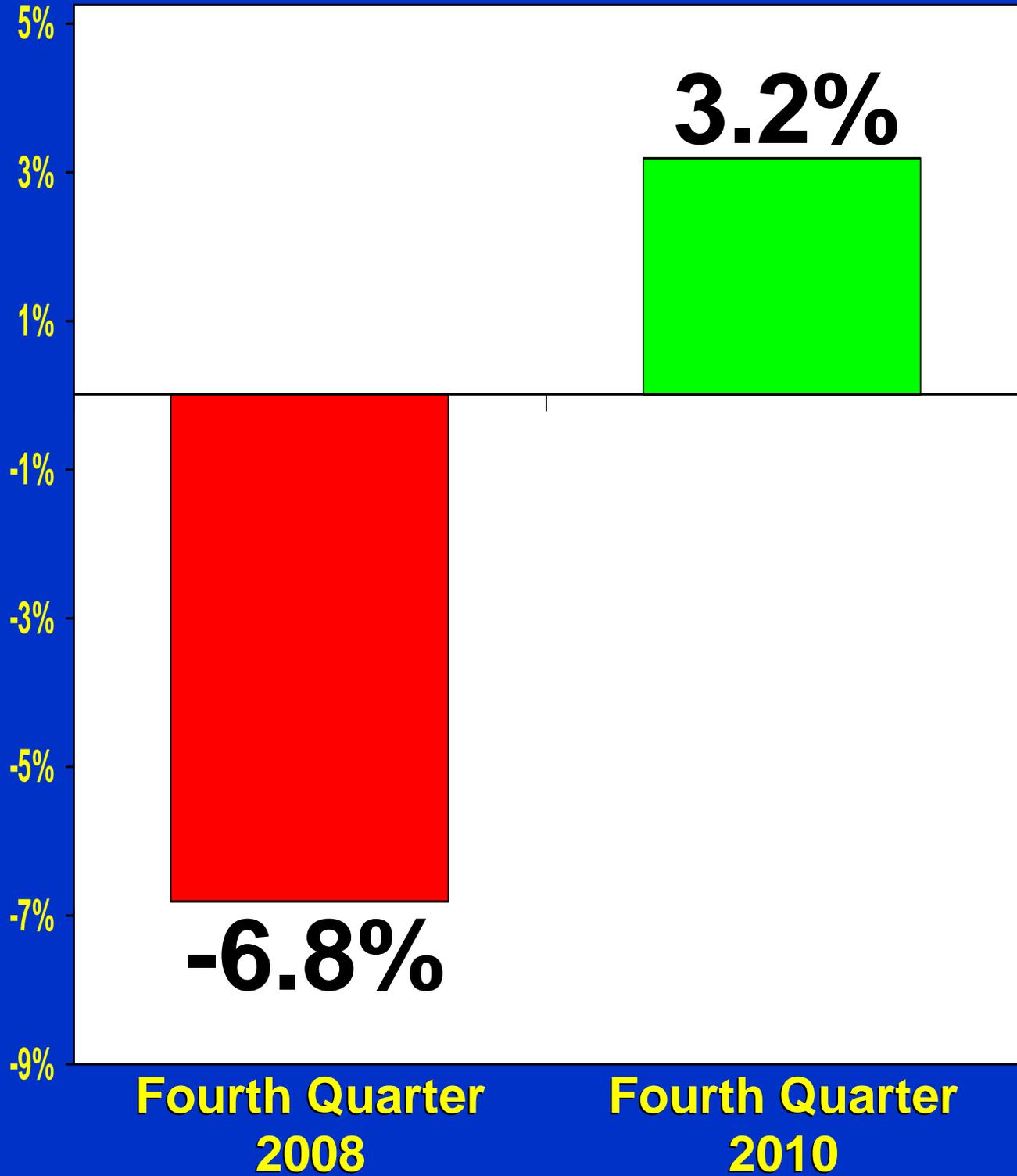


Economic Performance

