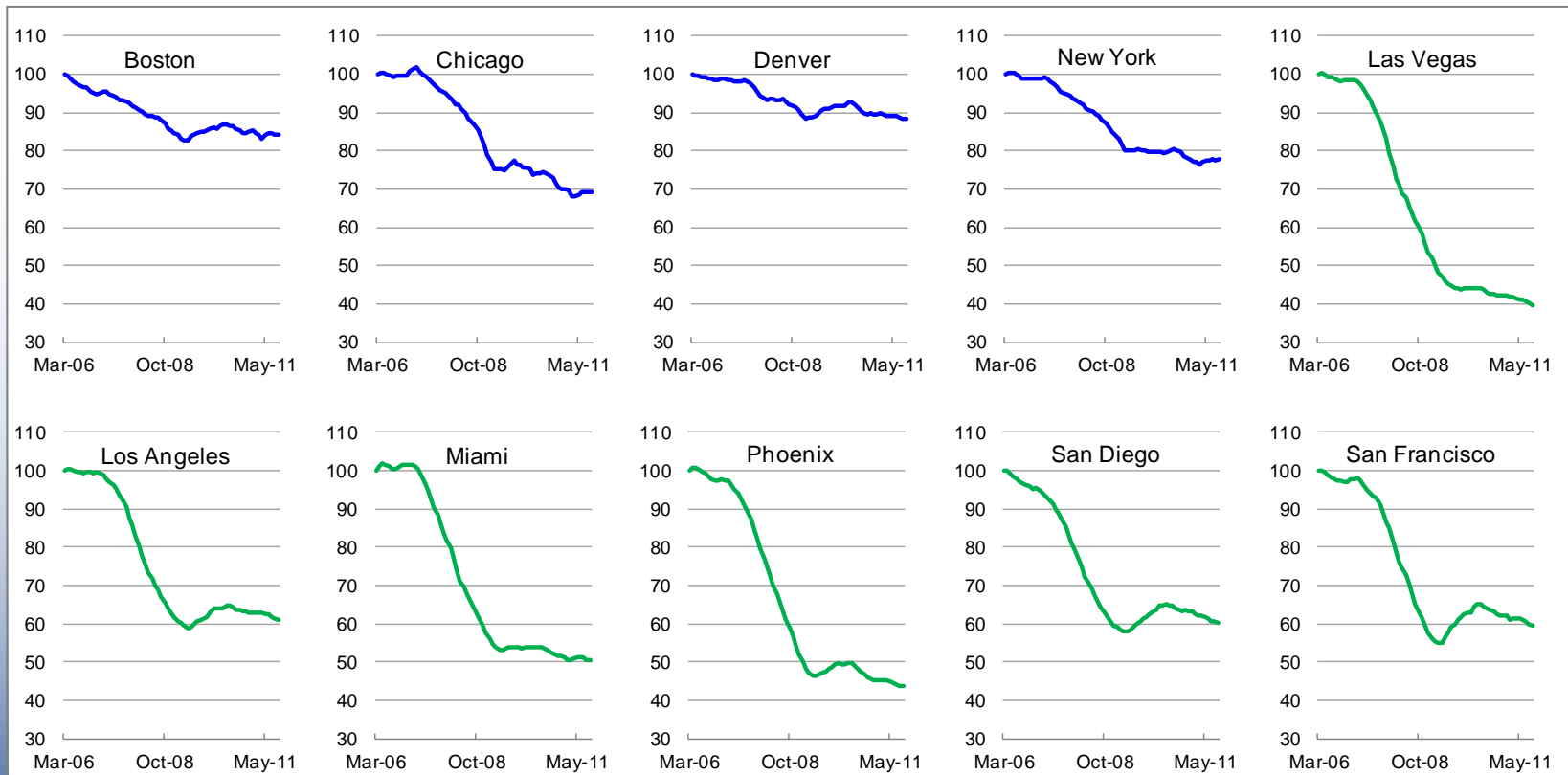
December 2, 2011

Figure 1

U.S. Regional Home Price Declines: S&P/Case-Shiller Metro Area Indexes

March 2006 - September 2011

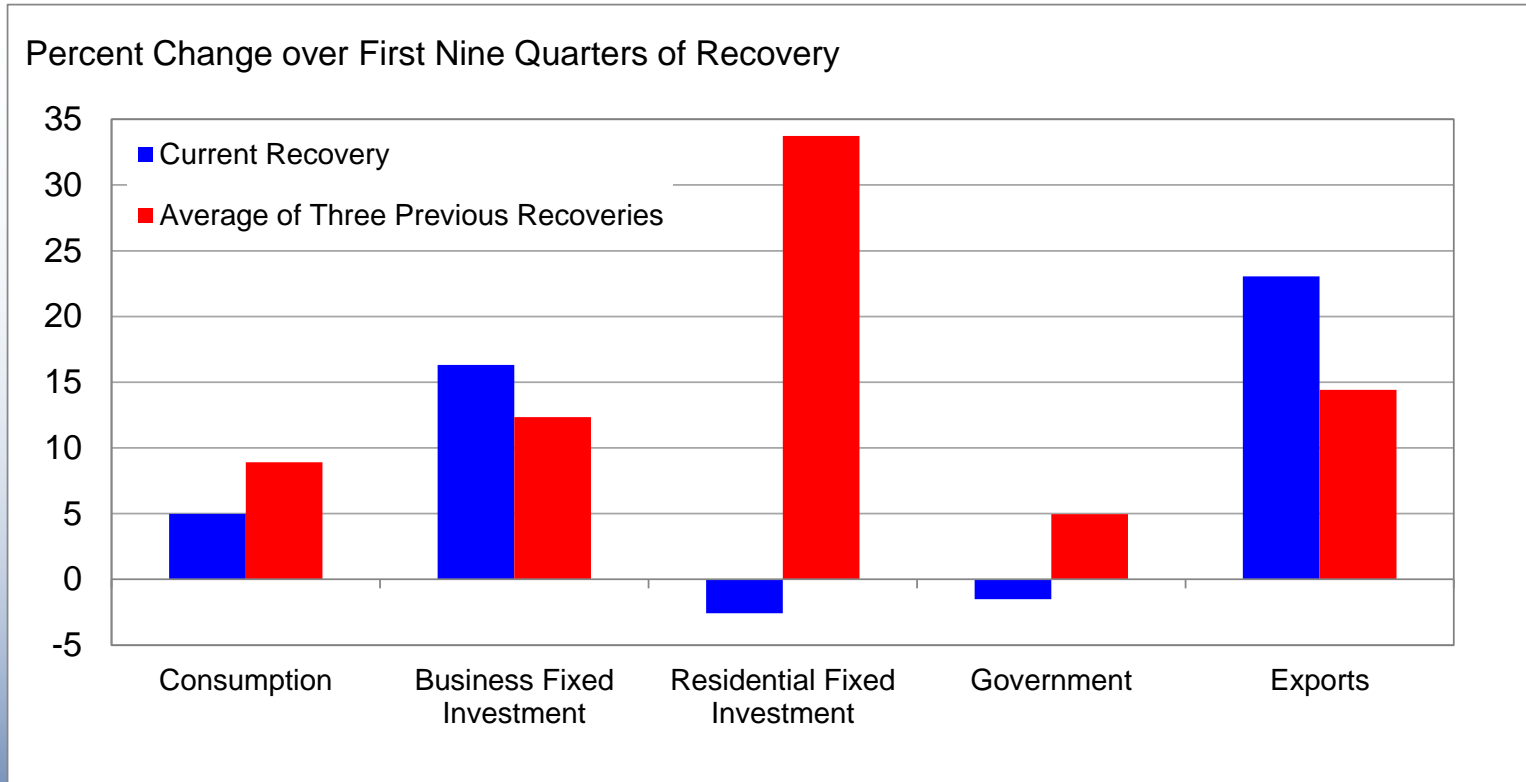
Index Level March 2006 = 100



Source: S&P/Case-Shiller / Haver Analytics

