REGIONAL PERSPECTIVES

Tennessee Economic Outlook
Economic Forecast

OUTPUT AND EMPLOYMENT

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<tbody>
<tr>
<td>United States</td>
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<td>Real GDP</td>
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<td>$ billions (fourth quarter)</td>
<td>$14,996</td>
<td>$14,575</td>
<td>$14,540</td>
<td>$14,942</td>
<td>$15,242</td>
<td>$15,540</td>
<td>$15,942</td>
<td>$16,501</td>
<td>$17,120</td>
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<td>% change over the four quarters</td>
<td>1.9%</td>
<td>-2.8%</td>
<td>-0.2%</td>
<td>2.8%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.6%</td>
<td>3.5%</td>
<td>3.8%</td>
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<td>Nonfarm employment</td>
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<td>% change over the four quarters</td>
<td>0.9%</td>
<td>-2.0%</td>
<td>-4.1%</td>
<td>0.6%</td>
<td>1.5%</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.4%</td>
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<td>Average monthly change</td>
<td>101,667</td>
<td>-229,361</td>
<td>-468,000</td>
<td>64,528</td>
<td>165,889</td>
<td>184,250</td>
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<tr>
<td>Tennessee</td>
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<td>$ billions (fourth quarter)</td>
<td>$230</td>
<td>$227</td>
<td>$224</td>
<td>$229</td>
<td>$236</td>
<td>$242</td>
<td>$247</td>
<td>$256</td>
<td>$266</td>
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<td>% change over the four quarters</td>
<td>0.1%</td>
<td>-1.3%</td>
<td>-1.5%</td>
<td>2.4%</td>
<td>2.7%</td>
<td>2.6%</td>
<td>2.1%</td>
<td>3.6%</td>
<td>4.1%</td>
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<tr>
<td>Nonfarm employment</td>
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<tr>
<td>Job count (fourth quarter)</td>
<td>2,804,200</td>
<td>2,730,433</td>
<td>2,595,833</td>
<td>2,628,467</td>
<td>2,684,500</td>
<td>2,730,333</td>
<td>2,770,967</td>
<td>2,824,670</td>
<td>2,870,601</td>
</tr>
<tr>
<td>% change over the four quarters</td>
<td>0.7%</td>
<td>-2.6%</td>
<td>-4.9%</td>
<td>1.3%</td>
<td>2.1%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>1.9%</td>
<td>1.6%</td>
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<tr>
<td>Average monthly change</td>
<td>1,581</td>
<td>-6,147</td>
<td>-11,217</td>
<td>2,719</td>
<td>4,669</td>
<td>3,819</td>
<td>3,386</td>
<td>4,475</td>
<td>3,828</td>
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</tbody>
</table>

WHAT THE TABLE SHOWS:

- Tennessee’s GDP forecast is derived from the national forecast by allocating output to each of the 50 states based on employment shares. So, forecast misses reflect surprises in the aggregate forecast as well as unexpected shifts in a state’s GDP share.
- Tennessee’s economy has fared quite well in the last couple of years.

KEY MESSAGES:

- The state’s economy is forecast to match or exceed the 2012 performance for the next several years.

Note: GDP figures are based on quarterly values that are interpolated from annual GDP estimates using quarterly employment changes. Unbolded figures are reported actual values and bold figures represent forecasts.

Sources: US Department of Commerce; US Department of Labor.
The Economy's Structure

WHAT THE CHART SHOWS:

- The figure compares the relative importance of selected industries to the state's economy with the national footprint of each industry (state and national figures reflect the value added of each industry as a percent of aggregate state or US nominal GDP, respectively).
- Tennessee's economy depends more heavily on durable manufacturing (vehicles) and health care, compared with the national economy.

KEY MESSAGES:

- The outsized footprint of the real estate and financial services industries is a challenge.

**Bankruptcies**

**WHAT THE CHART SHOWS:**
- The figure illustrates trends in bankruptcy filings by businesses and persons relative to the number of filings in 2007 Q4, prior to the recession.
- Bankruptcy filings are gradually coming down.

**KEY MESSAGES:**
- Indicators of financial stress are a useful coincident indication of economic distress.
- The recession took a toll on the state’s businesses but financial pressures are easing.

Source: Administrative Office of the U.S. Courts; Updated through March 2014.
WHAT THE CHART SHOWS:

- The figure compares an index of business activity produced by the Federal Reserve Bank of Atlanta (referred to as the D6 Factor) with Florida’s real GDP growth. The index is an estimate of the trend common to 25 distinct monthly series of economic data for the six states in the Bank’s. The D6 Factor filters out idiosyncratic shocks that disproportionately affect individual states. A "0" value for the index appears to match trend-like growth for the national economy.

- The Atlanta FRB index stands at a level consistent with moderate growth.

KEY MESSAGES:

- The Southeast region of the country is recovering but at a slow pace.

Sources: Federal Reserve Bank of Atlanta; US Department of Commerce. Updated through June 2013 (surveys) and 2013 Q3 (GDP).
WHAT THE CHART SHOWS:

- The figures show the Business Barometer Index, based on the survey of purchasing managers, and real GDP growth in Tennessee (a reading above 50 means the state’s economy is growing, while less than 50 means the economy is shrinking). The index comprises seven business activity indicators, including production, new orders, order backlogs, inventories, employment, supplier deliveries, and prices paid.

KEY MESSAGES:

- Diffusion indexes are a timely indicator of activity in the state and these are firming.

