Economic Update

Tennessee Chamber of Commerce and Industry

March 3, 2010
Lee Jones

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.
U.S. economic growth rose substantially in Q4 2009, but output is not expected to expand at such a strong pace going forward.

Source: U.S. Bureau of Economic Analysis
Inventory adjustments helped push up GDP in Q4. It is not expected to continue.

Contributions to Real GDP Growth
quarterly, annualized % change

Source: U.S. Bureau of Economic Analysis
While national economic growth is very weak, comparisons to the Great Depression are exaggerated.

**U.S. Economic Growth**

Y/Y % change

- 1932: -13.0%
- 1982: -1.9%
- 2009: -2.6%

Source: U.S. Bureau of Economic Analysis
Slow Improvement is evident at the state level as well.

Source: FRB Philadelphia, FRB Atlanta (Assumes that the recession ended in June 2009)
Employment losses have tapered at the national level.
But the decline in employment during the recession has been substantial.
Total job losses since the recession began are roughly the same in Tennessee as they have been for the US, although some differences are evident at the industry level.

### Percent Change in Employment by Industry Since Dec 2007

**Tennessee**  **USA**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Tennessee</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>-6.05</td>
<td>-6.09</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Other Services</td>
<td>-3.6</td>
<td>-2.6</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td></td>
<td>-2.9</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td></td>
<td>-3.4</td>
</tr>
<tr>
<td>Business Services</td>
<td>-5.6</td>
<td>-7.2</td>
</tr>
<tr>
<td>Financial</td>
<td>-7.0</td>
<td>-6.6</td>
</tr>
<tr>
<td>Information</td>
<td>-10.9</td>
<td>-7.2</td>
</tr>
<tr>
<td>Trade/Transport/Utilities</td>
<td></td>
<td>-8.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-15.2</td>
<td>-15.6</td>
</tr>
<tr>
<td>Construction</td>
<td>-28.7</td>
<td>-21.5</td>
</tr>
</tbody>
</table>

Note: The chart shows the percentage change in employment for each industry in Tennessee and the USA since December 2007.
Tennessee job losses slowed in Oct & Nov, then picked up again in Dec.

Tennessee Payroll Employment and Unemployment Rate

Source: U.S. Bureau of Labor Statistics
New claims for unemployment insurance have decelerated, but leveled early in 2010.
Employment of temporary workers began to pick up in Q3, a possible sign that labor demand is strengthening.

Median Home Sales Price

Percent, yr/yr (through 4Q09)

- Mississippi -1.6%
- Georgia -1.8%
- Florida -8.2%
- Alabama 2.4%
- Louisiana 0.7%
- Tennessee -0.6%
- U.S. -1.3%

Source: Office of Federal Housing Enterprise Oversight, Federal Home Loan Mortgage Corporation, Fannie Mae
Home price declines have continued.

Source: Federal Housing Finance Agency
Consumers remain very cautious.
Most Forecasters Continue to Expect an Unusually Modest Recovery

Current Forecasts are very Pessimistic in Historical Context

Source: BEA; Blue Chip Economic Indicators, November 10, 2009
Economists overwhelmingly believe this recovery will break from historical averages.

Blue Chip GDP Forecast

Annualized quarterly percent change

Actual
Statistical model
Forecast

--- top ten
--- bottom ten

Q1-07 Q3-07 Q1-08 Q3-08 Q1-09 Q3-09 Q1-10 Q3-10 Q1-11 Q3-11

What kind of growth is it going to take to make a serious dent in the unemployment rate?
What kind of growth is it going to take to make a serious dent in the unemployment rate?

Economic Growth… in excess of productivity growth… and ordinary labor force growth… and re-entry of the discouraged workforce… and absorption of the underemployed.
Other data show even a weaker job market

Unemployment Rates
January 2010

percent

18
16
14
12
10
8
6
4
2

Source: Bureau of Labor Statistics

*Note: Marginally attached workers currently want a job and have looked for work within the last 12 months. This primarily includes discouraged workers (those not currently looking for work because they believe no work is available given their circumstance), and persons not now working due to family responsibilities, ill-health, or are in school.

Source: U.S. Bureau of Labor Statistics
Rising productivity, labor force growth, and high levels of underemployment imply that modes GDP growth would be insufficient to significantly cut into joblessness.

Sources: Blue Chip panel of economists, January 10, 2010.
Issues ahead

- Households continue to build savings, curb spending
- Commercial real estate weakness
- Financial firms may be slow to expand lending
- Slow recovery of employment
- Policy uncertainties
Tennessee’s Outlook is Very Subdued, according to UT’s Center for Business and Economic Research

Highlights

As the performance of the national economy improves, positive ripples should begin to emerge in Tennessee in the quarters ahead.

Regardless of the pattern of the national recovery, one thing is certain—it will be several years before the economy regains the ground that has been lost in the current cycle.

The state unemployment rate is not expected to slip below 10 percent until the first quarter of 2012. If this projection is realized, it will mean 11 quarters in row with an unemployment rate in excess of 10 percent.

### Tennessee Unemployment Rate Forecast

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>10.4</td>
<td>10.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Q2</td>
<td>10.4</td>
<td>10.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Q3</td>
<td>10.4</td>
<td>10.1</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>10.4</td>
<td>10.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: ECONOMIC REPORT TO THE GOVERNOR OF THE STATE OF TENNESSEE.

UT Center for Business and Economic Research
Economic Update

Tennessee Chamber of Commerce and Industry

March 3, 2010

Lee Jones

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