Figure 2

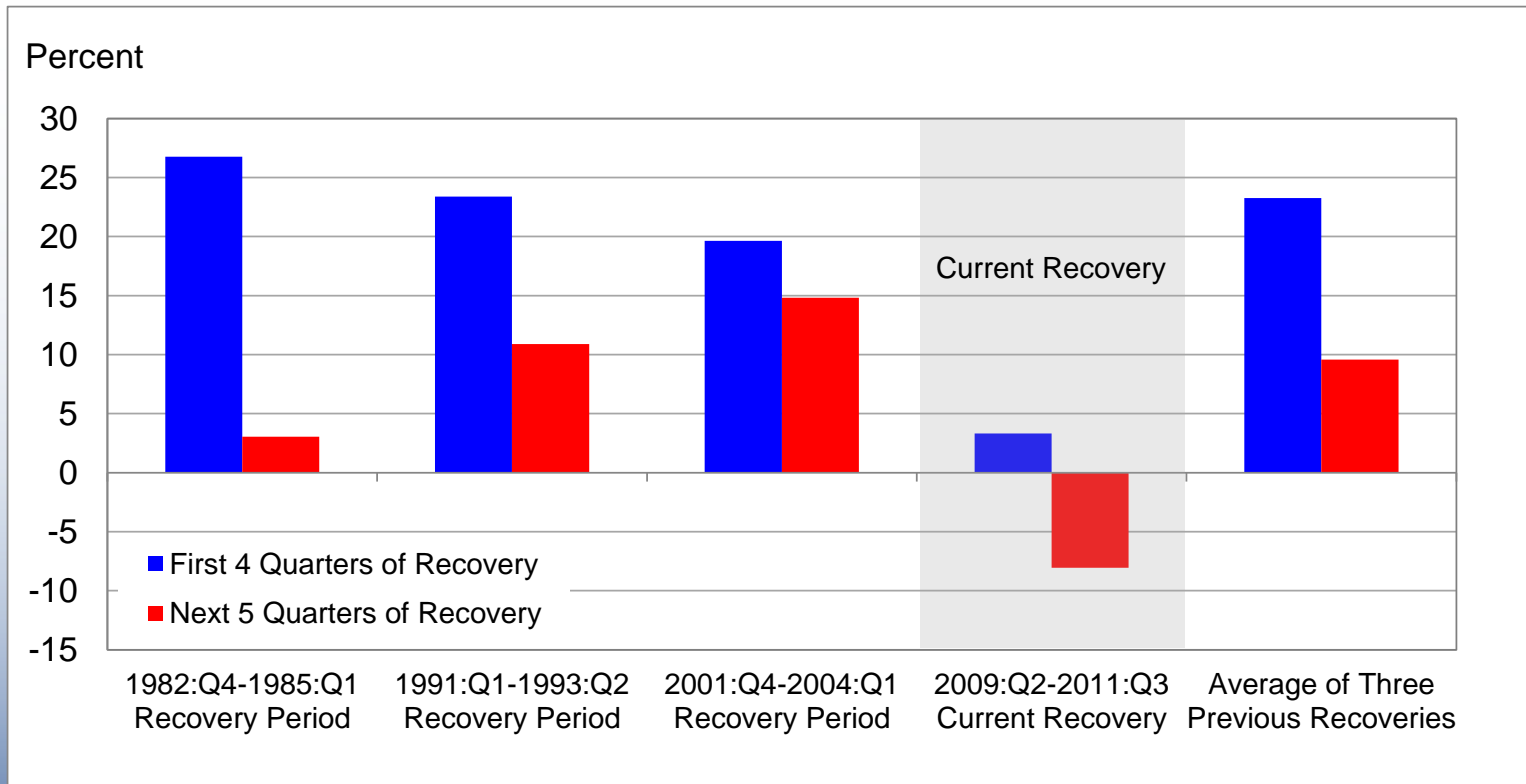
Growth in Real GDP Components: Current and Three Previous Recoveries



Source: BEA, NBER / Haver Analytics

Figure 3

Residential Investment Share of GDP Growth: Current and Three Previous Recoveries

