



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

presented to

Tennessee State Funding Board

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by

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The Tennessee Economy

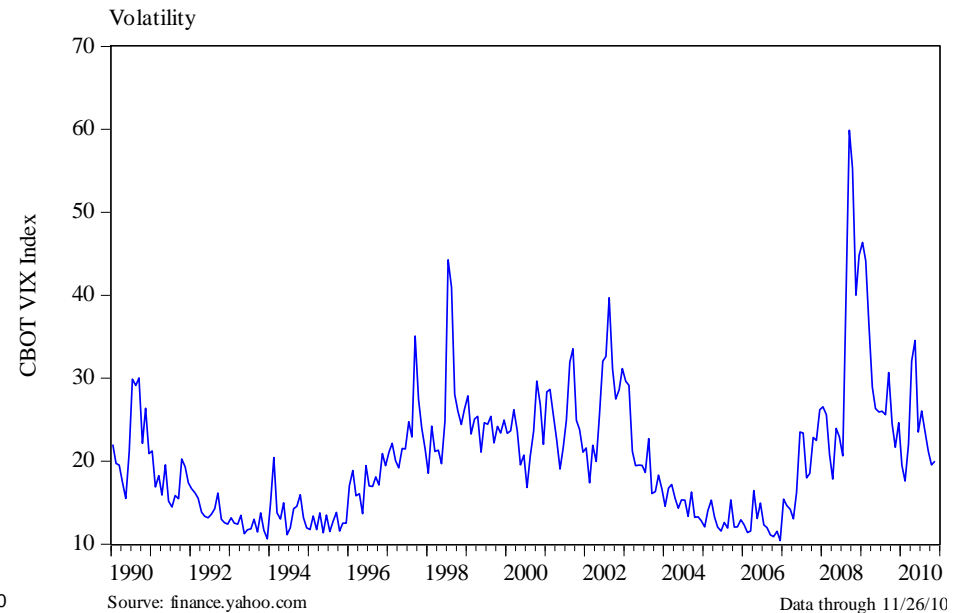
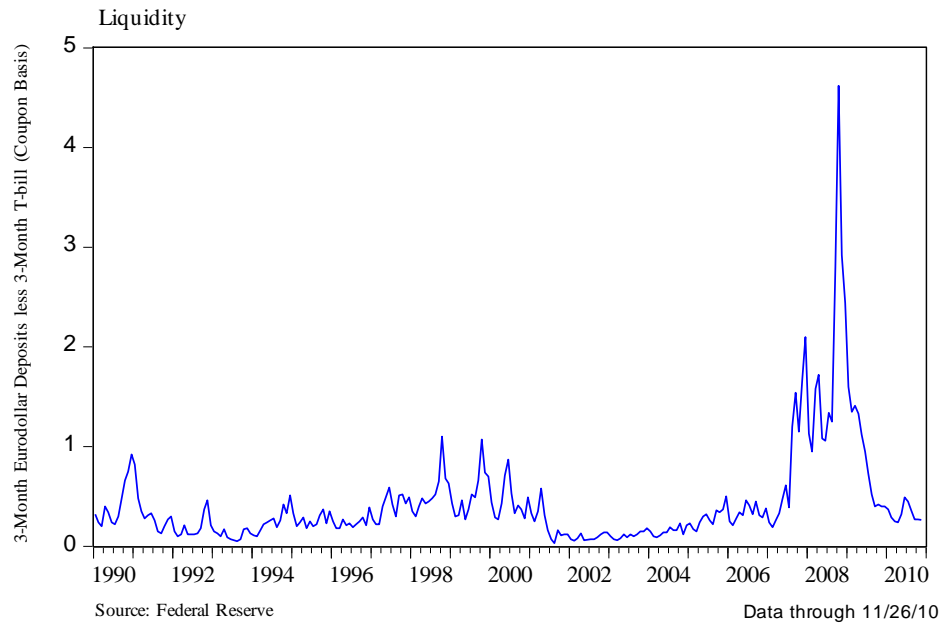
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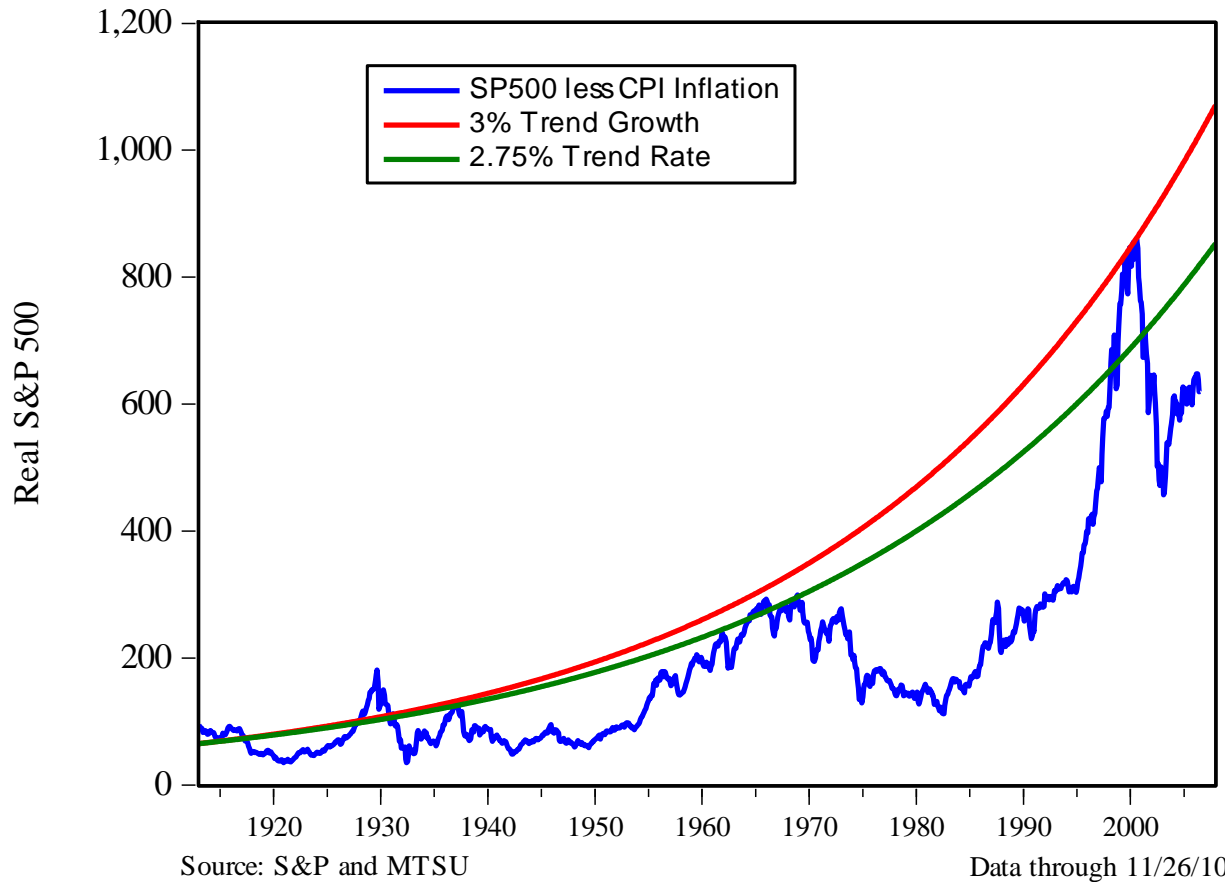
The U.S. Crisis in Perspective

Liquidity and Risk: Return to Normality?



The U.S. Crisis in Perspective

The Equity Markets: Return to Normality?



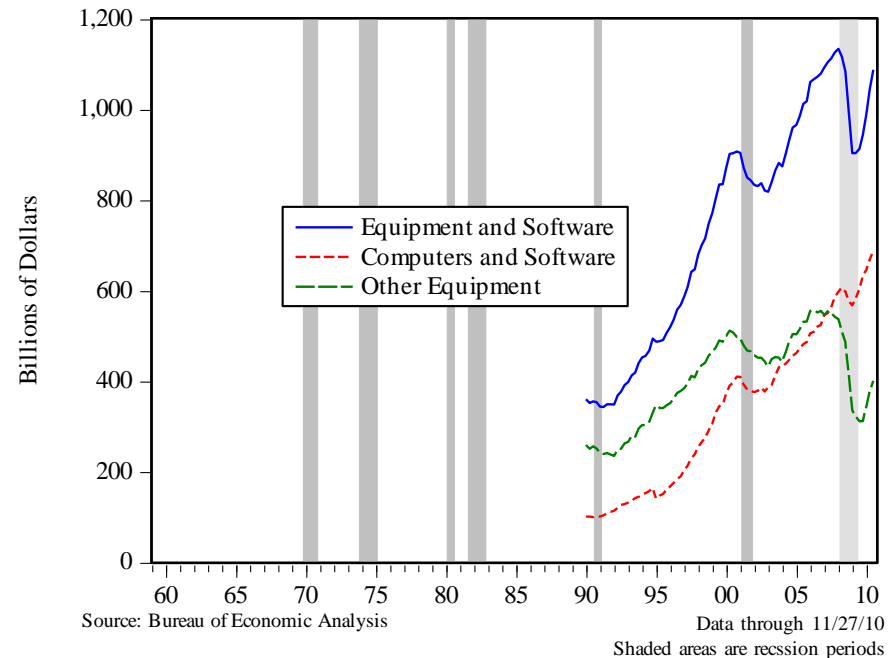
Investment Spending and the Business Cycle

