Tennessee State Funding Board

March 25, 2010

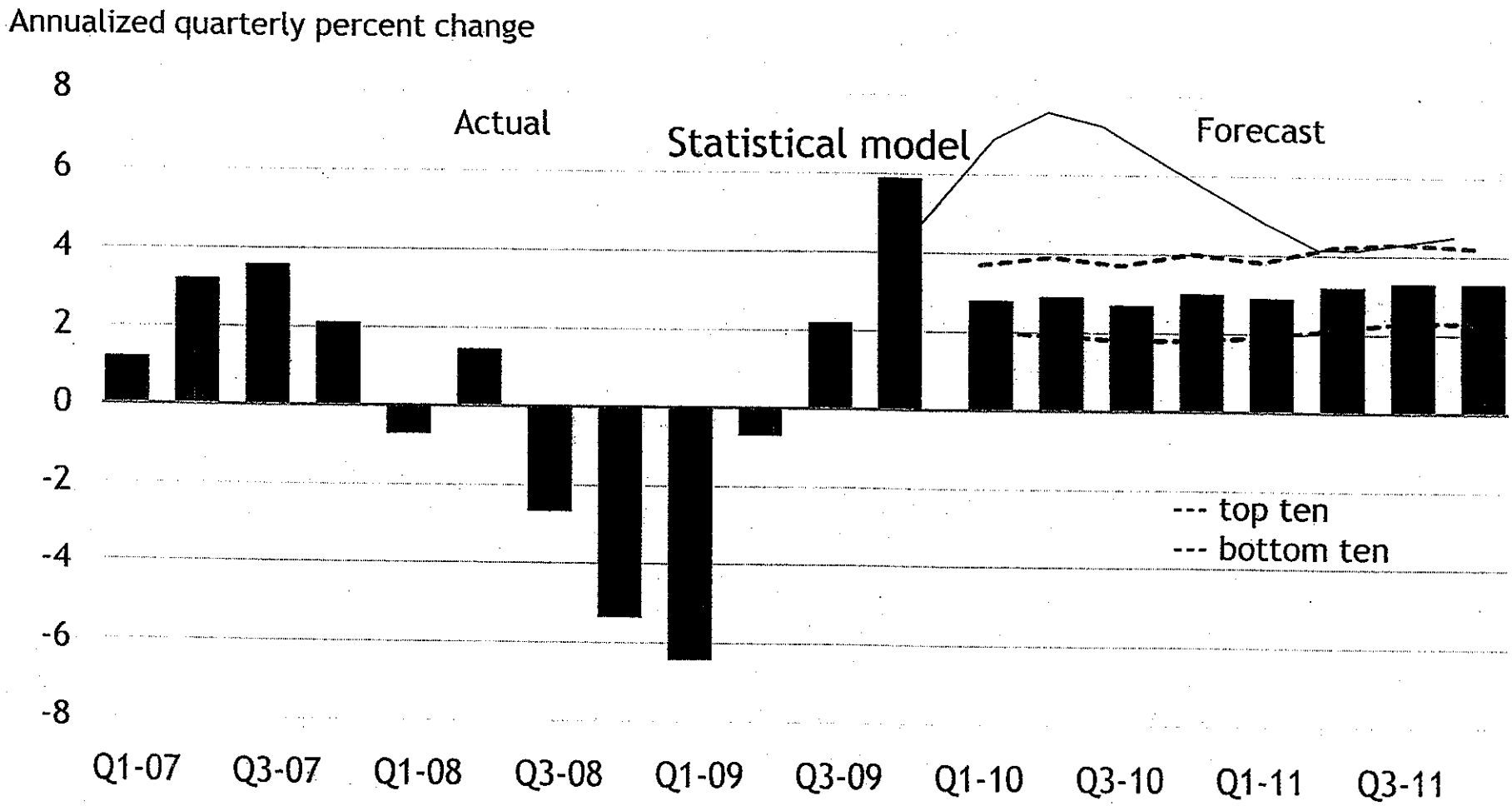
Lee Jones

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

FEDERAL RESERVE BANK of ATLANTA

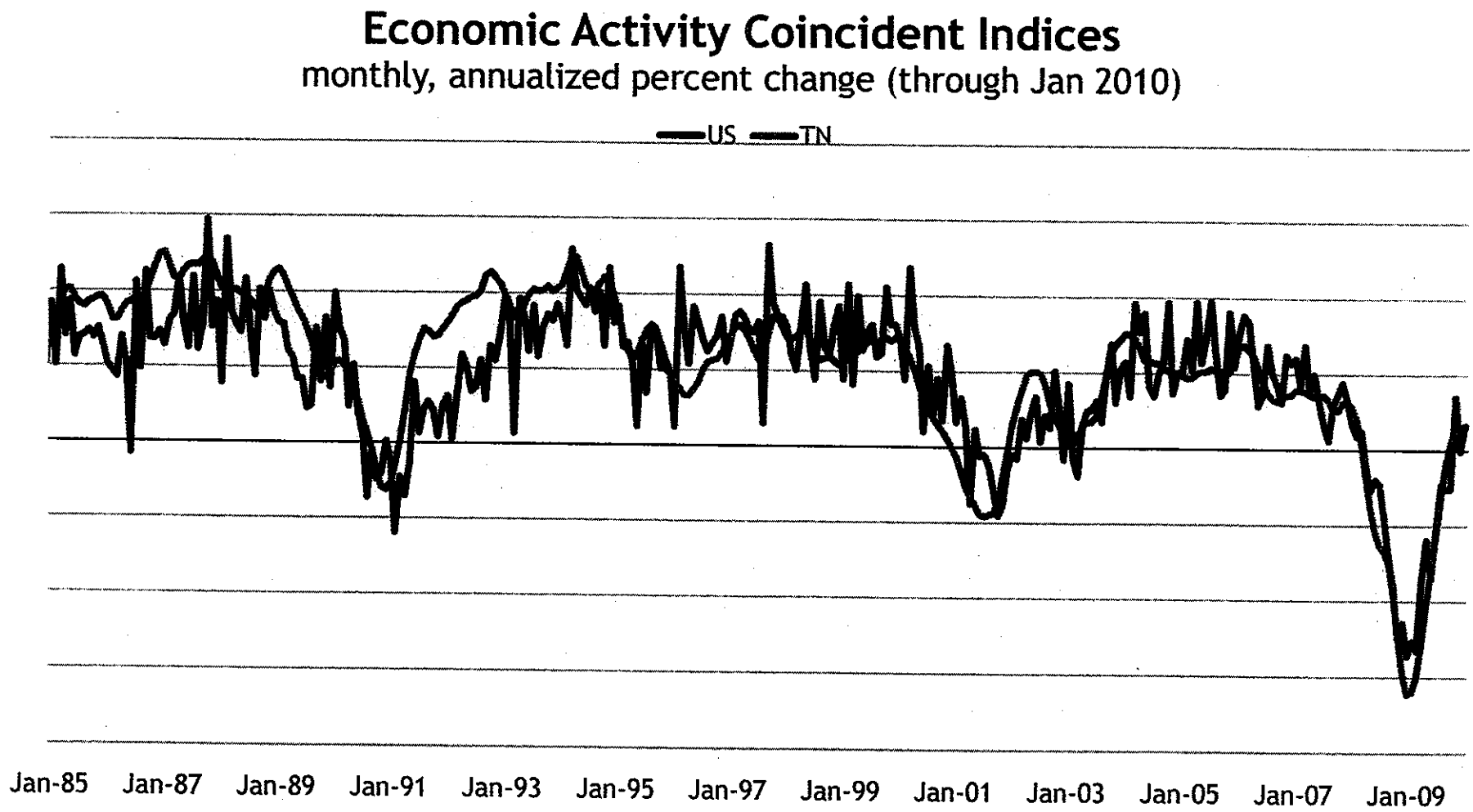
Economists overwhelmingly believe this recovery will break from historical averages.

Blue Chip GDP Forecast



SOURCE: Blue Chip panel of economists, March 10, 2010.

And there is strong evidence that the Tennessee economy moves in close tandem with the U.S. economy.