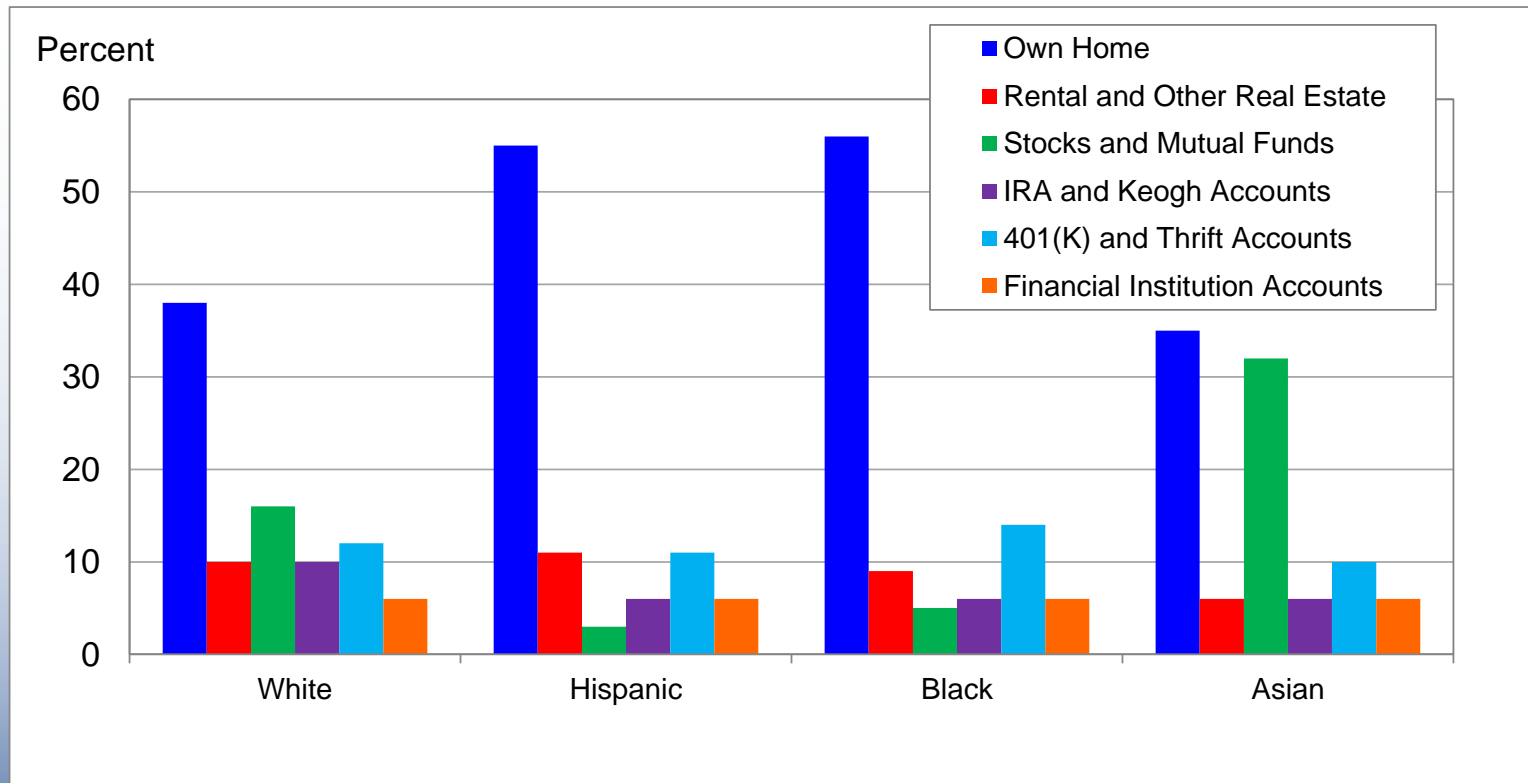


Source: BEA, NBER / Haver Analytics

Figure 4

Composition of Household Net Worth: Selected Components

2009



Source: Pew Research Center Tabulations of the Census Bureau's Survey of Income and Program Participation Data

Figure 5

Erosion of Home Equity of Households by Race and Ethnicity

2005 - 2009

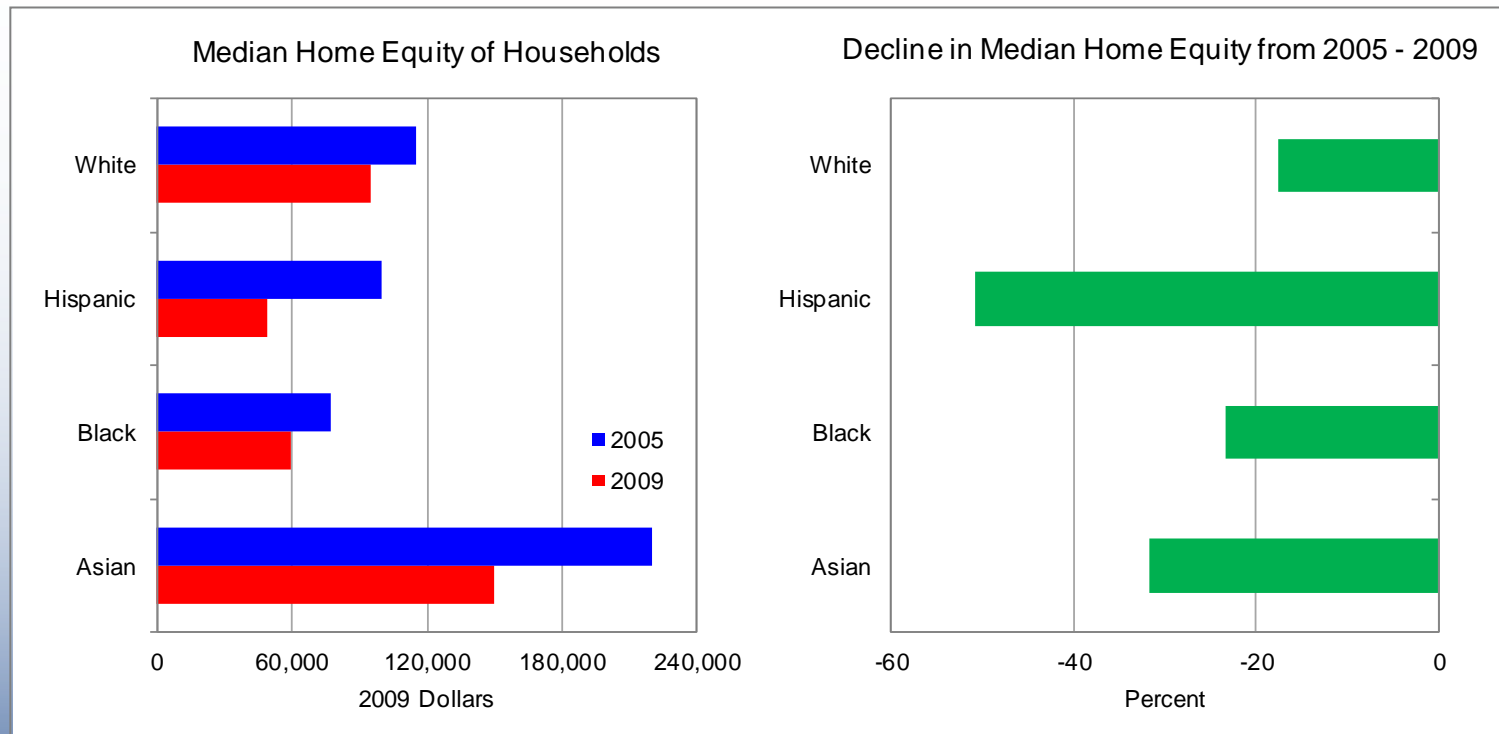
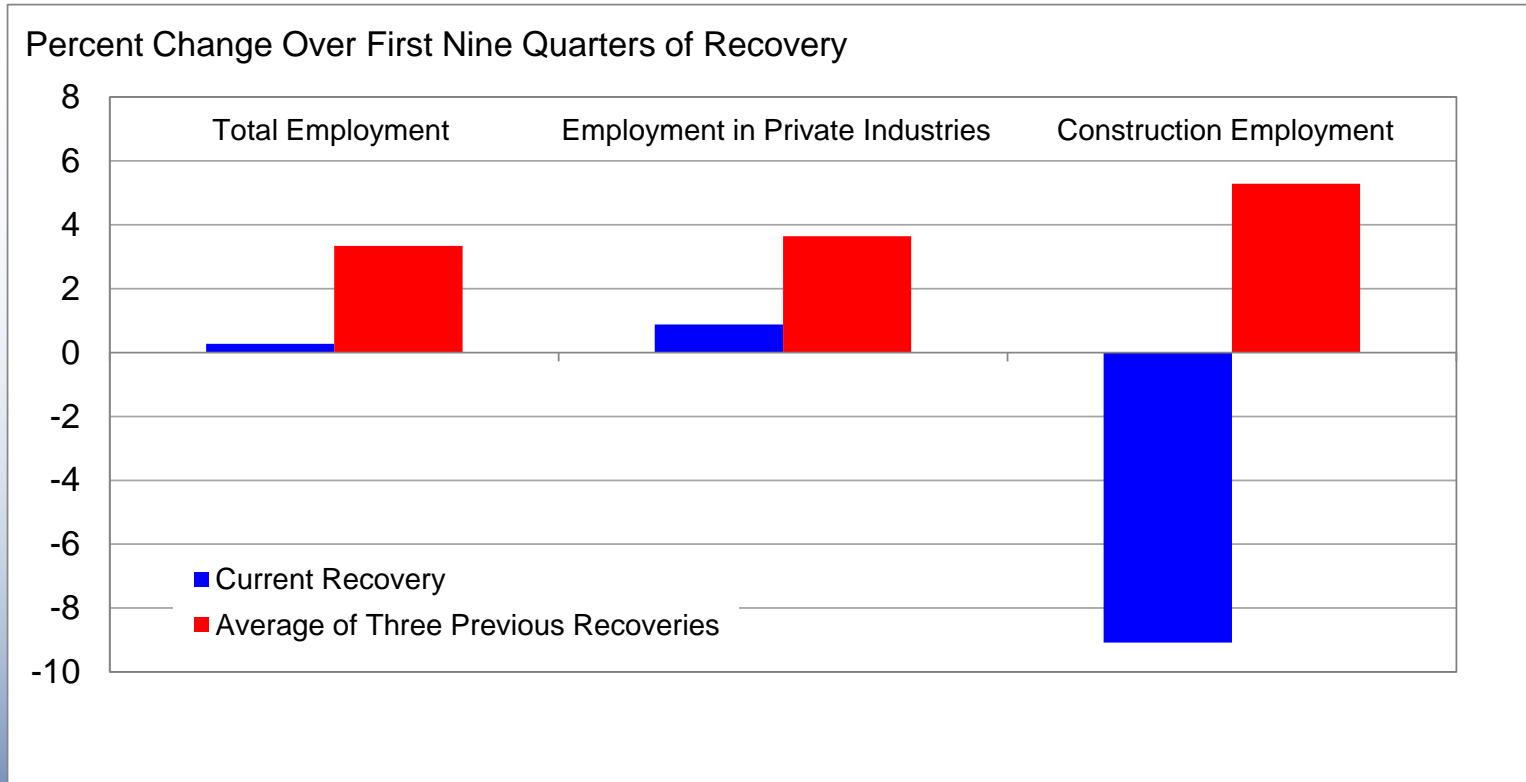


