



FEDERAL
RESERVE
BANK
of ATLANTA

Tennessee State Funding Board

November 13, 2015

Lee Jones

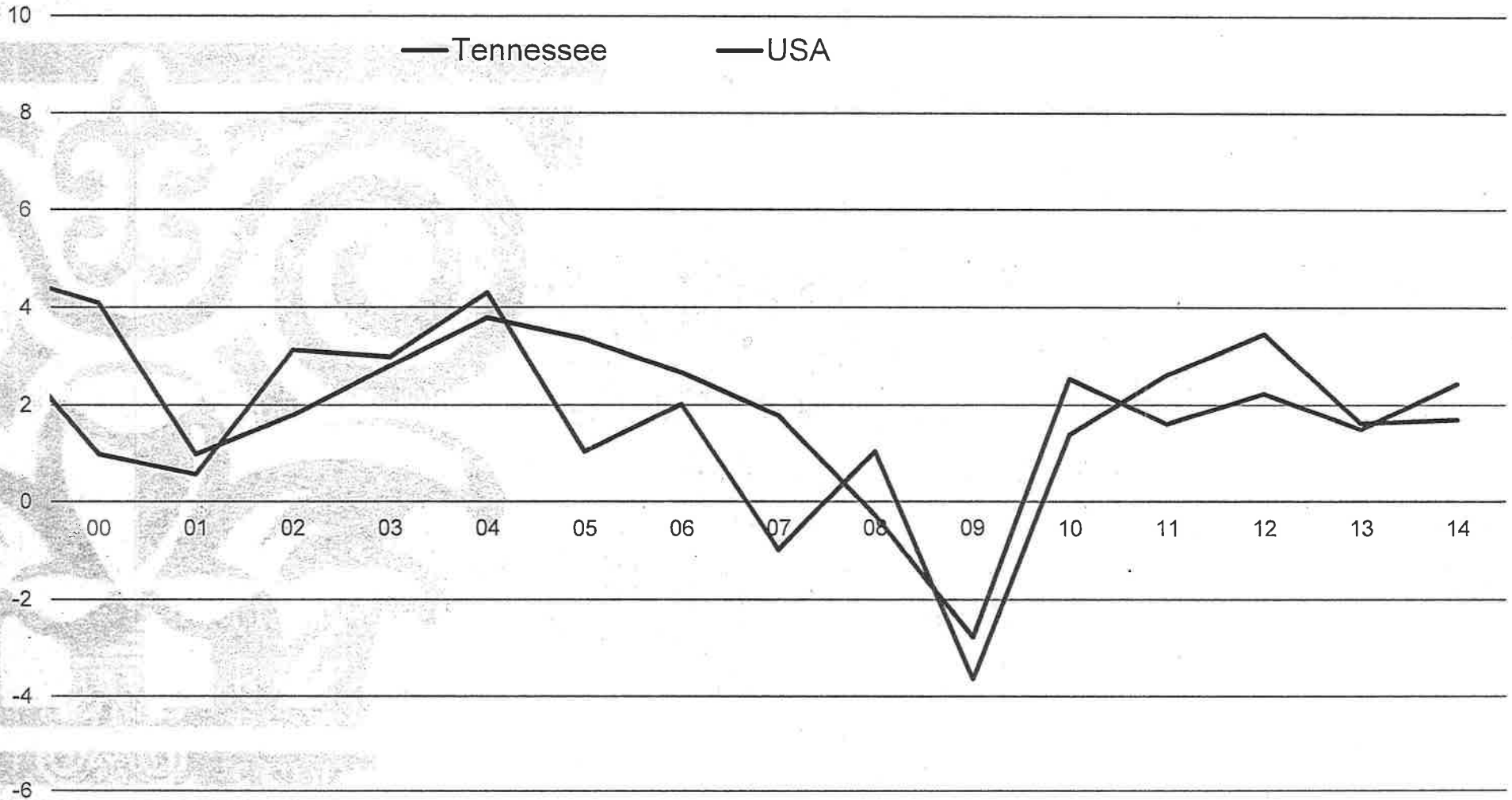
Regional Executive - Tennessee

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

Tennessee's economic performance continues to closely mirror that of the United States

