The State of the Economy and Prospects for Tax Revenue in Tennessee

presented to

Tennessee State Funding Board
Nashville, Tennessee
March 24, 2010

by

Albert E. DePrince, Jr.
Professor of Economics and Finance
Jennings A. Jones College of Business
Middle Tennessee State University
Murfreesboro, Tennessee
deprince@mtsu.edu

The State of the Economy and Prospects for Tax Revenue in Tennessee

Contents

Setting the Stage for the U.S. Outlook

- Broad-Brush Comparison of Forecasts *(page 3)*

Baseline U.S. Economic Forecast

- General Overview *(page 4)*
- Cyclical Characteristics *(page 5)*
- Household Sector *(page 6)*
- Corporate and International Sectors *(page 7)*

The Outlook for Interest Rates

- Market Outlook *(page 8)*
- MTSU Interest Rates *(page 9-10)*

Outlook for Tennessee

- Tennessee Economic Outlook *(page 11)*
- Economic Assumptions behind Revenue Projections *(page 12)*
- Outlook for State Revenue *(page 13)*

The U.S. Outlook – Broad-Brush Comparison

Blue Chip Short-Term Financial Survey, the FOMC, and MTSU

	2009	2010	2011	2012
MTSU: GDP Growth	-2.4	2.5	2.7	3.4
MTSU: Unemployment Rate	9.3	9.6	8.7	7.0

Comparison of Baseline Against Blue Chip Financial Survey Results

Blue Chip Financial Survey – 2/27/2010

	Consensus	10Highest	10 Lowest	MTSU
1Q2010	3.0	4.1	2.2	1.2
2Q2010	3.0	4.1	1.8	2.4
3Q2010	2.9	4.0	1.7	2.5
4Q2010	3.0	4.0	2.0	2.4
1Q2011	3.0	4.0	2.1	2.4
2Q2010	3.1	4.2	2.2	2.7

Table 1. Economic projections of Federal Reserve Governors and Reserve Bank presidents, January 2009

Variable	Central tendency				Range			
	2009	2010	2011	Longer Run	2009	2010	2011	Longer Run
Real GDP Gropwth	-1.3 to -0.5	2.5 to 3.3	3.8 to 5.0	2.5 to 2.7	-2.5 to 0.2	1.5 to 4.5	2.3 to 5.5	2.4 to 3.0
Unemployment rate	8.5 to 8.8	8.0 to 8.3	6.7 to 7.5	4.8 to 5.0	8.0 to 9.2	7.0 to 9.2	5.5 to 8.0	4.5 to 5.5
PCE inflation	0.3 to 1.0	1.0 to 1.5	0.9 to 1.7	1.7 to 2.0	-0.5 to 1.5	0.7 to 1.8	0.2 to 2.1	1.5 to 2.0
Core PCE inflation	0.9 to 1.1	0.8 to 1.5	0.7 to 1.5		0.6 to 1.5	0.4 to 1.7	0.0 to 1.8	