Figure 6

Employment Growth: Current and Three Previous Recoveries

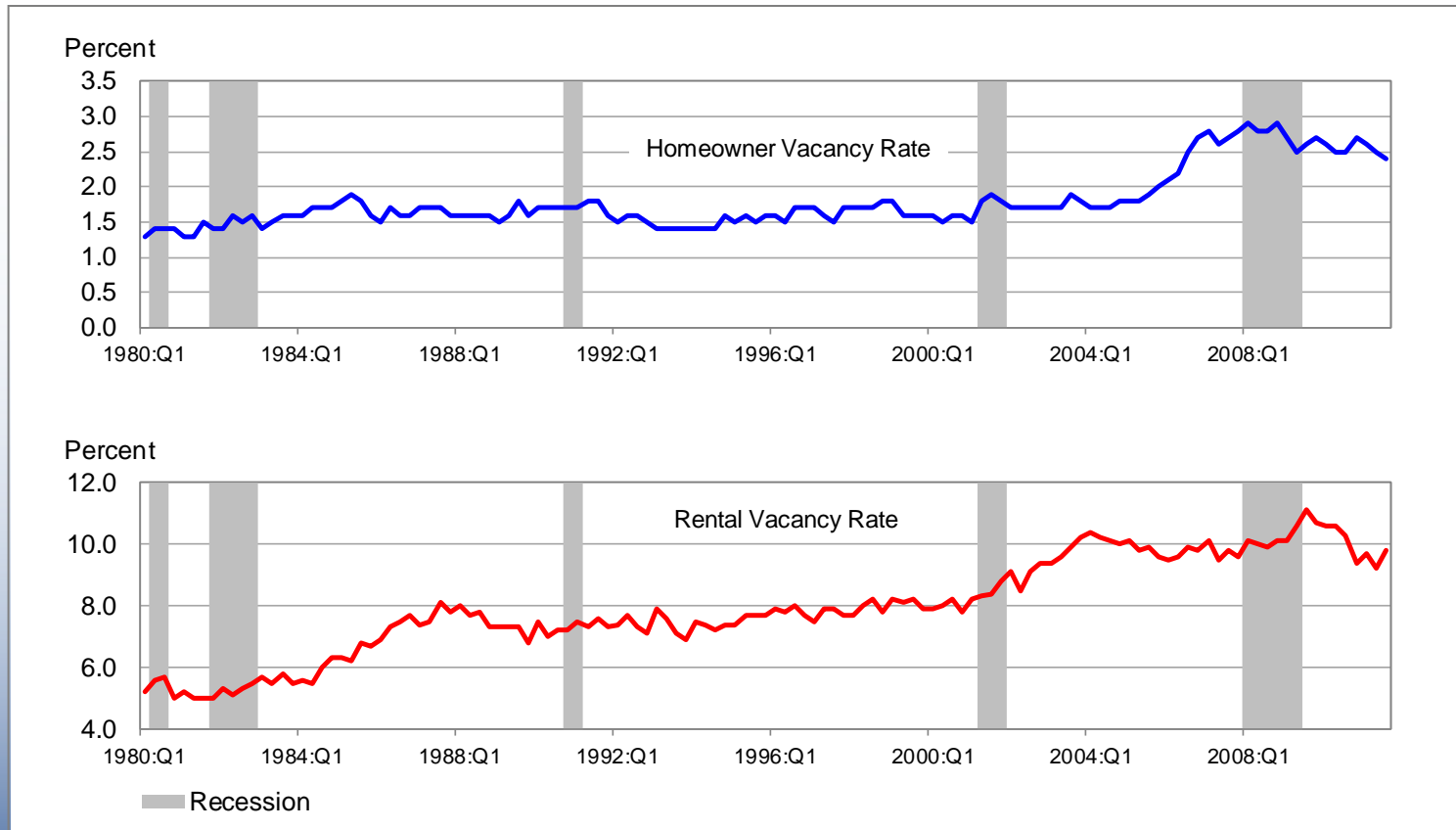


Source: BLS, NBER / Haver Analytics

Figure 7

Homeowner and Rental Vacancy Rates

1980:Q1 - 2011:Q3



Source: Census Bureau, NBER / Haver Analytics

Housing has been a Major Impediment to Stronger Growth

- Problems in housing have greatly complicated the U.S. recovery
- Residential investment has been unusually weak relative to previous recoveries
- Consumption, business formation, and employment have also been affected by problems in the housing sector