Economic Growth in Tennessee and the U.S., 2000-2014

year-over-year % change

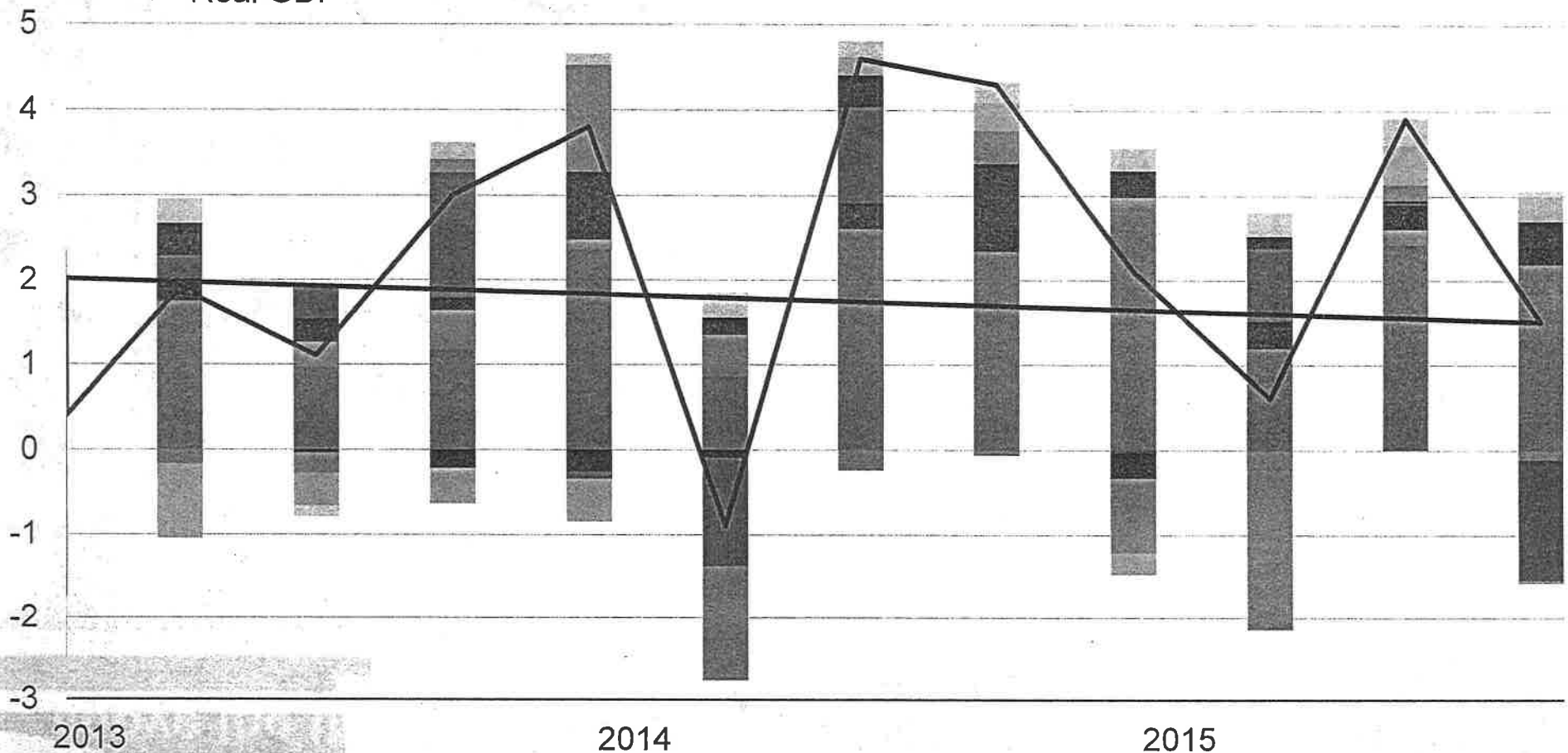


Source: Bureau of Economic Analysis

And consumer spending (light green) continues to drive real GDP growth

Contributions to Real GDP Growth
quarterly, percent, seasonally adjusted annualized rate

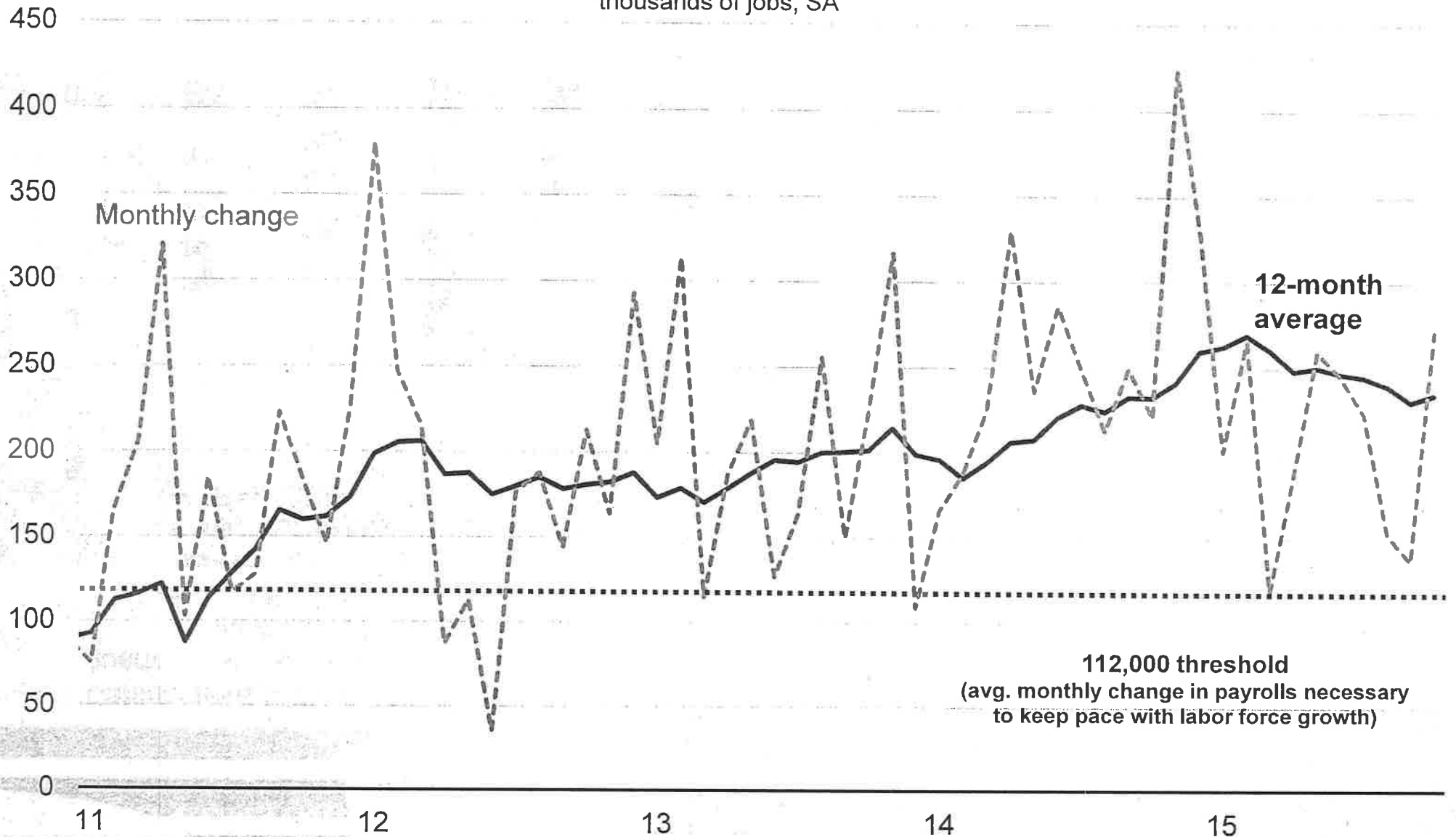
- Intellectual Property Products
- Net Exports
- Private Inventory Investment
- Nonresidential Structures
- Real GDP
- Government
- Nonresidential Equipment & Software
- Residential Investment
- Consumer Spending