Business Equipment and Software

Business equipment and software

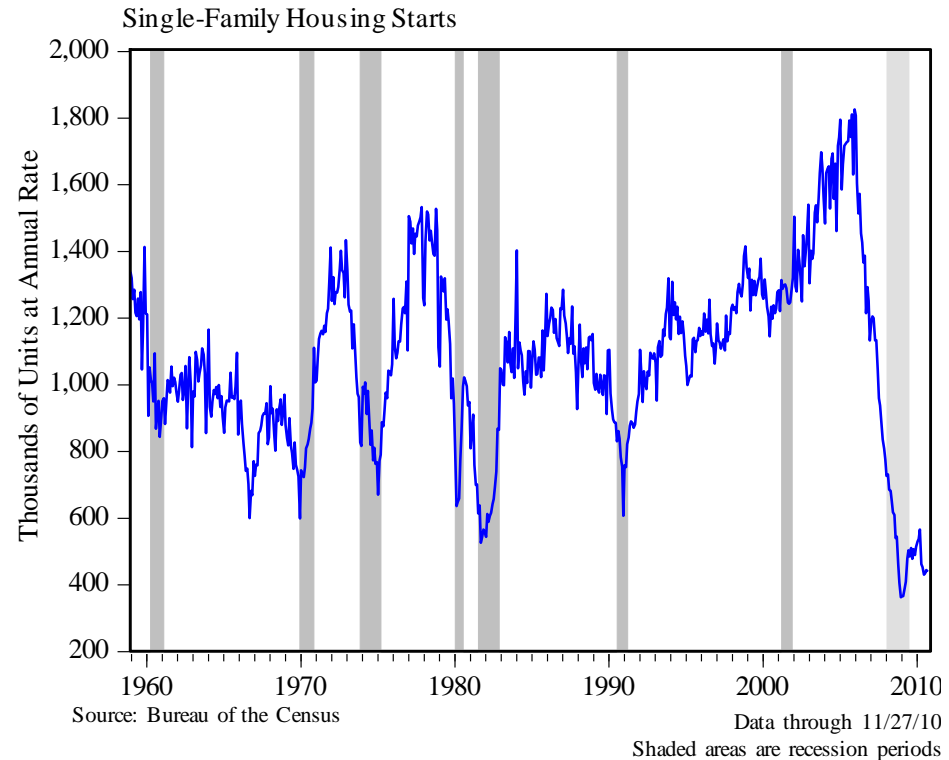
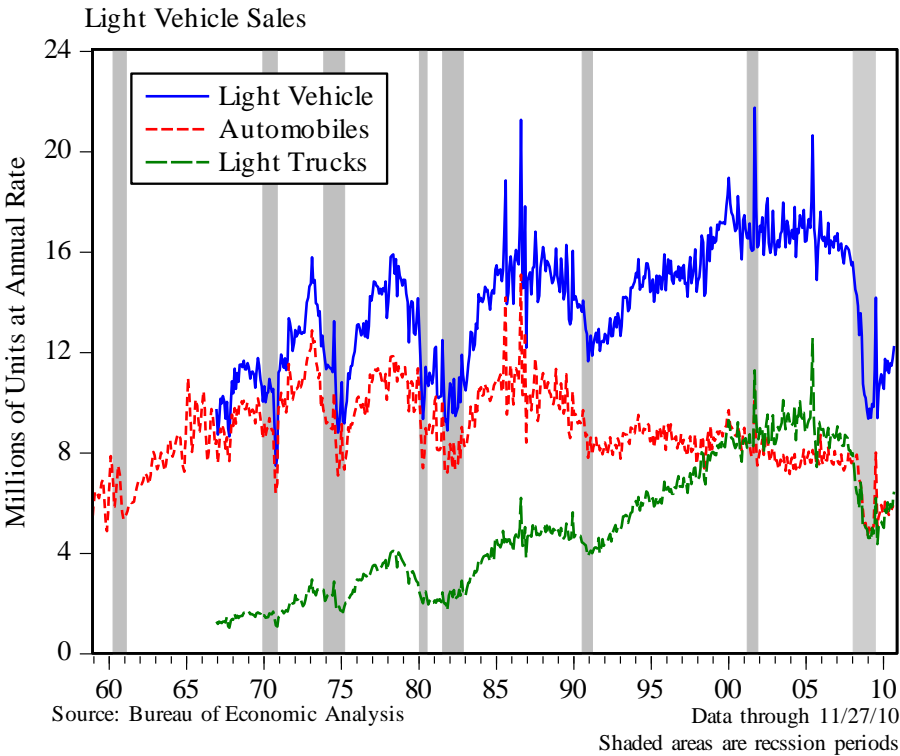
- In the last recession “all other equipment” bore the brunt of the downturn
- Not surprising since manufacturing capacity utilization rate bottomed at around 66percent

Given low state of capacity utilization, it could be some time before spending on “other equipment” reaches its pre-recession level