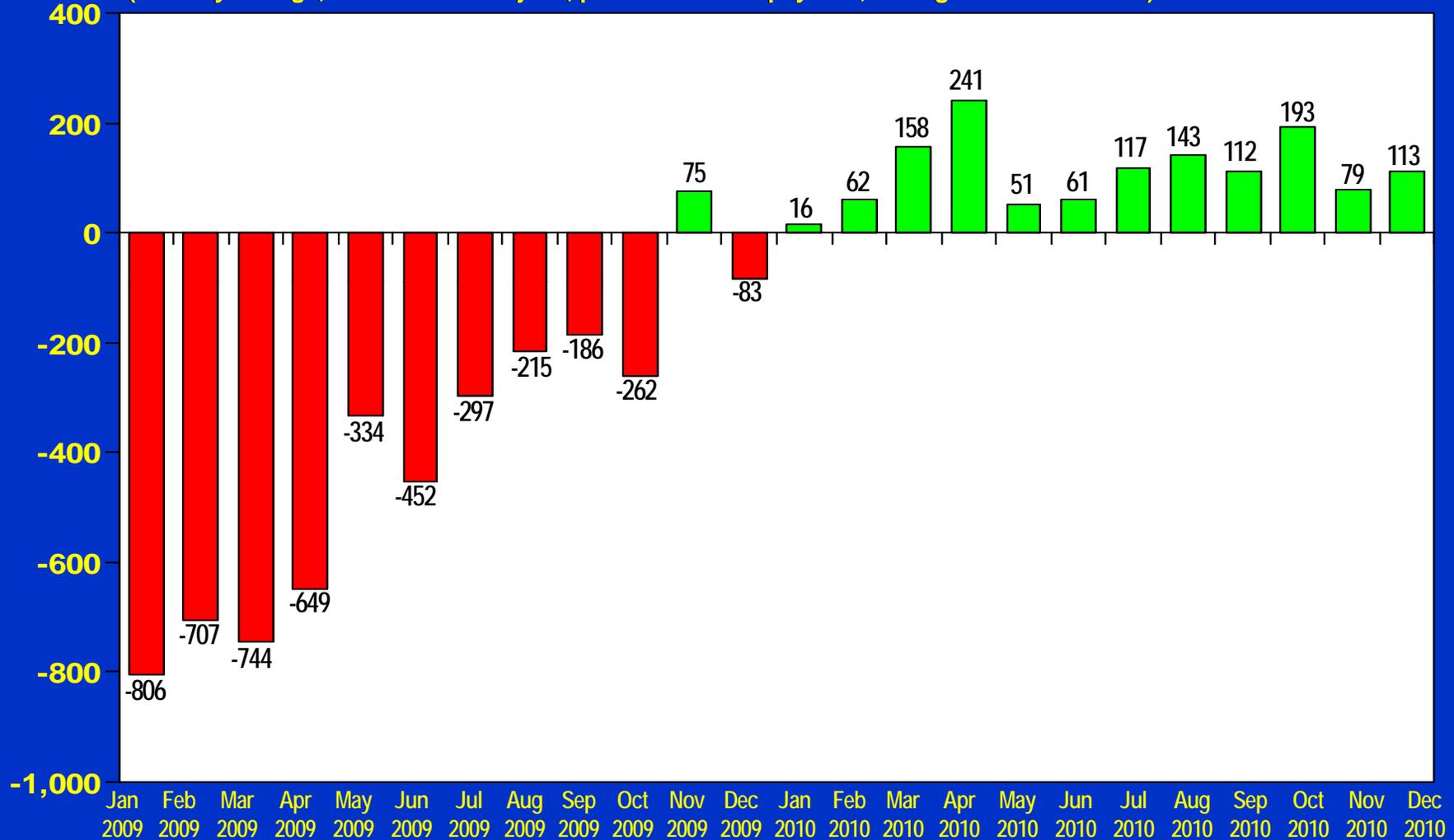
(Percent growth of real GDP, annual rate)