Source: Federal Open Market Committee Minutes--January 2010 Meeting

Baseline Economic Outlook

General Overview

		2009				2010				2011				Year-over-Year Growth		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(A) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
1	Gross Domestic Product	14178.0	14151.2	14242.1	14461.7	14557.2	14685.1	14828.4	14966.7	15108.6	15266.7	15451.2	15664.9	-1.3	3.5	4.2
2	Change *	5.3	5.3	5.3	5.3	2.7	3.6	4.0	3.8	3.8	4.3	4.9	5.7			
3	Gross Dom. Product (96$)	12925.4	12901.5	12973.0	13161.1	13199.9	13277.6	13361.2	13439.3	13517.7	13607.8	13717.7	13849.7	-2.4	2.5	2.7
4	Change *	-6.4	-0.7	2.2	5.9	1.2	2.4	2.5	2.4	2.4	2.7	3.3	3.9			
5	Personal Consump. Exp. (96$)	9209.2	9189.0	9252.6	9291.7	9310.9	9362.7	9410.2	9459.1	9510.3	9572.0	9641.7	9733.5	-0.6	1.6	2.4
6	Change *	0.6	-0.9	2.8	1.7	0.8	2.2	2.0	2.1	2.2	2.6	2.9	3.9			
7	Equipment and Software (96$)	887.5	876.5	879.8	917.4	931.7	932.5	938.7	949.8	959.8	971.3	995.1	1025.2	-16.7	5.4	5.3
8	Change *	-36.4	-4.9	1.5	18.2	6.4	0.3	2.7	4.8	4.3	4.9	10.2	12.7			
9	Nonresid. Construction (96$)	419.4	400.0	380.2	366.2	363.7	361.0	359.7	359.6	359.6	359.1	359.0	359.6	-19.6	-7.8	-0.5
10	Change *	-43.6	-17.3	-18.4	-13.9	-2.8	-2.8	-1.5	-0.1	0.0	-0.6	-0.1	0.7			
11	Resid. Construction (96$)	367.9	344.4	359.6	364.0	366.8	368.7	370.1	370.6	371.1	372.0	377.4	385.5	-20.4	2.8	2.0
12	Change *	-38.2	-23.2	18.9	5.0	3.2	2.1	1.4	0.6	0.5	1.0	5.9	8.9			
13	Federal Defense (96$)	672.8	695.2	709.3	703.1	707.4	707.5	708.0	708.7	709.3	710.0	710.6	711.2	5.4	1.8	0.3
14	Change *	-5.1	14.0	8.4	-3.5	2.5	0.0	0.3	0.4	0.3	0.4	0.4	0.4			
15	Fed. Nondefense (96$)	323.4	328.2	333.8	340.5	341.8	344.6	347.3	350.0	352.7	355.4	358.2	360.9	4.8	4.4	3.1
16	Change *	-2.4	6.1	7.0	8.3	1.5	3.3	3.2	3.1	3.1	3.1	3.1	3.1			
17	State + Local (96$)	1533.3	1548.0	1545.5	1537.8	1535.9	1535.8	1536.7	1538.6	1542.4	1548.2	1556.6	1566.2			
18	Change *	-1.6	3.9	-0.6	-2.0	-0.5	0.0	0.2	0.5	1.0	1.5	2.2	2.5	-0.2	-0.3	1.1
19	Net Exports ('96$)	-386.5	-330.4	-357.4	-347.1	-343.7	-329.3	-321.0	-313.2	-307.7	-304.0	-308.1	-322.6			
20	Chg. in Bus. Invent. (96$)	-113.9	-160.2	-139.2	-16.9	-14.7	-5.9	11.6	16.1	20.2	23.9	27.2	30.0			
21	Nonfarm Inventories	-114.9	-163.1	-141.4	-11.2	-12.6	-4.4	12.6	16.8	20.8	24.4	27.7	30.5			
22	Farm Inventories	1.0	2.9	2.2	-5.7	-2.1	-1.5	-1.0	-0.7	-0.6	-0.5	-0.5	-0.5			
23	GNP Deflator ('96=100) *	1.9	0.0	0.4	0.4	1.5	1.2	1.4	1.4	1.5	1.5	1.6	1.7	1.2	1.0	1.5
24	CPI (1982-84=100) *	-2.2	1.9	3.7	2.6	2.1	1.4	1.8	1.9	2.0	2.1	2.3	2.5	-0.3	2.2	2.0
25	PPI (1982=100) *	-6.2	1.8	4.8	1.9	11.4	1.7	1.7	2.0	2.2	2.4	2.5	2.6	-2.7	4.5	2.2