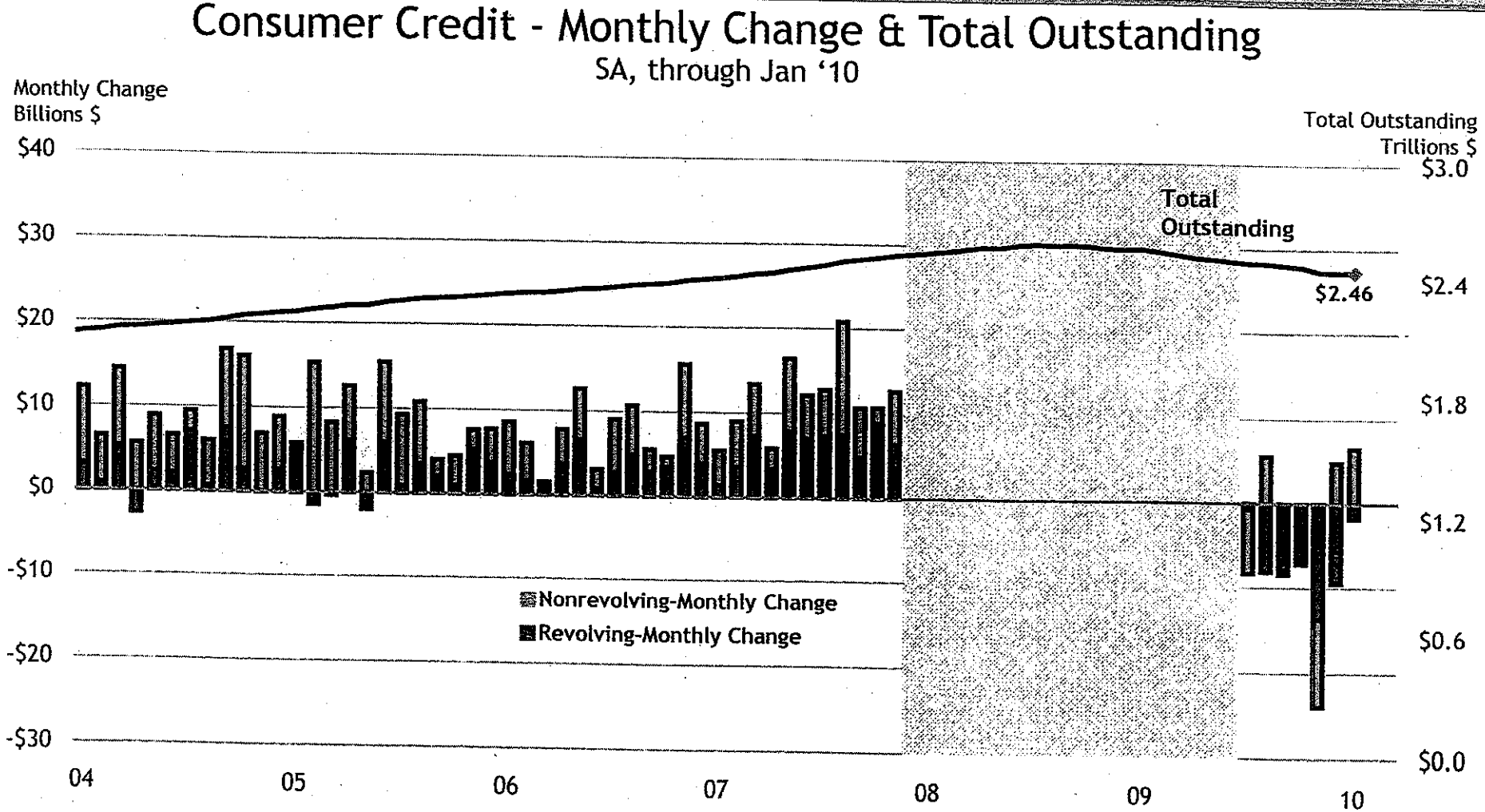


Source: FRB Philadelphia

Issues ahead

Households continue to build savings, curb spending

Consumers are saving more, spending less



Source: Federal Reserve Board

Issues ahead

Households continue to build savings, curb spending

Commercial real estate uncertainty

CRE…the next shoe to drop?

Commercial Mortgage Loan Exposures (as of December 31, 2009)				
Bank Asset Size	Total CRE Loans ($000s)	Exposures (% of Tier 1 Capital)		Total CMBS ($000s)*
		Aggregate	Median	
<$1b	280,747,130	233%	172%	673,521
<$10b	249,076,996	246%	286%	1,610,709
<$100b	323,938,606	93%	136%	13,342,920
+$250b	280,530,951	65%	98%	34,075,409

*Amortized cost for held-to-maturity and available-for-sale CMBS.

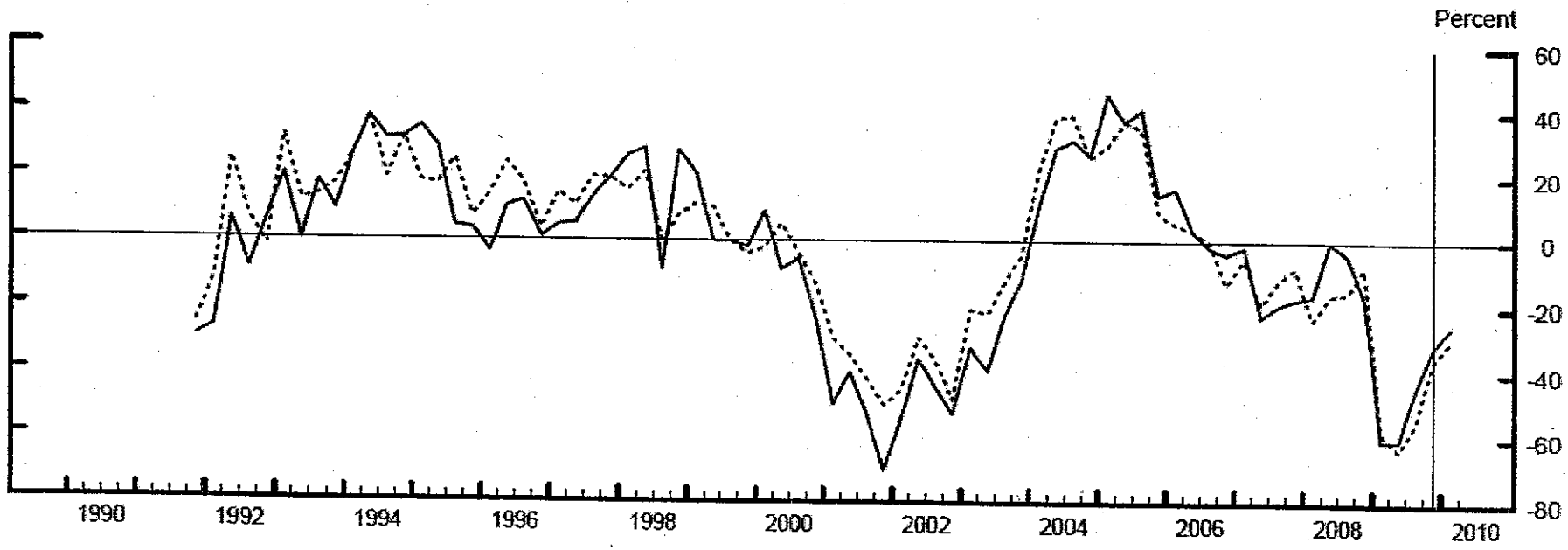
Source: Bank Call Reports

Issues ahead

- Households continue to build savings, curb spending
- Commercial real estate uncertainty
- Financial firms may be slow to expand lending

