



US Economic Indicators Q3 2011 Report

November 18, 2011

This report is a compilation and analysis of US economic data. Its intent is to provide a deeper understanding of the US economy and therefore, the ability for ETA members to better assess their position in the current economic climate. This is the 10th edition of the report released quarterly. Please reference cited sources for more detailed statistics. The views expressed are those of ETA/TSG and are subject to change. They are shared for educational purposes only. The information is based upon information we consider reliable, but its accuracy and completeness cannot be guaranteed.

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Bankcard Volume vs. Consumer Spending (Q1 1991 – Q3 2011)

Data in these charts illustrate the relationship between bankcard volumes, represented by total Visa and MasterCard credit and debit card volumes, and total consumer spending, represented by Personal Consumption Expenditures (PCE), and the portion of consumer spending on non-durable goods. Consumer Spending has historically made up 60% - 70% of total US GDP and as of Q3 2011 non-durable goods purchases made up approximately 23% of consumer spending. Visa and MasterCard volume growth is highly correlated to the growth in consumer spending and even more to the growth in non-durable goods consumer spending.

The black line in the charts displays the growth multiple of bankcard volumes compared to total consumer spending and spending on non-durable goods only. On average, since Q1 1991, bankcard volumes have grown at a rate nearly 1.07 times above that of total consumer spending and 1.08 times above spending on non-durable goods. Bankcard volume growth has never grown at a slower pace than spending on non-durable goods during this period and only lagged the growth in total consumer spending in Q4 2008 and Q1, Q2, and Q3 of 2009. Bankcard volumes percentage share of total consumer spending has grown at a CAGR of 24% since Q1 1991 and is just under 7% at Q3 2011. Bankcard volumes as a percentage of non-durable goods spending grew at a CAGR of 26% since Q1 1991 and stands at nearly 30% for Q3 2011.

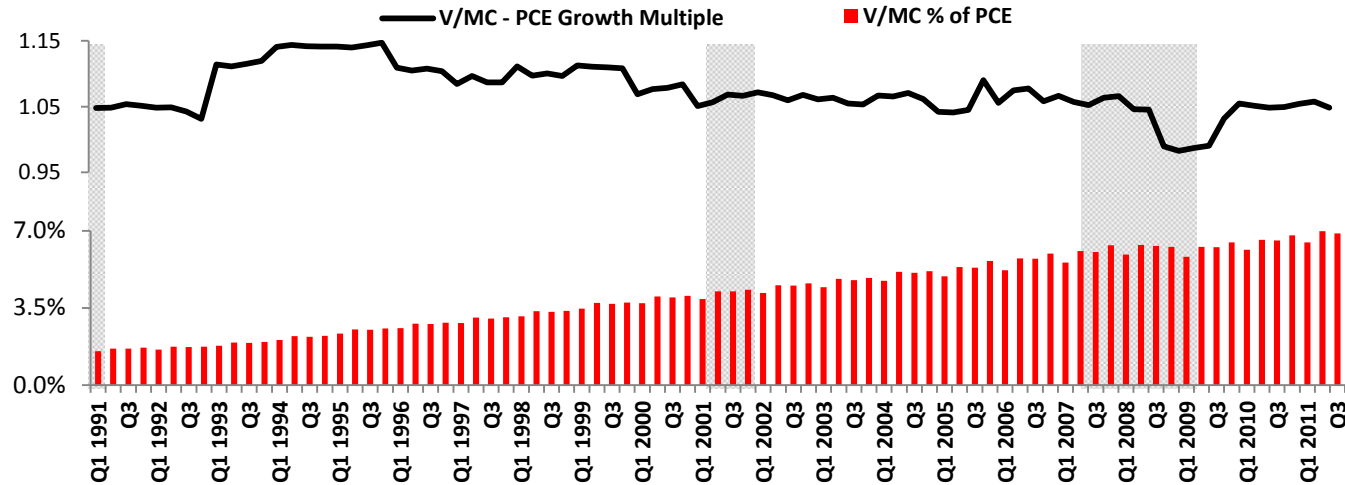
The correlation between bankcard volume growth and growth in non-durable goods purchases stands at 99.6% during Q1 1991 through Q3 2011. It is this relationship, combined with the overall shift towards electronic payments, that seems to provide a shield against economic volatility for payments related revenues.

Though the growth rate multiple of bankcard volumes to total consumer spending and spending on non-durable goods has slowed in recent quarters, the percentage share of bankcard volumes to these two spending measures illustrates that there is still a significant market opportunity for card based payment growth and other emerging consumer payment methodologies. Total spending on non-durable goods in Q3 2011 for example was \$1.15 trillion. Bankcard volumes were only 30% of this amount meaning that nearly \$805 billion in non-durable goods purchases were made using competing (non-card based) payment methods.

Sources: Bureau of Economic Analysis, Visa, MasterCard

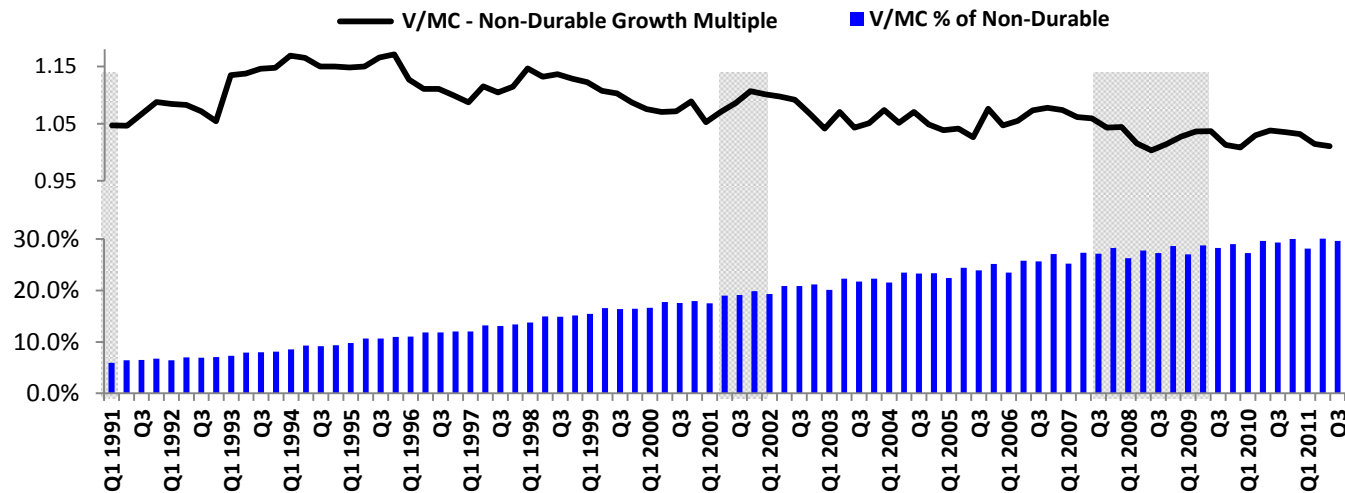
Finding #1: The Payments Industry is Shielded Against Economic Volatility

V/MC Bankcard Volume vs. Personal Consumption Expenditures



Finding #2: Electronic Payments Still Have Significant Growth Opportunity

V/MC Bankcard Volume vs. Non-Durable Consumer Spending



Introduction – Page 2 of 2

Data in the below charts is sourced from TSG’s proprietary Merchant Portfolio Performance Study (MPPS) which represents data from 840,000 merchant accounts which processed nearly \$100 billion in annual volume as of June 2011. TSG’s MPPS report, available to participants only, is produced on a quarterly basis and contains countless charts and time series analysis on over 100 volume, profit, and attrition and growth metrics/ratios beginning with Q1 2009.

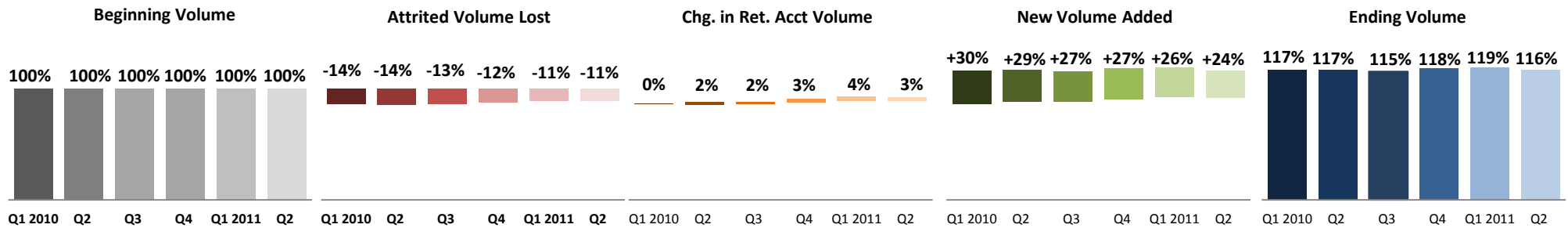
The attrition figures (red bars) below are based on accounts producing net revenue in the same month a year ago and no longer producing net revenue in the same month a year later. Annual changes in the retained accounts’, defined as non-attrited accounts, volume processed and net revenue generated are represented by the orange bars in the below charts. New account’s are represented by the green bar charts. The blue charts are the ending total level of volume or net revenue as compared to the sale time period a year ago; 116% for example in Q2 2011 for Ending Volume represents a 16% growth in total volume. Data in the previous page helps explain some of the performance of the below attrition and growth figures. Performance in retained account volumes can be partially explained by the correlation between consumer spending on non-durable goods and the overall growth in the purchases of these products as the economy continues to slowly recover from the recession. The growth rate multiple of bankcard volumes to non-durable goods spending from Q1 2010 through Q2 2011 for example was just 1.03 times, meaning bankcard volumes grew only 3% faster, on average, during this time period.

Source: TSG’s MPPS

[Click here for more information on TSG’s MPPS](#)

Finding #3: Merchant Portfolios Have Seen Dollar Volume Attrition Decline During The Recovery Period

Merchant Portfolio – Average Dollar Volume Attrition & Growth Performance



Finding #4: Merchant Portfolios Have Seen Net Revenue Attrition Increase During The Recovery Period

Merchant Portfolio – Average Net Revenue Attrition & Growth Performance

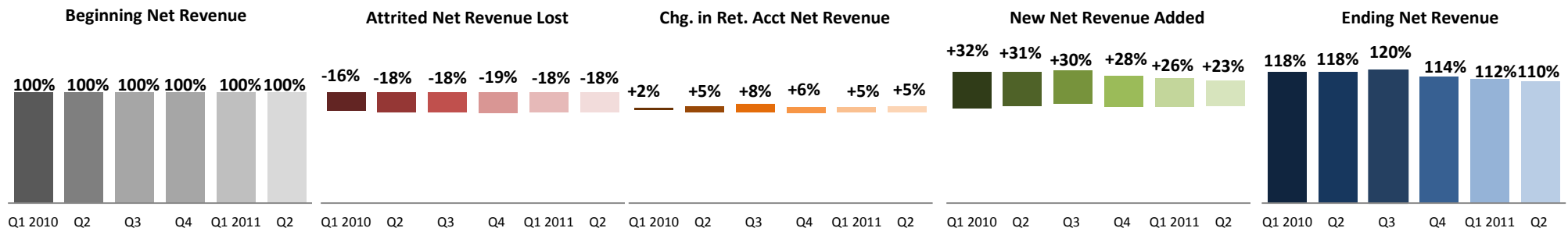


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Macroeconomic Indicators

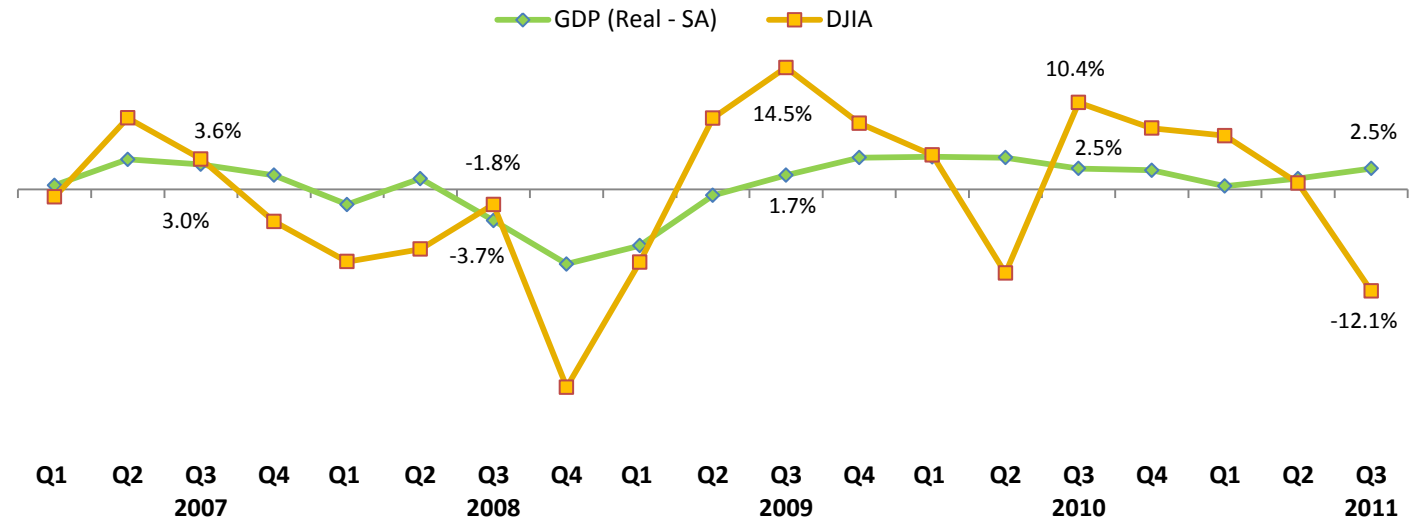
GDP & Dow

(Q2 2007 – Q3 2011)

The Dow Jones Industrial Average (DJIA) (change measured from close at last day of quarter) and GDP presented a similar pattern between the second quarter of 2007 and 2011. **GDP:** GDP in the third quarter of 2011 accelerated from Q2's reading of 1.3% to 2.5% according to the BEA's advance estimate. This increase in US economic output was largely a result of increases in the rate of growth from personal consumption expenditures, up 2.4%, and non-residential fixed investment, also known as private business expenditures, were up 16.3%. Spending at the state and local government level fell at a slower pace than in previous quarters which created less of a drag on Q3's GDP results. **Dow:** the DJIA finished Q3 2011 down 12%, the worst quarter since the recent recession's tough periods. Investors selloff in equities during Q3 resulted from uncertainties surrounding the Eurozone's debt issues, new domestic government regulations, and their potential to drag the US into a double dip recession. *Sources: Bureau of Economic Analysis, Yahoo! Finance, ABCnews.com*

GDP & DJIA Comparison

(% Change From Previous Quarter)