A = Actual; E = Forecast

* Annualized percent change

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS

March 14, 2010

Baseline Economic Outlook
Cyclical Characteristics

		2009				2010				2011				Year-over-Year Growth		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(A) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
1	Domestic Final Sales ('96$)	13425.8	13392.1	13469.6	13525.1	13558.2	13612.8	13670.6	13736.4	13805.2	13887.9	13998.6	14142.3	-0.9	1.6	3.0
2	Change *	-6.4	-1.0	2.3	1.7	1.0	1.6	1.7	1.9	2.0	2.4	3.2	4.2			
3	Cyclical Domestic Demand ('96$)	2762.0	2692.6	2742.3	2771.0	2780.5	2789.5	2798.3	2815.6	2831.8	2857.2	2904.9	2976.7	-13.0	2.0	3.5
4	Change *	-25.2	-9.7	7.6	4.3	1.4	1.3	1.3	2.5	2.3	3.6	6.9	10.3			
5	Cyclical Consumer Demand ('96$)	1087.2	1071.7	1122.7	1123.4	1118.3	1127.2	1129.9	1135.6	1141.3	1154.8	1173.4	1206.3	-3.9	2.4	3.7
6	Change *	3.9	-5.6	20.4	0.2	-1.8	3.2	1.0	2.0	2.0	4.8	6.6	11.7			
7	Light Vehicles and Parts ('96$)	123.5	122.9	124.9	125.3	120.9	121.4	122.0	123.8	125.1	128.7	134.0	143.7	-3.0	-1.7	8.9
8	Change *	7.1	-1.9	6.7	1.3	-13.3	1.5	2.3	5.8	4.2	12.3	17.5	32.0			
9	Other Durables ('96$)	963.7	948.8	997.8	998.1	997.3	1005.8	1007.8	1011.8	1016.3	1026.0	1039.4	1062.7	-4.0	2.9	3.0
10	Change *	3.5	-6.0	22.3	0.1	-0.3	3.5	0.8	1.6	1.8	3.9	5.3	9.3			
11	Fixed Investment ('96$)	1687.5	1631.9	1626.7	1651.2	1662.2	1662.3	1668.5	1680.0	1690.5	1702.4	1731.5	1770.4	-18.3	1.1	3.3
12	Change *	5.0	5.0	5.0	5.0	2.7	0.0	1.5	2.8	2.5	2.9	7.0	9.3			
13	Resid. Construction (96$)	367.9	344.4	359.6	364.0	366.8	368.7	370.1	370.6	371.1	372.0	377.4	385.5	-20.4	2.8	2.0
14	Change *	-38.2	-23.2	18.9	5.0	3.2	2.1	1.4	0.6	0.5	1.0	5.9	8.9			
15	Nonresid. Construction ('96$)	419.4	400.0	380.2	366.2	363.7	361.0	359.7	359.6	359.6	359.1	359.0	359.6	-19.6	-7.8	-0.5
16	Change *	-43.6	-17.3	-18.4	-13.9	-2.8	-2.8	-1.5	-0.1	0.0	-0.6	-0.1	0.7			
17	Equipment and Software ('96$)	887.5	876.5	879.8	917.4	931.7	932.5	938.7	949.8	959.8	971.3	995.1	1025.2	-16.7	5.4	5.3
18	Change *	-36.4	-4.9	1.5	18.2	6.4	0.3	2.7	4.8	4.3	4.9	10.2	12.7			
19	Noncyclical Demand ('96$)@	10163.4	10208.9	10230.7	10390.1	10419.4	10488.2	10562.8	10623.7	10685.9	10750.7	10812.8	10873.0	0.9	2.7	2.4
20	Change *	-0.4	1.8	0.9	6.4	1.1	2.7	2.9	2.3	2.4	2.4	2.3	2.2			
21	Chg. in Business Inventories	-113.9	-160.2	-139.2	-16.9	-14.7	-5.9	11.6	16.1	20.2	23.9	27.2	30.0			
22	Gross Domestic Purchases ('96$)&	13297.3	13218.3	13318.5	13500.3	13543.6	13606.9	13682.2	13752.5	13825.4	13911.8	14025.8	14172.3	-3.3	2.3	2.5
23	Change *	-8.5	-2.4	3.1	5.6	1.3	1.9	2.2	2.1	2.1	2.5	3.3	4.2			
24	Net Exports ('96$)	-386.5	-330.4	-357.4	-347.1	-343.7	-329.3	-321.0	-313.2	-307.7	-304.0	-308.1	-322.6			
25	GDP ('96$)**	12925.4	12901.5	12973.0	13161.1	13199.9	13277.6	13361.2	13439.3	13517.7	13607.8	13717.7	13849.7	-2.4	2.5	2.7
	Change *	-6.4	-0.7	2.2	5.9	1.2	2.4	2.5	2.4	2.4	2.7	3.3	3.9			

@ Noncyclical Demand = Consumer spending on nondurable goods and services and all forms of government spending (excluding CCC inventories)
& Gross Domestic Purchases = Domestic final demand plus Change *
A = Actual; E = Forecast * Annualized percent change Except for price indexes, all data in billions of dollars Historical sources: BEA and BLS March 14, 2010