According to bank loan officers small business loan demand is weak

Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans



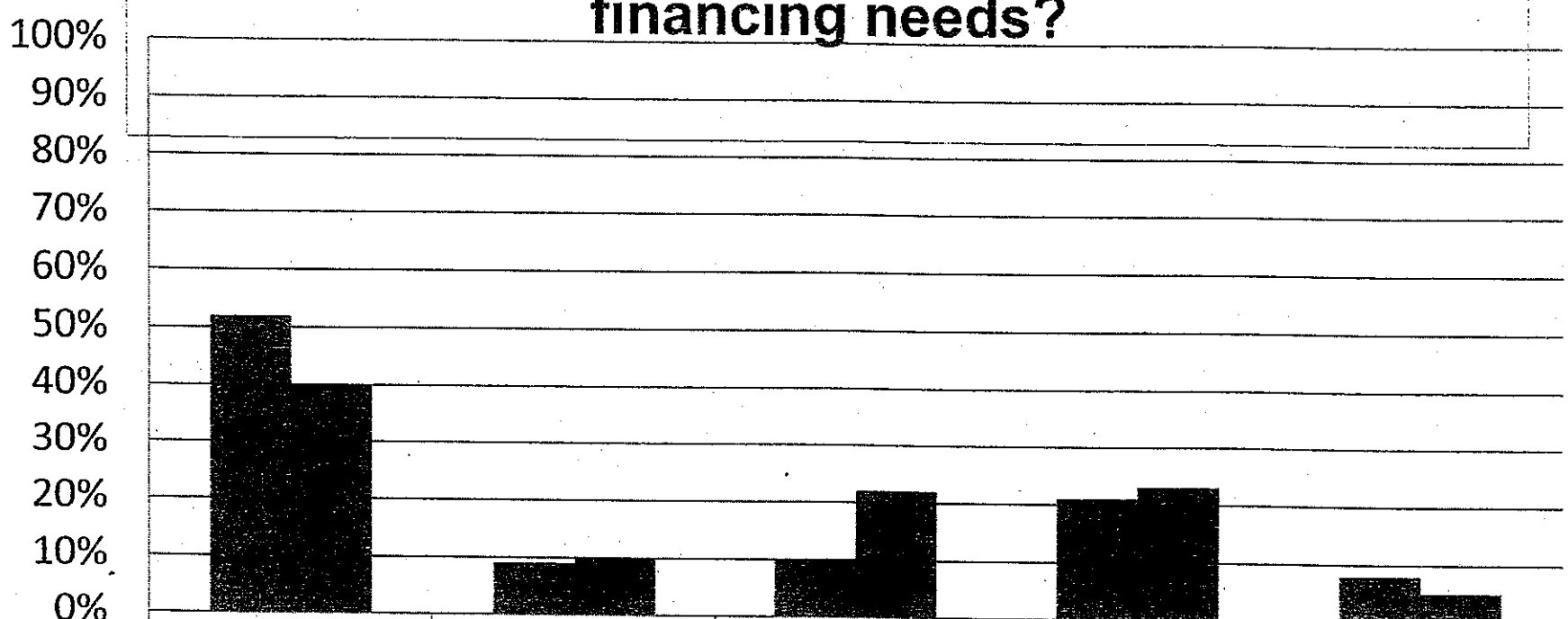
Loans to large and medium-sized firms

Loans to small firms

SOURCE: Senior Loan Officer Survey, January 2010

53% of businesses that participated in the survey tried to borrow funds (a loan or LOC) in the last six months

Were those businesses able to meet receive their financing needs?