Consumer Spending & Wages

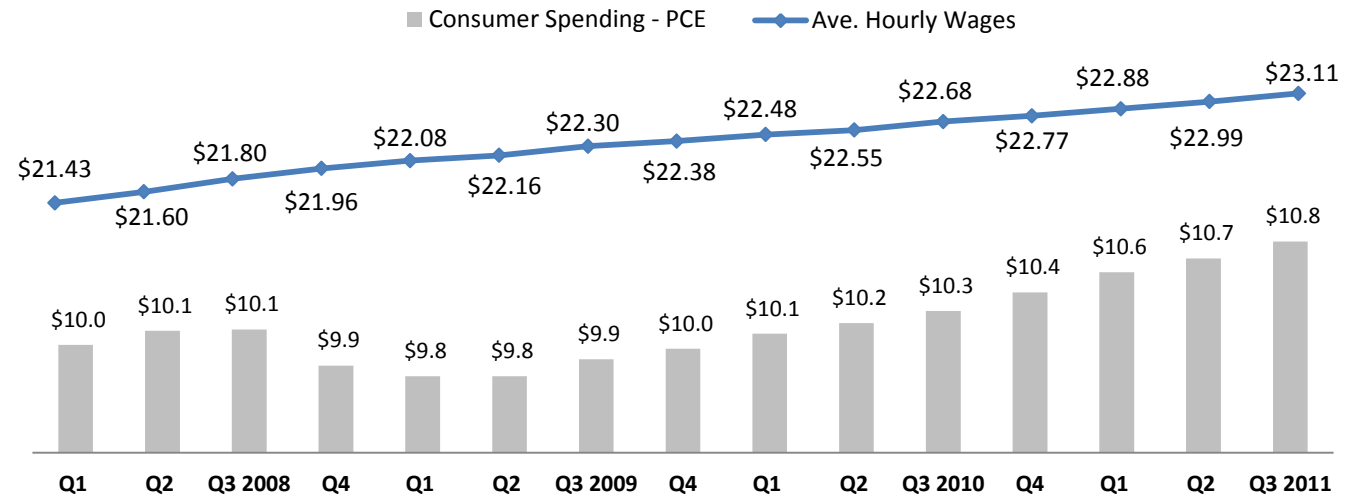
(Q1 2008 – Q3 2011)

Consumer Spending (\$ Billions): Consumer spending registered the 8th consecutive annual quarterly increase in Q3 2011. Personal savings on the other hand experienced two consecutive quarterly periods of annual declines. Personal interest payments registered its first quarterly increase after 9 consecutive quarters of declines as Americans continue to deleverage their personal financial situations. **Hourly Wages:** Average hourly earnings have increased 1.9% over the past twelve months in September 2011. Wages increased \$0.04 on a consecutive monthly basis in September 2011 compared to a decline of \$0.04 in September 2010. The average workweek meanwhile remained little changed in September, up only 0.1 hour since the previous month to 34.3 total hours. The increase in wages was enough to outpace the annualized increase in consumer prices of 1.2% in Q3 as measured by the CPI (see previous page). This bodes well for consumer spending and savings given a continuation in this trend.

Sources: BLS.gov, BEA.gov

Consumer Spending & Hourly Wages

(spending in \$ Trillions, annualized, seasonally adjusted)



*Hourly wages are measured as 3 month quarter end averages

Macroeconomic Indicators

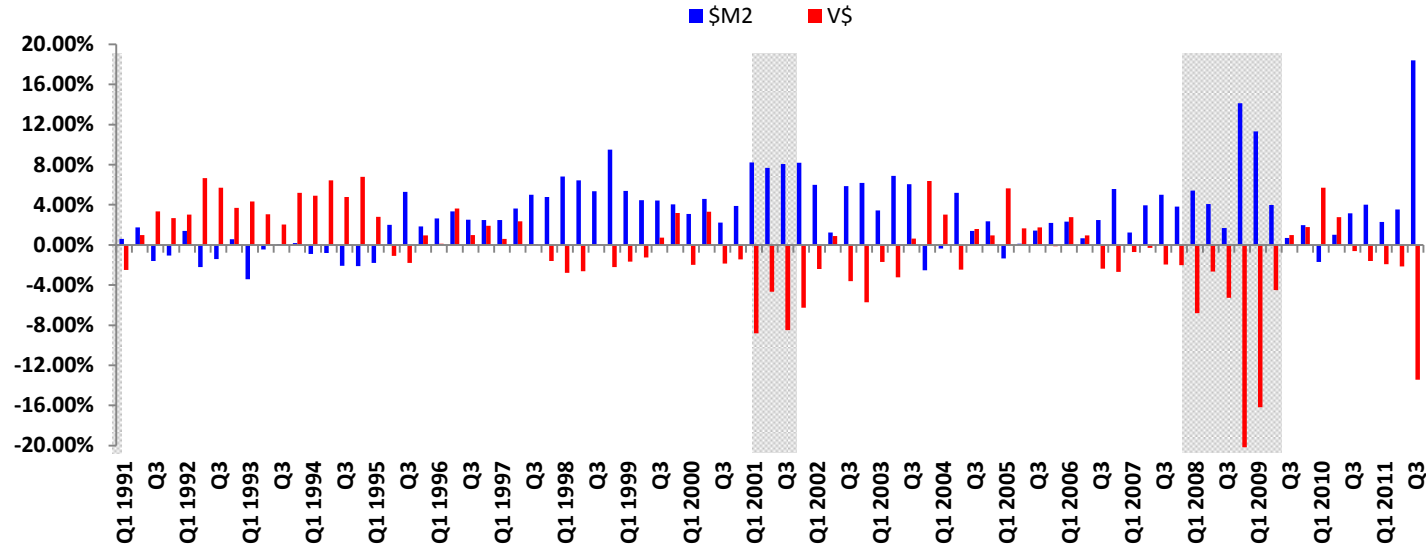
Money Stock and Velocity

(Q1 1991 – Q3 2011)

The top of this page illustrates an alternative measure of the components of US GDP. Total nominal GDP is comprised of the amount of money circulating multiplied by the velocity of that money (V\$). V\$ is average number of times each dollar changes hands or is used to by goods and services that make up GDP. The total value of money in the economy is measured as M2 by the Federal Reserve and includes checking deposits, currency and traveler's checks, time deposits, savings deposits, and money market funds less currency held by banks and currency and checking deposits of the government. V\$ is calculated by dividing nominal, or real GDP, by nominal, or real M2. As the chart shows recessionary periods are typically characterized with growth in M2 and contraction in V\$. Q3 2011 saw an annualized increase of 21% in M2 while V\$ dropped 13%. As the data shows the growth in GDP recently has mostly been an attribute of an increasing M2 while real economic activity, V\$, remains subdued. *Source: Bureau of Economic Analysis, U.S. Federal Reserve*

Annualized % Change in M2 & Money Velocity

(Q1 1991 – Q3 2011, shaded areas indicate recession)



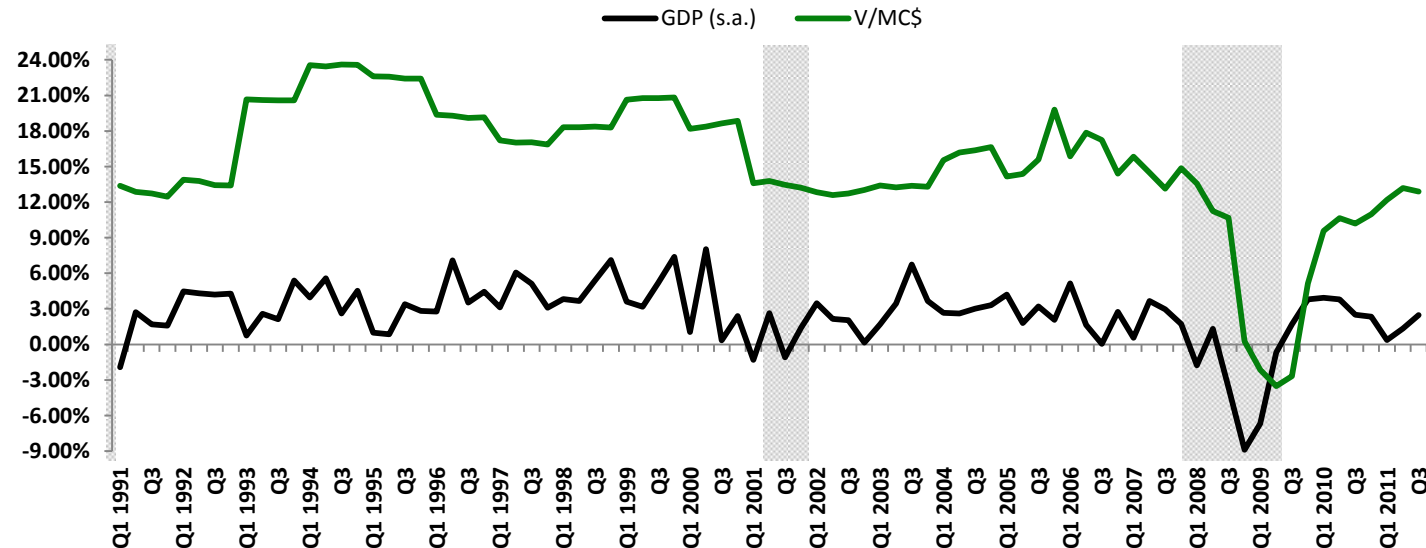
Real GDP & V/MC Volume

(Q1 1991 – Q3 2011)

Annual percentage changes represented in the chart for Real GDP from the BEA and real Visa and MasterCard (V/MC) bankcard dollar volumes, adjusted for inflation using the BEA's GDP price deflator. While susceptible to overall economic conditions V/MC volumes have generally outperformed the overall U.S. economy for the past 21 years. According to data from the BEA and Visa and MasterCard, card volumes have grown at an annual pace of approximately 13% above that of US GDP since Q1 1991. The overall shift towards electronic payment methods during this time period has provided V/MC volumes a shield against overall economic conditions. When taken relative to data in the above chart however, it can be seen that the inflection points in the acceleration or deceleration of card volume growth seems to follow that of the growth in the velocity of money in the U.S. economic system. V/MC card volumes are nearly 3x more correlated to the percentage change in money velocity than to M2. *Source: Bureau of Economic Analysis, Visa & MasterCard*

Annualized % Change in Real GDP & Bankcard Volume

(Q1 1991 – Q3 2011, bankcard volume are V/MC credit & debit, shaded areas indicate recession)



Macroeconomic Indicators

Employment and Real GDP/Employed (Q1 2000 – Q3 2011)

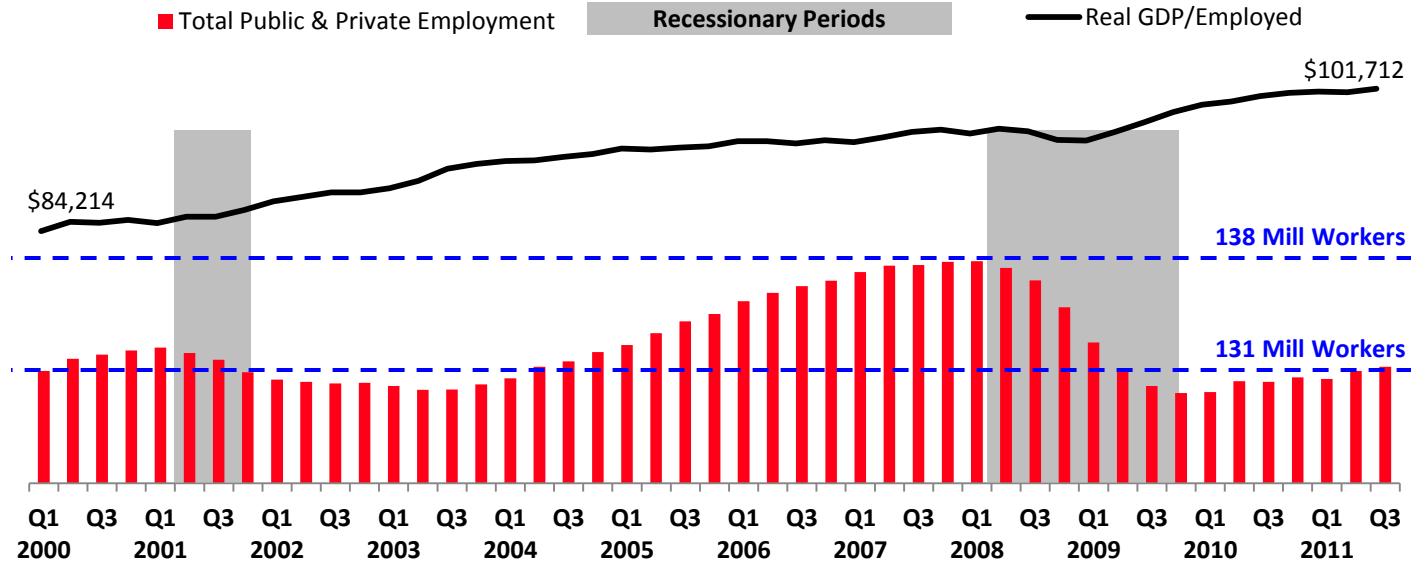
Employment & Real GDP: Though employment ticked up in Q3 2011, economists are still stating that it will take years for the U.S. labor market to return to its pre-recession levels. Meanwhile GDP per employed worker has shown very strong performance relative to historical periods. This has caused corporate profits to account for a larger share of GDP compared to historical periods. Currently corporate profits are approximately 13% of U.S. GDP compared a historical average of 9%. According to the recent Federal Open Market Committee meeting the average estimate of unemployment for 2013 is 8%. Given the current labor force participation level the U.S. would need to add, on average, approximately 60k jobs each month for the next 26 months. From Q2 2011 to Q3 the number of employed grew on average by approximately 85k per month, well above the 60k needed to reach FOMC member projections, assuming no changes in the labor force participation rate and U.S. population. Given that increased corporate profits create an incentive to begin hiring once demand picks up and the fact that the labor force participation rate and U.S. population will likely increase, these projections should be easily attainable. *Sources: BEA.gov, BLS.gov, Bloomberg*

Nonfarm Business Labor Productivity (Q1 2000 – Q3 2011)

Productivity, as defined by the Bureau of Labor Statistics, is a measure of output per labor hour, and grew 3.1% in Q3 2011 output increased 3.8% compared to labor hours worked increasing 0.6%. This increase comes after two consecutive quarters of contraction as shown in the chart. Given that the trend continues it may be a motivational factor for companies to begin hiring again. In order for this to continue; however, there must be a sustainable demand for output produced by these labor forces. According to the BLS' recent release durable goods manufacturing showed the strongest growth in labor productivity coming in at 9.9% while non-durable goods registered only an 0.7% increase. *Sources: BLS.gov, Forbes.com*