Investment Spending and the Business Cycle

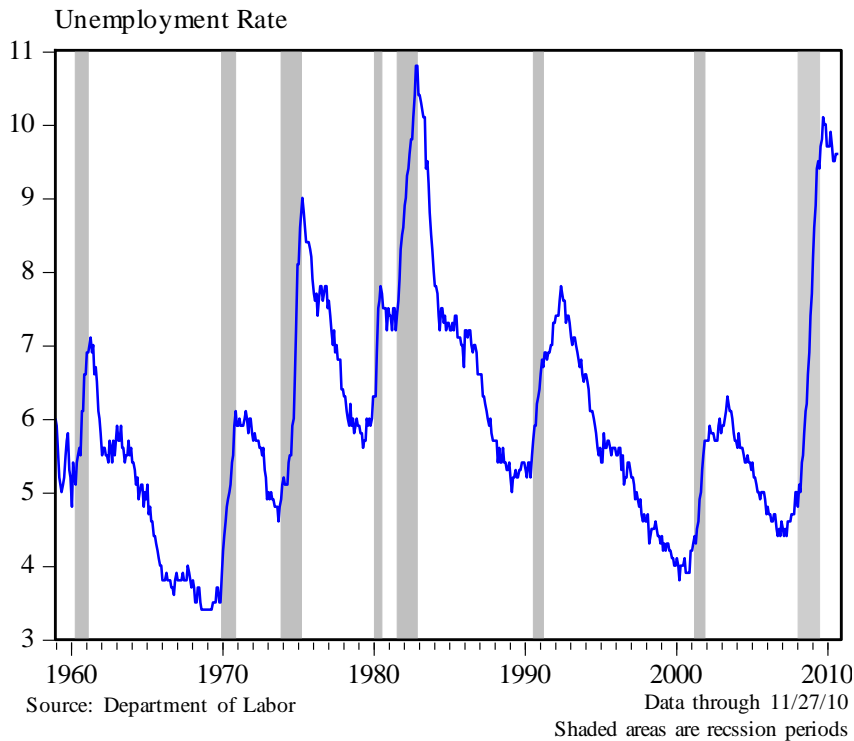
Light Vehicle Sales and Housing



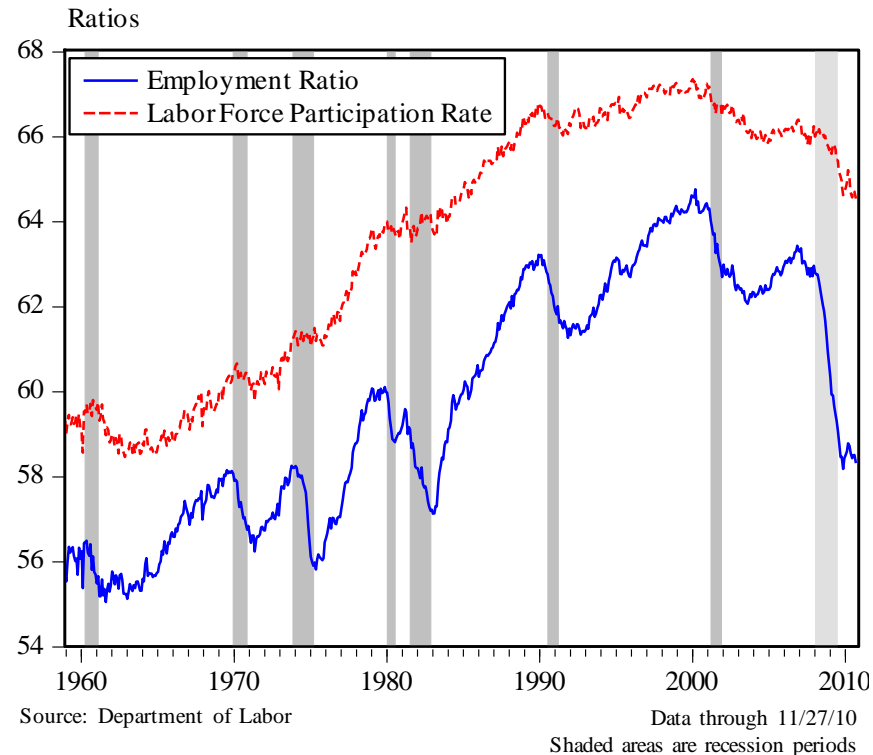
Labor Markets and the Business Cycle

Unemployment Rate, Labor Force Participation Rate and Employment Ratio

Unemployment as a Percent of the Labor Force

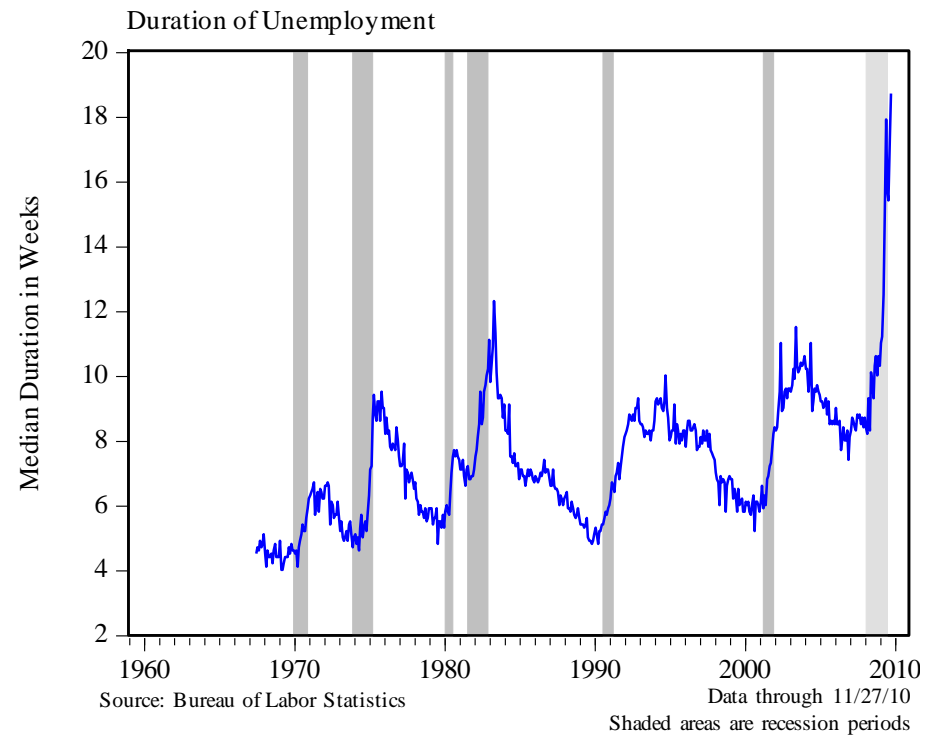
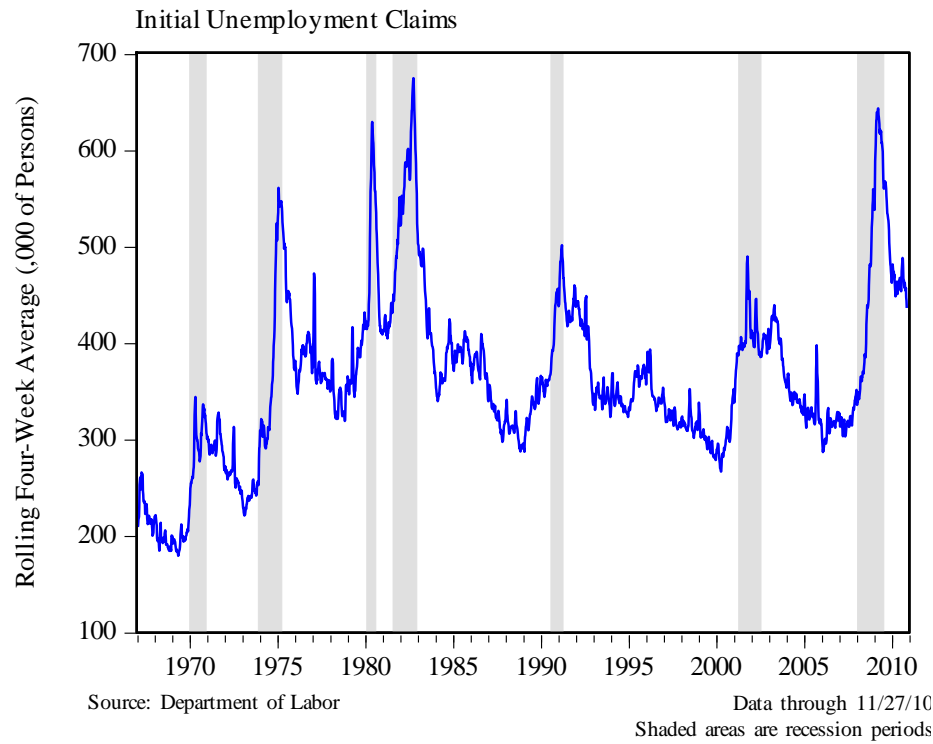
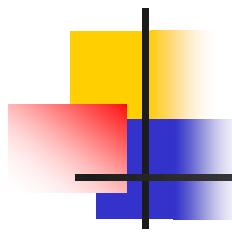


Percent of Noninstitutionalized Civilian Population over 16 Years



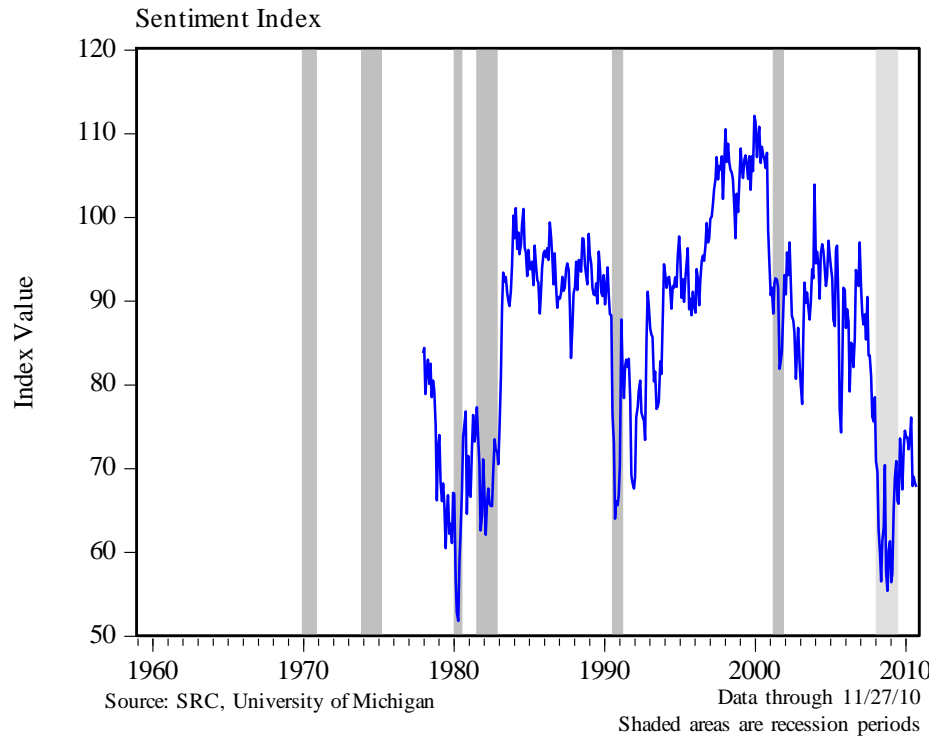
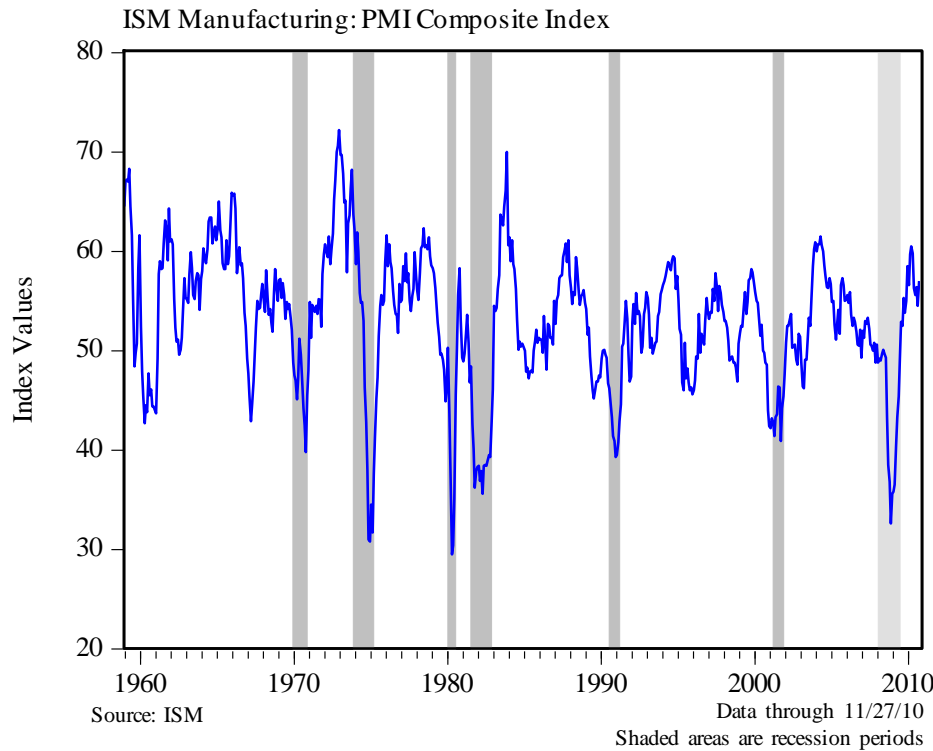
Labor Markets and the Business Cycle

Initial Unemployment Claims and the Duration of Unemployment



Forward Looking Indexes and the Business Cycle

Leading Indicators and Consumer Confidence





U.S. Economy: Potential Flash Points

Un-resolved foreclosures and issue of liquidity of structured securities

Deleveraging and consumer spending

The U.S. Federal budget deficit paralysis and the dollar

Corporate taxes and U.S. competitiveness

QE2 and inflation

QE2 and the dollar

Central bank asset diversifications and the dollar

\$100 per barrel oil and possible supply shortages

G20 policy paralysis and beggar thy neighbor

The Euro zone and cascading debt problems (Portugal, Spain and Italy)

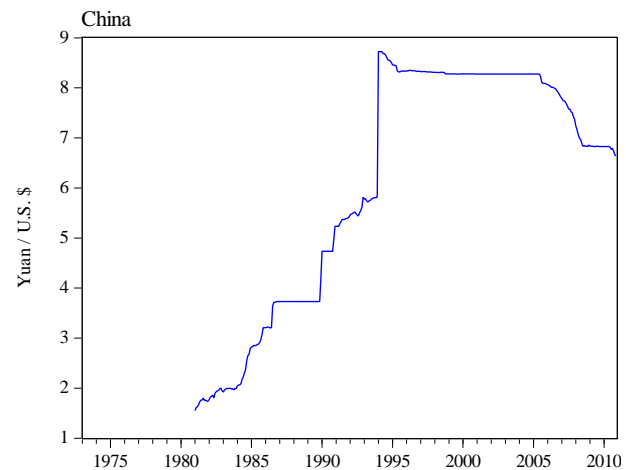
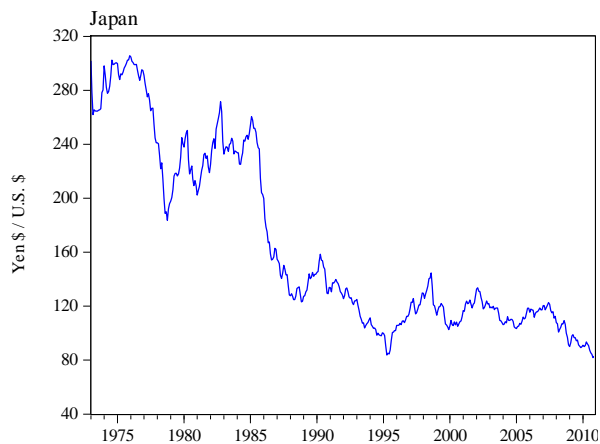
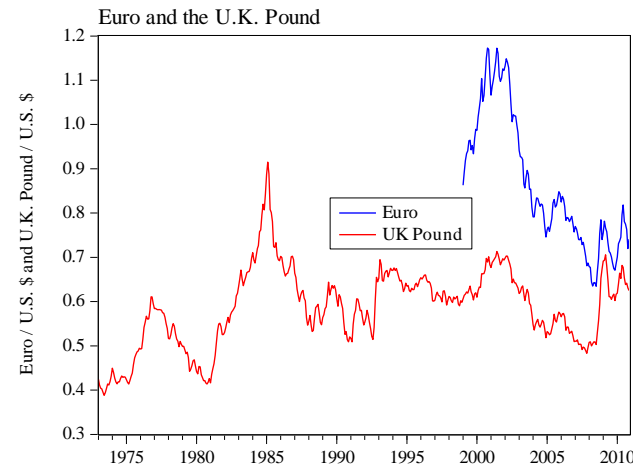
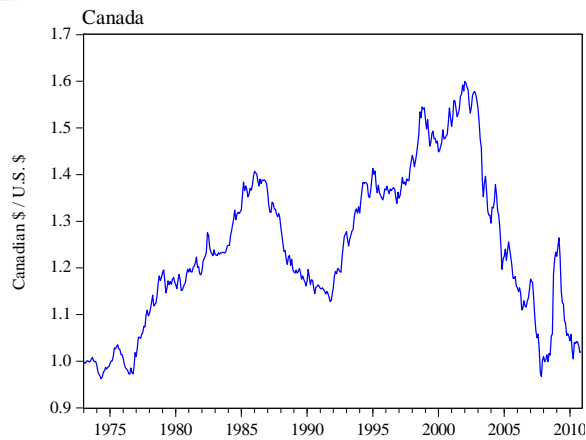
Policy induced slowdown in Chinese growth