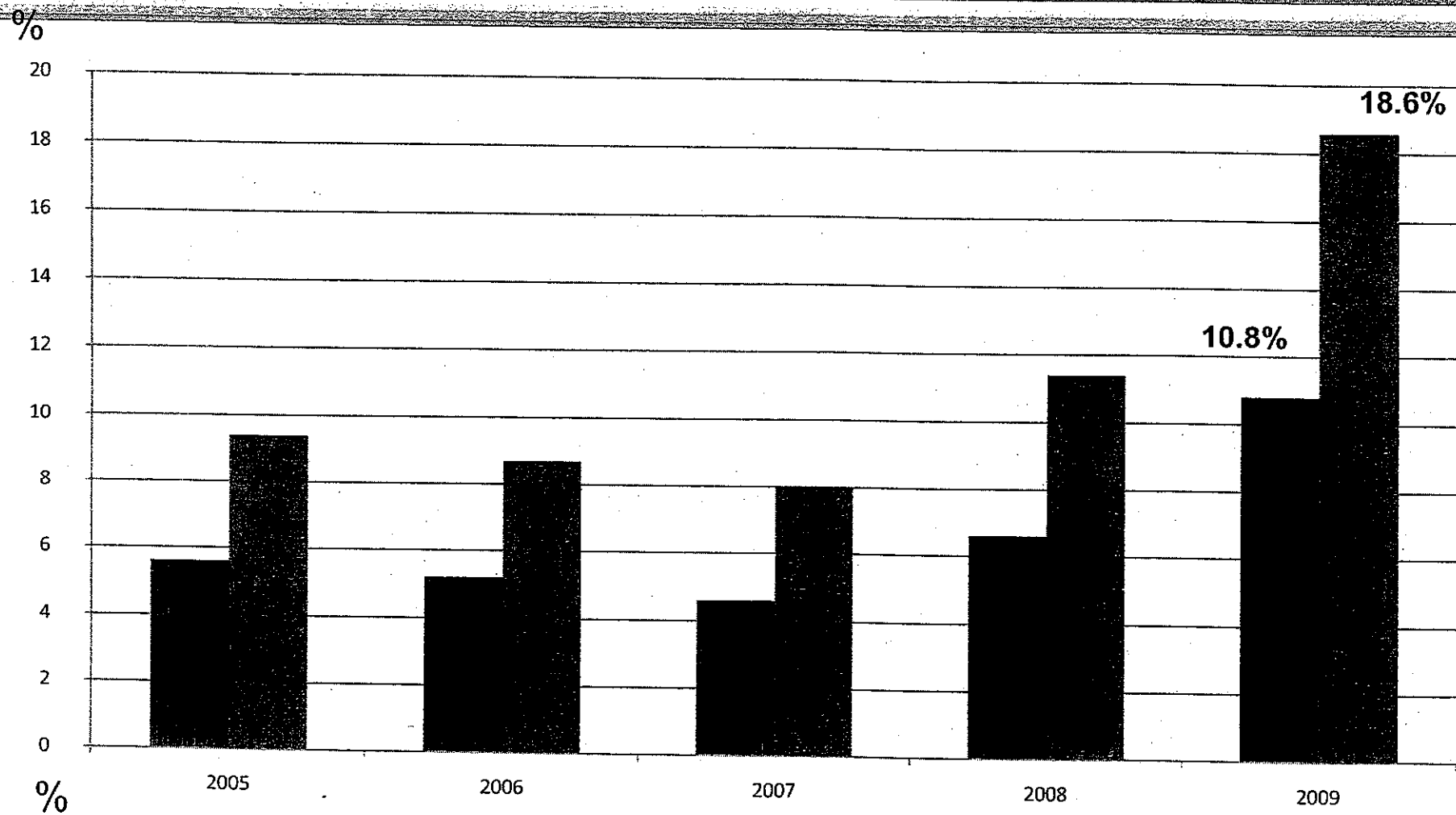
	received the full amount	received most of the $$ requested	received less than $$ requested	did not receive any new credit	other
District	52%	9%	10%	21%	8%
NFIB	40%	10%	22%	23%	5%

Sources: Atlanta Federal Reserve and NFIB surveys

Issues ahead

- Households continue to build savings, curb spending
- Commercial real estate uncertainty
- Financial firms may be slow to expand lending
- Slow recovery of employment

The Gap Between Tennessee's Unemployed and Underemployed has Widened Notably Between 2008 and 2009.