Note: Business Barometer data not available prior to 1998.

Sources: Institute of Supply Management; US Department of Commerce. Updated through February 2014 (survey) and 2013 Q4 (GDP).
Initial Jobless Claims

WHAT THE CHART SHOWS:

- The figure tracks layoffs in Tennessee and the national level of claims.
- Weekly layoffs, both the state and national tallies, are illustrated in the figure as a ratio to the level of layoffs in the fourth quarter of 2007, prior to the recession.
- Layoffs have fallen to quite low levels.

KEY MESSAGES:

- Layoffs, because they are reported so promptly, are a useful indicator of changing economic trends.
- The low layoff pace points to continued economic recovery.

Source: US Department of Labor. Updated through May 17, 2014 (state) and May 24, 2014 (US).
Economic Growth

WHAT THE CHART SHOWS:

- Real GDP growth in Tennessee (the line in the figure) is superimposed on top of US real GDP growth (bars in the figure).
- Tennessee’s economy has recovered in line with the national economy’s recovery.

KEY MESSAGES:

- Tennessee’s economy is forecast to speed up slightly in the next several years.

Source: US Department of Commerce. Updated through 2012 (state) and 2014 Q1 (US). Quarterly estimates for states after 2012 are interpolated from employment figures (through April 2014), based on the historical correlation of state and national employment changes.
Economic Output

WHAT THE CHART SHOWS:

- The figure illustrates the evolution of real GDP of the state and the overall US economy since the fourth quarter of 2000, the peak of the previous business cycle—that is, at any point in time the lines trace the ratio of real GDP to its level in 2000 Q4.
- Tennessee paced the national level of economic activity in the earlier expansion but the loss of momentum in the last couple of years has brought the level of activity back in line with the national economy’s growth pace.

KEY MESSAGES:

- Tennessee’s economy is paralleling the national economy’s economic progress.

Source: US Department of Commerce. Updated through 2012 (state) and 2014 Q1 (US). Quarterly estimates for states after 2012 are interpolated from employment figures (through April 2014), based on the historical correlation of state and national employment changes.
Employment Growth

WHAT THE CHART SHOWS:

- Tennessee’s employment trend, compared with the nation’s.
- Employment growth in Tennessee had been relatively steady in the latter half of the 2000s, but the recession took a heavy toll on the state.
- Employment is expanding at a relatively strong pace.

KEY MESSAGES:

- Job gains are expected to remain strong in 2014 and 2015.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Employment

NONFARM PAYROLL EMPLOYMENT (RATIO TO THE 2000 Q4 LEVEL)

WHAT THE CHART SHOWS:

- The figure illustrates the evolution of employment in the state compared with the nation since 2000 Q4, the peak of the previous business cycle. The lines trace out the ratio of employment at the time to employment in 2000 Q4.
- Tennessee’s businesses have recovered or replaced almost all of the jobs lost during the recession.

KEY MESSAGES:

- The recession took a heavy toll on Tennessee’s economy, reflecting the outsized footprint of the motor vehicle industry, but that is now in the past.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Intrastate Employment

WHAT THE CHART SHOWS:

- Employment trends in local communities across the state.
- Lines are the cumulative percent change in employment since 2000 Q4, the peak of the previous business expansion.
- All regions are moving forward.

KEY MESSAGES:

- The recovering national economy is lifting business activity across the state.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Unemployment

WHAT THE CHART SHOWS:

- Trends in Tennessee's unemployment rate, compared with the national average.
- Typically, Tennessee’s economic performance parallels the US economy’s but unemployment rose by more in this recession than the national average.
- Tennessee’s unemployment rate topped out around 11 percent but now is falling quickly.

KEY MESSAGES:

- The unemployment rate is the single best indicator of the relative economic performance of a region.
- Tennessee appears on the road to recovery, judging by the declining unemployment rate.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Relative House Prices

WHAT THE CHART SHOWS:

- The figure tracks the relative price of houses in the state versus the nation—that is, it reflects the ratio of the state price index to the national house price index, with that ratio set to unity in the summer of 1995. A drop in the line means that house prices in the state lag the national trend. States that did not suffer from speculative conditions saw a decline in the relative price of houses in this last decade.
- Tennessee saw little of the speculative fury found in many other real estate markets in the last decade.

KEY MESSAGES:

- Tennessee’s housing values are in normal alignment with the rest of the nation, following corrections of inflated values elsewhere.

Source: FHFA. Updated through 2014 Q1.
WHAT THE CHART SHOWS:

- The figure tracks the cumulative percentage deviation in house prices since 1995 in selected local markets and compares those with the national average.
- Tennessee’s housing markets were little affected by the real estate speculation elsewhere.

KEY MESSAGE:

- The softer economy may dampen housing prices in the state.

Source: FHFA. Updated through 2014 Q1.
New Home Building

WHAT THE CHART SHOWS:
- The pace of new home building (housing starts) in Tennessee, compared with the national trends.
- New home construction in Tennessee is picking up gradually.

KEY MESSAGES:
- Tennessee’s home building industry is expected to continue on the road to recovery.

Source: Census Department. Updated through March 2014 (state) and April 2014 (US).
Office Markets

WHAT THE CHART SHOWS:

- Office market conditions in Nashville, compared with the national commercial real estate market.
- Vacancy rates in Nashville are beginning to come down, reflecting the building strength of the state’s economy.

KEY MESSAGES:

- Tennessee’s commercial real estate markets should continue to strengthen in 2013.