Nuclear programs in hostile countries

North Korea hostilities

U.S. Economy: Potential Flash Points

Quantitative Easing 2 and the Dollar



U.S. Economy: Potential Flash Points

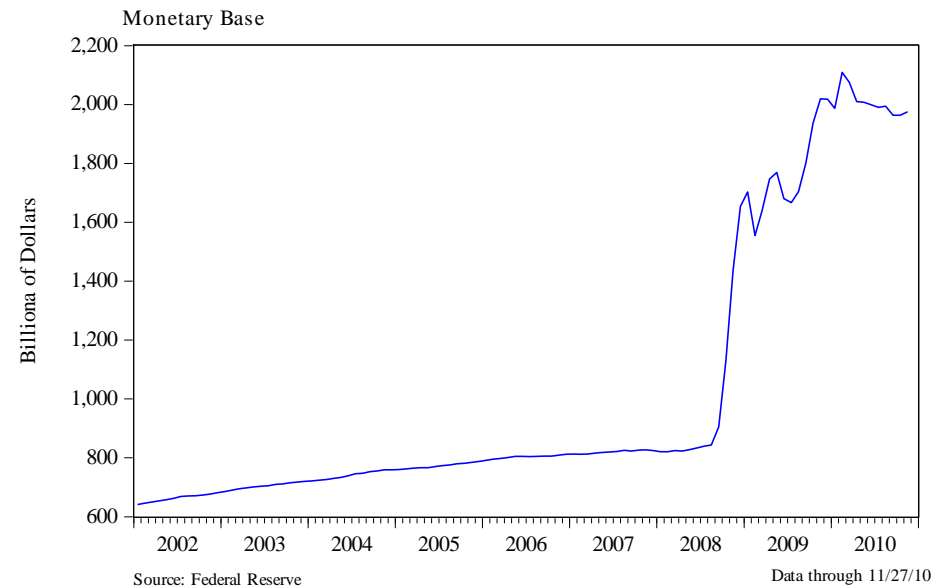
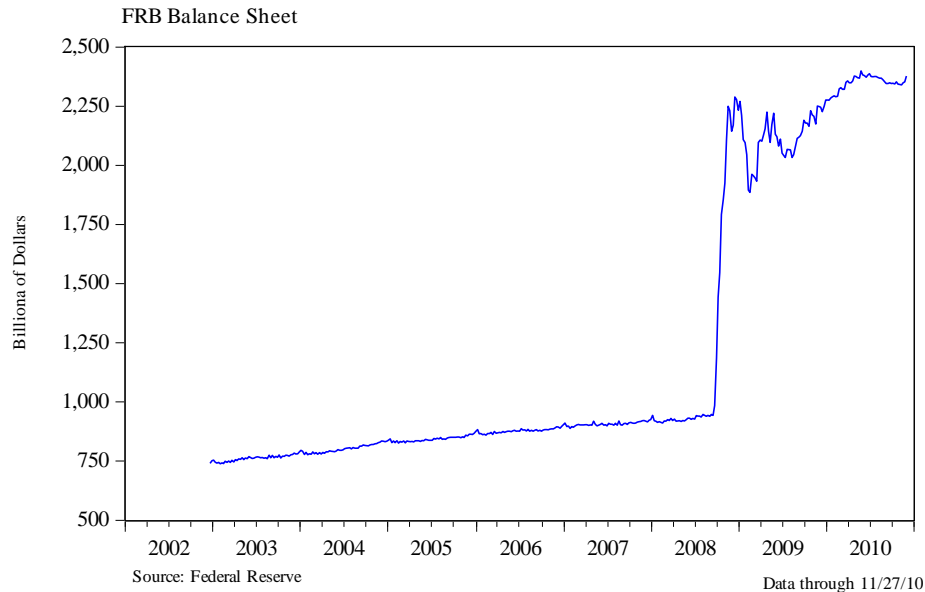
International Holdings of U.S. Debt and the Dollar

Value of Foreign Holdings of U.S. Securities, by Region and Type of Security (as of June 30, 2009)

Regions	Total (LT and ST)	Equity	LT Total	<i>LT</i> <i>Treasury</i>	<i>LT</i> <i>Agency</i>	LT Corp	Short- term
Total Africa	39,681	4,993	24,214	21,060	1,126	2,028	10,474
Total Asia	3,975,538	503,971	3,017,557	1,850,531	890,909	276,118	454,010
Total Caribbean	1,001,172	330,664	534,200	50,531	88,514	395,155	136,308
Total Europe	3,632,086	1,055,083	2,154,043	458,209	155,418	1,540,416	422,960
Total Latin America	358,228	41,694	235,438	173,705	35,241	26,491	81,097
Canada	336,606	241,847	82,412	15,942	3,825	62,644	12,347
Total Other Countries	117,138	66,123	39,933	7,638	7,430	24,865	11,082
Country unknown	109,746	1,957	95,739	30	97	95,612	12,049
International and Regional Organizations	70,366	5,849	56,039	26,335	13,266	16,438	8,478
Total	9,640,561	2,252,181	6,239,575	2,603,981	1,195,826	2,439,767	1,148,805

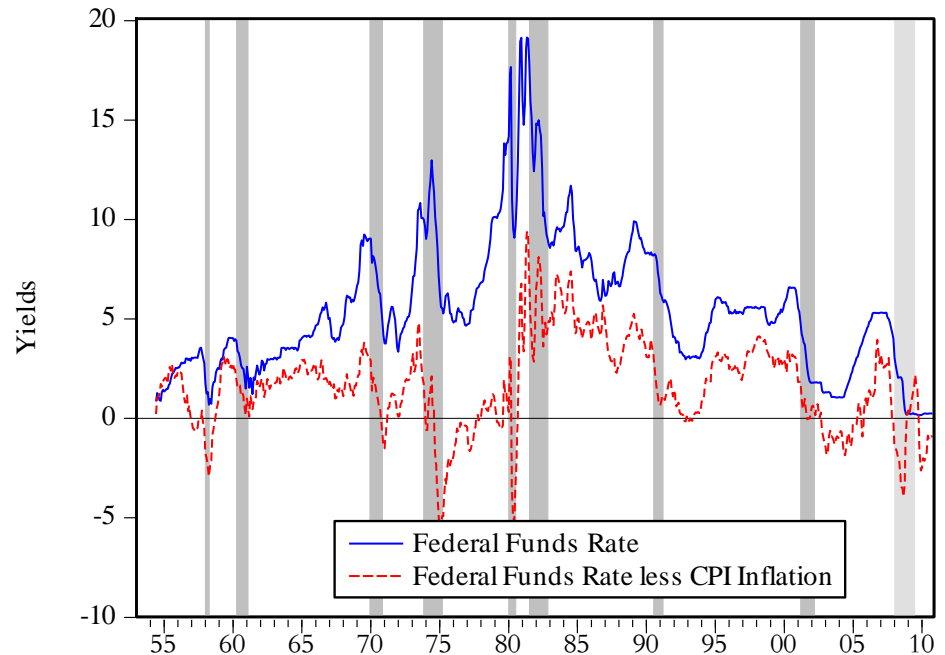
U.S. Economy: Potential Flash Points

Quantitative Easing 2 and Inflation



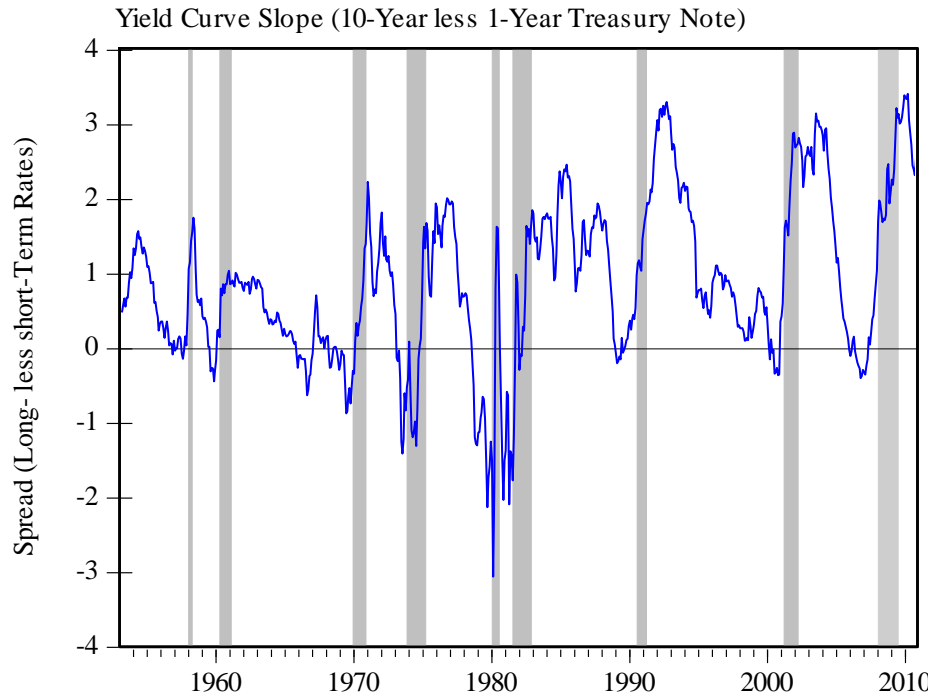
The U.S. Outlook – Setting the Stage

The Interest Rate Regime



Source: Federal Reserve / Bureau of Labor Statistics

Data through 11/27/10
Shaded areas are recession periods



Source: Federal Reserve

Data through 11/27/10
Shades areas are recession periods

The U.S. Outlook – Broad-Brush Comparison

Blue Chip Short-Term Financial Survey and the FOMC

Blue Chip Financial Survey Results			
	Consensus	10Highest	10 Lowest
4Q2010	2.3	3.0	1.6
1Q2011	2.5	3.3	1.7
2Q2011	2.7	3.5	1.8
3Q2011	3.0	4.8	2.2
4Q2011	3.1	4.0	2.3
1Q2012	3.2	4.0	2.5
December 1, 2010			