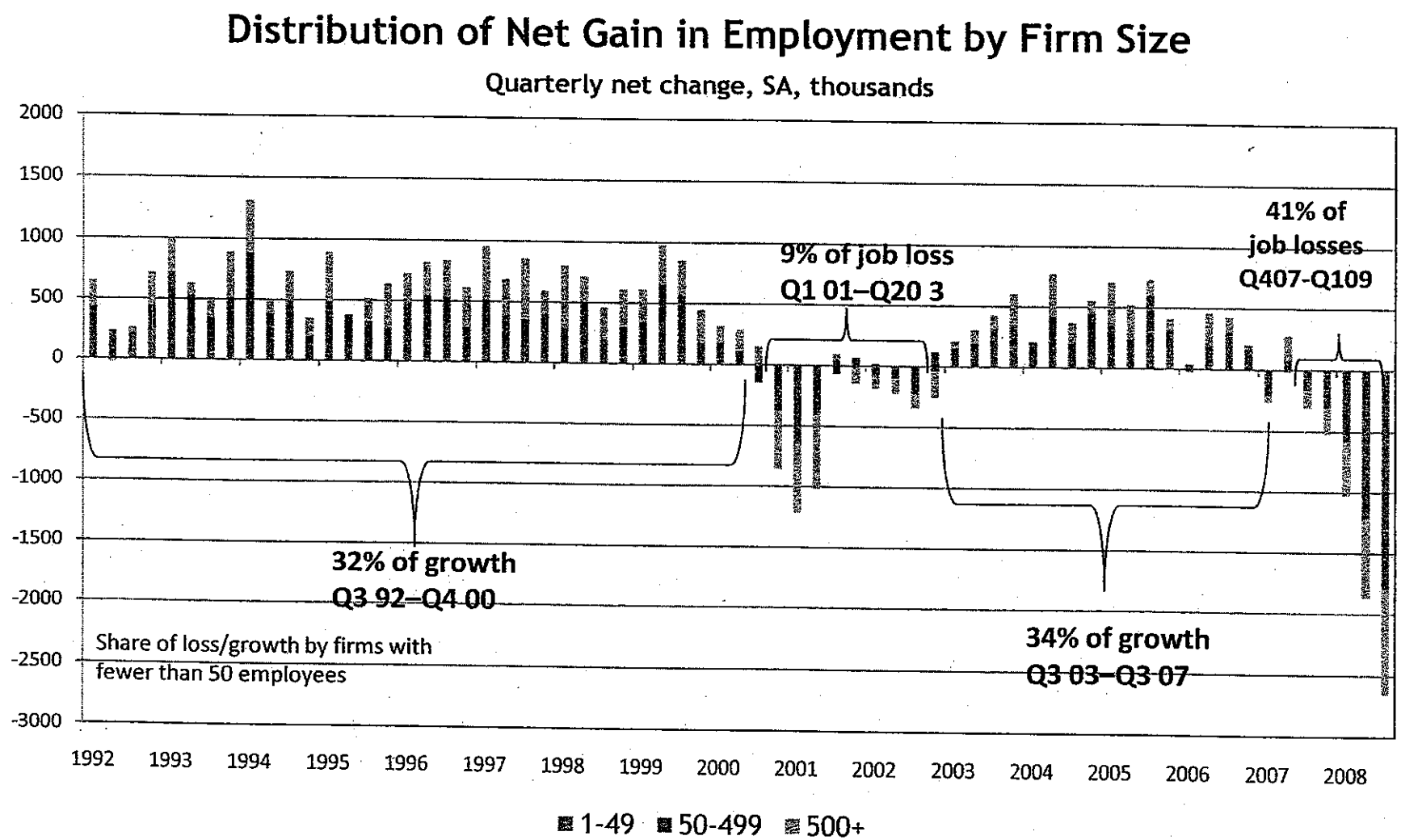


Civilian Unemployment Rate

Unemployed + Marginally Attached + Part Time for Economic Reasons

Source: Bureau of Labor Statistics

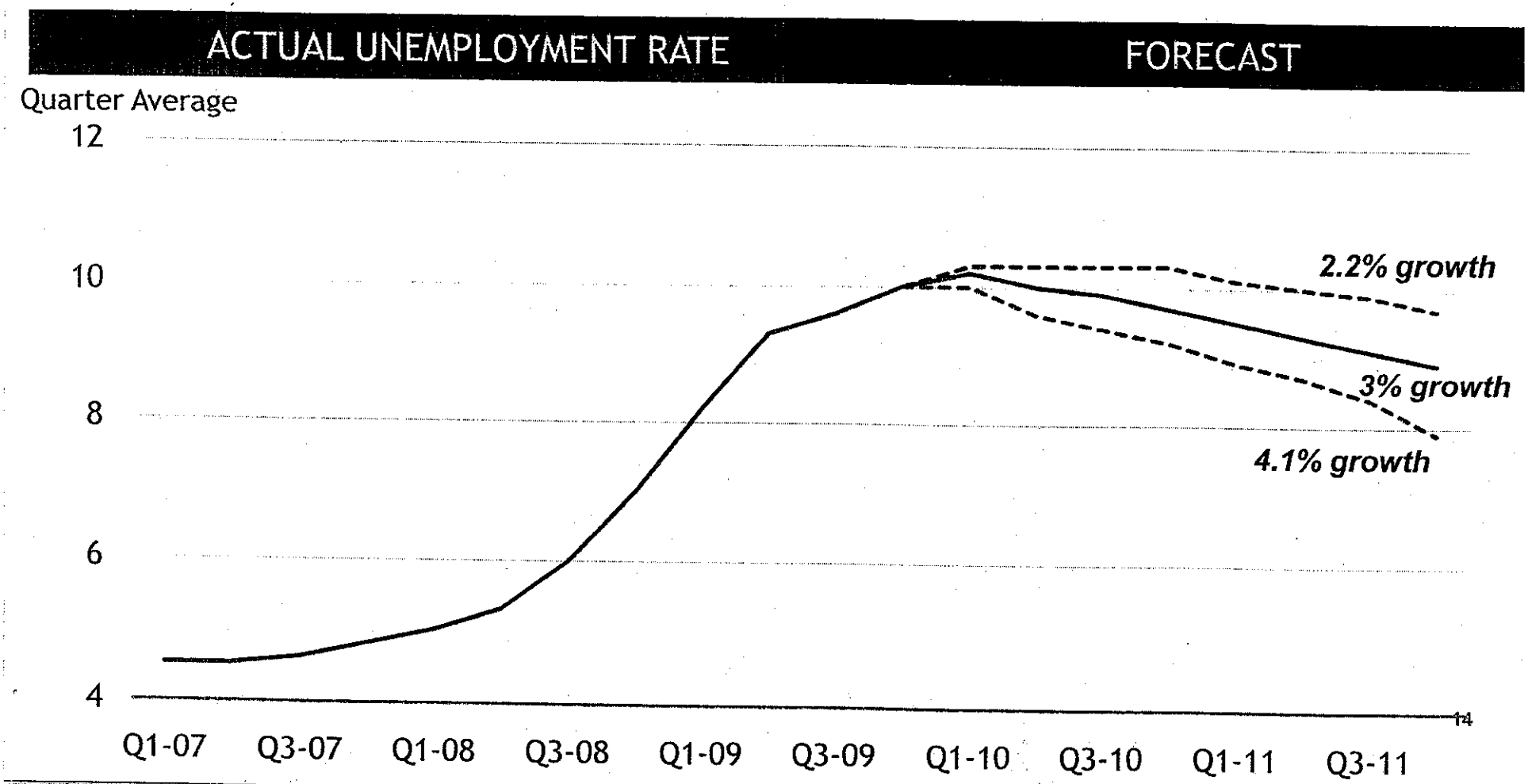
Small business employment off sharply



Source: Business Employment Dynamics

Rising productivity, labor force growth, and high levels of underemployment imply that modes GDP growth would be insufficient to significantly cut into joblessness

Blue Chip Unemployment Rate Forecast



SOURCES: Blue Chip panel of economists, February 10, 2010.

Unemployment *always* lags...sometimes by a lot

Historical lag between end of recession and unemployment rate peak.

End of Recession	Unemployment rate peak	Months from end of recession to unemployment peak
Nov-01	Jun-03	19
Mar-91	Jun-92	15