Employed Workers & Real GDP per Employed

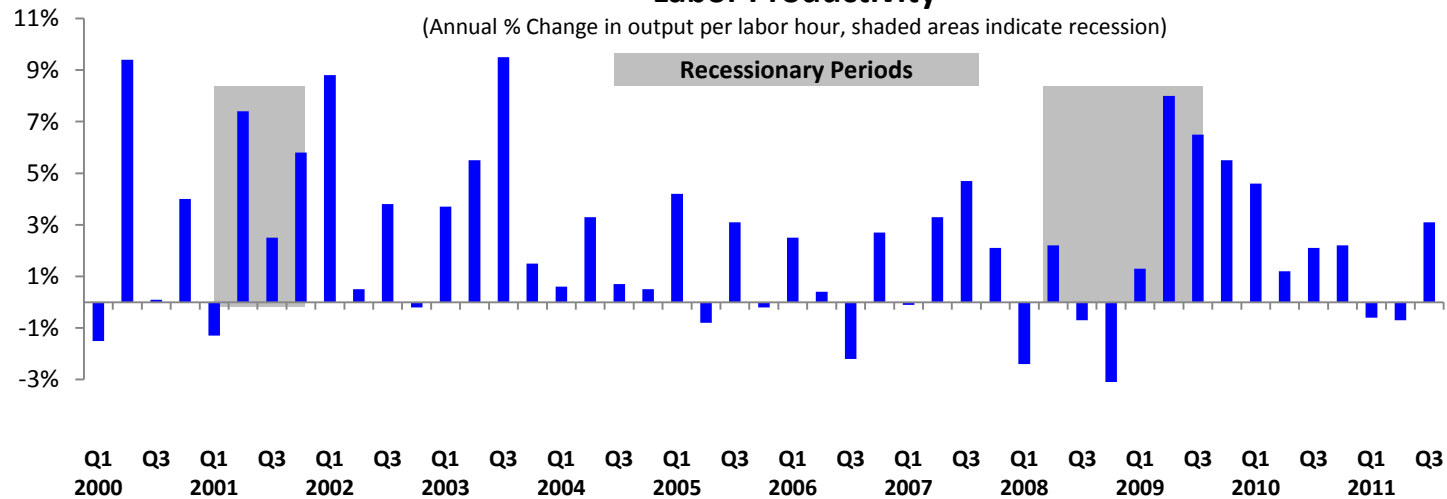
(Q1 2000 – Q3 2011, workers in millions, shaded areas indicate recession)



Employment numbers for Q3 2011 include advance estimates from BLS for Aug and Sept 2011, quarterly readings are 3 mo. averages

Labor Productivity

(Annual % Change in output per labor hour, shaded areas indicate recession)



Macroeconomic Indicators

New Home Sales

(September 2010 – September 2011)

New home sales were relatively flat from September 2010 to September 2011, dropping just under 1%. Home sales in the South registered the only year over year gains in September 2011 growing at nearly 10%. Meanwhile, the northeast performed the worst with an annual decline in home sales of 34%. New home sales in September 2011 are up nearly 6% from August and just over 5% from July. These monthly increases come after four straight months of consecutive declines. Many attribute the recent increase in sales to a drop in the median sales price which was \$204,000 in September, the lowest level since October 2010. Home builders project starts increased at the fastest pace in 17 months, most of which was related to apartment construction as new single family home construction rose only modestly. *Source: US Census, Journal-news.net*

Revolving vs. Non-Revolving Credit

Q2 2006 to Q3 2011 (S.A.)

Consumer Credit: Revolving consumer credit outstanding declined 4% on average during July and August of 2011 while non-revolving consumer credit increased 3%. Total consumer credit outstanding now stands at approximately \$2.4 trillion as of August 2011, down from a high of nearly \$2.6 trillion in all of 2008. Most of the deleveraging comes from consumers efforts to pay down revolving credit balances as these have dropped to \$790 billion in August 2011 from \$958 billion in all of 2008 while non-revolving credit increased to \$1.65 trillion from \$1.60 trillion during this same time period. Since the beginning of the recent recession there has been a shift in debt from consumers to government as the federal debt has risen to nearly 68% of GDP as of September from 37% when the recession began. While deleveraging at the consumer level is a positive for the time being, any future increase in taxes may offset a more financially stable consumer as a result of federal debt reduction initiatives.

Source: FederalReserve.Gov, USAToday.com

US New Home Sales – by Region

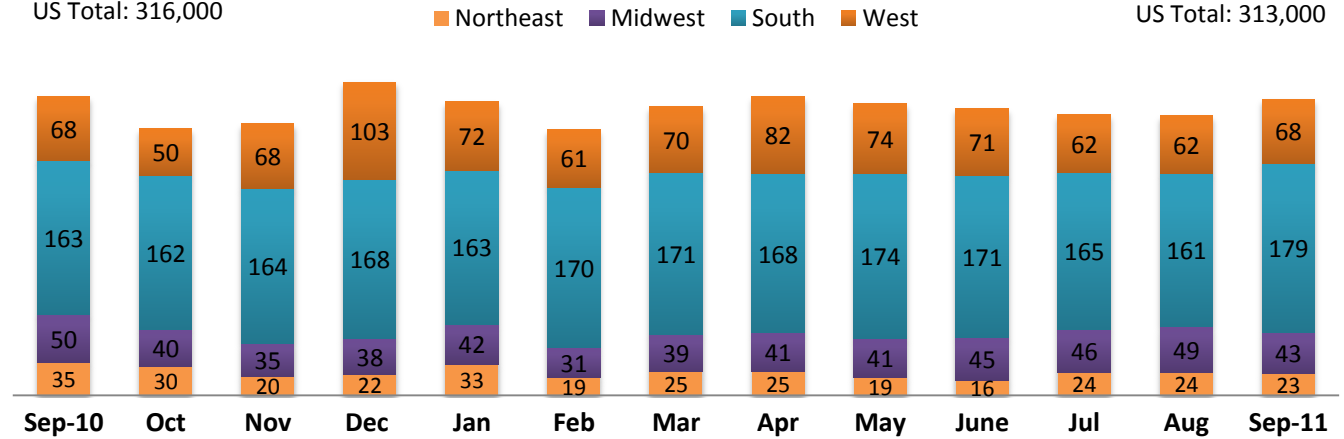
Seasonally Adjusted Annual Rate (Thousands)

Sept 2010:

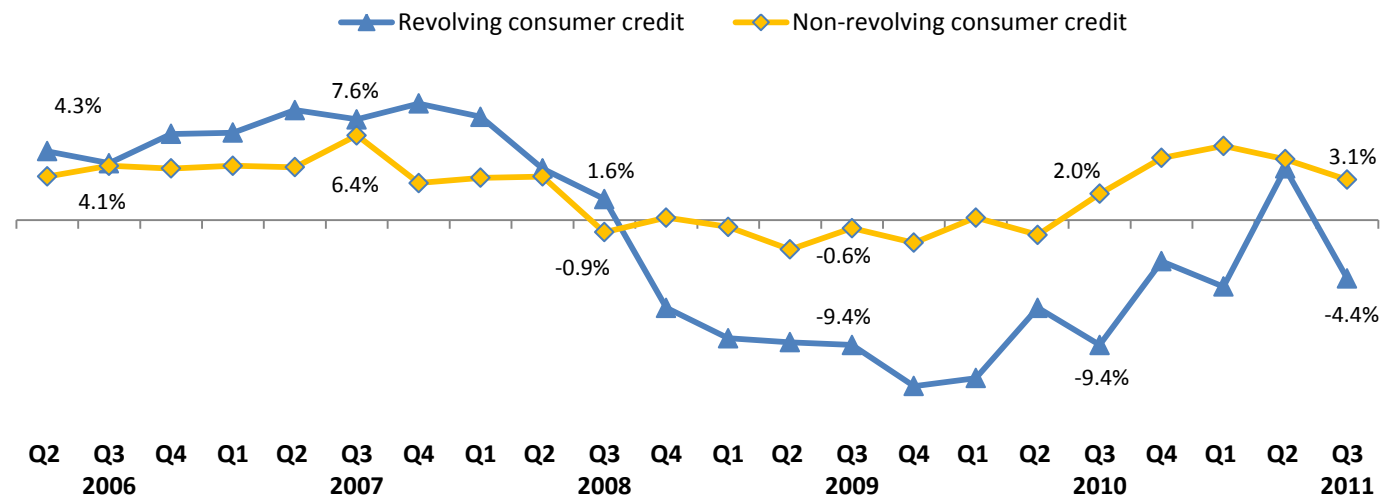
US Total: 316,000

Sept 2011:

US Total: 313,000



Revolving & Non-Revolving Credit



*Q3 2011 measures as average of July and August

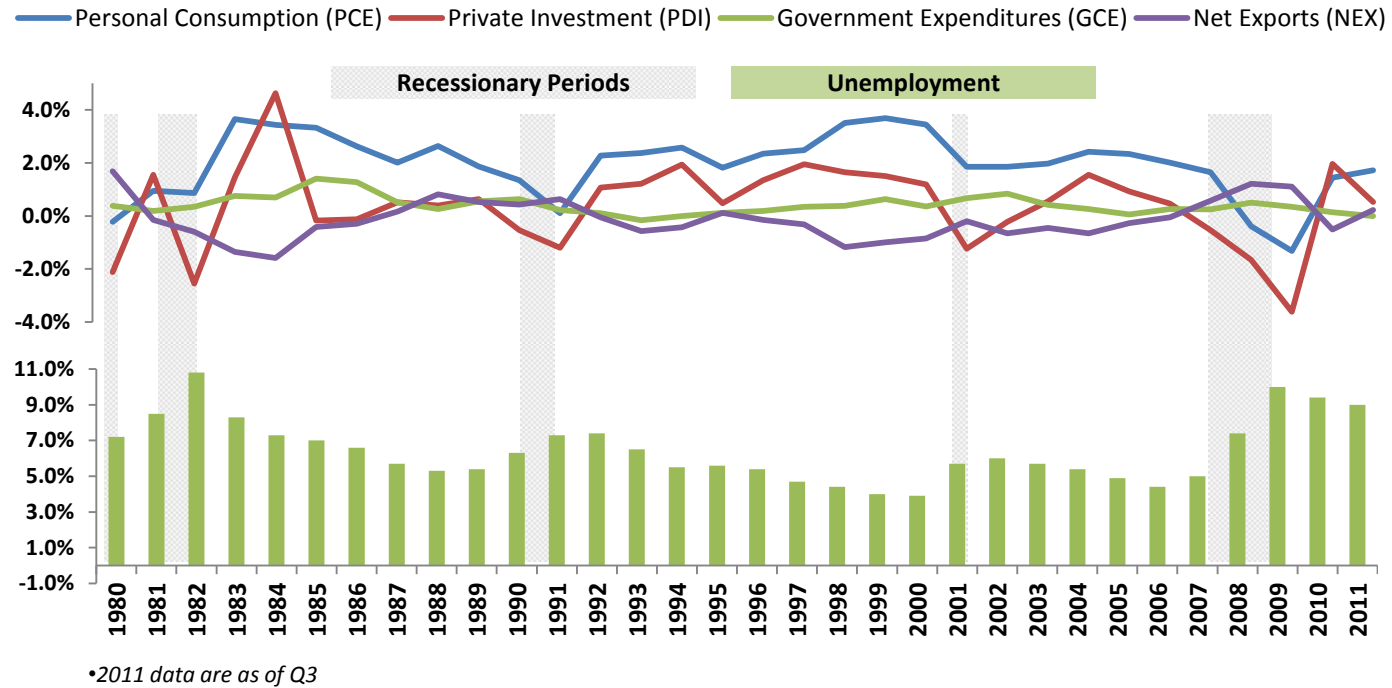
Macroeconomic Indicators

GDP Drivers & Unemployment (1980 – 2011)

Private/Public Spending & Unemployment: The chart at the top of this page displays the trend in the unemployment rate (green bar graph) and the trends in the contribution to the percentage change in GDP from the four major GDP accounts (line graph). Post recessionary periods seem to be characterized by a fairly immediate rebound in private domestic investment as businesses regain traction and re-enforce their growth initiatives. These periods also seem to be followed by immediate rebounds in consumer spending as employment increases. The latest post recessionary period is unlike any other in recent history. Unemployment rates remain stubbornly high as private investment's rebound came at a later stage than usual. Net exports' contribution to the percentage change in total GDP exceeded personal spending and private investment by the widest margin since the 1980s. Debt issues abroad in the Euro-zone continue to pose a threat to the US as Europe is the largest trading partner for the US and China, one of US' largest sources for imports. Though growing at a decelerating rate, capital spending by US business continues to chug along creating somewhat of an ease in the unemployment rate. *Sources: BLS.gov, BEA.gov, Reuters.com*

Major GDP Drivers & Unemployment

(PCE, PDI, GCE, NEX are % contribution to GDP growth in line graph)

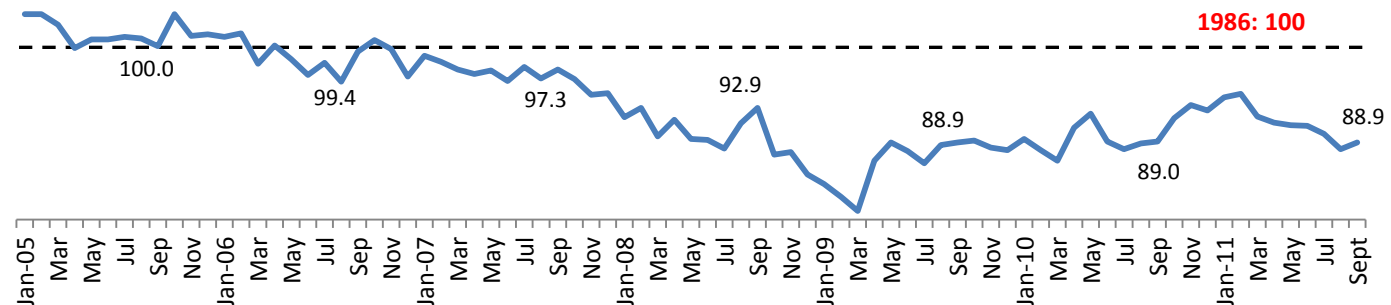


Small Business Optimism (2005 – 2011)

Small Business Optimism: The National Federation of Independent Business (NFIB) conducts a monthly survey of the health and temper small businesses and is indexed to 100 as of 1986. September's reading of 88.9 registered a 0.8 point gain from August and snapped a six-month decline. Respondents of the survey that planned to increase employment in the three months was 11% in September while those planning to reduce their workforce was 12%. Also, fewer business are investing in their operations as the frequency of reported capital outlays fell 2%. Owners reporting higher nominal sales over the past three months fell to a net negative 10%, the best reading in over 40 months according to the NFIB. *Sources: nfib.com*

Small Business Optimism Index

(2005 – 2011 monthly, 1986 = 100)



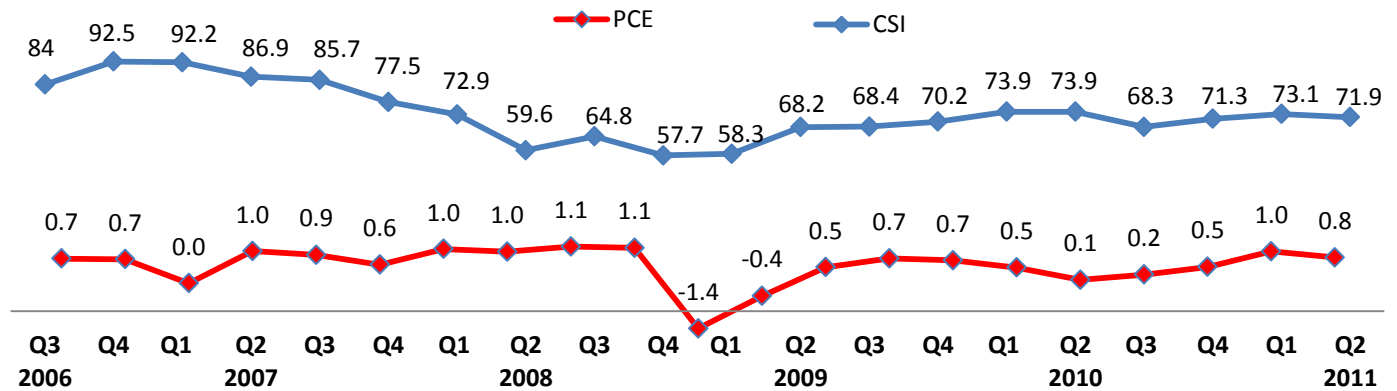
Macroeconomic Indicators

Sentiment vs. Consumption (Q3 2006 – Q2 2011)

Consumer Sentiment Index (CSI) focuses on consumers prospects and long term prospect of the national economy, and their own situation.