Baseline Economic Outlook

Household Sector

		2009				2010				2011				Year-over-Year Growth		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(A) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
1	Personal Income ($ Bil.)	11952.7	12048.8	12005.2	12114.3	12248.4	12323.3	12478.8	12590.9	12695.0	12800.8	12942.7	13123.6	-1.7	3.2	3.9
2	Change *	-8.9	3.3	-1.4	3.7	4.5	2.5	5.1	3.6	3.3	3.4	4.5	5.7			
3	Civilian Employment (Mil.)	141.6	140.5	139.3	138.1	138.3	138.5	138.7	138.9	139.1	139.4	139.7	140.2	-3.8	-0.9	0.8
4	Change *	-6.3	-3.1	-3.2	-3.4	0.3	0.6	0.6	0.6	0.7	0.8	1.0	1.4			
5	Unemployment Rate	8.2	9.3	9.6	10.0	9.7	9.7	9.6	9.5	9.3	9.0	8.5	7.9	9.3	9.6	8.7
6	Personal Consump. Exp. ('96$)	9209.2	9189.0	9252.6	9291.7	9310.9	9362.7	9410.2	9459.1	9510.3	9572.0	9641.7	9733.5	-0.6	1.6	2.4
7	Change *	0.6	-0.9	2.8	1.7	0.8	2.2	2.0	2.1	2.2	2.6	2.9	3.9			
8	Autos & Parts	123.5	122.9	124.9	125.3	120.9	121.4	122.0	123.8	125.1	128.7	134.0	143.7	-3.0	-1.7	8.9
9	Change *	7.1	-1.9	6.7	1.3	-13.3	1.5	2.3	5.8	4.2	12.3	17.5	32.0			
10	Other Durable Goods	963.7	948.8	997.8	998.1	997.3	1005.8	1007.8	1011.8	1016.3	1026.0	1039.4	1062.7	-4.0	2.9	3.0
11	Change *	3.5	-6.0	22.3	0.1	-0.3	3.5	0.8	1.6	1.8	3.9	5.3	9.3			
12	Nondurable Goods	2035.5	2025.7	2033.3	2053.7	2058.7	2064.9	2071.7	2076.8	2083.1	2090.9	2100.0	2113.8	-1.0	1.5	1.4
13	Change *	1.9	-1.9	1.5	4.1	1.0	1.2	1.3	1.0	1.2	1.5	1.7	2.7			
14	Services	6076.0	6078.8	6090.6	6108.2	6134.0	6170.6	6208.6	6246.7	6285.9	6326.2	6368.3	6413.4	0.1	1.7	2.6
15	Change *	-0.3	0.2	0.8	1.2	1.7	2.4	2.5	2.5	2.5	2.6	2.7	2.9			
16	Lt. Vehicles	9.5	9.6	11.5	10.8	10.4	10.4	10.3	10.4	10.4	10.7	11.0	11.7	-21.6	0.2	5.8
17	Change *	-33.3	4.3	107.7	-20.9	-16.2	-0.8	-0.7	2.8	1.2	9.0	14.1	28.2			
18	New Auto Sales (Mil.)	4.8	4.9	6.4	5.7	5.5	5.3	5.3	5.3	5.3	5.4	5.6	5.9	-20.4	-1.3	3.4
19	Change *	-37.3	6.6	194.0	-37.5	-14.0	-8.7	-0.7	-1.2	-2.7	9.0	14.1	28.2			
20	New Light Truck Sales (Mil.)	4.7	4.7	5.1	5.2	4.9	5.0	5.0	5.1	5.2	5.3	5.5	5.8	-22.8	1.8	8.3
21	Change *	-28.9	2.0	40.0	4.2	-18.6	8.7	-0.7	7.1	5.4	9.0	14.1	28.2			
22	Private Housing Starts (Mil.)	0.528	0.540	0.587	0.559	0.622	0.628	0.673	0.688	0.717	0.751	0.953	1.172	-38.5	18.0	37.6
23	Change *	-58.6	9.7	39.3	-17.4	53.4	3.5	32.3	9.3	17.9	20.1	159.0	129.2			
24	Single-Family	0.358	0.425	0.498	0.480	0.485	0.495	0.512	0.525	0.538	0.567	0.750	0.950	-28.5	14.5	39.0
25	Multi-Family	0.169	0.115	0.088	0.079	0.137	0.133	0.161	0.163	0.180	0.184	0.203	0.222	-60.3	31.7	32.6
26	Existing Home Sales (Th.)	4610.0	4780.0	5280.0	5970.0	5459.7	5587.1	5448.9	5441.1	5371.0	5345.7	5405.3	5574.5	8.3	6.3	-1.1
27	Change *	40.6	15.6	48.9	63.4	-30.1	9.7	-9.5	-0.6	-5.1	-1.9	4.5	13.1			

A = Actual; E = Forecast * Annualized percent change Except where noted, all data in billions of dollars Historical sources: BEA, BLS, and Federal Reserve March 14, 2010

Baseline Economic Outlook

Corporate and International Sectors

		2009				2010				2011				Year-over-Year Growth		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(A) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
1	Fixed Business Invest. ('96$)	1321.2	1288.4	1269.0	1289.1	1295.4	1293.5	1298.4	1309.4	1319.4	1330.4	1354.1	1384.8	-17.7	0.6	3.7
2	Change *	5.5	5.5	5.5	5.5	2.0	-0.6	1.5	3.4	3.1	3.4	7.3	9.4			
3	Structures	419.4	400.0	380.2	366.2	363.7	361.0	359.7	359.6	359.6	359.1	359.0	359.6	-19.6	-7.8	-0.5
4	Change *	-43.6	-17.3	-18.4	-13.9	-2.8	-2.8	-1.5	-0.1	0.0	-0.6	-0.1	0.7			
5	Producer Equip. & Software	887.5	876.5	879.8	917.4	931.7	932.5	938.7	949.8	959.8	971.3	995.1	1025.2	-16.7	5.4	5.3
6	Change *	-36.4	-4.9	1.5	18.2	6.4	0.3	2.7	4.8	4.3	4.9	10.2	12.7			
7	Chg. in Bus. Invent. ('96$)	-113.9	-160.2	-139.2	-16.9	-14.7	-5.9	11.6	16.1	20.2	23.9	27.2	30.0			
8	Chg. in Nonfarm Inventories	-114.9	-163.1	-141.4	-11.2	-12.6	-4.4	12.6	16.8	20.8	24.4	27.7	30.5			
9	Corporate Profits (B.T.)	1246.5	1337.1	1495.0	1502.4	1518.3	1597.4	1765.0	1832.6	1821.7	1808.0	1936.4	2106.4			
10	Corporate Profits (A.T.)	976.1	1031.1	1173.9	1179.3	1191.8	1254.0	1376.7	1420.3	1402.7	1392.1	1491.0	1621.9	-6.9	20.2	12.7
11	Change *	85.1	24.5	68.0	1.9	4.3	22.5	45.3	13.3	-4.9	-3.0	31.6	40.0			
12	Internal Funds (A.T.)	1000.9	1083.5	1216.5	1185.2	1151.0	1190.9	1275.7	1290.6	1237.8	1192.3	1229.6	1271.8	-3.4	9.4	0.5
13	Change *	36.4	37.3	58.9	-9.9	-11.1	14.6	31.7	4.7	-15.4	-13.9	13.1	14.4			
14	Dividends	618.1	556.0	549.9	580.6	624.7	666.2	693.9	699.6	686.1	663.5	645.0	640.4	-16.5	16.5	-1.8
15	Change *	-27.5	-34.5	-4.3	24.3	34.0	29.4	17.7	3.3	-7.5	-12.5	-10.7	-2.8			
16	Output per Hour *	0.9	7.6	8.0	7.2	1.2	0.6	2.4	1.7	2.2	2.3	2.9	3.2	3.8	3.6	2.2
17	Hourly Compensation *	4.2	4.2	4.2	4.2	4.9	-0.9	3.0	2.2	2.6	2.8	3.7	4.5	1.9	2.1	2.6
18	Unit Labor Costs *	-5.0	-0.1	-7.4	-6.2	3.8	-1.4	0.6	0.5	0.4	0.5	0.8	1.2	-1.8	-1.4	0.5