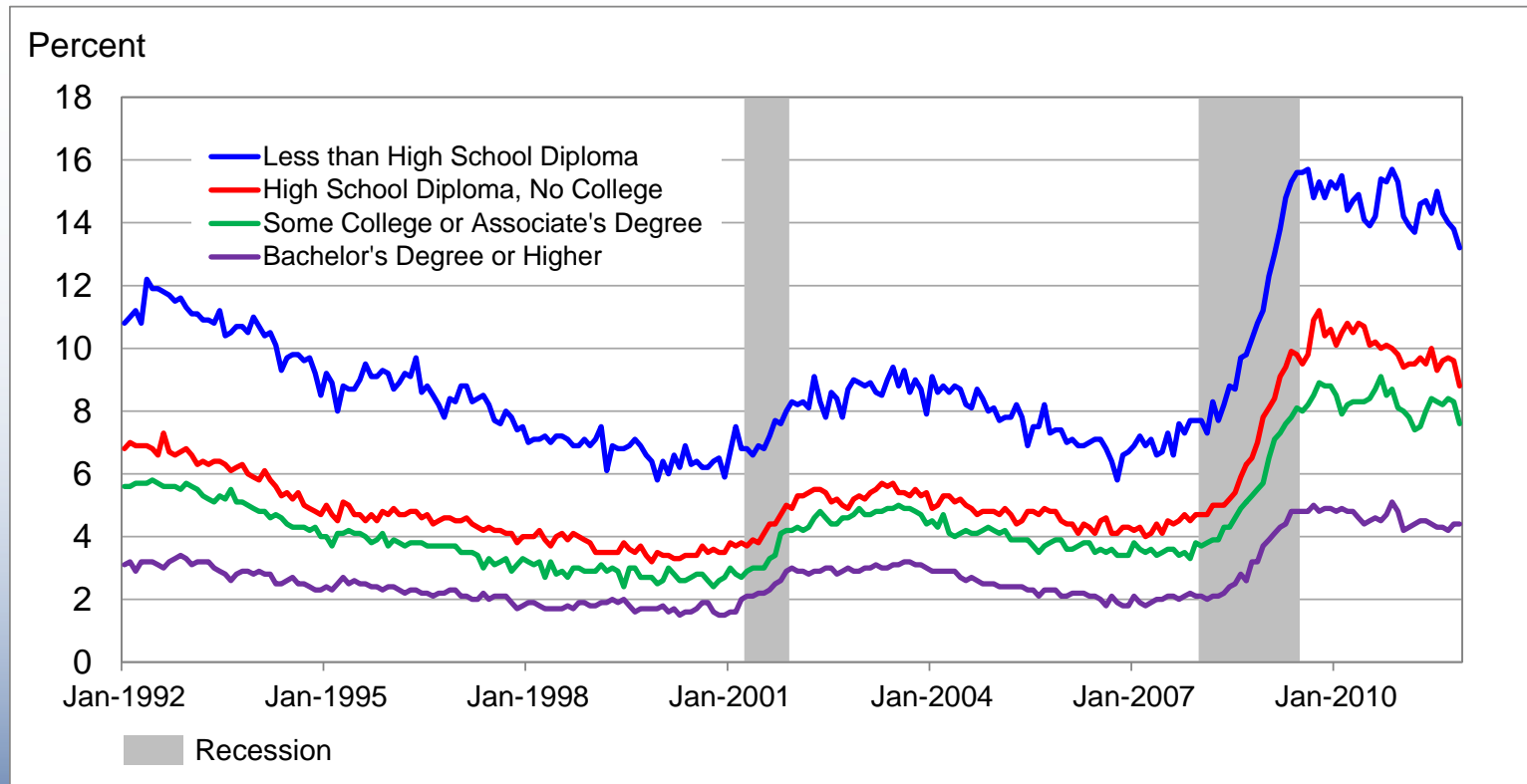
Housing Prices and Monetary Policy

- Falling prices discourage home purchases and many borrowers are unable to refinance
- This has impacted the ability of monetary policy to have its usual effect on an important interest-sensitive sector
- Monetary policy accommodation would have a greater impact if households were able to respond to the lower rates

Figure 8

U.S. Unemployment Rate for Population Age 25 and Older by Educational Attainment

January 1992 - November 2011



Source: BLS, Census Bureau, NBER / Haver Analytics

Figure 9

Changes in Unemployment Rate by Educational Attainment

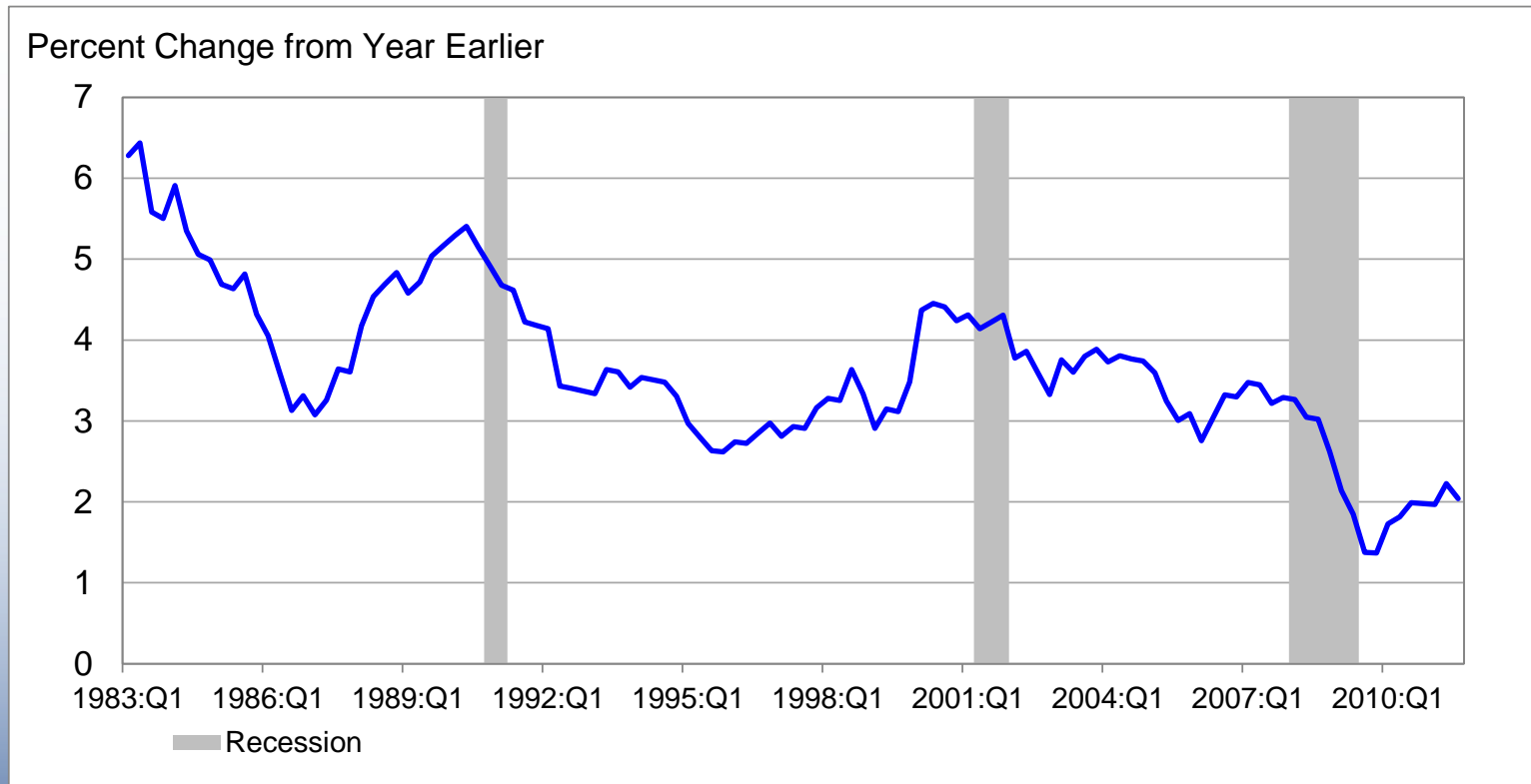
Educational Attainment	Unemployment Rate		
	Business Cycle Peak December 2007	Current November 2011	Peak-to-Current Percent Change
Less than High School Diploma	7.7%	13.2%	+ 71%
High School Diploma, No College	4.7%	8.8%	+87%
Some College or Associate's Degree	3.8%	7.6%	+100%
Bachelor's Degree or Higher	2.1%	4.4%	+110%