Table 1. Economic projections of Federal Reserve Governors and Reserve Bank presidents, November 2010										
Variable	Central tendency					Range				
	2010	2011	2012	2013	Longer run	2010	2011	2012	2013	Longer run
Change in real GDP	2.4 to 2.5	3.0 to 3.6	3.6 to 4.5	3.5 to 4.6	2.5 to 2.8	2.3 to 2.5	2.5 to 4.0	2.6 to 4.7	3.0 to 5.0	2.4 to 3.0
Unemployment rate	9.5 to 9.7	8.9 to 9.1	7.7 to 8.2	6.9 to 7.4	5.0 to 6.0	9.4 to 9.8	8.2 to 9.3	7.0 to 8.7	5.9 to 7.9	5.0 to 6.3
PCE inflation	1.2 to 1.4	1.1 to 1.7	1.1 to 1.8	1.2 to 2.0	1.6 to 2.0	1.1 to 1.5	0.9 to 2.2	0.6 to 2.2	0.4 to 2.0	1.5 to 2.0
Core PCE inflation	1.0 to 1.1	0.9 to 1.6	1.0 to 1.6	1.1 to 2.0		0.9 to 1.4	0.7 to 2.0	0.6 to 2.0	0.5 to 2.0	

Baseline Economic Outlook

General Overview

	2010				2011				2012				Year-over-Year Growth		
	I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
1 Gross Domestic Product	14446.4	14578.7	14750.2	14860.8	15004.9	15118.3	15248.2	15392.9	15543.7	15702.5	15869.5	16046.3	3.8	3.6	3.9
2 Change *	2.7	3.6	4.0	3.0	3.9	3.1	3.5	3.9	4.0	4.2	4.3	4.5			
3 Gross Dom. Product (96\$)	13138.8	13194.9	13277.4	13323.3	13408.8	13465.6	13536.2	13618.5	13707.7	13803.0	13904.6	14012.1	2.7	2.1	2.6
4 Change *	3.7	1.7	2.5	1.4	2.6	1.7	2.1	2.5	2.6	2.8	3.0	3.1			
5 Personal Consump. Exp. (96\$)	9225.4	9275.7	9340.3	9414.5	9481.3	9538.3	9597.4	9649.3	9704.0	9767.4	9832.4	9900.9	1.7	2.7	2.5
6 Change *	1.9	2.2	2.8	3.2	2.9	2.4	2.5	2.2	2.3	2.6	2.7	2.8			
7 Equipment and Software (96\$)	989.7	1046.0	1087.3	1107.6	1117.7	1129.3	1140.7	1158.2	1180.3	1204.8	1233.3	1262.2	15.4	7.5	7.4
8 Change *	20.5	24.8	16.8	7.7	3.7	4.2	4.1	6.3	7.9	8.6	9.8	9.7			
9 Nonresid. Construction (96\$)	319.3	318.9	314.2	312.2	311.7	311.6	311.9	312.1	312.2	312.9	314.1	315.6	-14.5	-1.4	0.6
10 Change *	-17.8	-0.5	-5.8	-2.5	-0.7	-0.1	0.3	0.3	0.1	0.9	1.5	1.9			
11 Resid. Construction (96\$)	330.7	350.1	323.1	311.9	302.9	295.9	291.2	289.6	288.1	288.0	289.2	291.3	-4.0	-10.3	-2.0
12 Change *	-12.3	25.6	-27.5	-13.1	-11.0	-8.9	-6.2	-2.3	-2.0	-0.2	1.7	2.9			
13 Federal Defense (96\$)	704.4	717.1	731.9	734.4	737.1	737.8	738.5	739.5	740.3	741.2	742.0	742.9	4.2	2.3	0.5
14 Change *	0.3	7.4	8.5	1.4	1.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5			
15 Fed. Nondefense (96\$)	344.0	354.5	362.6	366.8	369.9	373.1	376.1	379.2	382.3	385.4	388.5	391.7	6.7	4.9	3.3
16 Change *	5.0	12.8	9.5	4.7	3.4	3.5	3.2	3.3	3.3	3.3	3.3	3.3			
17 State + Local (96\$)	1496.8	1499.1	1502.0	1504.5	1507.3	1509.9	1512.6	1516.2	1520.7	1526.1	1532.6	1539.0			
18 Change *	-3.8	0.6	0.8	0.7	0.7	0.7	0.7	0.9	1.2	1.4	1.7	1.7	-1.2	0.7	1.2
19 Net Exports ('96\$)	-338.4	-449.0	-506.7	-515.5	-500.5	-503.2	-501.5	-490.9	-482.9	-483.4	-486.6	-489.5			
20 Chg. in Bus. Invent. (96\$)	44.1	68.8	111.5	87.0	81.5	72.8	69.3	65.6	62.7	60.6	59.1	58.0			
21 Nonfarm Inventories	36.5	61.0	106.0	83.3	78.7	70.6	67.5	64.0	61.3	59.3	57.8	56.7			
22 Farm Inventories	7.6	7.8	5.5	3.7	2.7	2.1	1.8	1.6	1.4	1.4	1.3	1.3			
23 GNP Deflator ('96=100) *	1.1	2.0	2.2	1.6	1.3	1.3	1.3	1.4	1.3	1.3	1.3	1.4	1.1	1.5	1.3
24 CPI (1982-84=100) *	1.5	-0.7	1.5	1.8	1.5	1.6	1.6	1.7	1.6	1.7	1.7	1.9	1.6	1.5	1.7
25 PPI (1982=100) *	8.5	-0.5	0.9	2.4	1.4	1.8	1.8	1.8	1.8	1.9	1.9	2.0	4.0	1.5	1.8

A = Actual; E = Forecast

* Annualized percent change

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS November 27, 2010

Baseline Economic Outlook

Cyclical Characteristics

	2010				2011				2012				Year-over-Year Growth		
	I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
1 Domestic Final Sales ('96\$)	13433.1	13575.1	13672.6	13751.9	13827.9	13896.0	13968.4	14043.9	14127.9	14225.8	14332.0	14443.6	2.7	2.1	2.8
2 Change *	1.4	4.3	2.9	2.3	2.2	2.0	2.1	2.2	2.4	2.8	3.0	3.2			
3 Cyclical Domestic Demand ('96\$)	2778.6	2872.8	2903.2	2931.7	2949.1	2963.7	2985.3	3009.7	3039.0	3078.5	3124.1	3172.2	5.5	3.7	4.2
4 Change *	6.3	14.3	4.3	4.0	2.4	2.0	2.9	3.3	4.0	5.3	6.1	6.3			
5 Cyclical Consumer Demand ('96\$)	1138.9	1157.8	1178.6	1199.9	1216.8	1226.9	1241.5	1249.8	1258.3	1272.8	1287.5	1303.2	6.8	5.6	3.8
6 Change *	8.8	6.8	7.4	7.4	5.7	3.4	4.8	2.7	2.7	4.7	4.7	4.9			
7 Light Vehicles and Parts ('96\$)	133.4	132.7	134.5	139.5	137.3	136.9	137.9	139.4	141.6	145.8	150.8	156.2	6.4	2.1	7.8
8 Change *	18.7	-2.1	5.5	15.6	-6.1	-1.1	2.9	4.4	6.5	12.4	14.5	15.1			
9 Other Durables ('96\$)	1005.5	1025.1	1044.1	1060.5	1079.5	1090.0	1103.6	1110.5	1116.7	1127.0	1136.7	1147.0	6.8	6.0	3.3
10 Change *	7.6	8.0	7.6	6.4	7.4	3.9	5.1	2.5	2.3	3.7	3.5	3.6			
11 Fixed Investment ('96\$)	1630.5	1702.5	1709.5	1731.7	1732.3	1736.8	1743.8	1759.8	1780.6	1805.7	1836.5	1869.1	3.9	2.9	4.6
12 Change *	5.0	5.0	5.0	5.3	0.1	1.0	1.6	3.7	4.8	5.8	7.0	7.3			
13 Resid. Construction (96\$)	330.7	350.1	323.1	311.9	302.9	295.9	291.2	289.6	288.1	288.0	289.2	291.3	-4.0	-10.3	-2.0
14 Change *	-12.3	25.6	-27.5	-13.1	-11.0	-8.9	-6.2	-2.3	-2.0	-0.2	1.7	2.9			
15 Nonresid. Construction ('96\$)	319.3	318.9	314.2	312.2	311.7	311.6	311.9	312.1	312.2	312.9	314.1	315.6	-14.5	-1.4	0.6
16 Change *	-17.8	-0.5	-5.8	-2.5	-0.7	-0.1	0.3	0.3	0.1	0.9	1.5	1.9			
17 Equipment and Software ('96\$)	989.7	1046.0	1087.3	1107.6	1117.7	1129.3	1140.7	1158.2	1180.3	1204.8	1233.3	1262.2	15.4	7.5	7.4
18 Change *	20.5	24.8	16.8	7.7	3.7	4.2	4.1	6.3	7.9	8.6	9.8	9.7			
19 Noncyclical Demand ('96\$)@	10360.2	10322.1	10374.2	10391.7	10459.7	10501.9	10550.9	10608.9	10668.7	10724.5	10780.5	10839.8	2.0	1.6	2.1
20 Change *	3.1	-1.5	2.0	0.7	2.6	1.6	1.9	2.2	2.3	2.1	2.1	2.2			
21 Chg. in Business Inventories	44.1	68.8	111.5	87.0	81.5	72.8	69.3	65.6	62.7	60.6	59.1	58.0			
22 Gross Domestic Purchases ('96\$)&	13449.4	13624.4	13766.5	13838.8	13909.4	13968.8	14037.7	14109.4	14190.6	14286.4	14391.1	14501.6	3.5	2.5	2.4
23 Change *	4.0	5.3	4.2	2.1	2.1	1.7	2.0	2.1	2.3	2.7	3.0	3.1			
24 Net Exports ('96\$)	-338.4	-449.0	-506.7	-515.5	-500.5	-503.2	-501.5	-490.9	-482.9	-483.4	-486.6	-489.5			
25 GDP ('96\$)**	13138.8	13194.9	13277.4	13323.3	13408.8	13465.6	13536.2	13618.5	13707.7	13803.0	13904.6	14012.1	2.7	2.1	2.6
Change *	3.7	1.7	2.5	1.4	2.6	1.7	2.1	2.5	2.6	2.8	3.0	3.1			