The economy added a net 271,000 new jobs in October, well above the threshold of 112,000 needed to continue to make progress in the labor market

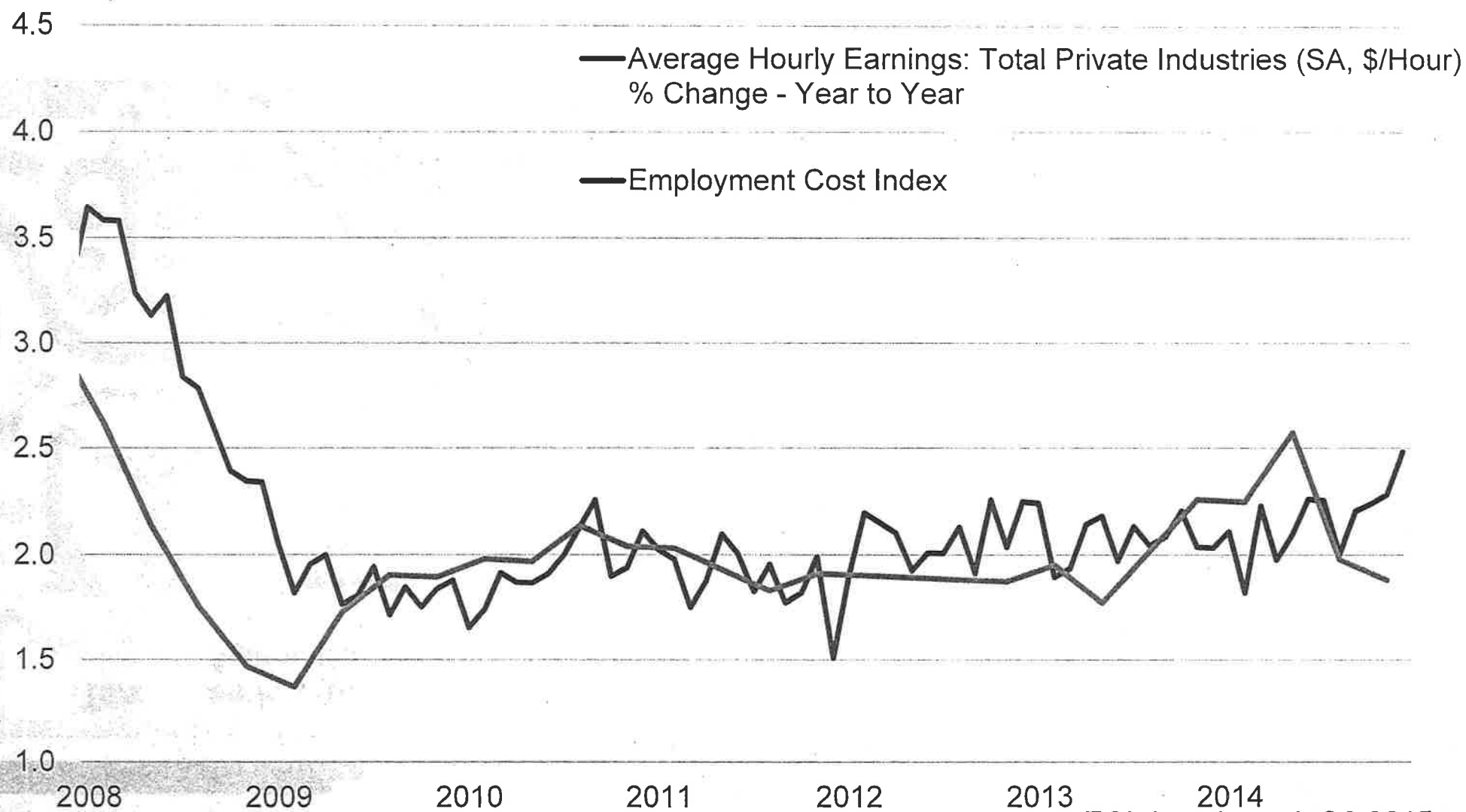
Payroll Employment Changes

thousands of jobs, SA



The most recent reading on average hourly earnings suggests that wage growth— which has been stuck around 2% throughout the recovery— may be starting to pick up