Personal Consumption Expenditures (PCE) Index measures goods and services purchased by US consumers and consists mainly of purchases of new goods from private businesses. During the second quarter of 2011 the economy slipped on consumers fears about the future outlook of the economy, this may be due to a slow recovery, rising fuel costs, and relatively static labor markets. *Sources: BEA.gov, Federal Reserve Bank of Saint Louis, University of Michigan & Thompson Reuters n(Surveys of Consumers)*

Consumer Sentiment Index (CSI) vs. Personal Consumption Expenditure Index (PCE)

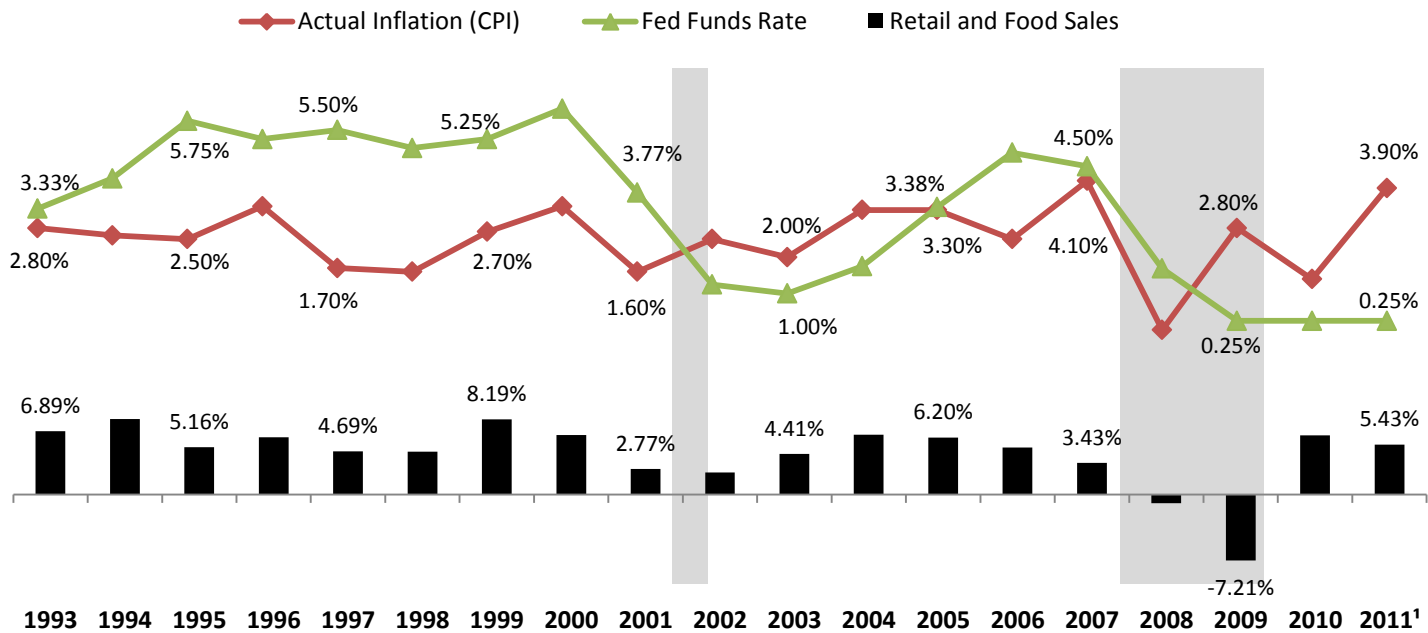


Inflation, Spending, & Interest Rates (1992 – 2011 YTD)

The rate at which banks lend their own Federal Reserve Deposits to other banks, the Federal Funds Rate, has been at historic lows for the past few years with a target range of 0.00% to 0.25%. This rate is aimed at promoting a stable level of inflation and maximum employment in order to achieve healthy economic growth. During its latest meeting the Federal Open Market Committee (FOMC), the board responsible for setting the rate target, stated that they feel the next few quarters will bring moderate economic growth. Members also expected inflation to settle during this time period while unemployment should gradually decline. Also, according to the FOMC, significant downside risks to the economic recovery still exist as the global financial markets are still in a state of turmoil. Trends in the chart show that periods with a declining federal funds rate seem to be followed by increased growth in retail sales while inflation also gains momentum. These relationships occur as employment typically increases during periods of low interest rates as business spending accelerates. High employment and low rates will cause a strong increase in demand relative to potential GDP which will eventually cause inflationary pressures to grow. *Sources: Census.gov, BLS.gov*

Inflation, Federal Funds Rate, & Retail Sales

(Inflation as 12 % change in CPI for Dec, Retail sales annual % chg., Fed funds is reported average, shaded areas indicate recessions)



¹2011 retail sales estimated based on annualized Sept YTD numbers, CPI reading is 12 mo. % chg. as of September 2011

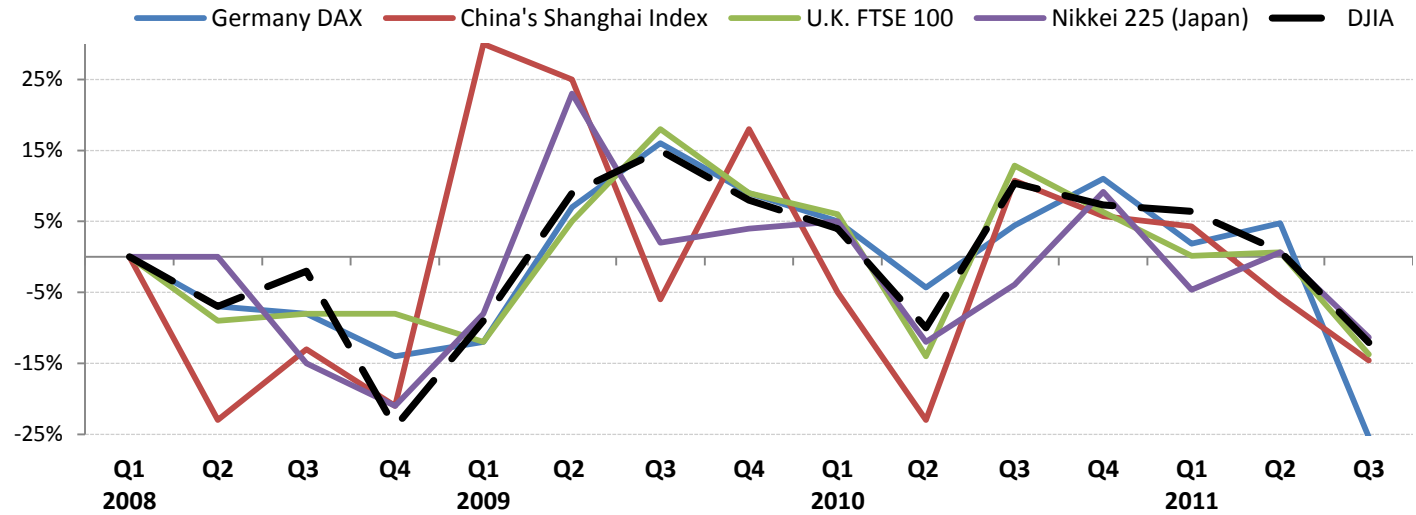
Macroeconomic Indicators

Global Stock Markets (Q1 2008 – Q3 2011)

Global stock markets experienced an across the board selloff in Q3 2011 as uncertainty surrounded major factors influencing global economic growth. In their latest World Economic Outlook the International Monetary Fund (IMF) announced that the economic recovery has become much more uncertain since their last report. The IMF cites two main issues that seem to be the driving forces behind an increasingly uncertain economic future; internal/external rebalancing and fiscal and financial uncertainty. For internal rebalancing to take place private demand needs to pick up where the fiscal/monetary stimulus left off. This is not occurring at a quick enough pace in developed economies due to tight bank lending, the aftermath of the housing bubble, and above average household debt levels. External balancing refers to the efforts of developed economies to increase their exports relative to their imports. This is also not occurring enough to contribute to GDP growth in these economies. Financial market uncertainty has spread throughout the Eurozone and also into other economies such as Japan and the U.S. The lack of private sector response as well as financial market uncertainties have created a strong drag on global stock prices. Sources: Yahoo Finance, IMF.org

Major Global Stock Market Indexes

(Presented in term of quarterly returns, begins at 0)

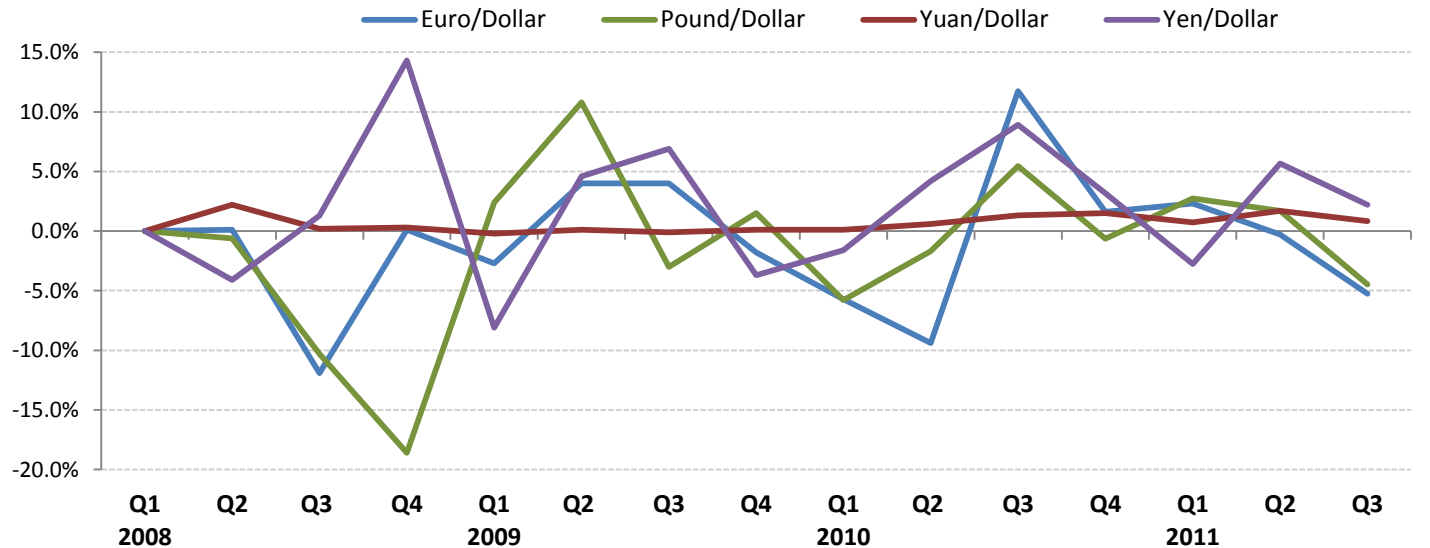


World Currencies (Q1 2008 – Q3 2011)

As uncertainty in the global economic recovery continues, particularly surrounding the strength of the U.S. economy and the Euro-zone debt crisis, foreign exchange markets' volatility gains momentum. While the Yuan and the Yen registered small gains against the dollar (USD), there was a strong selloff in the Euro and the Pound. Export heavy nations such as Japan and China continue to see strong demand for their currencies from their trade partners which should support their currencies. China for example has seen an increase of 7.6% against the USD since the currency peg ended. Fears of economic growth and stability in the Eurozone overshadowed weakness in the U.S. to push their currencies lower against the USD. Sources: Yahoo Finance, WSI.com

Major World Currencies

(In US \$, presented in term of quarterly returns, begins at 0)



Macroeconomic Indicators

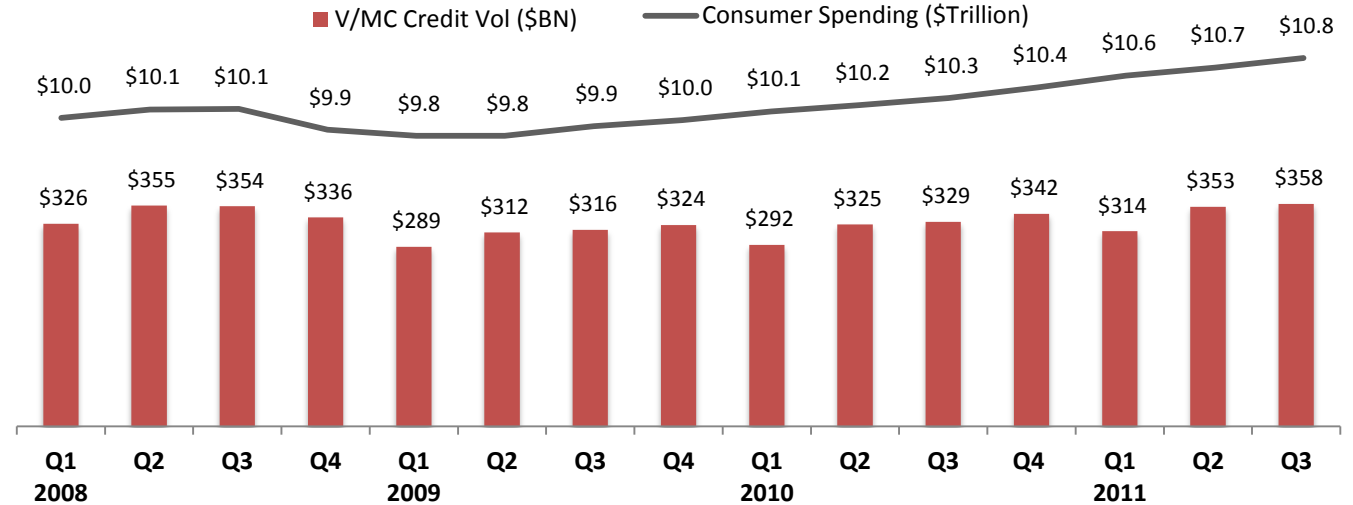
Credit Volume (Visa & MasterCard) vs. Personal Consumption Expenditures (Q1 2008 – Q3 2011)

Visa & MasterCard Credit Volume reflects the total credit card dollar volume in \$ billions of Visa and MasterCard transactions in the U.S. **Consumer Spending** is represented by Personal Consumption Expenditures from the BEA's GDP reports.