@ 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 November 27, 2010

Baseline Economic Outlook

Household Sector

	2010				2011				2012				Year-over-Year Growth		
	I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
1 Personal Income (\$ Bil.)	12350.3	12517.1	12600.4	12707.8	12826.6	12941.6	13059.8	13177.2	13300.0	13427.1	13551.9	13687.1	3.0	3.6	3.8
2 Change *	3.7	5.5	2.7	3.5	3.8	3.6	3.7	3.6	3.8	3.9	3.8	4.1			
3 Civilian Employment (Mil.)	138.6	139.3	139.2	139.4	139.6	139.9	140.1	140.3	140.6	141.0	141.3	141.7	-0.5	0.6	0.8
4 Change *	1.4	2.0	-0.4	0.5	0.7	0.7	0.7	0.6	0.8	1.0	1.1	1.1			
5 Unemployment Rate	9.7	9.7	9.6	9.5	9.4	9.3	9.2	9.0	8.8	8.5	8.2	7.9	9.6	9.2	8.3
6 Personal Consump. Exp. ('96\$)	9225.4	9275.7	9340.3	9414.5	9481.3	9538.3	9597.4	9649.3	9704.0	9767.4	9832.4	9900.9	1.7	2.7	2.5
7 Change *	1.9	2.2	2.8	3.2	2.9	2.4	2.5	2.2	2.3	2.6	2.7	2.8			
8 Autos & Parts	133.4	132.7	134.5	139.5	137.3	136.9	137.9	139.4	141.6	145.8	150.8	156.2	6.4	2.1	7.8
9 Change *	18.7	-2.1	5.5	15.6	-6.1	-1.1	2.9	4.4	6.5	12.4	14.5	15.1			
10 Other Durable Goods	1005.5	1025.1	1044.1	1060.5	1079.5	1090.0	1103.6	1110.5	1116.7	1127.0	1136.7	1147.0	6.8	6.0	3.3
11 Change *	7.6	8.0	7.6	6.4	7.4	3.9	5.1	2.5	2.3	3.7	3.5	3.6			
12 Nondurable Goods	2053.5	2063.4	2072.4	2085.0	2096.4	2104.7	2110.6	2115.8	2122.9	2132.4	2143.2	2152.6	2.5	1.9	1.5
13 Change *	4.2	1.9	1.8	2.5	2.2	1.6	1.1	1.0	1.4	1.8	2.0	1.8			
14 Services	6029.6	6053.4	6090.5	6129.6	6168.1	6206.7	6245.3	6283.7	6322.8	6362.1	6401.6	6445.2	0.7	2.5	2.5
15 Change *	0.1	1.6	2.5	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.7			
16 Lt. Vehicles	11.0	11.3	11.6	12.0	11.6	11.5	11.5	11.5	11.6	11.9	12.3	12.8	10.3	0.3	5.8
17 Change *	7.9	13.6	8.0	16.2	-13.5	-3.8	0.0	1.5	3.8	12.0	14.1	14.1			
18 New Auto Sales (Mil.)	5.7	5.6	5.7	6.1	5.8	5.8	5.8	5.8	5.9	6.0	6.2	6.4	6.1	0.3	5.8
19 Change *	7.0	-8.4	6.7	33.3	-16.8	-3.8	0.0	1.5	3.8	12.0	14.1	14.1			
20 New Light Truck Sales (Mil.)	5.3	5.7	5.9	5.9	5.7	5.7	5.7	5.7	5.7	5.9	6.1	6.3	14.9	0.2	5.8
21 Change *	8.8	42.0	9.3	1.2	-9.9	-3.8	0.0	1.5	3.8	12.0	14.1	14.1			
22 Private Housing Starts (Mil.)	0.617	0.602	0.584	0.632	0.652	0.651	0.690	0.769	0.884	0.999	1.120	1.239	9.8	13.4	53.6
23 Change *	42.6	-9.4	-11.4	36.9	13.2	-0.2	25.9	54.1	74.4	63.4	58.1	49.8			
24 Single-Family	0.524	0.491	0.495	0.495	0.498	0.500	0.527	0.600	0.700	0.800	0.900	1.000	13.4	5.9	60.0
25 Multi-Family	0.093	0.111	0.151	0.137	0.154	0.151	0.163	0.169	0.184	0.199	0.220	0.239	9.7	29.7	32.1
26 Existing Home Sales (Th.)	5140.0	5570.0	4163.3	4867.7	4577.5	4741.6	4706.6	4831.9	4946.5	5054.4	5117.0	5183.9	-4.4	-4.5	7.7
27 Change *	-45.1	37.9	-68.8	86.9	-21.8	15.1	-2.9	11.1	9.8	9.0	5.1	5.3			

A = Actual; E = Forecast

* Annualized percent change

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

November 27, 2010

Baseline Economic Outlook

Corporate and International Sectors

	2010				2011				2012				Year-over-Year Growth		
	I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
1 Fixed Business Invest. ('96\$)	1302.6	1355.3	1388.9	1419.8	1429.4	1440.9	1452.6	1470.3	1492.5	1517.7	1547.4	1577.8	5.9	6.0	5.9
2 Change *	5.5	5.6	5.6	9.2	2.7	3.3	3.3	5.0	6.2	6.9	8.0	8.1			
3 Structures	319.3	318.9	314.2	312.2	311.7	311.6	311.9	312.1	312.2	312.9	314.1	315.6	-14.5	-1.4	0.6
4 Change *	-17.8	-0.5	-5.8	-2.5	-0.7	-0.1	0.3	0.3	0.1	0.9	1.5	1.9			
5 Producer Equip. & Software	989.7	1046.0	1087.3	1107.6	1117.7	1129.3	1140.7	1158.2	1180.3	1204.8	1233.3	1262.2	15.4	7.5	7.4
6 Change *	20.5	24.8	16.8	7.7	3.7	4.2	4.1	6.3	7.9	8.6	9.8	9.7			
7 Chg. in Bus. Invent. ('96\$)	44.1	68.8	111.5	87.0	81.5	72.8	69.3	65.6	62.7	60.6	59.1	58.0			
8 Chg. In Nonfarm Inventories	36.5	61.0	106.0	83.3	78.7	70.6	67.5	64.0	61.3	59.3	57.8	56.7			
9 Corporate Profits (B.T.)	1772.9	1788.2	1864.5	1942.6	2020.0	2053.4	2139.5	2240.1	2370.9	2523.0	2677.3	2823.6			
10 Corporate Profits (A.T.)	1369.7	1382.6	1427.1	1495.8	1555.4	1581.2	1647.4	1724.9	1825.6	1942.7	2061.5	2174.2	33.6	14.7	23.0
11 Change *	54.1	3.8	13.5	20.7	16.9	6.8	17.9	20.2	25.5	28.2	26.8	23.7			
12 Internal Funds (A.T.)	1084.3	1091.6	1103.1	1148.0	1184.7	1214.1	1261.1	1317.3	1369.5	1409.3	1453.5	1501.2	6.7	12.4	15.2
13 Change *	-20.8	2.7	4.3	17.3	13.4	10.3	16.4	19.1	16.8	12.1	13.2	13.8			
14 Dividends	720.3	728.4	736.6	746.9	761.3	777.3	794.0	810.8	824.9	831.6	839.3	848.1	2.0	7.2	6.4
15 Change *	6.8	4.6	4.6	5.7	7.9	8.7	8.9	8.7	7.1	3.3	3.8	4.3			
16 Output per Hour *	3.5	-1.8	2.2	0.4	2.0	1.1	1.6	2.1	2.2	2.3	2.4	2.5	3.3	1.3	2.1
17 Hourly Compensation *	-1.1	-0.7	2.1	1.5	1.9	1.9	1.7	2.6	2.7	2.9	3.1	3.3	1.2	1.7	2.6
18 Unit Labor Costs *	-4.5	1.1	-0.1	1.1	-0.1	0.8	0.1	0.5	0.6	0.6	0.7	0.8	-2.1	0.4	0.5

	2010				2011				2012				Year-over-Year Growth		
	I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
1 Net Exports ('96\$)	-338.4	-449.0	-506.7	-515.5	-500.5	-503.2	-501.5	-490.9	-482.9	-483.4	-486.6	-489.5			
2 Exports ('96\$)	1616.4	1652.1	1677.5	1701.3	1725.0	1747.9	1770.8	1793.7	1816.8	1840.2	1863.9	1887.9	11.5	5.9	5.3
3 Change *	11.4	9.1	6.3	5.8	5.7	5.4	5.3	5.3	5.3	5.3	5.3	5.2			
4 Imports ('96\$)	1954.8	2101.1	2184.2	2216.8	2225.5	2251.1	2272.2	2284.6	2299.7	2323.6	2350.5	2377.4	14.1	6.8	3.5
5 Change *	11.2	33.5	16.8	6.1	1.6	4.7	3.8	2.2	2.7	4.2	4.7	4.7			
6 Trade-Weighted Index	75.3	77.6	75.9	72.7	72.4	72.9	73.0	73.2	72.9	72.8	72.8	72.6	-3.1	-3.3	-0.1

A = Actual; E = Forecast

* Annualized percent change

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

November 27, 2010

Outlook for Interest Rates

Market-Based Forecasts: Futures Market over the Next Year

Futures market does not see tighter policy until third quarter of 2011

- Slow rise in the target for federal funds after October 2011

Good chance of no change through the spring, given the decision to buy an additional \$600 billion in Treasury securities

Federal Reserve's balance sheet will continue to rise until 3/31/11

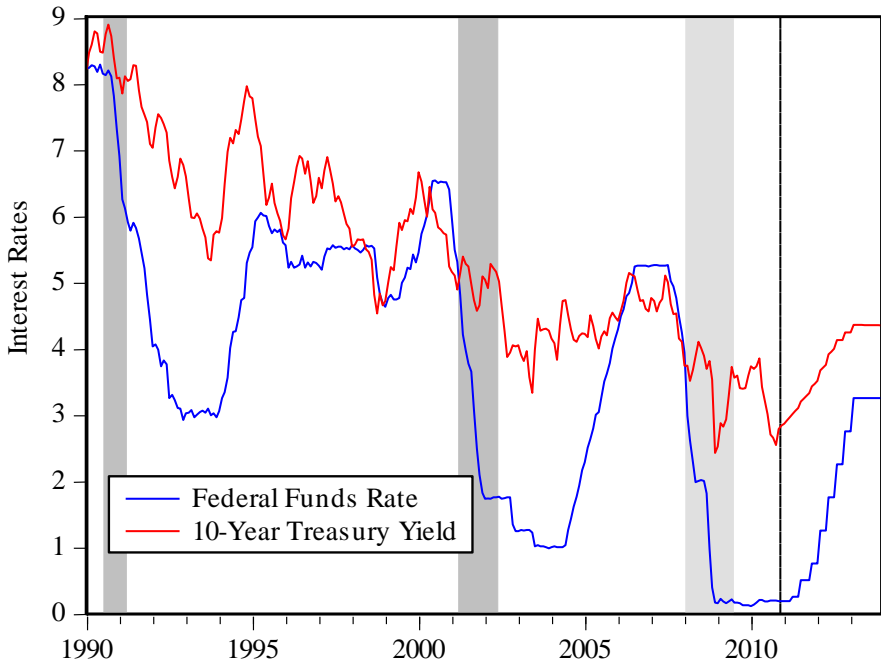
At some point, inflationary implications of current asset purchases will come into play

(Note, timing of the start of the increase in rates similar to the table presented last year. However, the increase in the Federal funds rate was more pronounced last year compared with this year's CME profile.)