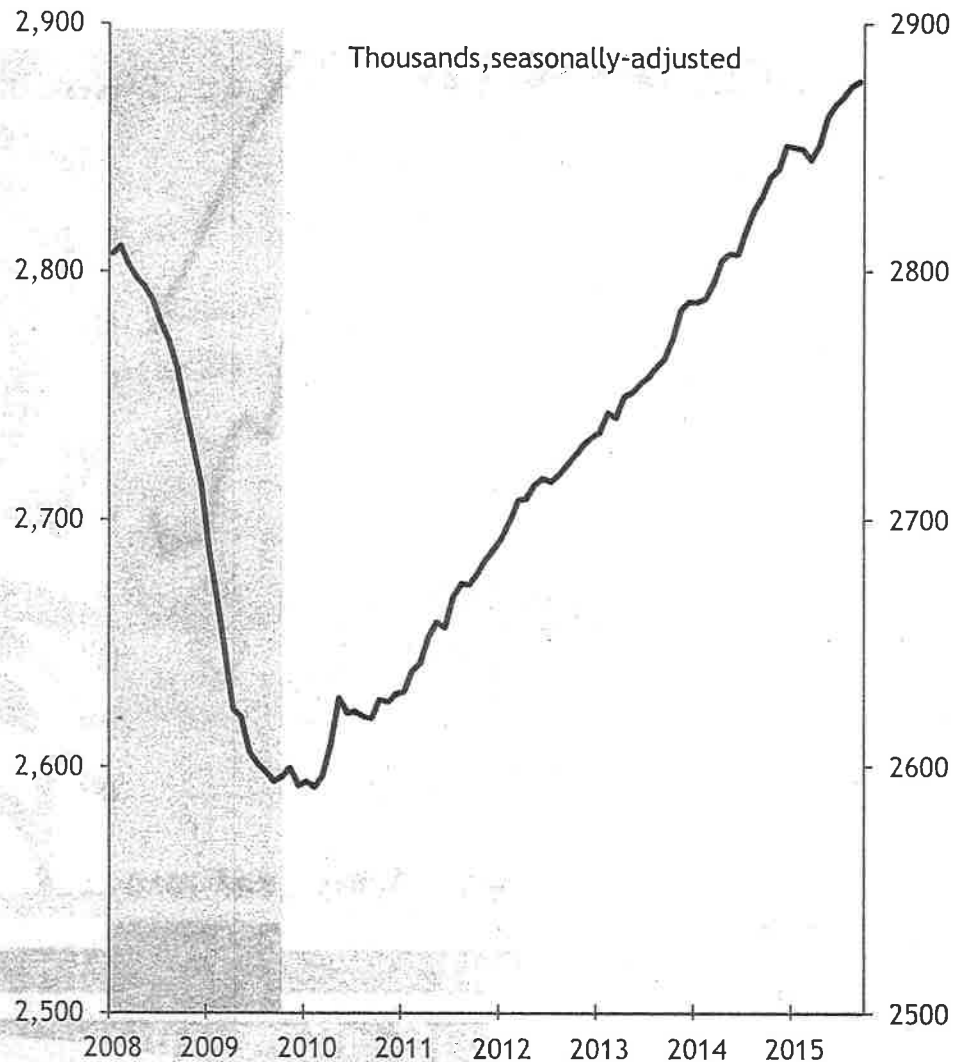
year-over-year change, SA



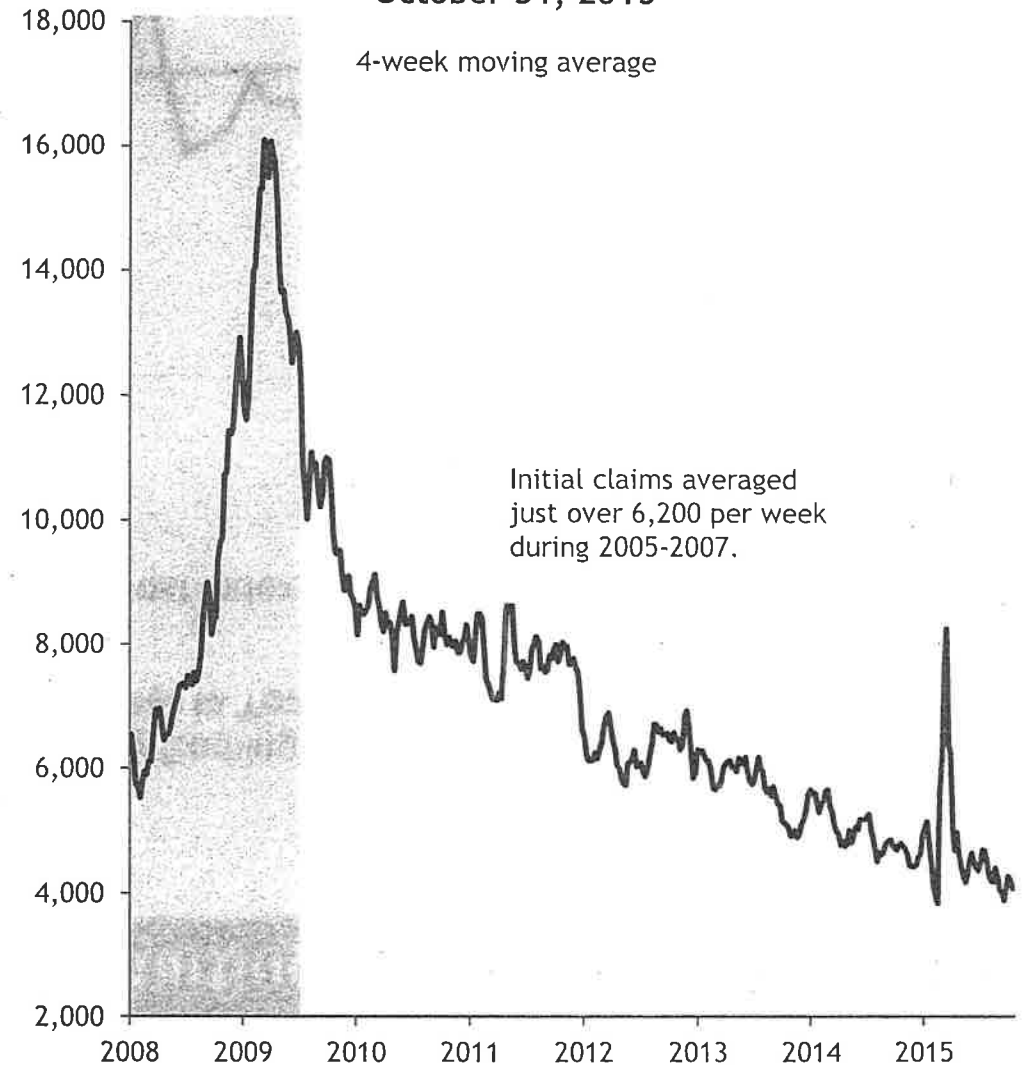
ECI data through Q3 2015,
AHE data through October 2015,

In Tennessee, both payroll employment and initial unemployment insurance claims have slowly returned to pre-recession levels and continue to show signs of improvement