Nov-82	Dec-82	1
Mar-75	May-75	2
Nov-70	Aug-71	9

Policy changes usually lag unemployment peaks

Historical lag between end of recession, unemployment rate peak, and beginning of funds rate tightening cycle

End of Recession	Unemployment rate peak	Beginning of funds rate tightening cycle	Months from end of recession to unemployment peak	Months from unemployment peak to beginning of funds rate tightening cycle
Nov-01	Jun-03	Jul-04	19	13
Mar-91	Jun-92	Feb-94	15	20
Nov-82	Dec-82	Jun-83	1	6
Mar-75	May-75	May-76	2	12
Nov-70	Aug-71	Mar-72	9	7

Issues ahead

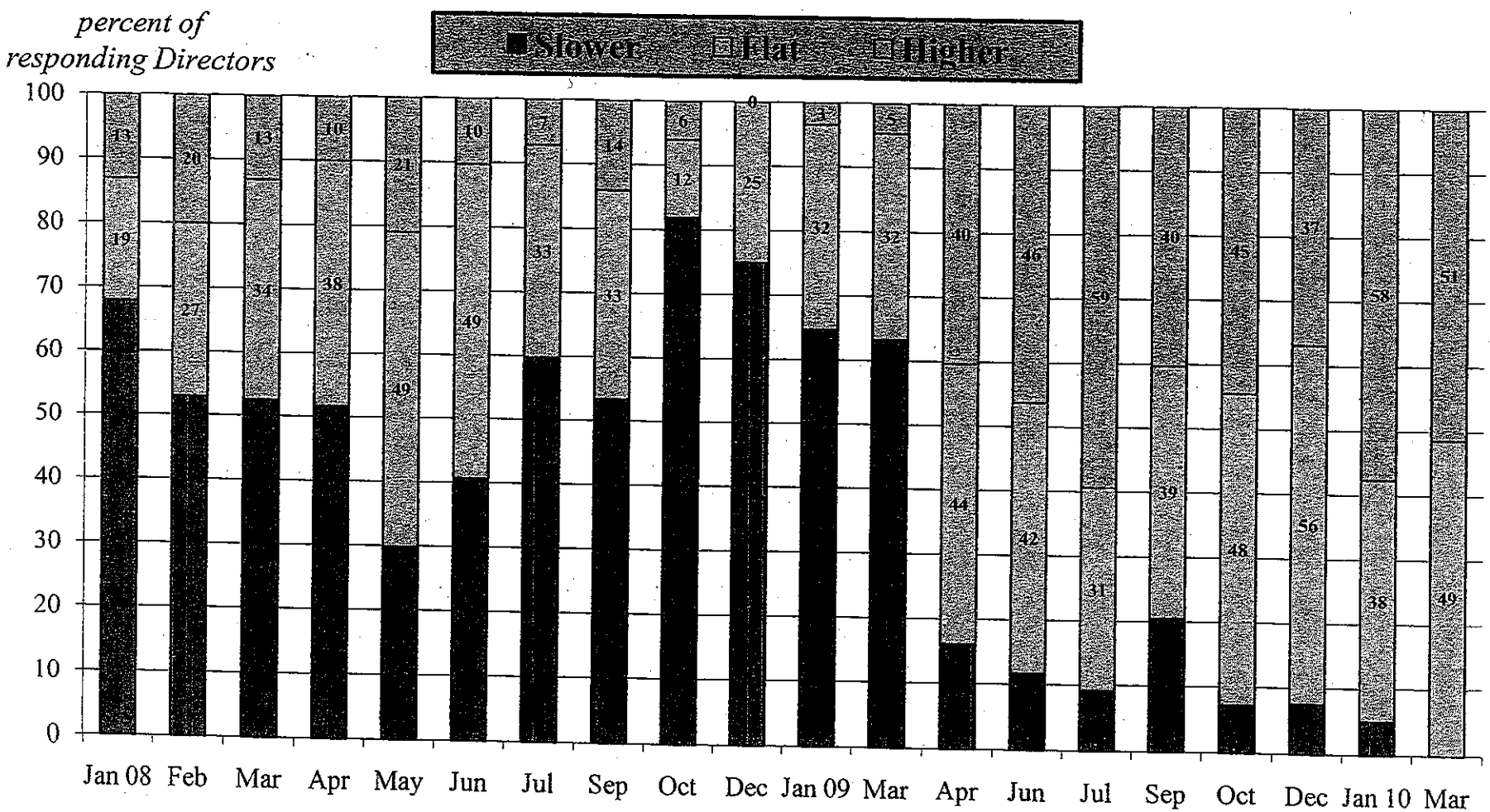
- Households continue to build savings, curb spending
- Commercial real estate uncertainty
- Financial firms may be slow to expand lending
- Slow recovery of employment
- Policy uncertainties