Source: Bureau of Economic Analysis, U.S. Department of Commerce

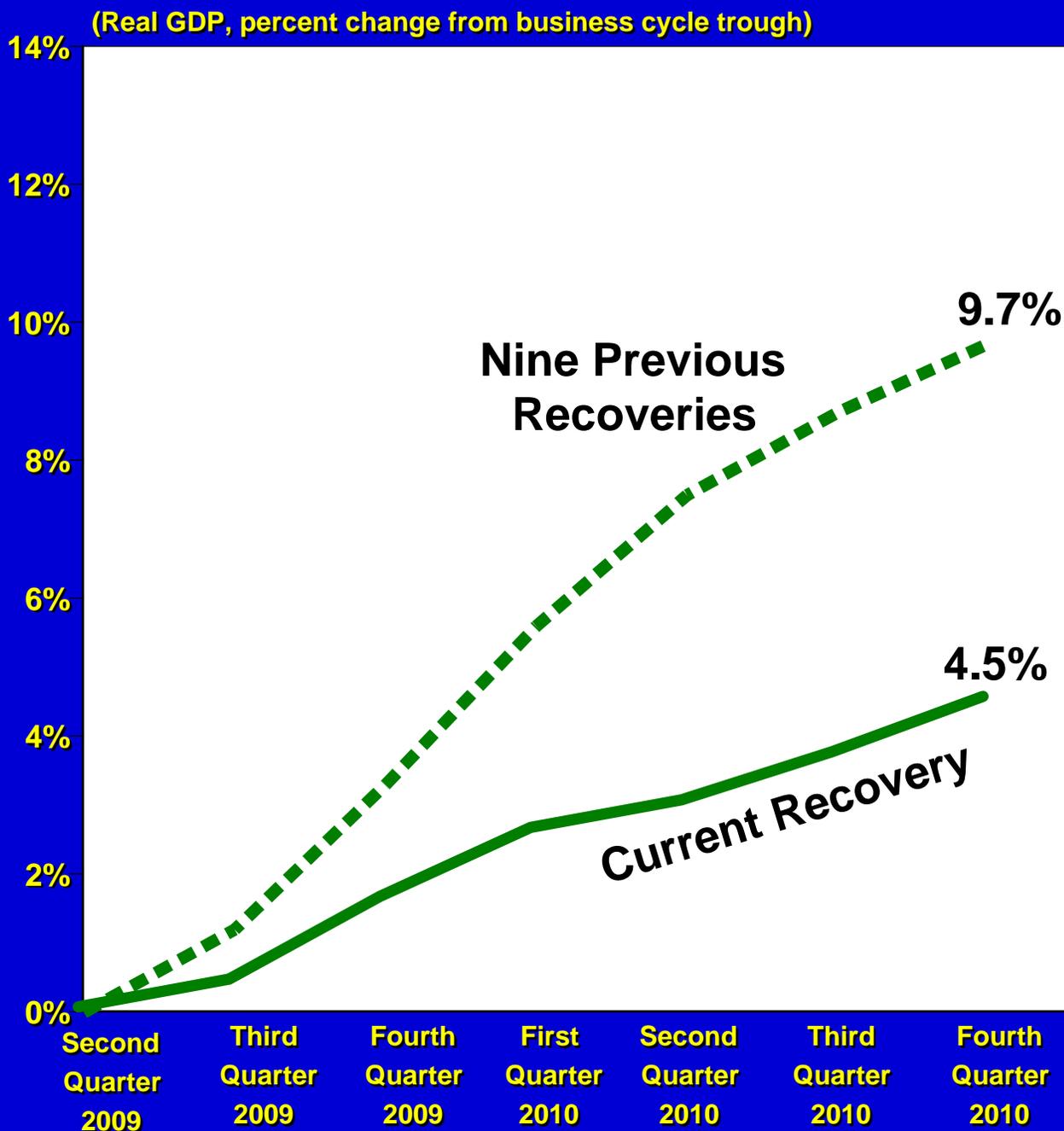
Private-Sector Jobs Picture

(Monthly change, in thousands of jobs, private nonfarm payrolls, through December 2010)