Note: Figures are for population age 25 and older
Source: Census Bureau, BLS / Haver Analytics

Figure 10

Employment Cost Index for Civilian Workers

1983:Q1 - 2011:Q3

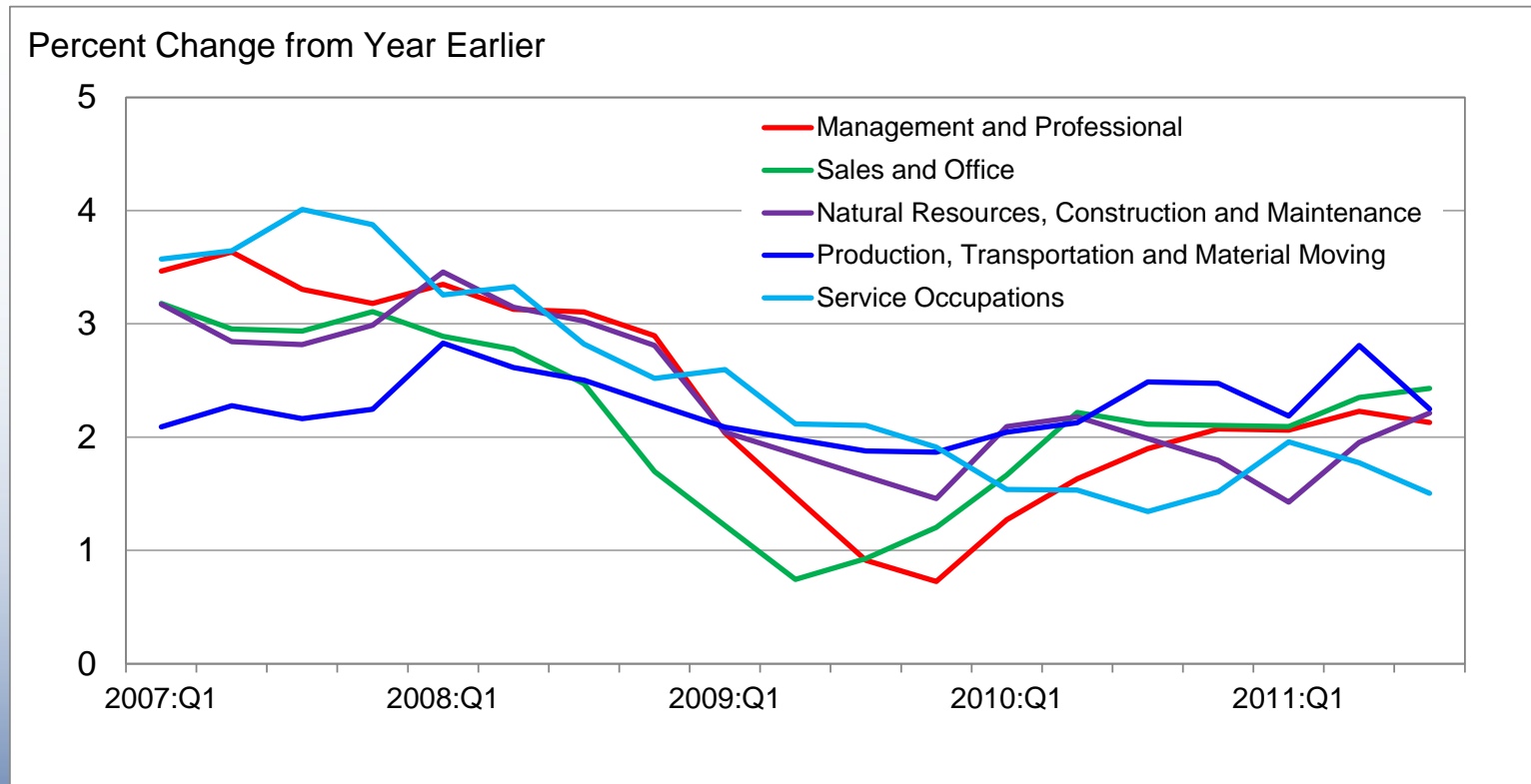


Source: BLS, NBER / Haver Analytics

Figure 11

Employment Cost Index for Civilian Workers by Occupational Group

2007:Q1 - 2011:Q3

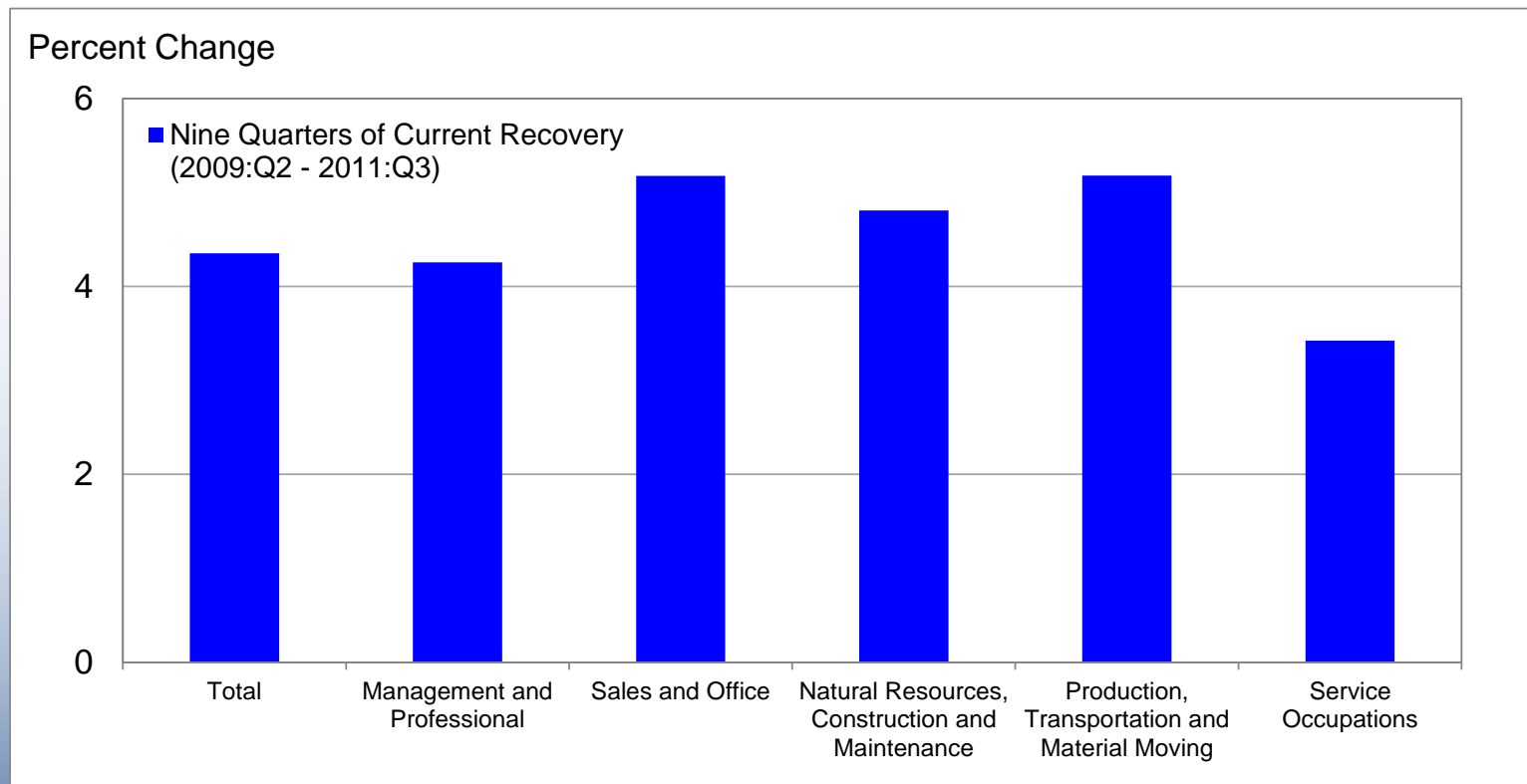


Source: BLS / Haver Analytics

Figure 12