The correlation between Visa and MasterCard credit card volumes and consumer spending, seemed to be much stronger in previous periods compared to current times. Credit card volume and consumer spending seemed to follow the same ups and downs throughout 2008 and into early 2009. Consumer spending levels continues their upward trajectory from early 2009 through Q3 2011 while credit card volumes experienced periods of volatility as consumer spending patterns became increasingly more conservative and the deleveraging phase took hold. According to data released by the Federal Reserve for example, consumers reduced their revolving credit balances by \$168 billion since 2008.

Sources: BEA.gov, VISA, MasterCard

Visa/MasterCard – Credit Card Total Volume vs. Consumer Spending

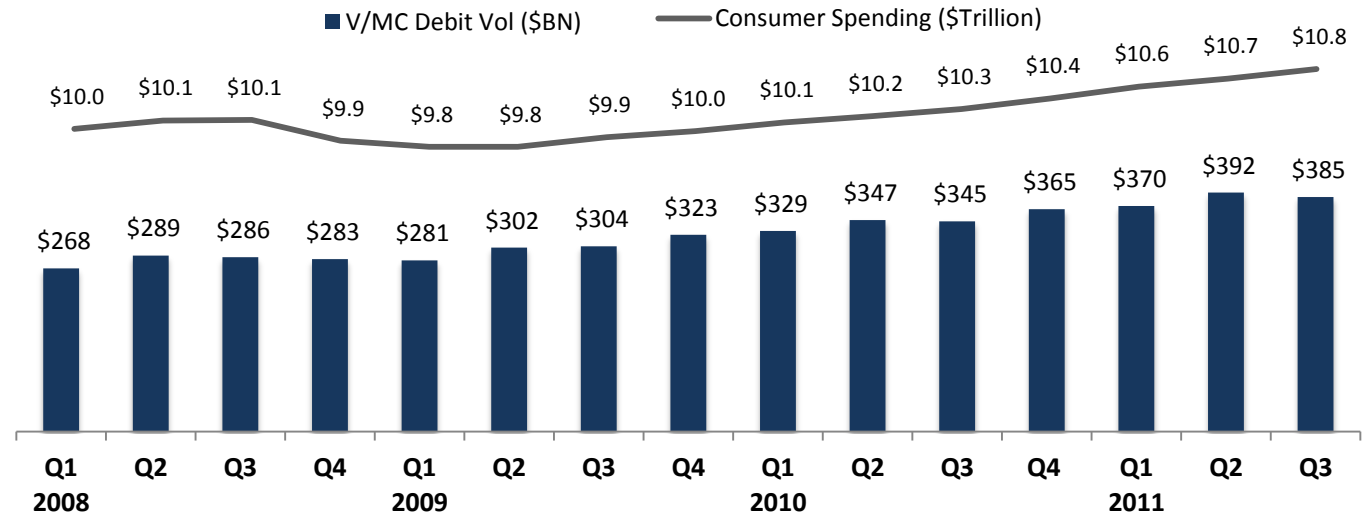


Debit Volume (Visa & MasterCard) vs. Personal Consumption Expenditures (Q2 2008 – Q3 2011)

Visa & MasterCard Debit Volume reflects the total debit card dollar volume in \$ billions of Visa and MasterCard transactions in the U.S. **Consumer Spending** is represented by Personal Consumption Expenditures from the BEA's GDP reports. Comparing the correlation between consumer spending growth to credit and debit card volumes provides evidence to consumers' shift from spending on credit cards to debit cards throughout the recession. Spending on debit cards exceeded their credit card counterparts for the first time in Q1 2010 as seen in the charts. This trend has continued as consumers have become more savings oriented and have made strong efforts to reduce their dependence on debt as high unemployment rates reduce their overall debt service capabilities and confidence levels.

Sources: BEA.gov, VISA, MasterCard

Visa/MasterCard – Debit Card Total Volume vs. Consumer Spending

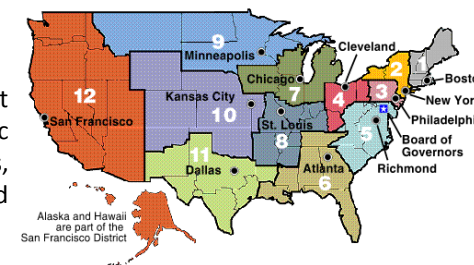


Microeconomic Indicators

Fed's Beige Book Regional Comments

(Districts 1 - 6)

Current Economic Conditions by The Federal Reserve Board: Commonly known as the Beige Book, this report is published eight times per year, most recently on October 19, 2011. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. This and the following page are a graphical interpretation of each districts report (selected information only). The 'last report' referenced (report prior to 10/19/2011) was released on September 7, 2011.



District #1: Boston

Overall	↑	Demand growth continues, outlooks becoming more pessimistic
Manufacturing	↑	Revenue growth reported, 6-18 month outlook down
Retail	→	Mixed results, range of -3% to +8%, many report flat sales
Real Estate	→	Significant amounts of office space absorbed, residential markets weak, outlook grim

District #4: Cleveland

Overall	↑	Activity slowly increased in past 6 weeks
Consumer Spending	↑	Slightly higher sales over previous six weeks, annual transaction volume up
Construction	↓	Home construction low with increase in inquiries, commercial fairly weak
Manufacturing	→	Production stable along seasonal trends, small declines in new orders and backlogs

District #2: New York

Overall	↑	Slow growth, improvement in labor market
Real Estate	→	Weak home sales and construction, rental market up, mixed commercial market
Retail	↑	Same store sales met or exceeded expectations
Finance & Banking	↓	Securities firms not doing well, declines in all major business lines

District #5: Richmond

Overall	↓	Weak or weakening conditions in most sectors
Retail	↓	Sales weakened since last report, several reported uptick at Sept. end
Banking	→	Lending activity mixed over past six weeks, moderate commercial re-fi demand
Manufacturing	↓	Manufacturing activity continued to contract since last report

District #3: Philadelphia

Overall	↑	Mixed, more positive than negative sector results
Retail	↓	Most reporting sales being flat or down compared to last year
Real Estate	↑	Construction activity slightly stronger since last report
Services	→	Flat to modest growth since last report, firms generally positive and very cautious

District #6: Atlanta

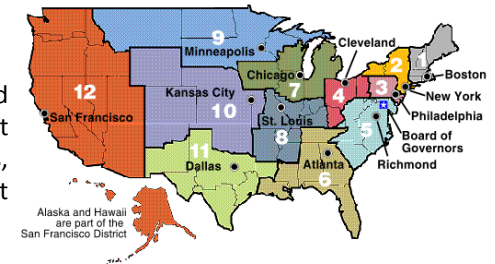
Overall	↑	Economic activity continued to expand at modest pace
Real Estate	→	Softening residential sales sine prior month, up annually, mixed commercial
Labor Market	↓	Tightly managed labor supply, hiring outlook dim due to sales expectations
Banking	↓	Contacts reported continued weak load demand, new opportunities rare

Microeconomic Indicators

Fed's Beige Book Regional Comments

(Districts 7 - 12)

(Page 2) Current Economic Conditions by The Federal Reserve Board: Commonly known as the Beige Book, this report is published eight times per year, most recently on October 19, 2011. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. This and the preceding page are a graphical interpretation of each districts report (selected information only). The 'last report' referenced (report prior to 10/19/2011) was released on September 7, 2011.



District #7: Chicago		
Overall	↑	Activity improved, contacts expressed uncertainty given state of financial markets
Manufacturing	↑	Production rebounded with new orders and backlogs increasing
Banking & Finance	↓	Credit conditions tightened further, corporate funding edged higher
Business Spending	↑	Increased slightly with incentive from accelerated tax depreciation

District #8: St. Louis		
Overall	→	Reports from contacts mixed since previous report
Manufacturing	↑	Activity still improving, several plan to open plants and expand inn near future
Real Estate	→	Residential market decline continues, commercial results mixed
Banking	↓	Total loans outstanding from sample of banks down 0.8%, driven by real estate market

District #9: Minneapolis		
Overall	↑	Economy increased modestly since last report
Construction	→	Commercial construction increased slightly since last report
Labor Market	↑	Hiring at district companies increased moderately with wages pressures subdued
Manufacturing	↑	Activity increased since previous report, some are expanding operations

District #10: Kansas City		
Overall	↑	Economic activity improved slightly from previous report
Consumer Spending	→	Spending up in the retail and auto sectors, declines in food and travel
Banking	↓	Increased deposits but weaker loan demand and deteriorating credit quality
Manufacturing	→	Manufacturing and high-tech service activity up since prior report, transport flat

District #11: Dallas		
Overall	↑	Economy continued to expand at moderate pace
Labor Market	↑	Steady employment levels with slight hiring in certain areas
Retail	↑	Slow growth over most of report period with pick up in late Sept.
Banking	→	Flat loan demand with competitive pricing, loan quality holding steady

District #12: San Francisco		
Overall	↑	Activity expanded modestly in recent reporting period
Real Estate	→	Home demand remains weak, commercial mostly unchanged
Retail	↑	Despite deteriorating consumer sentiment retail sales expanded overall
Manufacturing	↑	Activity reported modest gains overall, capacity utilization rates steady

Microeconomic Indicators

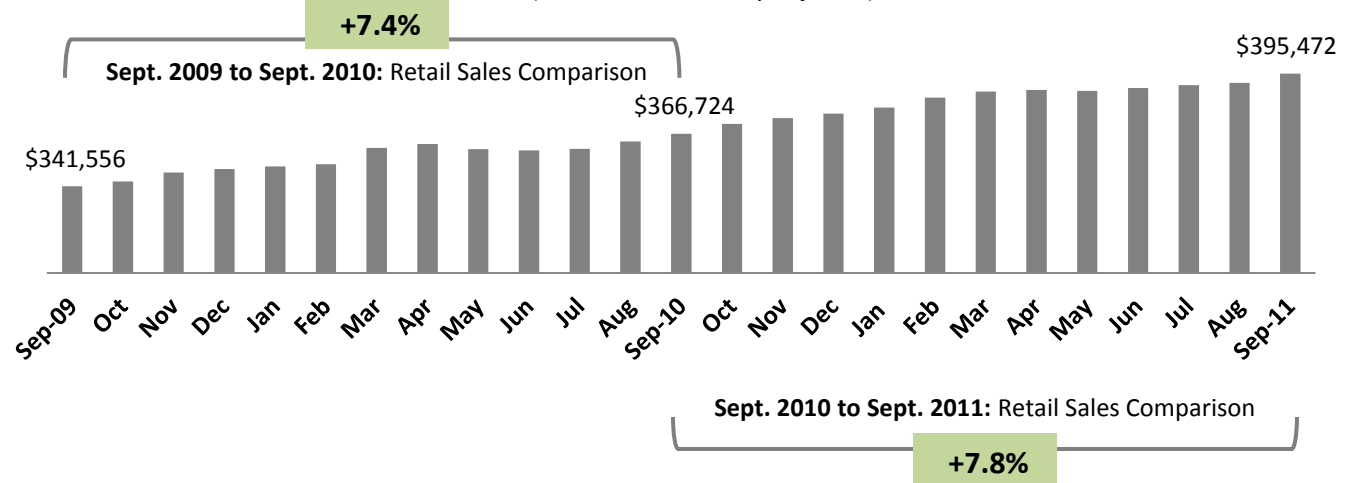
Total Retail Sales

(Sept. 2009 – Sept. 2011)

Total Retail Sales (\$ Millions): Total retail sales, seasonally adjusted, are up 7.8% from September 2010 to September 2011 and 7.4% from the same time period a year ago. Preliminary September 2011 results are also up 1.1% from the previous month. Excluding auto and auto parts sales total retail activity increased 7.6% for the first nine months of 2011 driven by strong performance in gasoline station sales and non-store retailers, which includes ecommerce sales and MOTO sales. Motor vehicle and parts dealers' sales grew 10.4% for the first 9 months of 2011. September's results mark the largest gain in seven months beating median analyst expectations by 0.4% (1.1% vs. 0.7%). These positive results come in the face of a declining consumer sentiment index according to preliminary index results. Some large retailers expect demand to continue its upward pace and plan to boost hiring during the holiday seasons. *Source: US Census, Bloomberg*

Total Retail and Food Service Sales

(\$ Millions, seasonally adjusted)



Selected Retailers: Same-Store Sales

(YoY % Change Sept. 2011 vs. 2009)

Same-Store Sales (US Sales Only): Same store retail sales overall fared well in September 2011 compared to September 2009. Many retailers had particularly strong performances in September 2011. Target and Limitedbrands, for example, beat analysts' same store sales expectations by 1.4% and 6.1% respectfully. Sales for 20+ retail chains tracked by Retail Metrics beat analyst expectations by 0.9% (5.8% vs. 4.9%). According to retail metrics retailers have, on average, beaten sales expectations every month in 2011 as of September. These results come despite increased costs for labor and raw materials, which were largely passed on to consumers. These results are particularly encouraging for the economic recovery as consumer spending accounts for nearly 70% of annual GDP.

Source: Company Press Releases, businessweek.com

Walmart 2011 results - 13 weeks ending July 2011, 2009 results - 3 week period ending July 2009

	Company	Same-Store Sales Sept. 2011	Same Store Sales Sept. 2009
Mass Merchandisers	COSTCO WHOLESALE	+6.0%	-1.0%
	TARGET	+5.3%	-1.7%
	Walmart Save money. Live better.	-0.9%	+4.6%
	JCPenney	-0.6%	-1.4%
Department Stores	macy's	+4.9%	-2.3%
	NORDSTROM	+10.7%	-2.4%
	Neiman Marcus	+4.7%	-12.9%
	SAKS FIFTH AVENUE	+9.3%	-11.6%
	Dillard's	+3.0%	-6.0%