Tennessee Payroll Employment September 2015

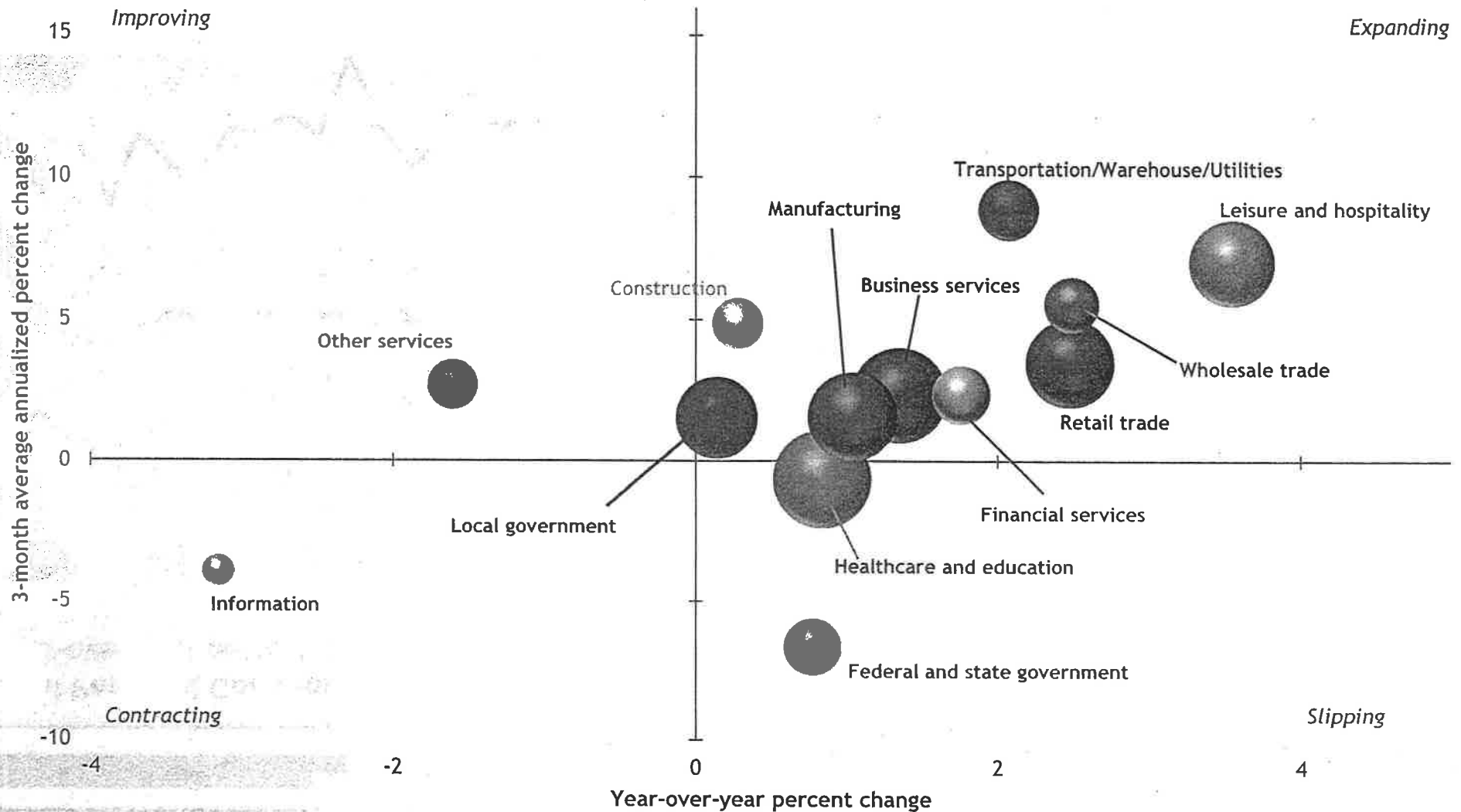


Initial Unemployment Insurance Claims: Tennessee October 31, 2015



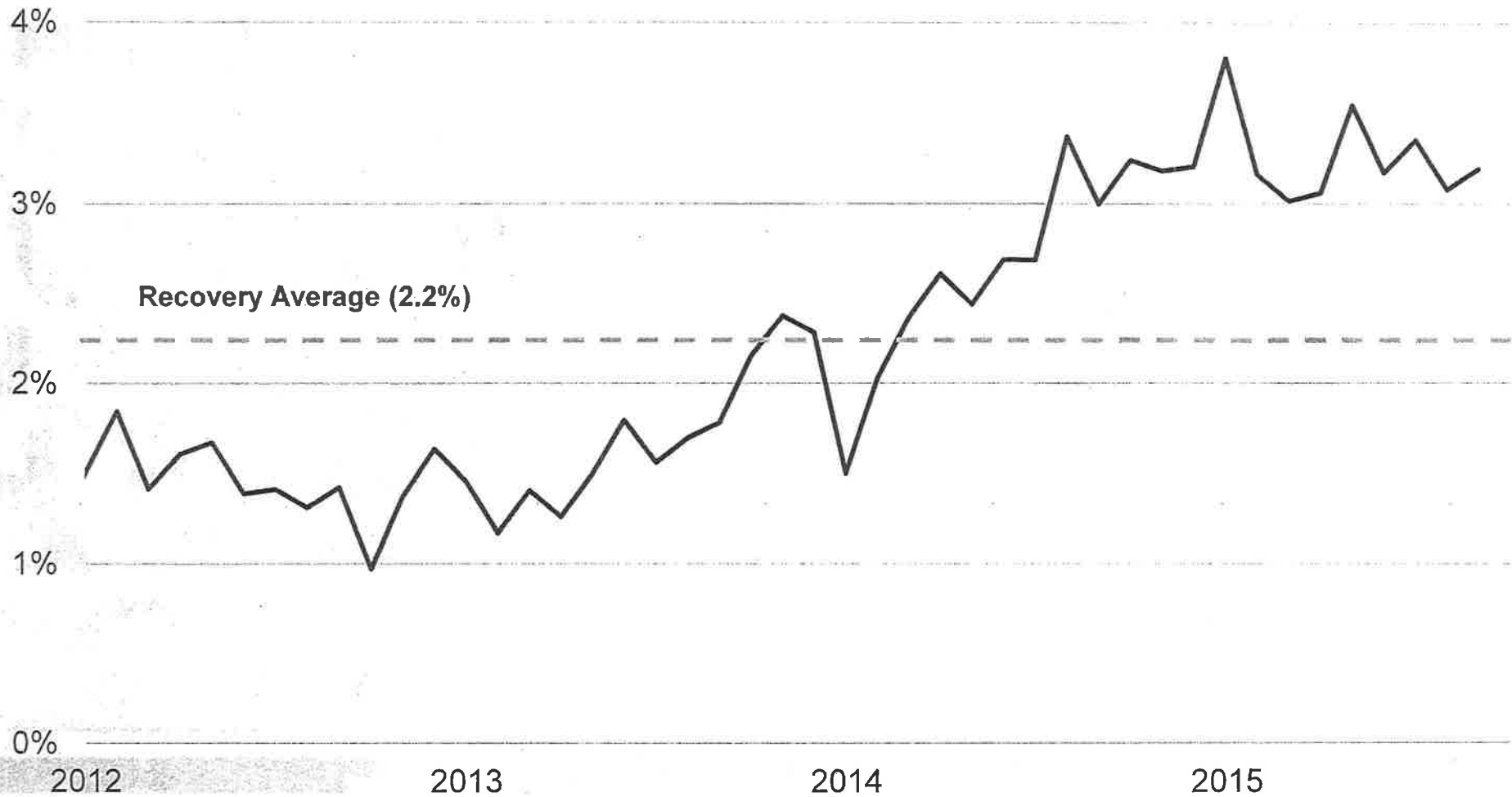
Employment growth momentum in Tennessee has been positive, with employment in most industry sectors expanding over both the past 3 and 12 months