Employment Cost Index for Civilian Workers by Occupational Group

2009:Q2 - 2011:Q3

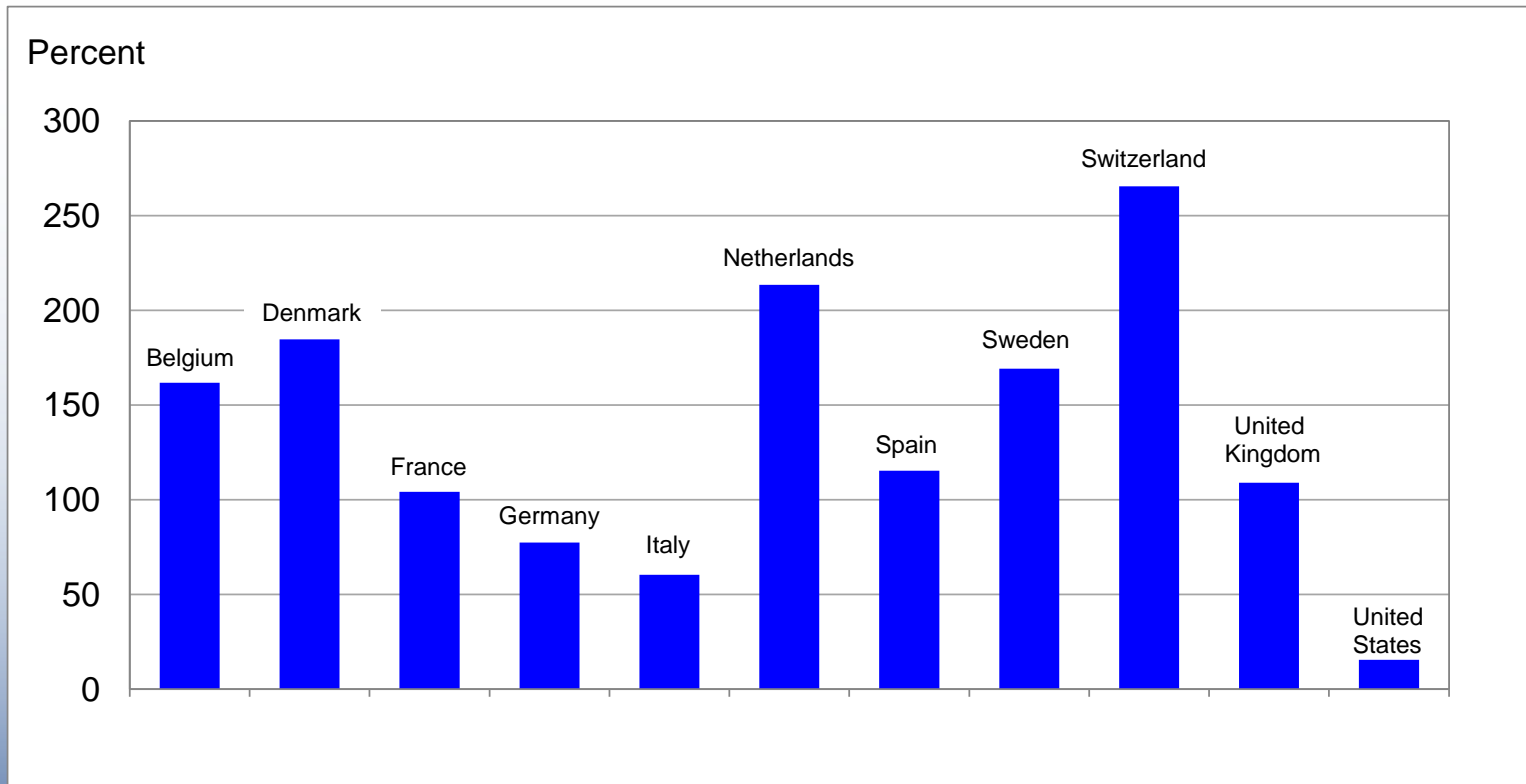


Source: BLS / Haver Analytics

Figure 13

Bank Size Relative to Country Size: Assets of Largest Bank as a Share of GDP

as of Year End 2010



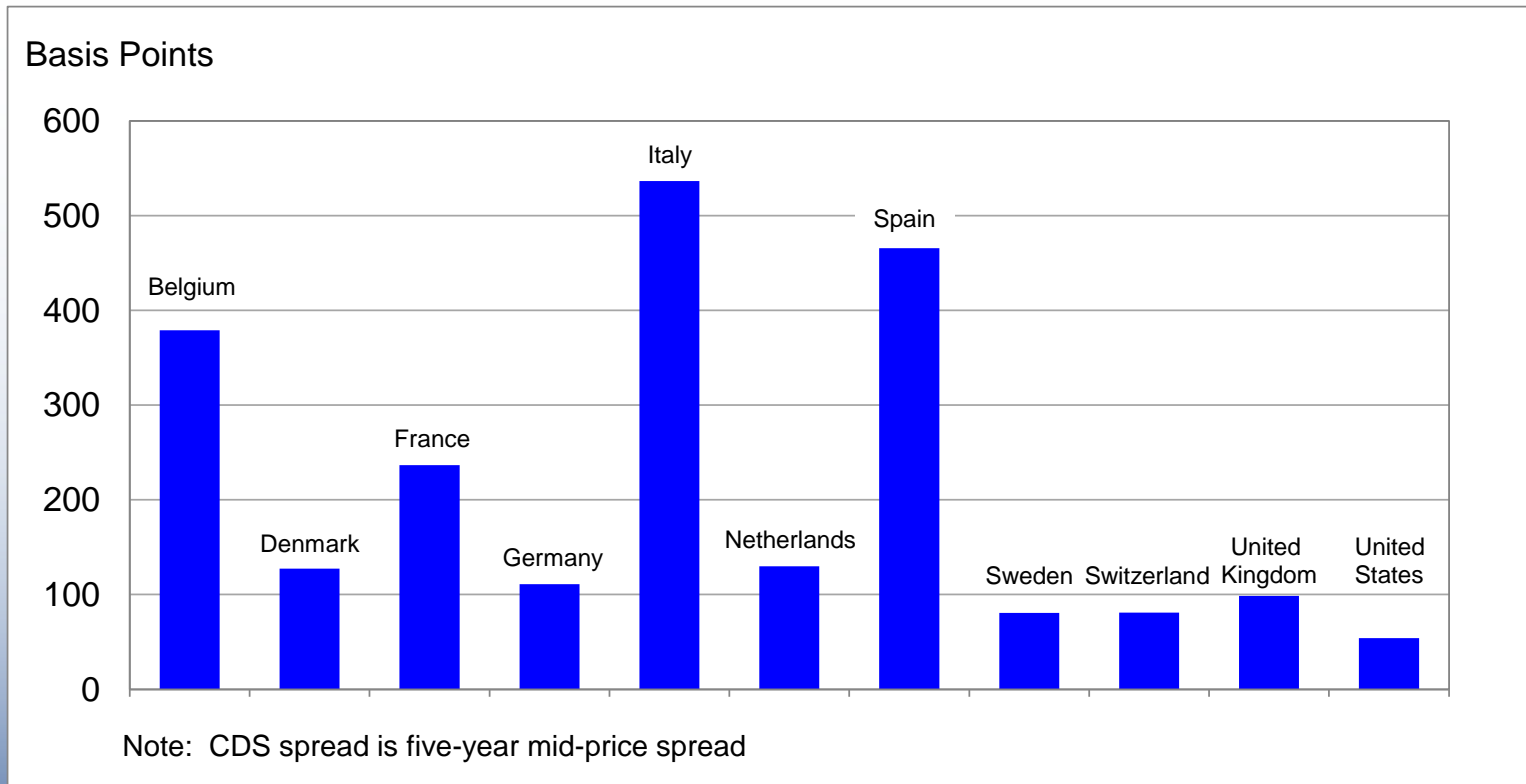
Note: Includes the U.S. and all European countries with a bank ranked in the top 50 worldwide as of year end 2010