Sources: Bureau of Labor Statistics, U.S. Department of Labor

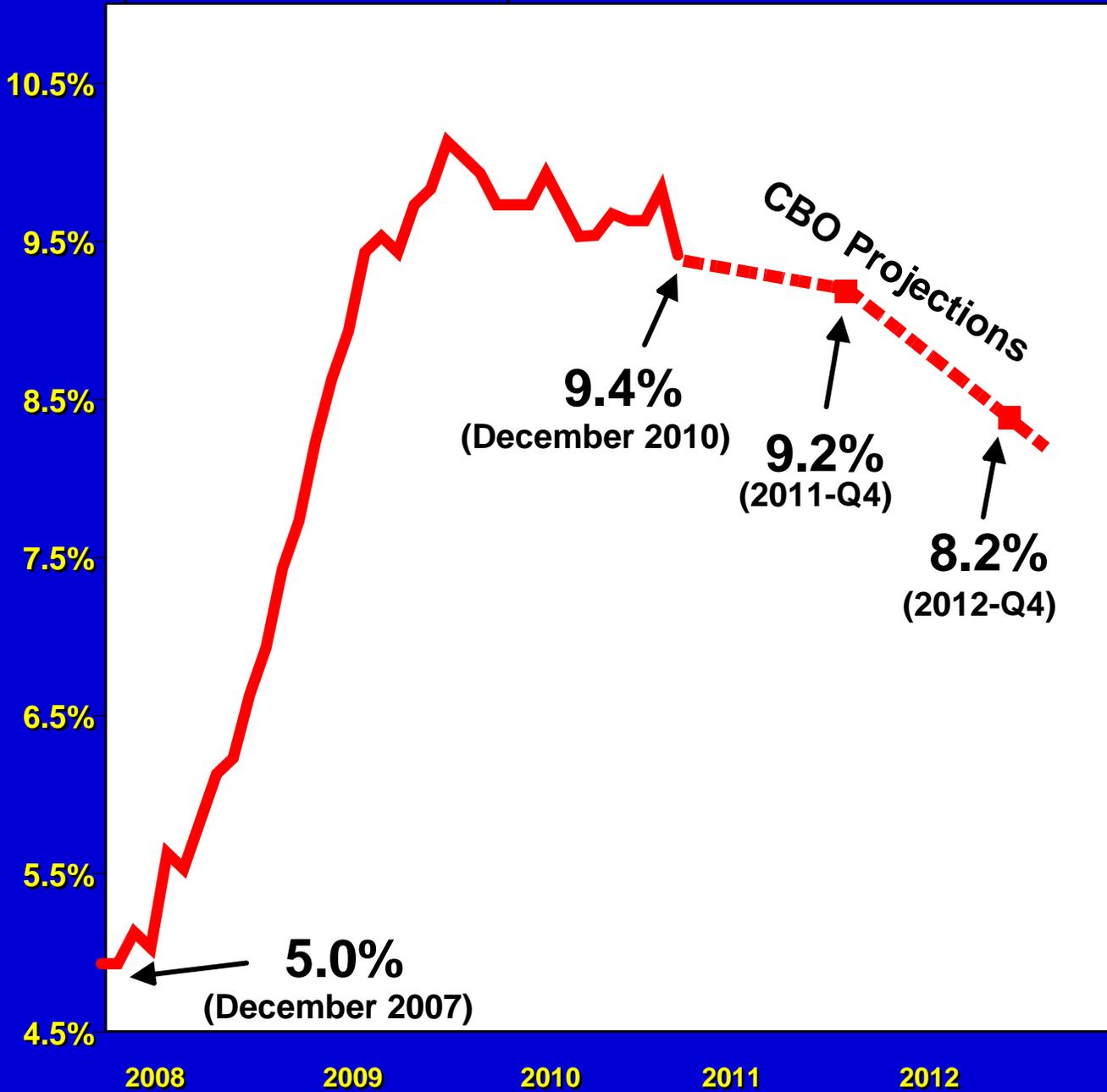
Economic Growth Lags Typical Recovery



Sources: SBC calculations using data from Bureau of Economic Analysis, U.S. Department of Commerce, and National Bureau of Economic Research (NBER).
Note: Median growth is calculated as the median of growth rates from the business cycle trough dates (as determined by the NBER): 1949-Q4, 1954-Q2, 1958-Q2, 1961-Q1, 1970-Q4, 1975-Q1, 1982-Q4, 1991-Q1, and 2001-Q4. The recovery that began in 1980-Q3 is omitted due to its proximity to the subsequent trough in 1982-Q4.