		2009				2010				2011				Year-over-Year Growth		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(E) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
1	Net Exports ('96$)	-386.5	-330.4	-357.4	-347.1	-343.7	-329.3	-321.0	-313.2	-307.7	-304.0	-308.1	-322.6			
2	Exports ('96$)	1434.5	1419.5	1478.8	1555.5	1593.1	1618.2	1635.7	1656.0	1672.0	1687.6	1703.1	1718.6	-9.6	10.4	4.3
3	Change *	-29.9	-4.1	17.8	22.4	10.0	6.5	4.4	5.0	3.9	3.8	3.7	3.7			
4	Imports ('96$)	1821.0	1749.8	1836.2	1902.7	1936.8	1947.5	1956.7	1969.2	1979.8	1991.6	2011.2	2041.2	-13.9	6.8	2.7
5	Change *	-36.4	-14.7	21.3	15.3	7.4	2.2	1.9	2.6	2.2	2.4	4.0	6.1			
6	Trade-Weighted Index	82.7	79.4	75.4	73.6	75.2	75.0	75.1	75.6	75.7	75.7	76.0	76.1	4.5	-3.2	0.9

A = Actual; E = Forecast * Annualized percent change Except where noted, all data in billions of dollars Historical sources: BEA, BLS, and Federal Reserve March 14, 2010

Outlook for Interest Rates

Market-Based Forecasts: Futures Market over the Next Year

Futures market does not see tighter policy until third quarter 0f 2010

- General rise in the target for federal funds after September 2010

It is possible that market may have over estimated reference to low rates for an extended period

Rise in Federal Reserve's balance sheet will soon end (3/31/10)

After that point, issue of inflationary pressure of its debt monetization must be considered

Mar-10	0.17
Apr-10	0.18
May-10	0.20
Jun-10	0.22
Jul-10	0.25
Aug-10	0.28
Sep-10	0.33
Oct-10	0.39
Nov-10	0.49
Dec-10	0.56
Jan-11	0.64
Feb-11	0.78
Mar-11	0.86
Apr-11	0.96
May-11	1.13
Jun-11	1.19
Jul-11	1.33
Aug-11	1.46
Sep-11	1.56
Oct-11	1.66
Nov-11	1.80
Dec-11	1.88
Jan-12	1.98
Source: CBOT	
Settlement: 3/12/10	