Contract	Implicit Rate
Nov-10	0.19
Dec-10	0.19
Jan-11	0.19
Feb-11	0.19
Mar-11	0.19
Apr-11	0.19
May-11	0.19
Jun-11	0.20
Jul-11	0.22
Aug-11	0.24
Sep-11	0.25
Oct-11	0.28
Nov-11	0.33
Dec-11	0.34
Jan-12	0.37
Feb-12	0.44
Mar-12	0.48
Apr-12	0.53
May-12	0.59
Jun-12	0.62
Jul-12	0.67
Aug-12	0.74
Sep-12	0.78
Oct-12	0.83
www.cmegroup.co	
as of 11/26/10	

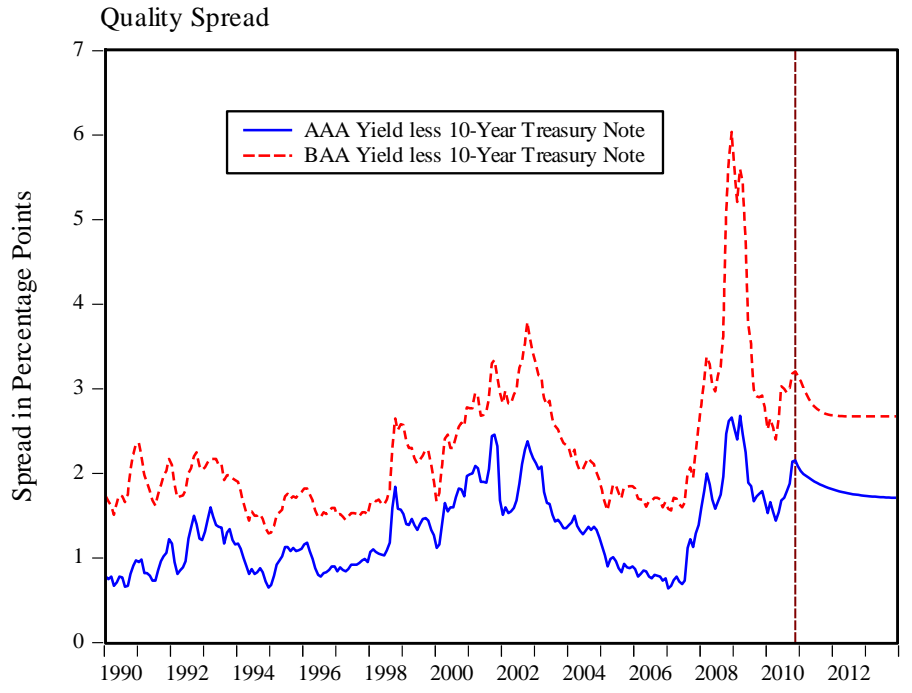
Interest Rate Outlook – Graphic Portrayal

MTSU Baseline Interest Rate Forecast



Source: Federal Reserve and MTSU

Forecasts as of 11/23/10
Shaded areas are recession periods



Source: Federal Reserve and MTSU

Forecasts as of 1/23/10

Interest Rate Forecasts

Money Market Rates

	2010				2011				2012				Annual Averages		
	I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
1 Federal Funds	0.13	0.19	0.19	0.19	0.19	0.25	0.50	0.67	1.08	1.58	2.08	2.58	0.18	0.40	1.83
Commercial Paper															
2 1-Month	0.14	0.20	0.20	0.22	0.29	0.40	0.66	0.85	1.28	1.79	2.28	2.78	0.19	0.55	2.03
3 3-Month	0.15	0.23	0.23	0.23	0.35	0.45	0.73	0.91	1.34	1.85	2.35	2.85	0.21	0.61	2.10
4 6-Month	0.16	0.28	0.25	0.25	0.37	0.50	0.77	0.94	1.38	1.89	2.39	2.88	0.24	0.64	2.14
Finance Paper															
5 1-Month	0.15	0.24	0.21	0.22	0.31	0.43	0.67	0.86	1.28	1.79	2.27	2.76	0.21	0.57	2.02
6 3-Month	0.18	0.32	0.24	0.24	0.35	0.46	0.73	0.91	1.35	1.86	2.36	2.86	0.25	0.61	2.11
7 6-Month	0.21	0.40	0.30	0.27	0.36	0.50	0.77	0.94	1.37	1.87	2.37	2.86	0.29	0.65	2.12
Treasury Bills															
8 1-Month	0.11	0.15	0.16	0.14	0.19	0.26	0.52	0.68	1.10	1.60	2.10	2.59	0.14	0.41	1.85
9 3-Month	0.19	0.22	0.19	0.19	0.26	0.36	0.62	0.80	1.21	1.68	2.14	2.57	0.20	0.51	1.90
Negotiable CDs															
10 1-Month	0.17	0.30	0.26	0.25	0.31	0.46	0.68	0.86	1.28	1.83	2.30	2.80	0.24	0.58	2.05
11 3-Month	0.21	0.42	0.34	0.22	0.08	0.28	0.68	0.90	1.25	1.79	2.30	2.85	0.30	0.49	2.05
12 6-Month	0.31	0.60	0.48	0.35	0.50	0.65	0.85	1.04	1.47	1.93	2.38	2.82	0.44	0.76	2.15
Eurodollar Deposit															
13 1-Month	0.29	0.37	0.38	0.35	0.37	0.48	0.74	0.90	1.30	1.82	2.32	2.81	0.35	0.62	2.06
14 3-Month	0.41	0.50	0.52	0.35	0.15	0.29	0.64	0.88	1.24	1.76	2.27	2.80	0.44	0.49	2.02
15 6-Month	0.49	0.63	0.66	0.59	0.60	0.75	0.98	1.12	1.54	2.01	2.44	2.87	0.59	0.86	2.22
16 Prime Rate	3.25	3.25	3.25	3.23	3.19	3.25	3.50	3.67	4.08	4.58	5.08	5.58	3.24	3.40	4.83

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp
A = Actual; E = Forecast

November 23, 2010

Interest Rate Forecasts

Capital Market Rates

		2010				2011				20112				Annual Averages		
		I(A) 2010	II(A) 2010	III(A) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
U.S. Treasury Notes and Bonds																
1	1-Yr Note	0.37	0.38	0.27	0.26	0.37	0.51	0.81	1.02	1.45	1.95	2.42	2.84	0.32	0.68	2.17
2	2-Yr Note	0.92	0.87	0.54	0.48	0.68	0.84	1.15	1.39	1.83	2.33	2.80	3.20	0.70	1.01	2.54
3	5-Yr Note	2.42	2.25	1.55	1.34	1.53	1.71	1.97	2.20	2.53	2.91	3.24	3.46	1.89	1.85	3.04
4	10-Yr Note	3.72	3.49	2.79	2.72	2.91	3.06	3.24	3.41	3.63	3.87	4.08	4.20	3.18	3.15	3.95
5	30-Yr Note	4.49	4.20	3.60	3.79	3.92	3.79	4.02	4.10	4.13	4.31	4.38	4.39	4.02	3.96	4.30
Other Bonds																
6	AAA Bonds	5.29	5.04	4.58	4.85	4.91	4.98	5.11	5.23	5.43	5.64	5.84	5.94	4.94	5.06	5.71
7	BAA Bonds	6.29	6.18	5.78	5.90	5.93	5.89	5.98	6.10	6.31	6.55	6.76	6.88	6.04	5.97	6.62
8	State and Local	4.35	4.35	4.07	4.28	4.29	4.14	4.16	4.22	4.36	4.53	4.68	4.76	4.26	4.20	4.58
Mortgage Rates - Primary Mkt																
9	30-Yr (FHLMC - PMMS)	4.63	4.57	3.99	3.94	4.20	4.42	4.67	4.88	5.15	5.42	5.66	5.81	4.28	4.54	5.51
10	15-Yr (FHLMC - PMMS)	3.96	3.99	3.39	3.05	3.12	3.25	3.50	3.69	4.00	4.36	4.67	4.89	3.60	3.39	4.48
11	ARM (FHLMC - PMMS)	4.25	4.01	3.57	3.28	3.14	3.10	3.25	3.36	3.71	4.14	4.56	4.95	3.78	3.21	4.34
Mortgage Rates - Secondary Mkt																
12	30-Yr (FLHMC Req Net Yield)	5.00	4.91	4.45	4.28	4.48	4.67	4.90	5.10	5.35	5.61	5.84	5.97	4.66	4.79	5.69
13	15-Yr (FHLMC Req Net Yield)	4.38	4.29	3.92	3.67	3.72	3.84	4.05	4.21	4.50	4.83	5.11	5.29	4.06	3.96	4.93

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

November 23, 2010

The Tennessee Cycle in Perspective

Personal Income

- Tennessee personal income (measured by 4-quarter moving growth rates) moves in line with U.S. personal income growth.

Employment

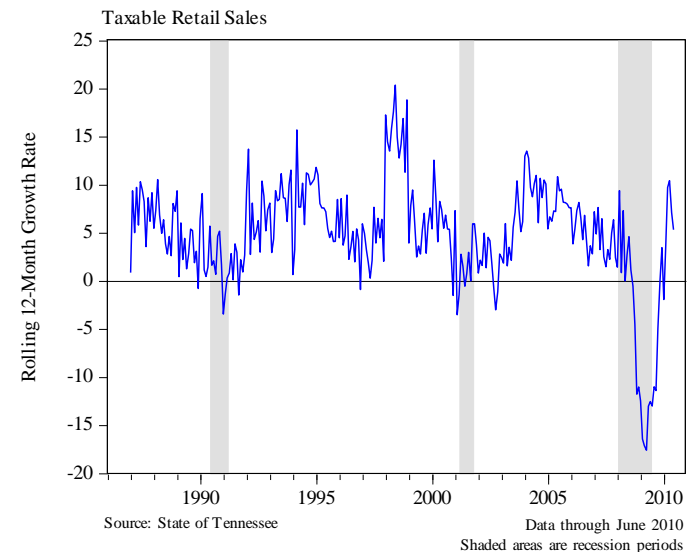
- Tennessee employment (measured by 4-quarter moving growth rates) moves roughly in line with U.S. employment growth.