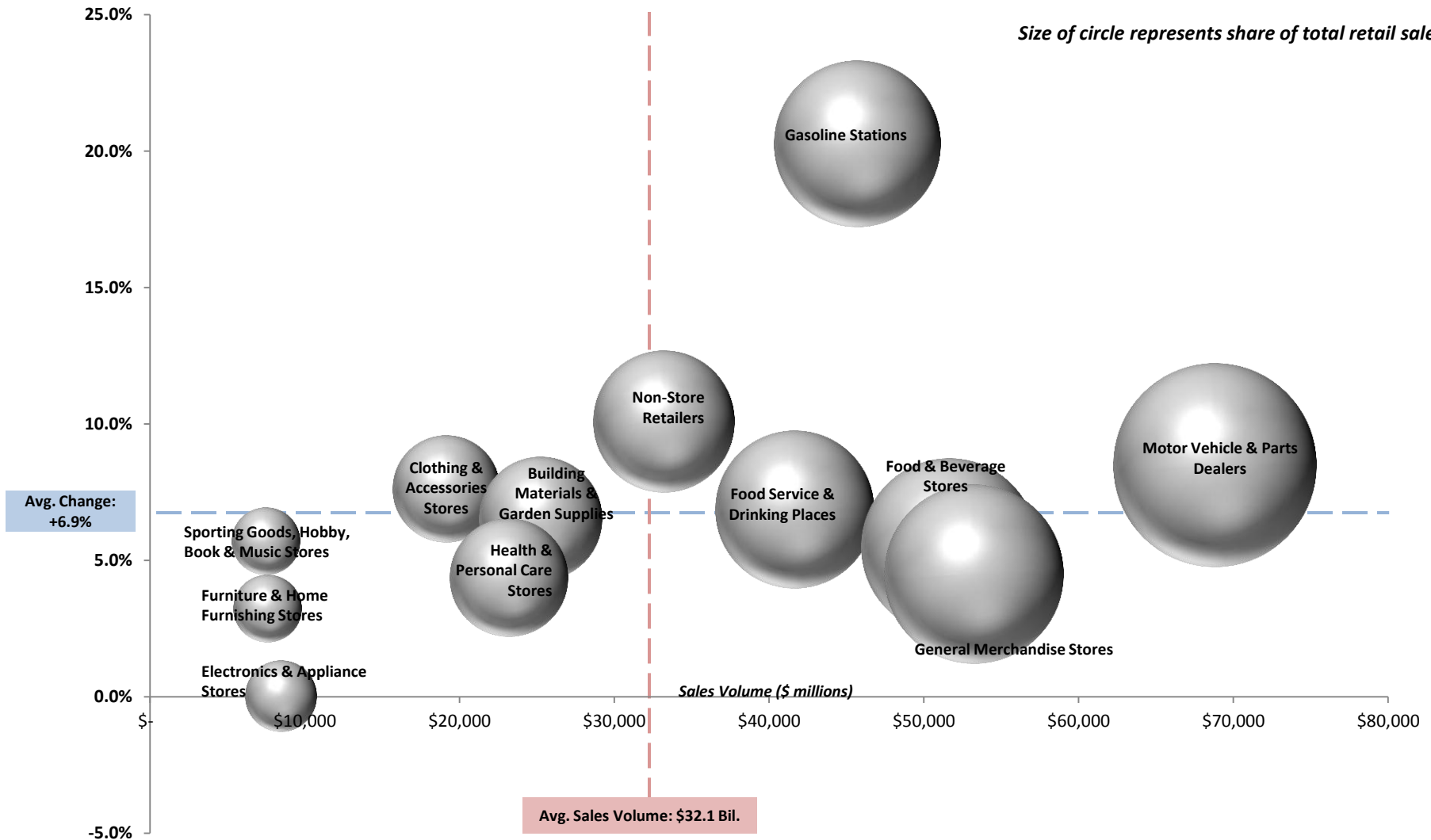
	Company	Same-Store Sales Sept. 2011	Same Store Sales Sept. 2009
General Apparel	Buckle	+10.3%	+5.1%
	GAP	-4.0%	-8.0%
	Limitedbrands	+11.0%	+1.0%
Discounters	zumiez	+10.1%	N/A
	ROSS DRESS FOR LESS	+5.0%	+8.0%
	Stein Mart	-1.7%	-9.0%
	KOHL'S	+4.1%	+5.5%
Drug Stores	Walgreens	+3.1%	N/A
	RITE AID	+1.3%	-0.3%

Microeconomic Indicators

Retail Sales by Segment

The chart below provides an overview of US Retail and Food Services, shown according to the twelve major NAICS codes. From Sept. 2010 to Sept. 2011, the highest growth retail segments, excluding Gasoline Stations and Motor Vehicle & Parts Dealers, were: Non-Store Retailers, and Clothing & Accessory Stores. From Sept. 2010 to Sept. 2011, the lowest growth retail segments were Electronic & Appliance Stores, Furniture & Home Furnishing Stores, and Health & Personal Care Stores. *Source: US Census*

Annual % Change
(Sept.-'10 – Sept.-'11)



Microeconomic Indicators

Ecommerce Retail Sales

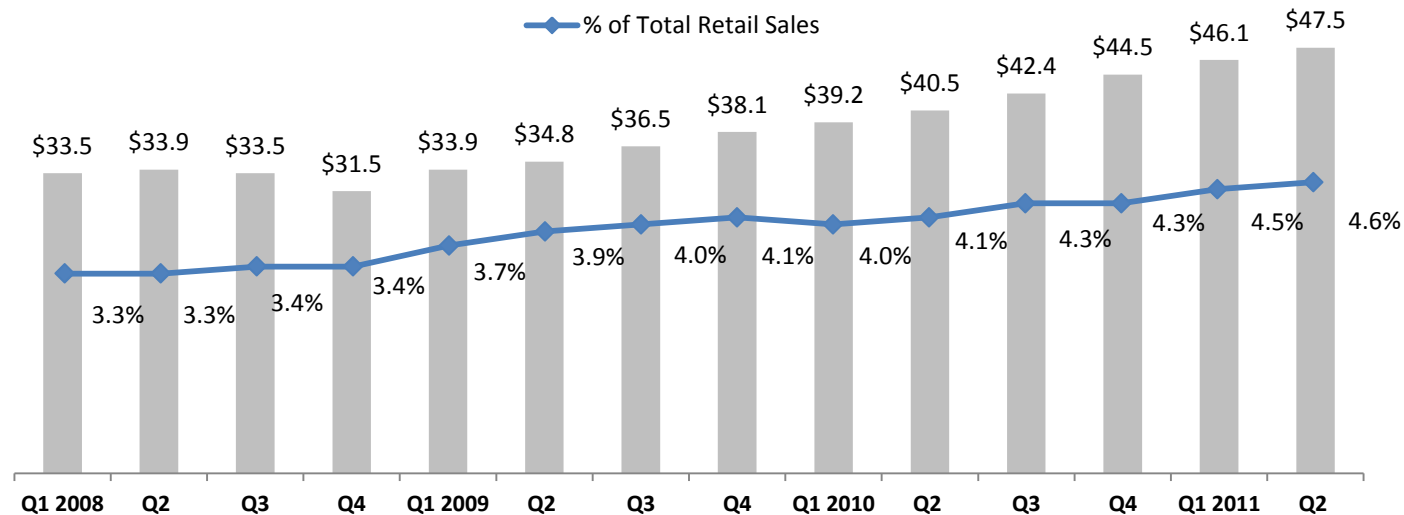
(Q1 2008 – Q2 2011)

E-commerce Retail Sales (\$ Billions): Ecommerce sales are sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an Internet, extranet, Electronic Data Interchange (EDI) network, electronic mail, or other online system. Payment may or may not be made online.

General E-commerce Statistics: E-commerce retail sales growth continue to outpace that of traditional brick and mortar stores by a considerable margin. In Q2 2011 for example, ecommerce retail sales grew nearly 18% from the same quarter a year ago while total retail sales, excluding ecommerce, grew just 8%. With the holiday shopping season among us many retailers are expected to increasingly focus on online sales channels as a way to boost top line performance. Last year for example, Cyber Monday, online's version of Black Friday, experienced annual sales growth of 16% while traditional brick and mortar sales grew just 0.3% from the prior year. *Sources: US Census, sfgate.com*

Ecommerce Retail Sales

(\$ Billions)



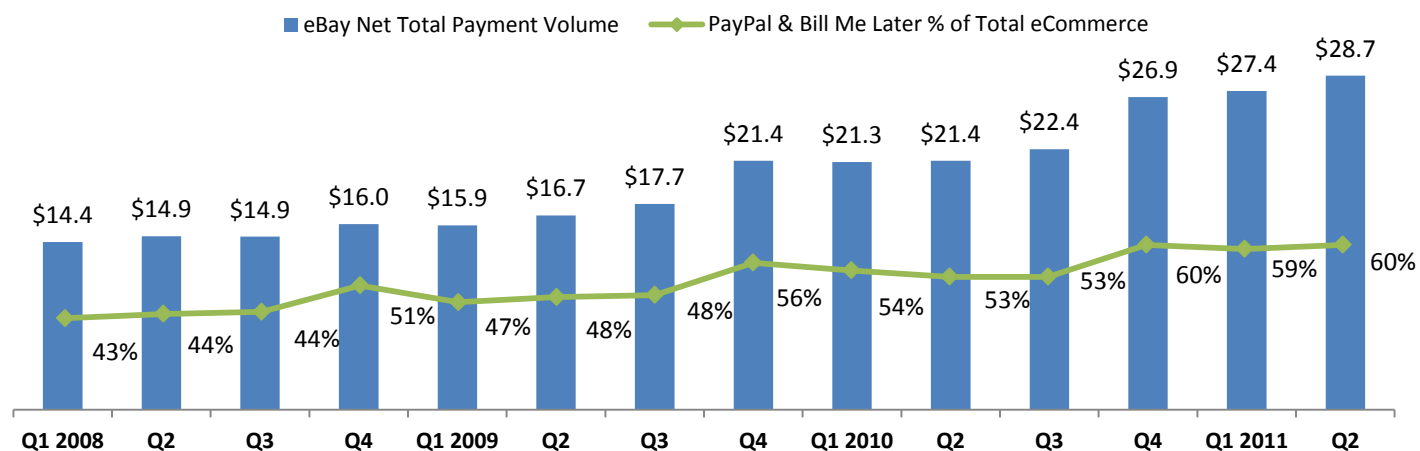
Alternative Payments

(Q1 2008 – Q2 2011)

Alternative Payments: The total dollar volume of payments passed through eBay's PayPal network and Bill Me Later accounts grew nearly 5% from Q1 2011 to Q2 2011 and nearly 34% from Q2 2010 to Q2 2011. Total payments/transactions processed through these two payment sources increased 2% and 29% on the same basis suggesting a relatively stable average transaction amount. Active accounts increased 15% from Q2 2010 to Q2 2011 as the company surpassed 100 million active registered accounts. eBay's PayPal unit also posted its first ever billion dollar revenue quarter, adding to the evidence of the increasing traction online retail sources are gaining with consumers and merchants. *Source: eBay Quarterly Earnings Releases, Census.gov*

eBay's Share of Ecommerce Market

(\$ Billions, % are of total ecommerce sales)



NOTE: It is assumed that transactions made through PayPal and Bill Me Later are inclusively ecommerce sales and included in total ecommerce numbers shown in the Ecommerce Retail Sales chart above.

Payments Indicators

VISA & MasterCard Data (Q3 2009 – Q3 2011)

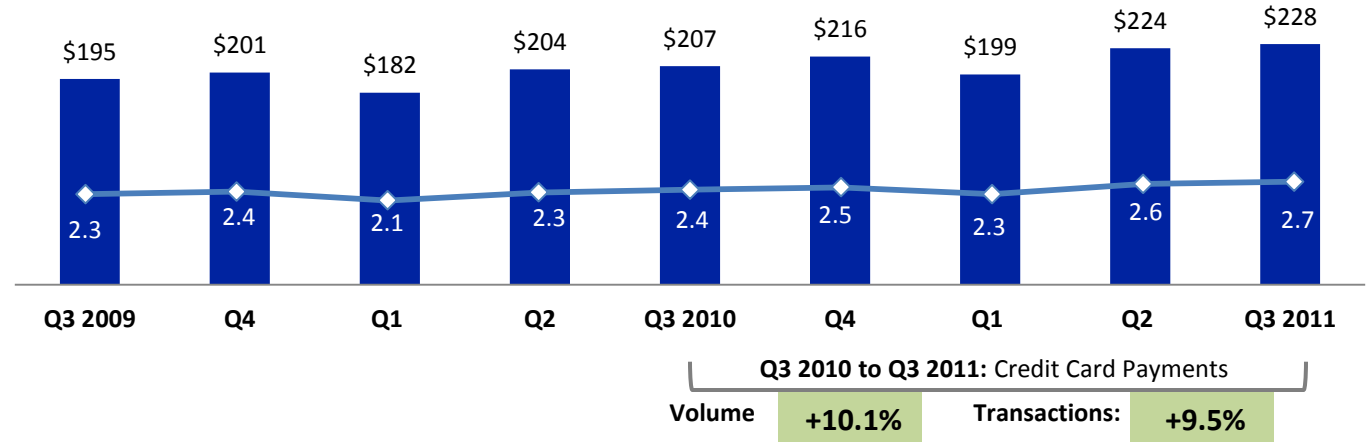
VISA & MasterCard Data: Total credit card payment volume among the two major card brands is up 8.8% from Q3 2010 to Q3 2011 while total credit card transactions are up 10.3% over the same period. Volume and transactions increased for both of the major card brands in Q3 2011. Credit card volume on Visa and MasterCard branded cards has increased in each annual period from Q3 2009 to Q3 2010 and Q3 2010 to Q3 2011. These trends seem to indicate consumers' cautious re-adoption of credit based payment methods. The chart directly below shows the difference in card type payment mix existing between Visa and MasterCard in regards to dollar volume of debit versus credit. Visa is more exposed to debit based transactions while MasterCard is just the opposite. Sources: VISA, MasterCard



US Credit Card Payments Volume & # of Transactions

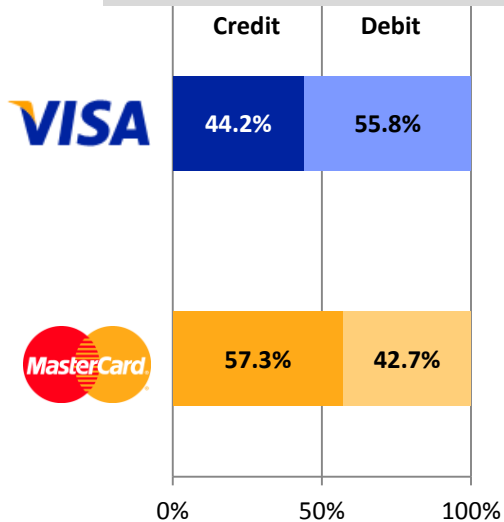
(Columns show Volume in \$ Billions, Line shows # of Transactions in Billions)

(Visa fiscal year Oct – Sept, data in chart reported on normal year)



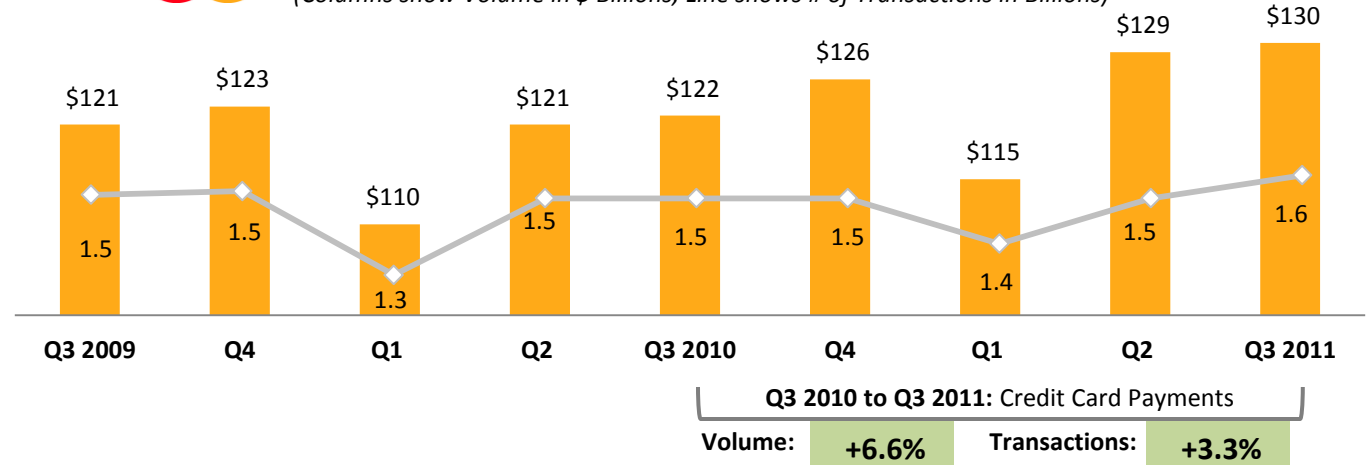
Payment Type Mix: \$ Volume

(Visa and MasterCard's Q3 '11)