Interest Rate Forecasts

Money Market Rates

		2009				2010				2011				Annual Averages		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(E) 2009	I(A) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
1	Federal Funds	0.18	0.18	0.16	0.12	0.12	0.17	0.25	0.50	1.00	1.50	2.00	2.50	0.16	0.26	1.75
	Commercial Paper															
2	1-Month	0.22	0.21	0.16	0.13	0.15	0.27	0.38	0.69	1.23	1.75	2.26	2.77	0.18	0.37	2.00
3	3-Month	0.30	0.25	0.20	0.17	0.31	0.42	0.65	0.94	1.42	1.93	2.43	2.93	0.23	0.58	2.18
4	6-Month	0.39	0.26	0.24	0.22	0.31	0.45	0.68	0.98	1.46	1.97	2.47	2.97	0.27	0.60	2.22
	Finance Paper															
5	1-Month	0.40	0.30	0.21	0.15	0.19	0.36	0.57	0.87	1.32	1.84	2.33	2.82	0.26	0.50	2.08
6	3-Month	0.59	0.36	0.24	0.20	0.31	0.43	0.65	0.94	1.43	1.94	2.44	2.94	0.35	0.58	2.19
7	6-Month	0.80	0.40	0.28	0.24	0.40	0.49	0.71	0.98	1.47	1.96	2.46	2.95	0.43	0.65	2.21
	Treasury Bills															
8	1-Month	0.22	0.17	0.16	0.06	0.09	0.17	0.26	0.54	1.08	1.58	2.08	2.58	0.15	0.26	1.83
9	3-Month	0.40	0.32	0.25	0.16	0.18	0.28	0.40	0.67	1.19	1.67	2.14	2.61	0.28	0.38	1.90
	Negotiable CDs															
10	1-Month	0.45	0.33	0.24	0.19	0.07	0.32	0.57	0.89	1.26	1.85	2.37	2.89	0.30	0.46	2.09
11	3-Month	1.08	0.62	0.30	0.30	0.42	0.47	0.63	0.69	1.03	1.71	2.33	2.88	0.58	0.55	1.99
12	6-Month	1.68	1.08	0.43	0.37	0.69	0.68	0.84	1.19	1.62	2.07	2.55	3.03	0.89	0.85	2.32
	Eurodollar Deposit															
13	1-Month	0.88	0.77	0.47	0.39	0.28	0.55	0.68	0.98	1.36	1.96	2.40	2.92	0.63	0.62	2.16
14	3-Month	1.67	1.31	0.71	0.46	0.49	0.68	0.73	0.71	0.98	1.67	2.26	2.82	1.04	0.65	1.93
15	6-Month	2.44	1.91	1.01	0.78	1.24	1.11	1.07	1.49	1.95	2.23	2.70	3.24	1.53	1.23	2.53

A = Actual; E = Forecast

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp

February 27, 2010

Interest Rate Forecasts

Capital Market Rates

		2009				2010				2011				Annual Averages		
		I(A) 2009	II(A) 2009	III(A) 2009	IV(E) 2009	I(A) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
	U.S. Treasury Notes and Bonds															
1	1-Yr Note	0.57	0.52	0.45	0.35	0.36	0.47	0.63	0.94	1.48	1.99	2.50	3.00	0.47	0.60	2.24
2	2-Yr Note	0.91	1.01	1.03	0.87	0.89	0.97	1.15	1.47	2.02	2.53	3.03	3.54	0.96	1.12	2.78
3	5-Yr Note	1.76	2.23	2.47	2.30	2.42	2.51	2.66	2.90	3.27	3.62	3.96	4.28	2.19	2.62	3.78
4	10-Yr Note	2.74	3.31	3.52	3.46	3.73	3.82	3.95	4.11	4.34	4.56	4.78	4.97	3.26	3.90	4.66
5	30-Yr Note	3.69	4.19	4.28	4.27	4.52	4.49	4.58	4.72	4.77	4.89	5.01	5.07	4.11	4.58	4.94
	Other Bonds															
6	AAA Bonds	5.27	5.51	5.27	5.20	5.39	5.59	5.69	5.84	6.07	6.28	6.49	6.67	5.31	5.63	6.38
7	BAA Bonds	8.21	7.98	6.66	6.33	6.39	6.62	6.70	6.82	7.03	7.24	7.45	7.64	7.30	6.63	7.34
8	State and Local	4.99	4.72	4.52	4.26	4.37	4.51	4.59	4.70	4.86	5.02	5.18	5.32	4.62	4.54	5.09
	Mortgage Rates - Primary Mkt															
9	30-Yr (FHLMC - PMMS)	4.59	4.74	4.85	4.48	4.61	4.88	5.13	5.34	5.59	5.85	6.07	6.29	4.67	4.99	5.95
10	15-Yr (FHLMC - PMMS)	4.03	4.13	4.09	3.86	3.89	4.00	4.17	4.39	4.72	5.05	5.36	5.65	4.03	4.11	5.20
11	ARM (FHLMC - PMMS)	4.88	4.83	4.71	4.27	3.90	3.70	3.69	3.80	4.12	4.51	4.92	5.36	4.68	3.77	4.73
	Mortgage Rates - Secondary Mkt															
12	30-Yr (FLHMC Req Net Yield)	5.06	5.03	5.16	4.92	5.00	5.19	5.40	5.64	5.93	6.20	6.45	6.67	5.04	5.31	6.31
13	15-Yr (FHLMC Req Net Yield)	4.71	4.64	4.60	4.21	4.15	4.26	4.43	4.65	4.95	5.26	5.55	5.81	4.54	4.37	5.39