Employment Momentum by Industry: Tennessee
September 2015



Consumer spending growth picked up throughout 2014 and has remained relatively stable in 2015, supported by strengthening household balance sheets

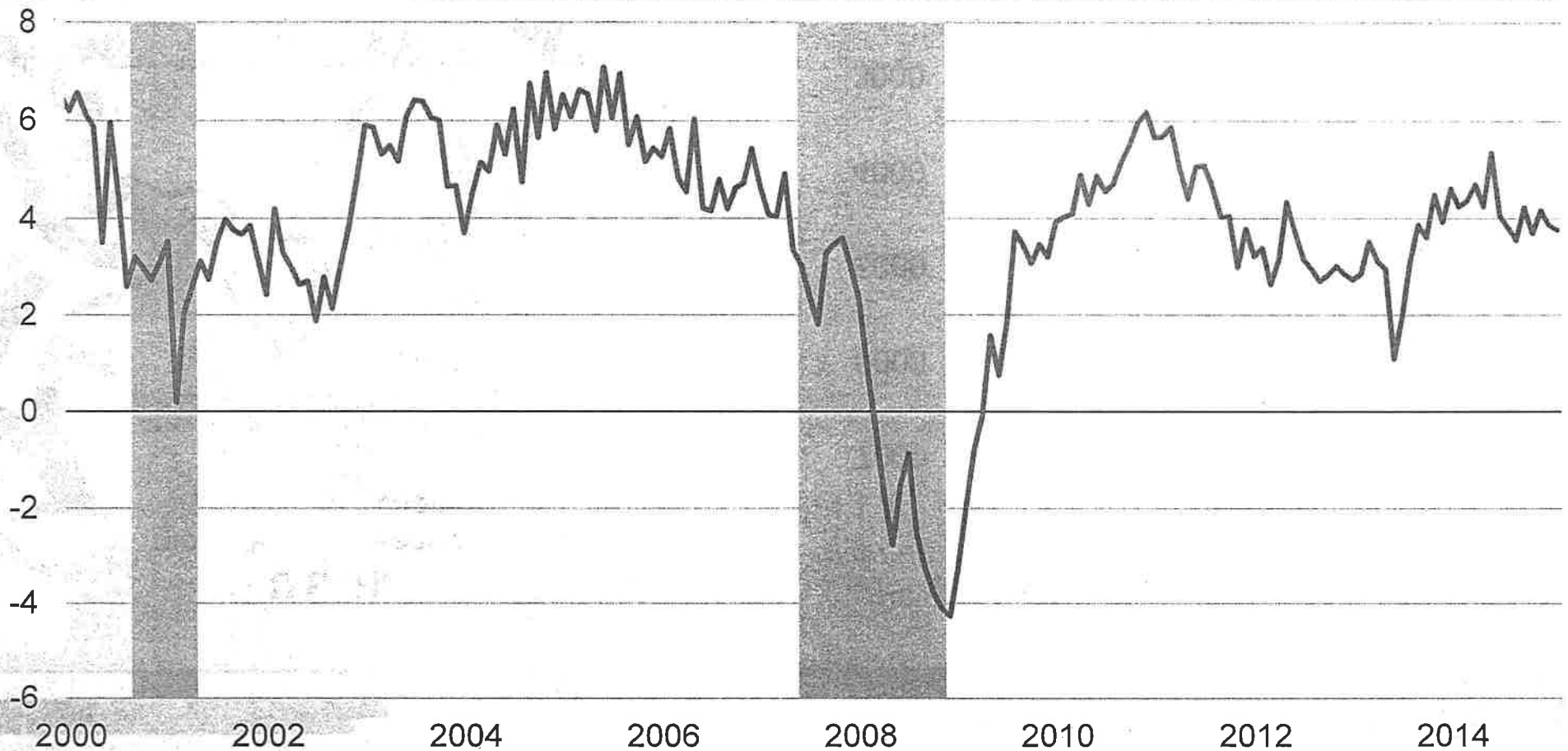
Real Personal Consumption Expenditures
year-over-year percent change, seasonally adjusted



Similarly, core retail sales growth has remained relatively stable (though somewhat muted from a historical perspective) at around 4% over the past 12 months