US Credit Card Payments Volume & # of Transactions

(Columns show Volume in \$ Billions, Line shows # of Transactions in Billions)



* % are based on non-rounded numbers

Payments Indicators

VISA & MasterCard Data

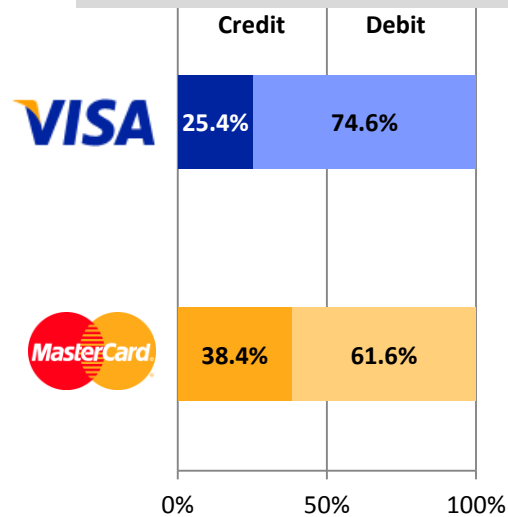
(Q3 2009 – Q3 2011)

VISA & MasterCard Data: During the third quarter of 2011 debit card payments volume totaled \$385 billion, an increase of 11.6% with respect to the previous quarter a year ago. Total debit card transactions amounted to 10.3 billion during Q3 2011, an increase of 9.6% from Q3 2010. Debit volumes for each of the two major card brands registered their first quarterly drop in Q3 2011. Though it would be hard to prove, consumers may have shied away from using their debit cards in Q3 as many banks planned, and later canceled, monthly fees for debit card usage. The below chart displays the transaction concentration between the two major card brands. Again, Visa is dominated by debit transactions, their volume concentrations are also dominated by debit. MasterCard's transactions are heavily debit weighted as well while their volumes are more credit based.

Sources: VISA, MasterCard

Payment Type Mix: # of Transactions

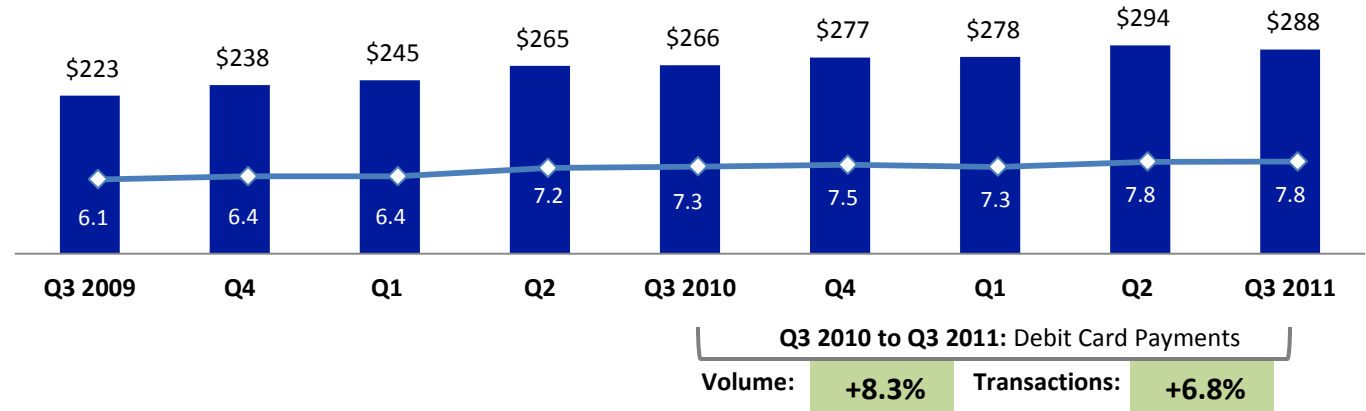
(Visa and MasterCard's Q3 '11)



US Debit Card Payments Volume & # of Transactions

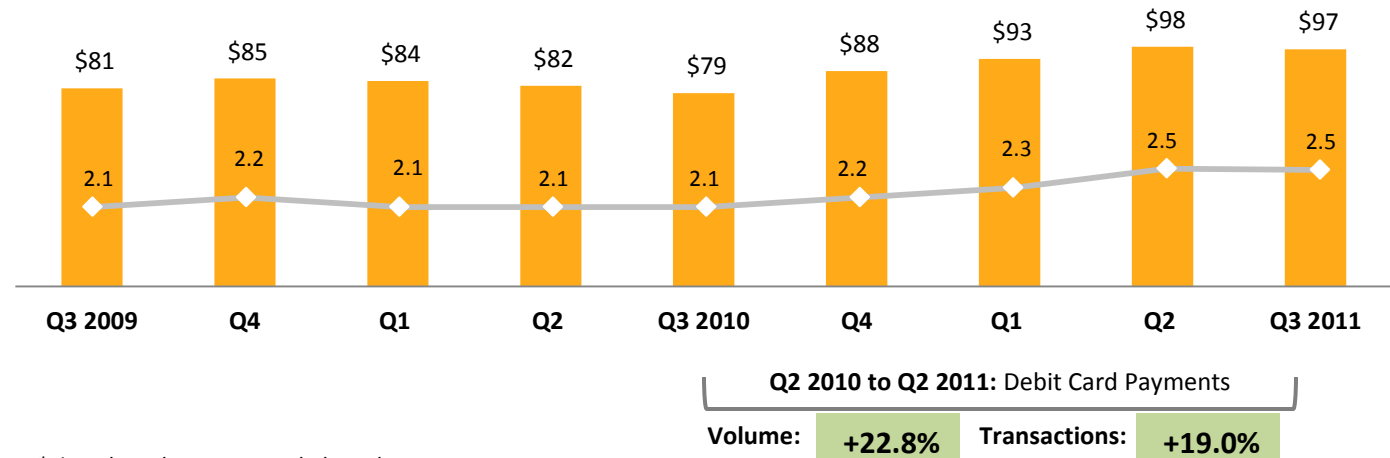
(Columns show Volume in \$ Billions, Line shows # of Transactions in Billions)

(Visa fiscal year Oct – Sept. Data displayed using normal year)



US Debit Card Payments Volume & # of Transactions

(Columns show Volume in \$ Billions, Line shows # of Transactions in Billions)



*% are based on non-rounded numbers

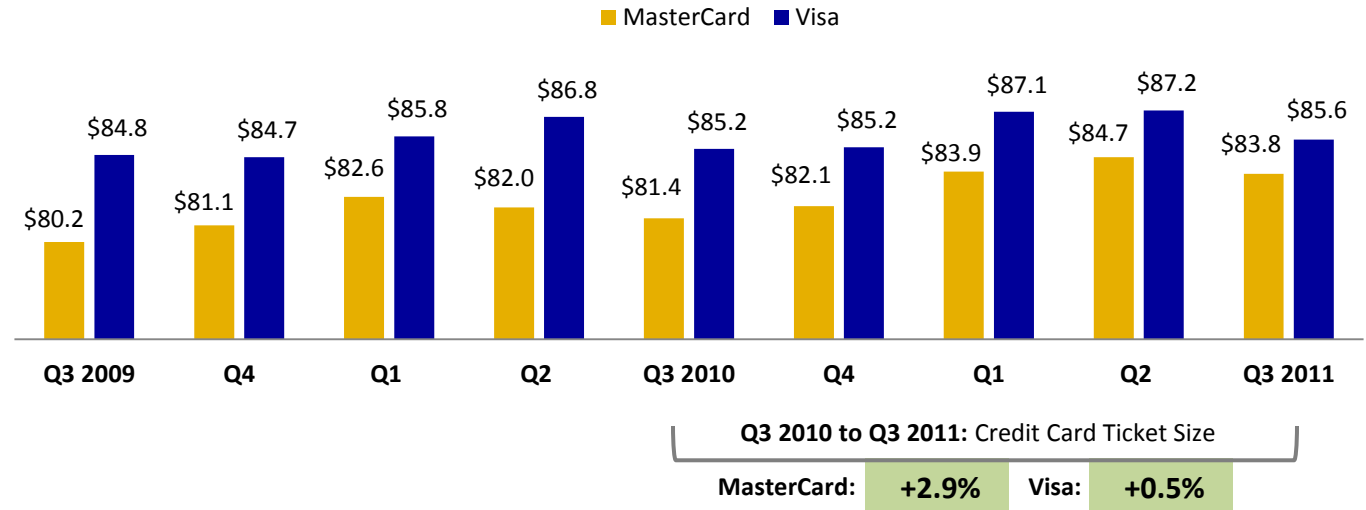
Payments Indicators

Credit Card Average Ticket

(Q3 2009 – Q3 2011)

Average Ticket: Average ticket sizes among transactions purchased with Visa credit cards decreased 0.8% in Q3 2011 compared to MasterCard's increase of 3.1% during this time period. These rates are consistent with the two card brands volume and transaction growth rates. Visa's credit volume growth was 10.1% compared to transaction growth of 9.5% while MasterCard reported volume growth of 6.6% while transactions grew 3.3%. Total combined credit card average ticket among the two major card brands increased 1.5% since Q3 2010 to Q3 2011. Growing transaction volumes are always good news to acquiring institutions and other players in the payments supply chain as revenue per transaction will typically increase as well. *Sources: VISA, MasterCard*

MasterCard & VISA US Credit Card Average Tickets

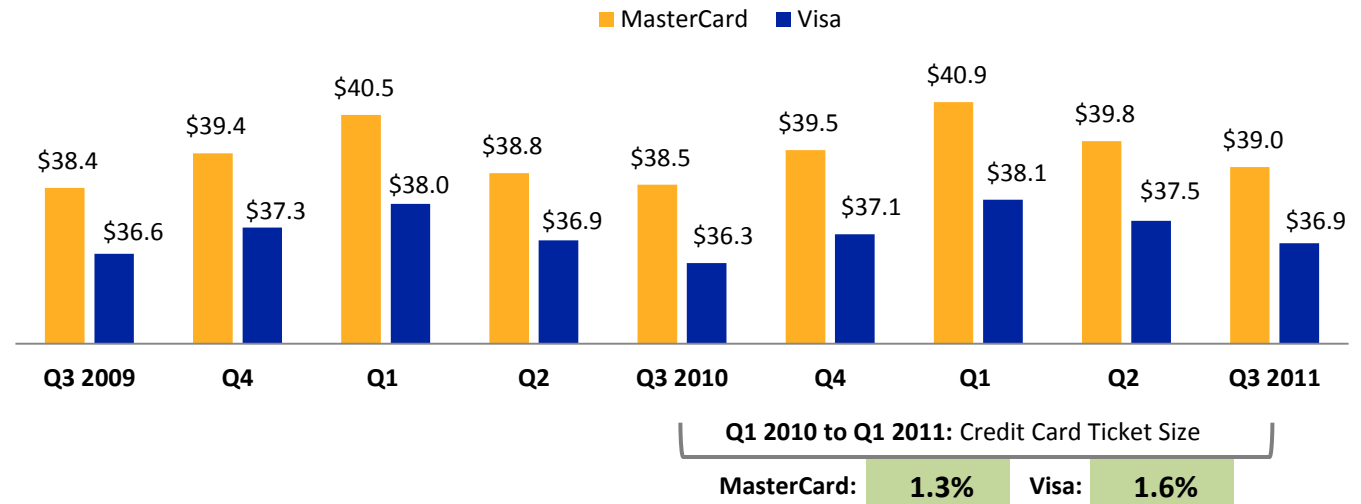


Debit Card Average Ticket

(Q3 2009 – Q3 2011)

Average Ticket: Debit card average ticket sizes increased 1.6% among Visa debit cardholders and 1.3% among MasterCard debit card holders. Average transaction sizes on Visa and MasterCard branded debit cards has been trending down since Q1 2011. While there is no single definitive source for this trend multiple market trends may provide an explanation. Increased adoption of debit cards among younger cardholders making smaller purchases and the growth of mobile based payments may provide some explanation. *Sources: VISA, MasterCard*

MasterCard & VISA US Debit Card Average Tickets



*Ave tickets may not match data in previous slides due to rounding

Payments Indicators

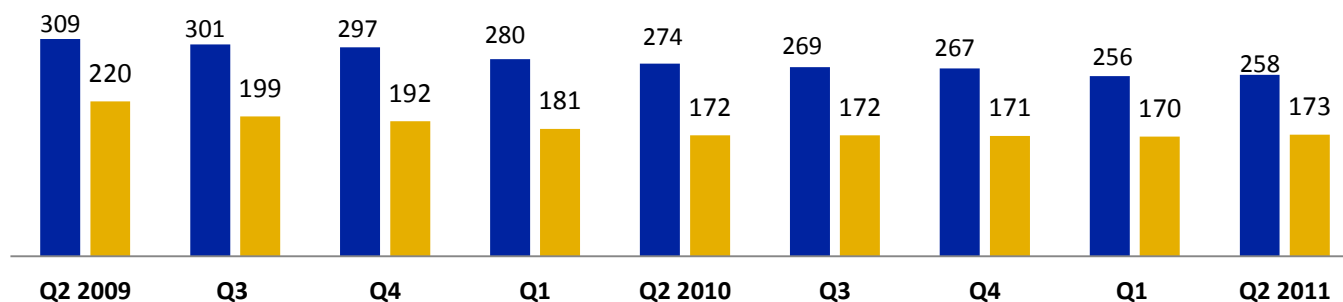
US Credit Cards in Circulation

(Q2 2009 – Q2 2011)

Credit Cards: Visa credit cards in circulation has been trending down since Q2 2009 while MasterCard experienced their first quarter over quarter increase in at least the past eight quarters in Q2 2011. This trend can largely be explained by the consumer deleveraging patterns discussed on page 9 of this report. Personal bankruptcy rates and bank closings may also be playing a role in the declining trends as of late as well as competition from other card brands. *Sources: VISA, MasterCard*

MasterCard & VISA US Credit Cards in Circulation - millions

■ Visa - Credit ■ MasterCard - Credit



Q1 2010 to Q1 2011: Credit Cards in Circulation

MasterCard: +0.6% Visa: -5.8%

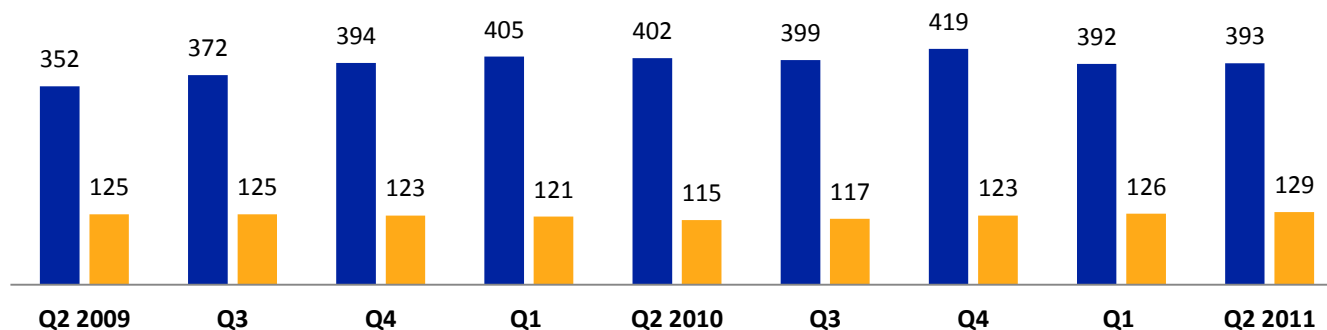
US Debit Cards in Circulation

(Q2 2009 – Q2 2011)