A = Actual; E = Forecast

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp

Fedruary 27, 2010

Baseline Economic Outlook

Economics Outlook for Tennessee

	2009				2010				2011				Year-over-Year Growth		
	I(A) 2009	II(A) 2009	III(A) 2009	IV(A) 2009	I(E) 2010	II(E) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	2009	2010	2011
National Trends															
1 Civilian Employment (Mil.)	141.6	140.5	139.3	138.1	138.3	138.5	138.7	138.9	139.1	139.4	139.7	140.2	-3.8	-0.9	0.8
2 Change *	-6.3	-3.1	-3.2	-3.4	0.3	0.6	0.6	0.6	0.7	0.8	1.0	1.4			
3 Personal Income	11952.7	12048.8	12005.2	12114.3	12248.4	12323.3	12478.8	12590.9	12695.0	12800.8	12942.7	13123.6	-1.7	3.2	3.9
4 Change *	-8.9	3.3	-1.4	3.7	4.5	2.5	5.1	3.6	3.3	3.4	4.5	5.7			
5 Income Per Employee (T)	84.419	85.781	86.158	87.697	88.592	88.998	89.978	90.650	91.250	91.834	92.614	93.580	2.2	4.1	3.1
6 Change *	-2.7	6.6	1.8	7.3	4.1	1.8	4.5	3.0	2.7	2.6	3.4	4.2			
7 Housing Starts (Mil. of Units)	0.528	0.540	0.587	0.559	0.622	0.628	0.673	0.688	0.717	0.751	0.953	1.172	-38.5	18.0	37.6
8 Change *	-58.6	9.7	39.3	-17.4	53.4	3.5	32.3	9.3	17.9	20.1	159.0	129.2			
Tennessee															
9 Nonagricultural Employment (T)	2670.9	2619.4	2608.6	2604.9	2601.6	2602.2	2602.5	2605.7	2608.7	2611.7	2618.6	2626.8	-5.4	-0.9	0.5
10 Change *	-8.4	-7.5	-1.6	-0.6	-0.5	0.1	0.0	0.5	0.5	0.5	1.1	1.3			
11 Personal Income	216.2	218.2	220.0	221.3	222.8	224.1	226.7	228.6	230.4	232.4	234.7	237.5	0.7	3.0	3.7
12 Change *	0.3	3.6	3.4	2.5	2.7	2.3	4.7	3.4	3.3	3.4	4.1	4.9			
13 Dividends & Interest	28.0	27.6	27.7	27.9	28.1	28.3	28.5	28.6	28.8	28.9	29.1	29.3	-5.2	1.9	2.3
14 Change *	-14.9	-5.5	1.6	1.9	3.0	2.8	2.7	2.2	2.5	1.5	2.2	2.7			
15 Income Per Employee (T)	80.960	83.283	84.324	84.958	85.646	86.115	87.093	87.724	88.336	88.981	89.634	90.430	6.4	3.9	3.1
16 Change *	9.5	12.0	5.1	3.0	3.3	2.2	4.6	2.9	2.8	2.9	3.0	3.6			
17 Retail Sales	77.8	78.0	77.5	77.7	77.8	78.2	78.6	79.1	79.5	79.9	80.1	80.5	-13.9	0.9	2.0
18 Change *	-23.9	0.6	-2.2	0.6	0.8	1.8	2.4	2.2	2.2	2.0	1.2	1.8			
19 Single-Family Building Permits (T)	10.647	11.046	12.619	13.490	13.660	13.437	13.988	14.032	14.285	14.595	16.657	18.612	-22.0	15.3	16.4
20 Change *	31.3	15.9	70.3	30.6	5.1	-6.4	17.4	1.3	7.4	9.0	69.7	55.9			
21 Total Building Permits (T)	13.192	15.111	13.816	15.022	14.206	14.231	15.444	15.776	15.829	15.495	18.489	21.270	-29.3	4.4	19.2
22 Change *	-36.4	72.2	-30.1	39.8	-20.0	0.7	38.7	8.9	1.4	-8.2	102.7	75.2			

Note: Except where noted, all data in billions of dollars. Historic sources: BEA, BLS, State of Tennessee T=Thousands of units, persons, or dollars March 14, 2010

A = Actual; E = Forecast * Quarter-to-quarter percent changes expressed at compound annual rates.