Housing

- Tennessee building permits moves in line with U.S. housing starts, adjusted for differences in scale

Retail (Taxable) Sales

- See graph to the right. Growth is finally underway!!



Baseline Economic Outlook

Economics Outlook for Tennessee

	2010				2011				2012				Year-over-Year Growth		
	I(A) 2010	II(A) 2010	III(E) 2010	IV(E) 2010	I(E) 2011	II(E) 2011	III(E) 2011	IV(E) 2011	I(E) 2012	II(E) 2012	III(E) 2012	IV(E) 2012	2010	2011	2012
National Trends															
1 Civilian Employment (Mil.)	138.6	139.3	139.2	139.4	139.6	139.9	140.1	140.3	140.6	141.0	141.3	141.7	-0.5	0.6	0.8
2 Change *	1.4	2.0	-0.4	0.5	0.7	0.7	0.7	0.6	0.8	1.0	1.1	1.1			
3 Personal Income	12350.3	12517.1	12600.4	12707.8	12826.6	12941.6	13059.8	13177.2	13300.0	13427.1	13551.9	13687.1	3.0	3.6	3.8
4 Change *	3.7	5.5	2.7	3.5	3.8	3.6	3.7	3.6	3.8	3.9	3.8	4.1			
5 Income Per Employee (T)	89.091	89.837	90.520	91.176	91.879	92.532	93.206	93.895	94.571	95.247	95.881	96.572	3.6	3.0	2.9
6 Change *	2.2	3.4	3.1	2.9	3.1	2.9	2.9	3.0	2.9	2.9	2.7	2.9			
7 Housing Starts (Mil. of Units)	0.617	0.602	0.584	0.632	0.652	0.651	0.690	0.769	0.884	0.999	1.120	1.239	9.8	13.4	53.6
8 Change *	42.6	-9.4	-11.4	36.9	13.2	-0.2	25.9	54.1	74.4	63.4	58.1	49.8			
Tennessee															
9 Nonagricultural Employment (T)	2594.0	2610.0	2607.7	2619.4	2623.8	2627.9	2631.7	2636.1	2641.7	2647.4	2653.2	2658.8	-0.5	0.8	0.8
10 Change *	0.2	2.5	-0.4	1.8	0.7	0.6	0.6	0.7	0.9	0.9	0.9	0.9			
11 Personal Income	220.8	223.0	225.0	226.5	228.3	230.2	232.1	234.0	236.1	238.1	240.1	242.3	3.8	3.3	3.5
12 Change *	7.0	4.2	3.6	2.6	3.2	3.4	3.4	3.3	3.6	3.5	3.4	3.7			
13 Dividends & Interest	29.8	29.9	30.0	30.2	30.5	30.8	31.1	31.4	31.7	32.0	32.3	32.6	1.2	3.1	4.0
14 Change *	5.2	0.9	1.6	2.4	3.6	3.9	4.0	4.1	4.2	3.7	4.0	4.3			
15 Income Per Employee (T)	85.105	85.448	86.278	86.453	86.995	87.588	88.205	88.772	89.363	89.938	90.505	91.145	4.3	2.4	2.7
16 Change *	6.8	1.6	3.9	0.8	2.5	2.8	2.9	2.6	2.7	2.6	2.5	2.9			
17 Retail Sales	82.6	85.4	84.9	84.9	85.8	86.0	86.8	87.6	87.8	88.6	89.1	89.6	4.9	2.5	2.6
18 Change *	-1.5	14.2	-2.3	0.0	4.4	1.1	3.5	3.9	0.9	3.5	2.4	2.3			
19 Single-Family Building Permits (T)	13.495	12.568	10.144	10.695	11.201	11.317	11.601	12.287	13.894	15.817	17.850	19.839	-2.0	-1.1	45.2
20 Change *	-1.8	-24.8	-57.6	23.6	20.3	4.2	10.4	25.8	63.5	68.0	62.2	52.6			
21 Total Building Permits (T)	19.575	17.033	14.490	15.207	15.806	15.835	16.229	17.222	19.431	21.369	23.573	25.740	15.7	-1.8	38.4
22 Change *	152.0	-42.7	-47.6	21.3	16.7	0.7	10.3	26.8	62.0	46.3	48.1	42.2			

Note: Except where noted, all data in billions of dollars.

Historic sources: BEA, BLS, State of Tennessee

T=Thousands of units, persons, or dollars

November 27, 2010

A = Actual; E = Forecast

* Quarter-to-quarter percent changes expressed at compound annual rates.



Baseline Economic Outlook

Economic Assumptions—Fiscal Year Basis

	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	Forecasts		
												FY10-11	FY11-12	FY12-13
1 Personal Income (Bil \$)	147.9	156.1	160.4	166.1	174.0	183.3	194.0	205.7	216.7	216.8	218.9	227.5	235.1	243.5
2 Chg@	5.9	5.6	2.8	3.5	4.8	5.3	5.8	6.0	5.3	0.1	1.0	3.9	3.3	3.6
3 Nonagricultural Employment (Mil)	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	2.7
4 Chg@	2.0	0.2	-2.0	0.1	0.5	1.7	1.5	0.8	0.4	-3.7	-3.7	0.8	0.7	0.9
5 Income Per Employee (Th \$)	54.5	57.4	60.2	62.3	64.9	67.3	70.1	73.7	77.4	80.4	84.3	86.8	89.1	91.5
6 Chg@	3.8	5.4	4.9	3.4	4.3	3.6	4.2	5.2	4.9	3.9	4.8	3.0	2.6	2.7
7 Retail Sales (Bil \$)	62.6	64.1	65.9	67.0	73.1	79.2	85.0	88.9	92.0	83.3	82.7	85.4	87.7	90.1
8 Chg@	6.5	2.4	2.9	1.7	9.1	8.3	7.4	4.6	3.5	-9.5	-0.7	3.3	2.7	2.7
9 Building Permits (Th of Units)	29.7	26.3	28.0	30.2	36.0	37.2	40.2	34.1	21.4	11.7	13.1	10.8	13.4	20.4
10 Chg@	-4.8	-11.3	6.4	8.0	19.1	3.3	8.0	-15.0	-37.3	-45.1	11.3	-17.1	23.6	52.2

* 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

November 27, 2010

Baseline Economic Outlook

Baseline Revenue Projections

	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	Forecasts		
												FY10-11	FY11-12	FY12-13
11 Total Tax Revenue*	7,526.8	7,656.4	7,469.0	8,449.7	9,094.0	9,638.6	10,290.8	11,066.5	11,194.5	10,199.7	10,089.0	10,262.5	10,471.1	10,748.4
12 Chg@	7.8	1.7	-2.4	13.1	7.6	6.0	6.8	7.5	1.2	-8.9	-1.1	1.7	2.0	2.6
13 Sales and Use Tax*	4,600.7	4,643.3	4,645.7	5,459.4	5,810.8	6,091.5	6,515.6	6,810.2	6,856.6	6,331.3	6,188.6	6,267.0	6,387.5	6,533.7
14 Chg@	5.9	0.9	0.1	17.5	6.4	4.8	7.0	4.5	0.7	-7.7	-2.3	1.3	1.9	2.3
15 Income Tax*	179.9	199.4	141.7	102.9	140.0	155.9	194.4	248.8	292.1	221.2	171.7	186.5	197.7	215.0
16 Chg@	12.2	10.8	-28.9	-27.4	36.0	11.4	24.7	28.0	17.4	-24.3	-22.4	8.6	6.0	8.8
17 Gross Receipts Tax*	213.1	248.6	224.3	216.5	219.1	235.9	241.2	274.3	290.6	315.1	350.6	327.7	331.0	336.1
18 Chg@	7.9	16.6	-9.8	-3.5	1.2	7.6	2.2	13.7	6.0	8.4	11.3	-6.5	1.0	1.6
19 Excise plus Franchise Taxes*	1,083.0	1,102.8	966.3	1,071.7	1,197.8	1,372.0	1,491.6	1,749.1	1,650.4	1,368.7	1,423.6	1,462.9	1,488.3	1,549.6
20 Chg@	21.5	1.8	-12.4	10.9	11.8	14.5	8.7	17.3	-5.6	-17.1	4.0	2.8	1.7	4.1
21 Gasoline Tax*	576.1	569.4	576.9	600.1	599.3	608.1	605.6	612.8	616.8	601.3	607.1	616.5	625.3	633.3
22 Chg@	1.5	-1.2	1.3	4.0	-0.1	1.5	-0.4	1.2	0.7	-2.5	1.0	1.6	1.4	1.3
23 Vehicle Registration*	218.6	211.4	219.6	225.0	238.5	244.2	249.5	259.9	253.7	241.3	239.4	245.2	250.9	256.5
24 Chg@	8.7	-3.3	3.9	2.5	6.0	2.4	2.2	4.1	-2.4	-4.9	-0.8	2.4	2.3	2.2
25 Fuel Tax*	152.8	173.4	151.2	155.4	167.7	173.7	180.7	185.7	182.4	154.8	154.6	156.2	157.5	158.1
26 Chg@	7.2	13.5	-12.8	2.8	7.9	3.5	4.0	2.8	-1.8	-15.1	-0.1	1.0	0.8	0.4
27 Privilege Tax*	153.7	160.8	177.4	216.5	246.1	264.9	304.9	350.7	314.2	255.6	247.6	262.8	266.3	270.9
28 Chg@	7.8	4.6	10.3	22.1	13.6	7.7	15.1	15.0	-10.4	-18.7	-3.1	6.1	1.3	1.7
29 All Other Taxes*	348.9	347.2	365.8	401.9	474.6	492.4	507.3	575.1	737.7	710.3	705.8	737.6	766.6	795.2
30 Chg@	5.6	-0.5	5.4	9.9	18.1	3.7	3.0	13.4	28.3	-3.7	-0.6	4.5	3.9	3.7

* Millions of dollars

@ Annual Percent Change

November 29, 2010