Debit Cards: Visa has experienced a double hit to growth in credit and debit cards in circulation with debit cards declining 2.2% in Q2 2011. MasterCard, however, is experiencing growth in both credit and debit cards in circulation as of Q2 2011. MasterCard's debit cards in circulation reached an all time high in the Q2 2009 to 2011 time period at 129 million. Visa on the other hand is off their high over this time period of 405 million cards in circulation to 393 million as of Q2 2011. *Sources: VISA, MasterCard*

MasterCard & VISA US Debit Cards in Circulation - millions

■ Visa - Debit ■ MasterCard - Debit



Q2 2010 to Q2 2011: Debit Cards in Circulation

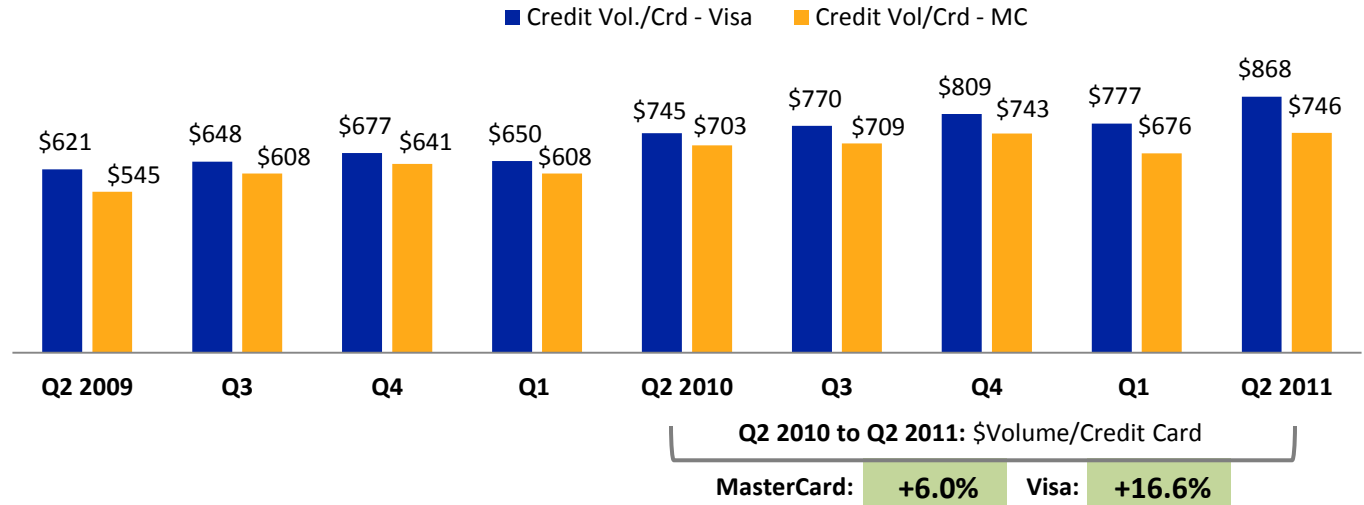
MasterCard: +12.2% Visa: -2.2%

Payments Indicators

Dollar Volume per Credit Card (Q2 2009 – Q2 2011)

Credit Cards: Spending on credit cards in the US increased nearly 17% among Visa credit card holders and 6% among MasterCard credit card holders annually in Q2 2011. Combined spending on credit cards by US cardholders increased nearly 11.5% from Q2 2010 to Q2 2011. Trends in these charts are consistent with data released by the Federal Reserve, earlier in this report, showing an upward trend in annualized revolving consumer credit growth. These data show that the consumer may be becoming more comfortable with the use of credit again for a greater number of purchases which can be a positive for economic growth and the payments industry. *Sources: VISA, MasterCard*

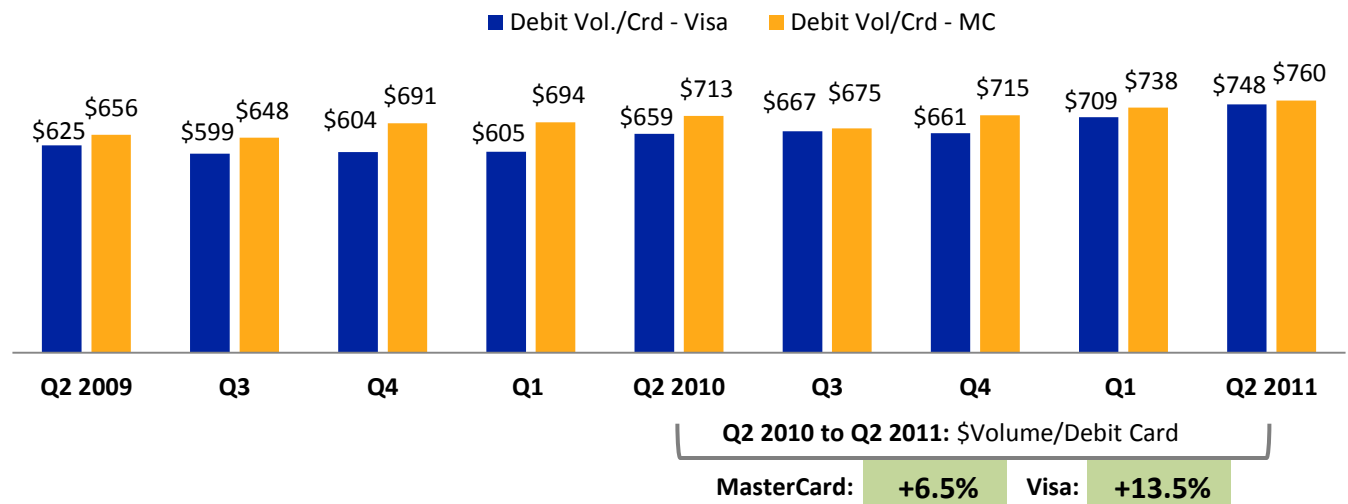
MasterCard & VISA US \$ Volume per Credit Card



Dollar Volume per Debit Card (Q2 2009 – Q2 2011)

Debit Cards: Spending on debit card in the US increased approximately 14% among Visa debit card holders and just above 6% for MasterCard debit card holders annually in Q2 2011. These increases seem to be driven on the volume side of the transaction as volume among the two largest card brands increased while the number of debit cards in circulation increased among MasterCard figures and decreased in Visa's latest numbers. *Sources: VISA, MasterCard*
































MasterCard & VISA US \$ Volume per Debit Card



Payments Indicators

TSG Payments Index (TSGPX) (Q1 2007 – Q3 2011)

The following page displays the performance of \$100 investment in an index of the following listed companies which represent the “TSG Payments Index” - this index is calculated on a value weighted basis using market capitalization and is compared to the S&P 500 which is also calculated using the same methodology. While some of the companies listed in TSG’s Payments Index do not meet the requirements to be a S&P 500 listed company (S&P listed companies have a market cap of at least \$3 billion), the S&P 500 served to be the best comparable index to TSG’s Payments Index since it is one of the most commonly used benchmarks for the overall U.S. stock market. In fact, many consider it to be the definition of *the market*. The companies included in TSG’s Payments Index (shown below) met the criteria that at least 50% of their revenues were produced from electronic payments products or services. Ingenico and Gemalto have been removed due to inclusion of NetSpend and Cardtronics as well as their being traded on non-US exchanges.

	 Acquirer	 Processor	 Processor	 Processor	 Processor
 Specialty Processor	 Prepaid Processor	 POS Equipment Provider	 POS Equipment Provider	 Software Provider	 Hardware/Software Prov.
 Technology Provider	 Technology Provider	 Technology Provider	 Technology Provider	 Technology Provider	 Technology Provider
 Technology Provider	 Data Security VAR	 Card Association	 Card Association	 Card Association/Issuer	 Card Association/Issuer
 Global Cash Access	 Direct Billing	 Money Transfer	 Loyalty Solutions Prov.	 Prepaid Issuer	 Prepaid Issuer
 ATM Operator					

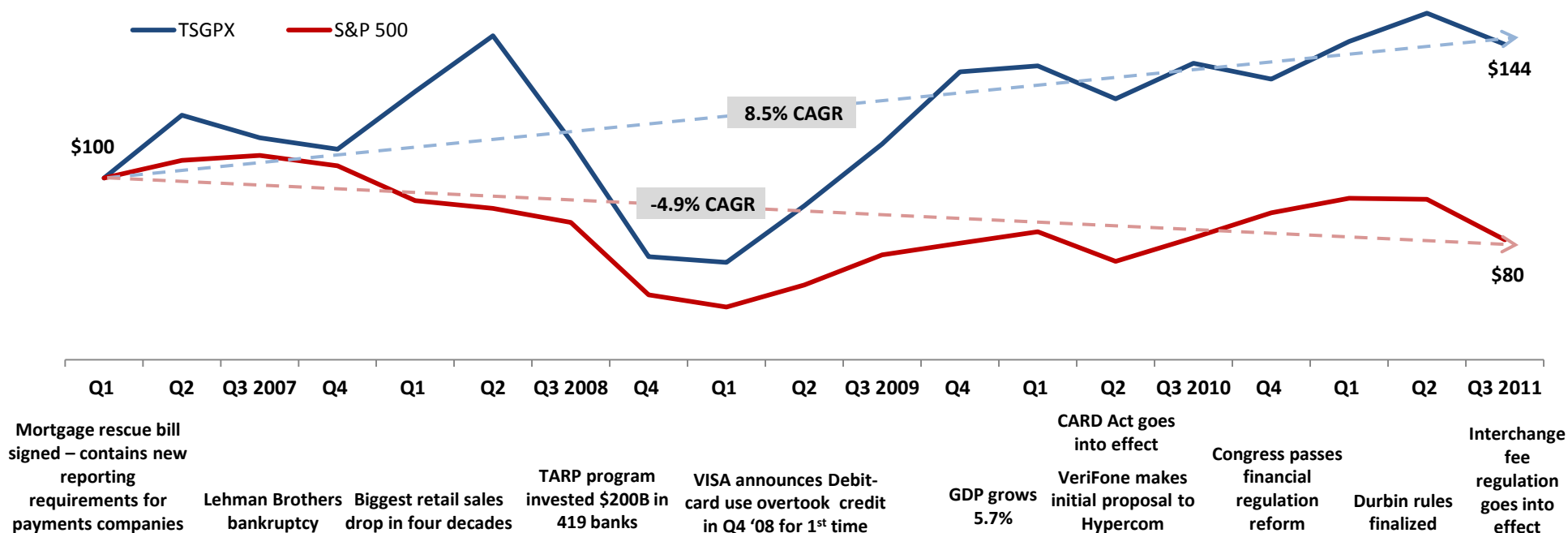
Payments Indicators

TSG Payments Index (TSGPX)
(Q1 2007 – Q3 2011)



vs.

STANDARD
& POOR'S



Market Commentary & Analysis

TSGPX Advancing companies outpaced the declining shares by a ratio of 1.8:1 since Q3 2010

Strongest annual performers since Q3 2010 included:

- **Heartland Payments** – Q2 2011 one of most profitable quarters, net revenue up 6.1% a quarterly record, new sales force proving to be very effective in early stages
- **MasterCard** – Partner in Google Wallet, new domestic bank relationships as well as cross border processing relationships generated significant Q2 2011 revenue growth
- **Discover** – Direct banking card sales volume set all time record up 9% annually in fiscal Q3 2011, Payments Services volume up 15% to \$45 billion, totals loans up 8%
- **Alliance Data Systems** – New and renewed long term contract agreements and strategic acquisitions generated double digit revenue, EBITDA, EPS growth in Q2 2011
- **Cardtronics** – Acquisitions and new domestic ATM relationships as well as first Mexico ATM agreement contribute to record Q2 2011 results

About ETA



The Electronic Transactions Association (ETA) is an international trade association representing companies who offer electronic transaction processing products and services. The purpose of ETA is to influence, monitor and help shape the merchant acquiring industry by providing leadership through education, advocacy and the exchange of information. ETA's membership spans the breadth of the payments industry, from financial institutions to transaction processors to independent sales organizations (ISOs) and equipment suppliers. More than 500 companies worldwide are members of ETA. Please visit www.electran.org for more information.

About TSG

The Strawhecker Group (TSG) is a management consulting company focused on the electronic payments industry.

TSG's Service Groups

Payments Strategy - Payments Strategy encompasses the full spectrum of advisory services within the Payments Industry. The depth of these services is built on deep industry knowledge - Partners and Associates of the firm have average industry experience of more than 20 years. With clients from card issuers to merchant acquirers, TSG has the experience and expertise to provide real-time strategies.

Strategic Acquisitions - In the Payments Industry, success in buying and selling relies heavily on relationships and industry knowledge. At TSG, these areas are our forte. Over the past three years, we provided services to 30 of the top 50 U.S. Acquirers and have prepared more than 50 valuation assessments of payments properties; with individual values ranging up to \$2.3 Billion. In aggregate, these analyses represent more than \$5 billion in value.

TSG Metrics - TSG Metrics, the strategic research and analysis division of TSG, provides the Payments Industry with highly focused research and industry-wide studies. TSG Metrics takes data, boils it down to information, transforms it to knowledge and presents it to provide wisdom to its client partners.

TSG's Unparalleled Experience

TSG consists of Industry leaders with extensive experience leading teams through explosive growth periods, mergers and acquisitions, and international and domestic expansion within the Payments Industry. Both Partners and Associates of the firm have held key senior management positions at leading industry companies including First Data / First Data International, VISA USA, MasterCard, TSYS, Humboldt Merchant Services, WorldPay, Heartland Payment Systems, Cardservice International, iPayment, Alliance Data, RapidAdvance, Accenture Consulting, Redwood Merchant Services, Chase Paymentech, as well as other leading financial institutions and Payments companies.

TSG's Influence Shapes the Payments Industry

Over the last three years, TSG has completed over 300 projects for more than 175 different clients including financial institutions, merchant acquirers, card issuers, card associations, technology providers, ISOs, processing companies and the investment community. Additionally, the firm and its Associates sit on several Industry committees whose focuses range from emerging product development to governmental regulation advisement.

Other recent TSG reports and analysis include (Click for more information):

Impact of Durbin on Payments Value Chain

Merchant Portfolio Performance Study

Durbin Amendment Rules Overview

Processor Pricing Benchmark Study

The Changing Merchant Acquiring Ecosystem

Directory of U.S. Merchant Acquirers

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