Baseline Economic Outlook

Economic Assumptions—Fiscal Year Basis

		FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	Forecasts FY09-10	FY10-11	FY11-12
1	Personal Income (Bil $)	139.6	147.9	156.1	160.4	166.0	174.0	183.3	193.9	205.4	215.7	217.1	222.0	229.5	238.7
2	Chg@	6.4	5.9	5.6	2.8	3.5	4.8	5.3	5.8	5.9	5.1	0.6	2.3	3.4	4.0
3	Nonagricultural Employment (Mil)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.6	2.6
4	Chg@	1.9	2.0	0.2	-2.0	0.1	0.5	1.7	1.5	0.8	0.4	-3.7	-3.4	0.1	0.9
5	Income Per Employee (Th $)	52.5	54.5	57.4	60.2	62.3	64.9	67.3	70.1	73.6	77.0	80.5	85.3	88.0	90.7
6	Chg@	4.4	3.8	5.4	4.9	3.4	4.2	3.6	4.2	5.0	4.6	4.5	5.9	3.3	3.1
7	Retail Sales (Bil $)	58.8	62.6	64.1	65.9	67.0	73.1	79.2	85.0	88.9	92.0	82.5	77.8	79.3	80.7
8	Chg@	9.9	6.5	2.4	2.9	1.7	9.1	8.3	7.4	4.6	3.5	-10.3	-5.7	1.9	1.8
9	Building Permits (Th of Units)	31.2	29.7	26.3	28.0	30.2	36.0	37.2	40.2	34.1	21.4	11.8	13.3	14.2	19.2
10	Chg@	6.0	-4.8	-11.3	6.4	8.0	19.1	3.3	8.0	-15.0	-37.3	-45.0	13.1	6.9	34.6

* Millions of dollars @ Annual Percent Change

Annual economic data in lines 1, 3, 5, 7, and 9 are calculated in terms of fiscal years ending in IIQ of the calendar year of the noted fiscal year

March 14, 2010

Baseline Economic Outlook

Baseline Revenue Projections

	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	Forecasts FY09-10	FY10-11	FY11-12
11 Total Tax Revenue*	6,979.4	7,526.8	7,656.4	7,469.0	8,449.7	9,094.0	9,638.6	10,290.8	11,052.7	11,117.6	10,153.5	10,023.3	10,258.0	10,544.0
12 Chg@	3.6	7.8	1.7	-2.4	13.1	7.6	6.0	6.8	7.4	0.6	-8.7	-1.3	2.3	2.8
13 Sales and Use Tax*	4,346.2	4,600.7	4,643.3	4,645.7	5,459.4	5,810.8	6,091.5	6,515.6	6,815.4	6,851.2	6,320.8	6,154.4	6,292.1	6,462.2
14 Chg@	6.0	5.9	0.9	0.1	17.5	6.4	4.8	7.0	4.6	0.5	-7.7	-2.6	2.2	2.7
15 Income Tax*	160.4	179.9	199.4	141.7	102.9	140.0	155.9	194.4	247.6	292.0	220.4	193.6	195.4	201.2
16 Chg@	-0.6	12.2	10.8	-28.9	-27.4	36.0	11.4	24.7	27.4	18.0	-24.5	-12.2	0.9	3.0
17 Gross Receipts Tax*	197.5	213.1	248.6	224.3	216.5	219.1	235.9	241.2	277.6	241.2	317.5	327.4	333.6	339.8
18 Chg@	4.6	7.9	16.6	-9.8	-3.5	1.2	7.6	2.2	15.1	-13.1	31.6	3.1	1.9	1.9
19 Excise plus Franchise Taxes*	891.2	1,083.0	1,102.8	966.3	1,071.7	1,197.8	1,372.0	1,491.6	1,766.1	1,619.5	1,361.8	1,342.3	1,362.9	1,392.1
20 Chg@	-1.7	21.5	1.8	-12.4	10.9	11.8	14.5	8.7	18.4	-8.3	-15.9	-1.4	1.5	2.1
21 Gasoline Tax*	567.4	576.1	569.4	576.9	600.1	599.3	608.1	605.6	612.3	617.1	601.8	601.9	610.6	620.1
22 Chg@	0.8	1.5	-1.2	1.3	4.0	-0.1	1.5	-0.4	1.1	0.8	-2.5	0.0	1.4	1.6
23 Vehicle Registration*	201.2	218.6	211.4	219.6	225.0	238.5	244.2	249.5	257.4	251.3	238.8	240.6	244.0	251.0
24 Chg@	2.8	8.7	-3.3	3.9	2.5	6.0	2.4	2.2	3.1	-2.4	-5.0	0.7	1.4	2.8
25 Fuel Tax*	142.5	152.8	173.4	151.2	155.4	167.7	173.7	180.7	185.9	182.9	154.5	140.4	141.7	143.8
26 Chg@	7.0	7.2	13.5	-12.8	2.8	7.9	3.5	4.0	2.9	-1.6	-15.5	-9.1	1.0	1.4
27 Privilege Tax*	142.6	153.7	160.8	177.4	216.5	246.1	264.9	304.9	313.8	279.0	232.7	244.2	254.5	266.1
28 Chg@	14.7	7.8	4.6	10.3	22.1	13.6	7.7	15.1	2.9	-11.1	-16.6	5.0	4.2	4.6
29 All Other Taxes*	330.4	348.9	347.2	365.8	401.9	474.6	492.4	507.3	576.7	783.4	705.2	778.5	823.3	867.8
30 Chg@	-9.5	5.6	-0.5	5.4	9.9	18.1	3.7	3.0	13.7	35.8	-10.0	10.4	5.8	5.4

* Millions of dollars

@ Annual Percent Change

March 15, 2010