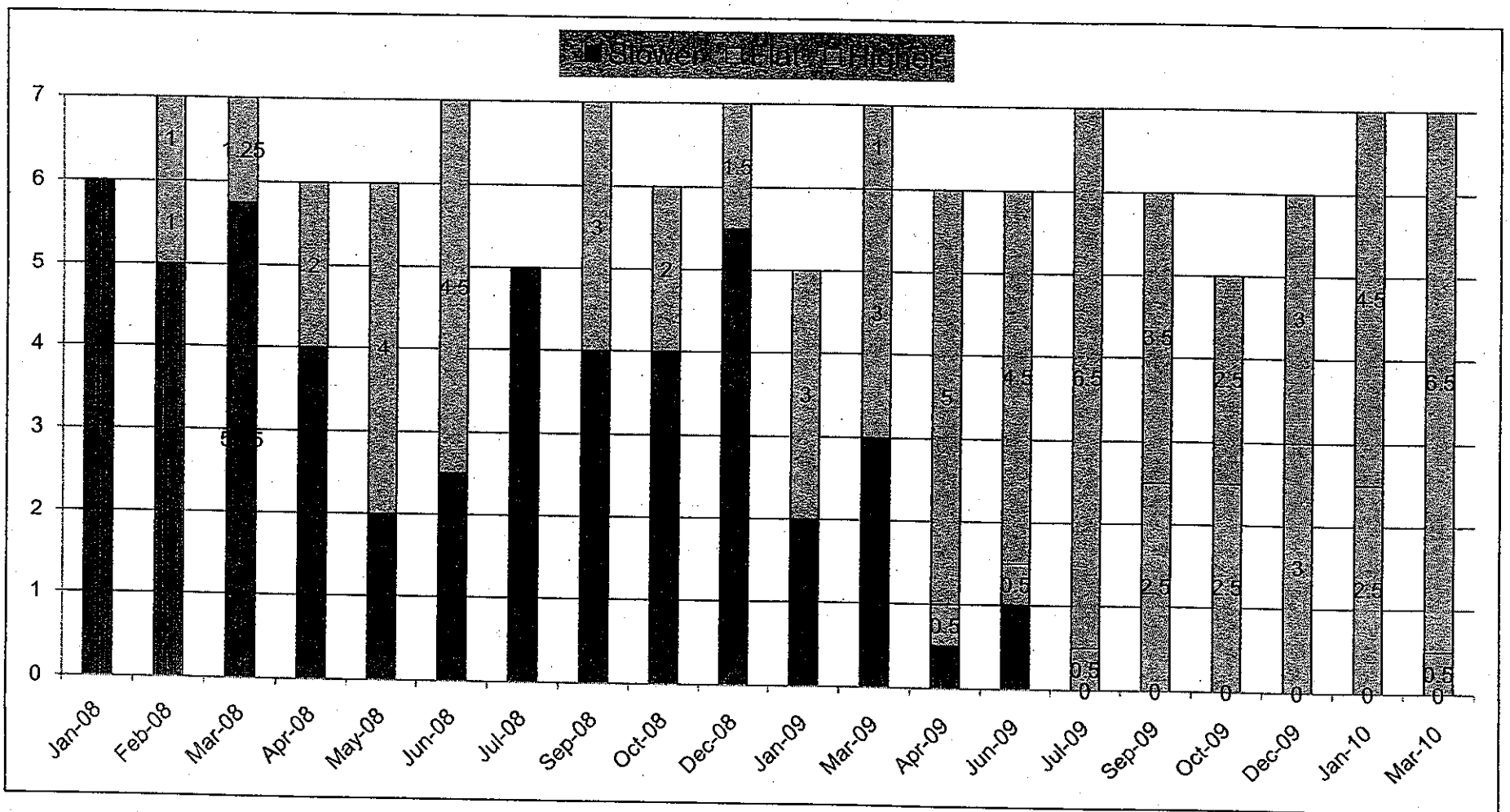
Policy Uncertainties

- Health Care legislation
- Financial industry reform legislation
- Environmental legislation
- Some stimulus impact could be short-lived

FRB Atlanta Director Sentiment

What are your expectations regarding the pace of economic activity over the next six months compared to the previous six months?



Middle and East Tennessee Director Sentiment

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