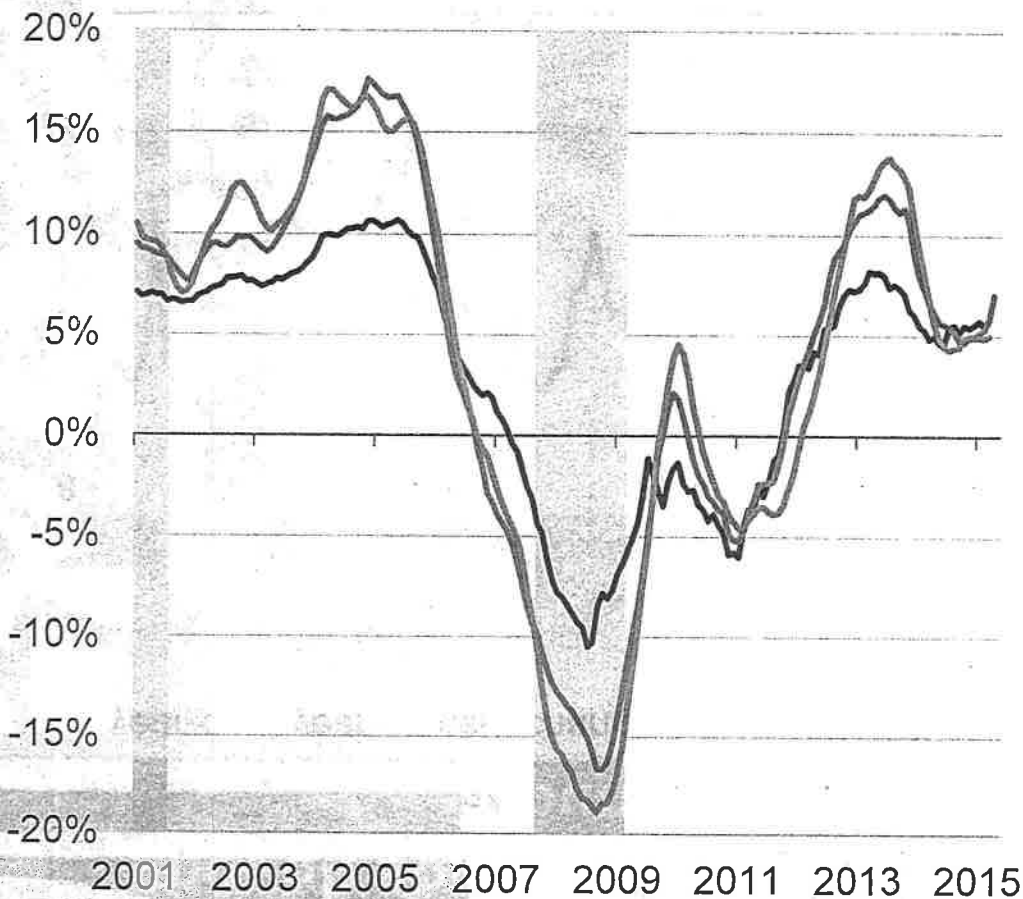
year-over-year percent change, seasonally adjusted

— Core Retail Sales (ex auto, gas & bldg materials): September 2015=3.7

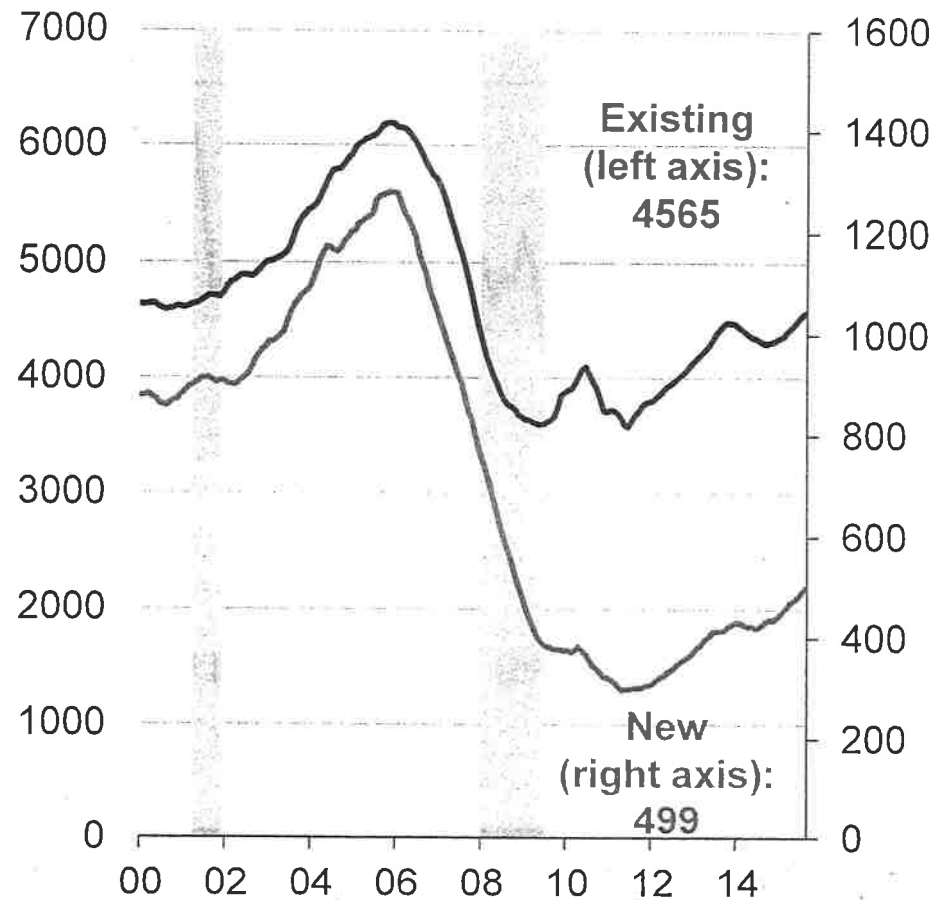


The housing market continues to expand, with prices besting inflation and sales growth topping GDP growth by significant margins