Unemployment Rate Remains High and is Projected to Decline Only Gradually

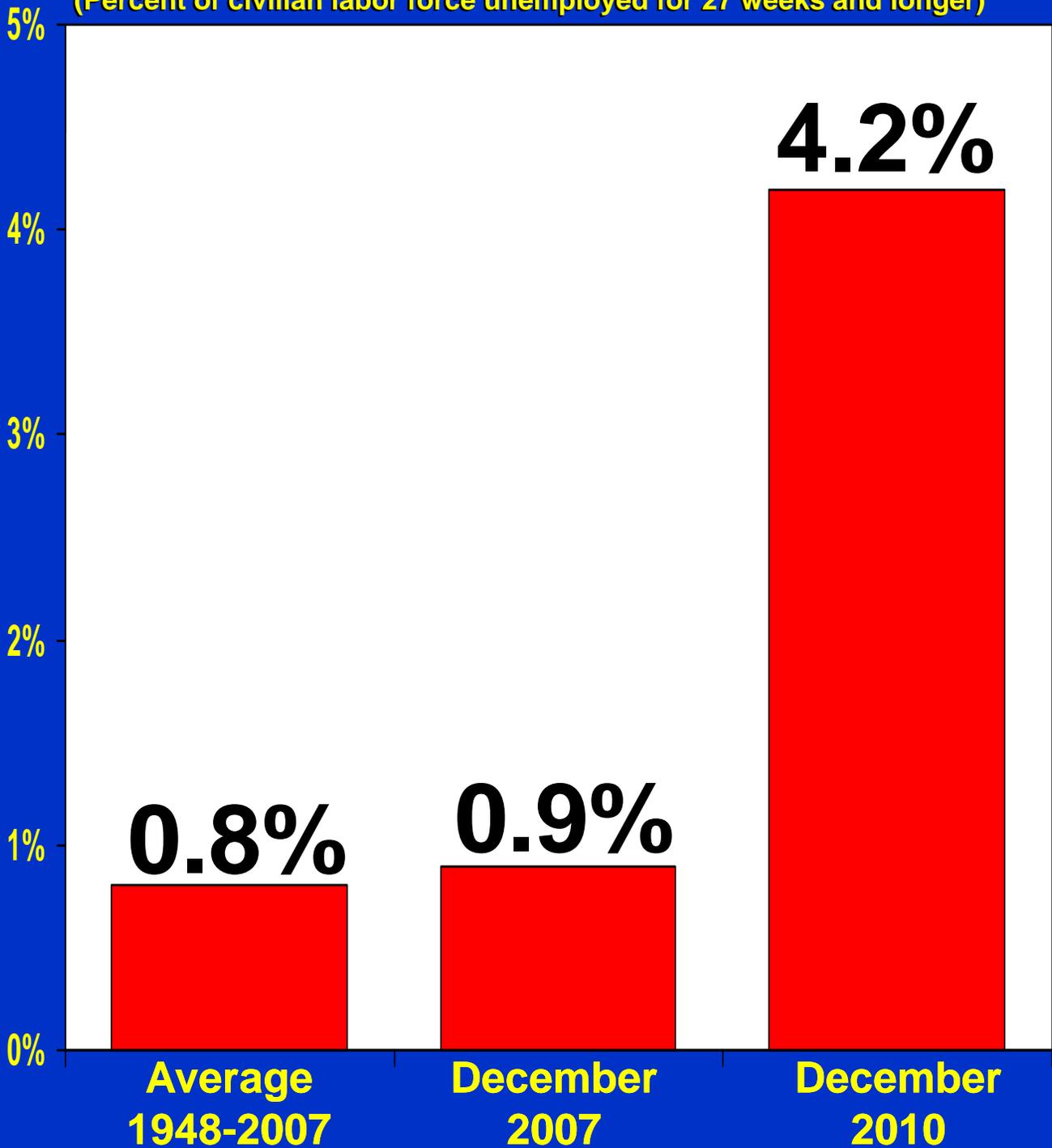
(Percent of civilian labor force)



Sources: Bureau of Labor Statistics, U.S. Department of Labor; CBO's The Budget and Economic Outlook: Fiscal Years 2011 to 2021 (January 2011).
Note: Projections were calculated by the SBC staff using published CBO estimates for fourth quarters of 2011 and 2012.

Long-Term Unemployment Up Sharply

(Percent of civilian labor force unemployed for 27 weeks and longer)