Source: Global Finance, IMF

Figure 14

Sovereign Credit Default Swap Spreads

as of November 28, 2011



Note: Includes the U.S. and all European countries with a bank ranked in the top 50 worldwide as of year end 2010

Source: Bloomberg

Figure 15

Stock Prices of Largest Banks in Europe and the United States

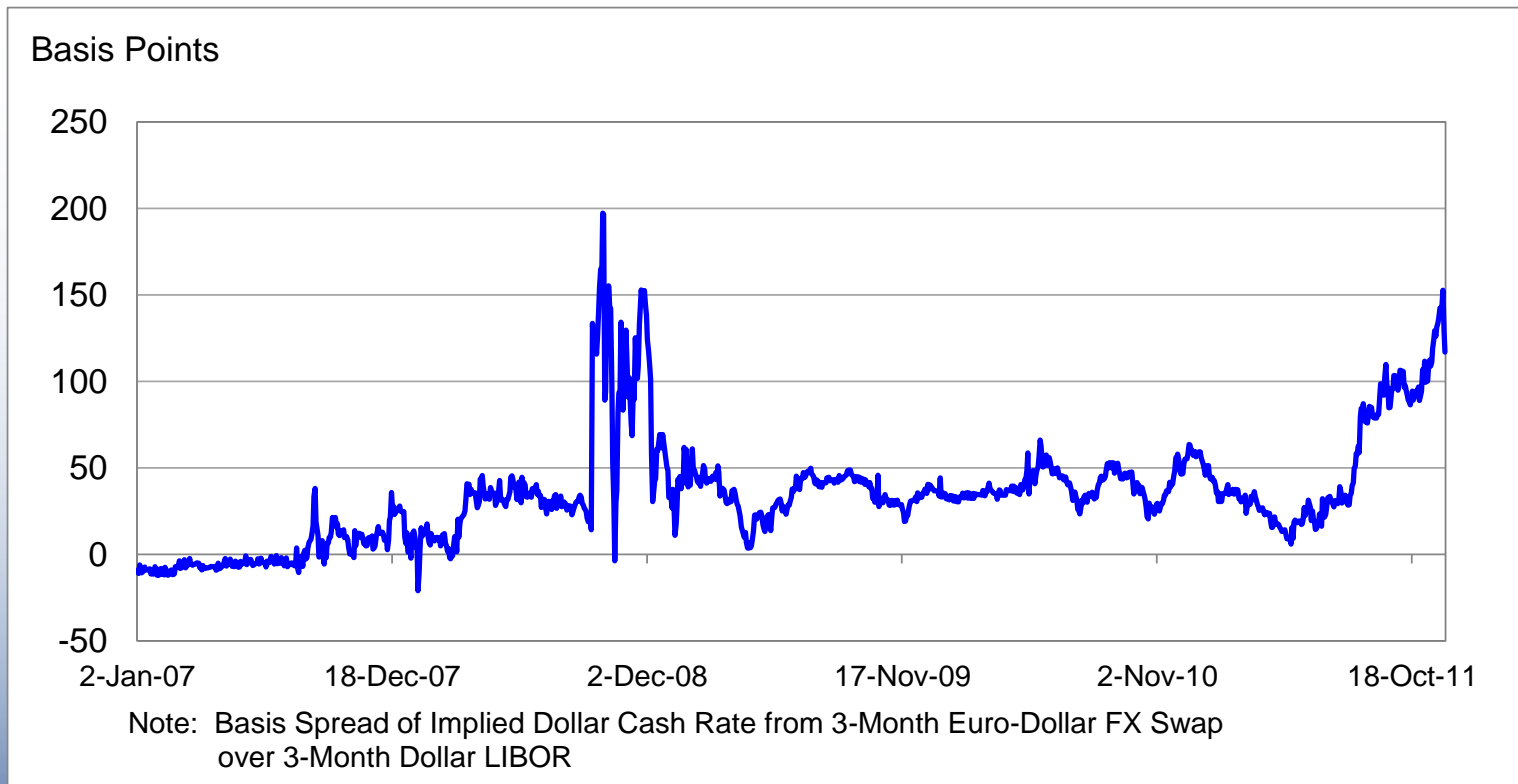
Largest Banks in Groups of Five	Average Bank Assets Billion Dollars Dec 31, 2010	Average Stock Prices: Index Level Dec 29, 2006 = 100			Average Percent Change	
		Dec 30, 2008	Nov 28, 2011	Peak (Post 2006)	Peak to Nov 28, 2011	Year End 2010 to Nov 28, 2011
Five Largest Banks	2,456	33	30	110	-72	-37
Next Five Largest Banks	2,019	30	22	104	-79	-44
Next Five Largest Banks	1,470	41	30	111	-73	-41
Next Five Largest Banks	1,028	34	22	118	-81	-50

Source: Global Finance, Bloomberg

Figure 16

Dollar Funding Pressures

January 2, 2007 - December 1, 2011



Source: British Bankers' Association, Deutsche Bundesbank, Financial Times / Haver Analytics

Recent FOMC Actions

- Expect short-term rates low until mid-2013
- Downward pressure on longer-term interest rates
- Extending the average maturity of our holdings of securities
- To support conditions in mortgage markets, reinvest principal payments from holdings of agency debt and mortgage-backed securities in agency mortgage-backed securities

Monetary Policy Cannot Fully Offset Problems, but Can Mitigate Some Effects

- Reducing unemployment by half a percent means 750,000 jobs
- Unemployment at 8.6% and medium term inflation restrained
- Goal is to restore economy to full employment and 2% inflation
- The sooner the economy improves the more quickly we can normalize interest rates