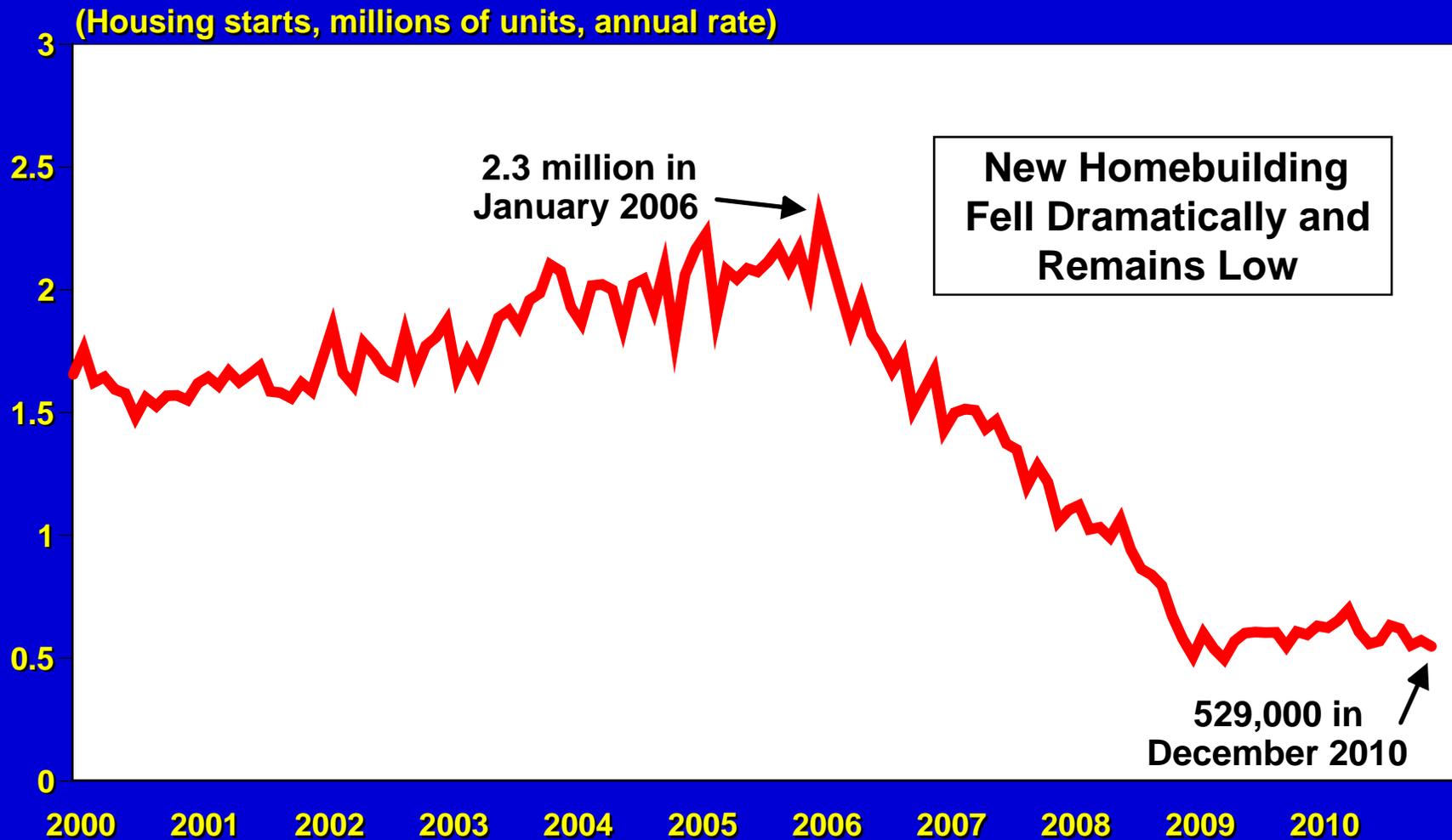


Source: SBC staff calculations using data from the Bureau of Labor Statistics, U.S. Department of Labor.

Housing Crisis Continues

- One out of five mortgages is “underwater” – with home worth less than remaining balance
- One out of eight mortgages is delinquent or in foreclosure
- Home prices have fallen 31% since 2006 peak and are expected to continue falling

Housing Crisis Continues



Source: Census Bureau, U.S. Department of Commerce
Note: Monthly data through December 2010

MOUNTING DEBTS BY STATES STOKE FEARS OF CRISIS

COSTS REMAIN HIDDEN

Analysts Who Predicted Mortgage Meltdown See a Similarity

By **MICHAEL COOPER**
and **MARY WILLIAMS WALSH**

The State of Illinois is still paying off billions in bills that it got from schools and social service providers last year. Arizona recently stopped paying for certain organ transplants for people in its Medicaid program. States are releasing prisoners early, more to cut expenses than to reward good behavior. And in Newark, the city laid off 13 percent of its police officers last week.

While next year could be even worse, there are bigger, longer-term risks, financial analysts say. Their fear is that even when the economy recovers, the shortfalls will not disappear, because many state and local governments have so much debt — several trillion dollars' worth, with much of it off the books and largely hidden from view — that it could overwhelm them in the next few years.

“It seems to me that crying wolf is probably a good thing to do at this point,” said Felix Rohatyn, the financier who helped save New York City from bankruptcy in the 1970s.

Some of the same people who warned of the looming subprime crisis two years ago are ringing alarm bells again. Their message: Not just small towns or dying Rust Belt cities, but also large states like Illinois and California are increasingly at risk.

Municipal bankruptcies or defaults have been extremely rare — no state has defaulted since the Great Depression, and only a handful of cities have declared bankruptcy or are considering doing so.

But the finances of some state and local governments are so distressed that some analysts say they are reminded of the run-up to the subprime mortgage meltdown or of the debt crisis hitting

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