U.S. House Prices
monthly index, year-over-year percent change



U.S. Single-Family Home Sales
12-month moving average, thousands, SAAR



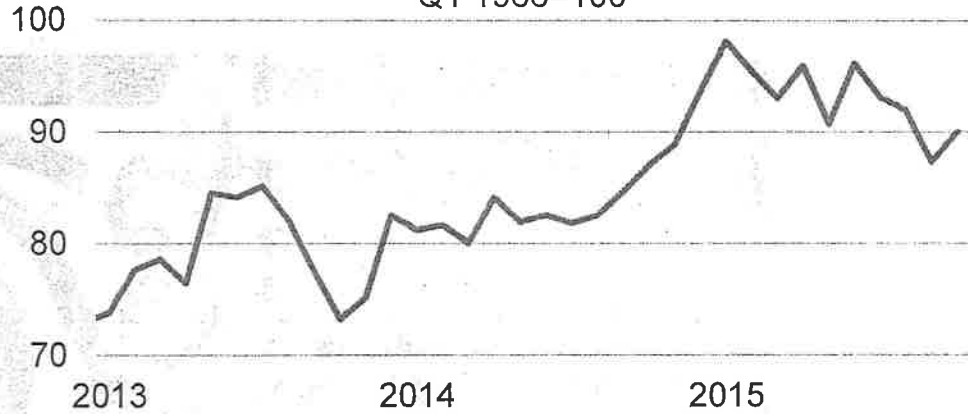
2001 2003 2005 2007 2009 2011 2013 2015
FHFA and S&P/Case-Shiller through August, CoreLogic through September 2015

through August 2015

The fundamentals for consumer spending appear favorable

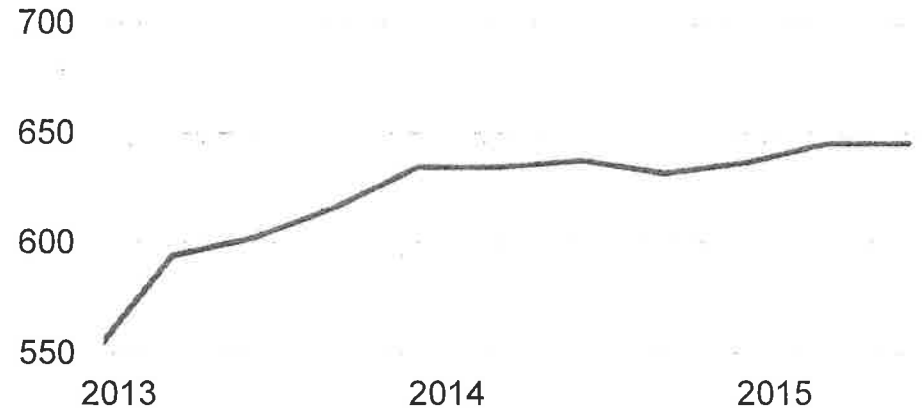
University of Michigan Consumer Sentiment Index

Q1 1966=100



Source: University of Michigan Survey of Consumers through October 2015

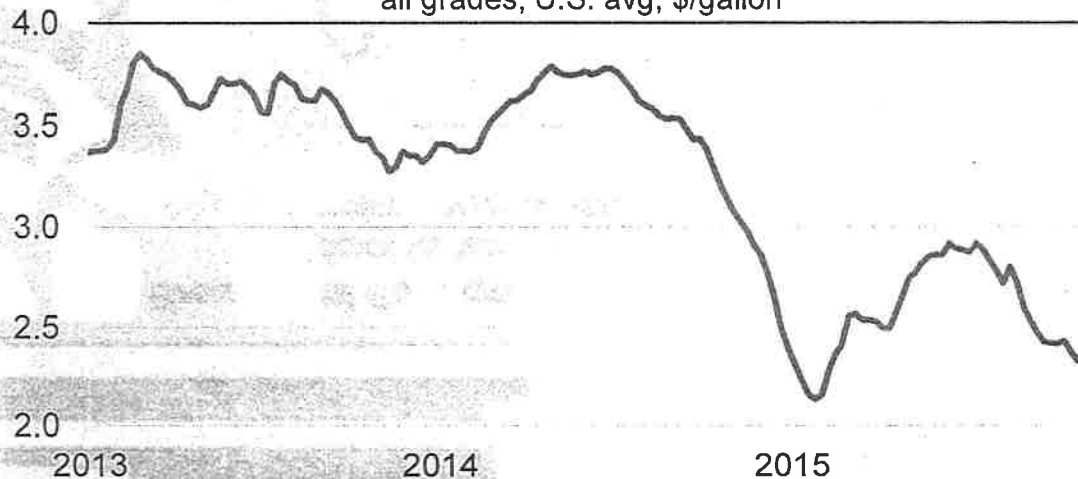
Household Wealth as a Percent of Disposable Personal Income



Source: Federal Reserve Board through Q2 2015

Retail Gasoline Price

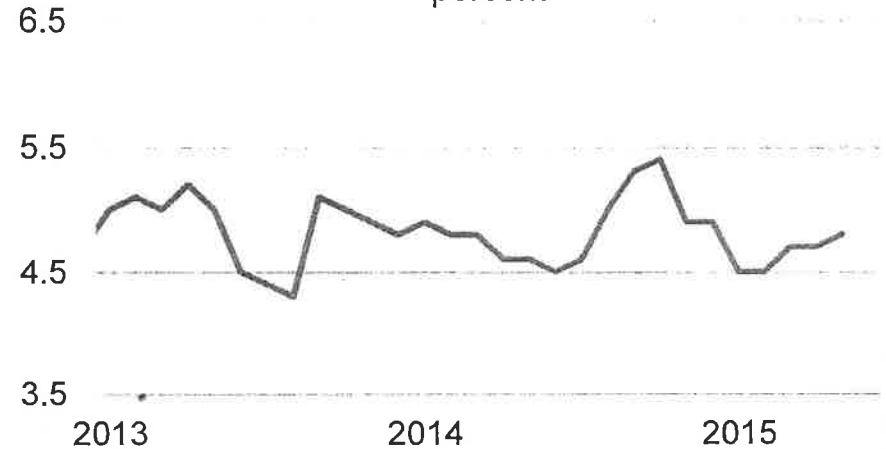
all grades, U.S. avg, \$/gallon



Source: Energy Information Administration through November 2, 2015

Personal Savings Rate

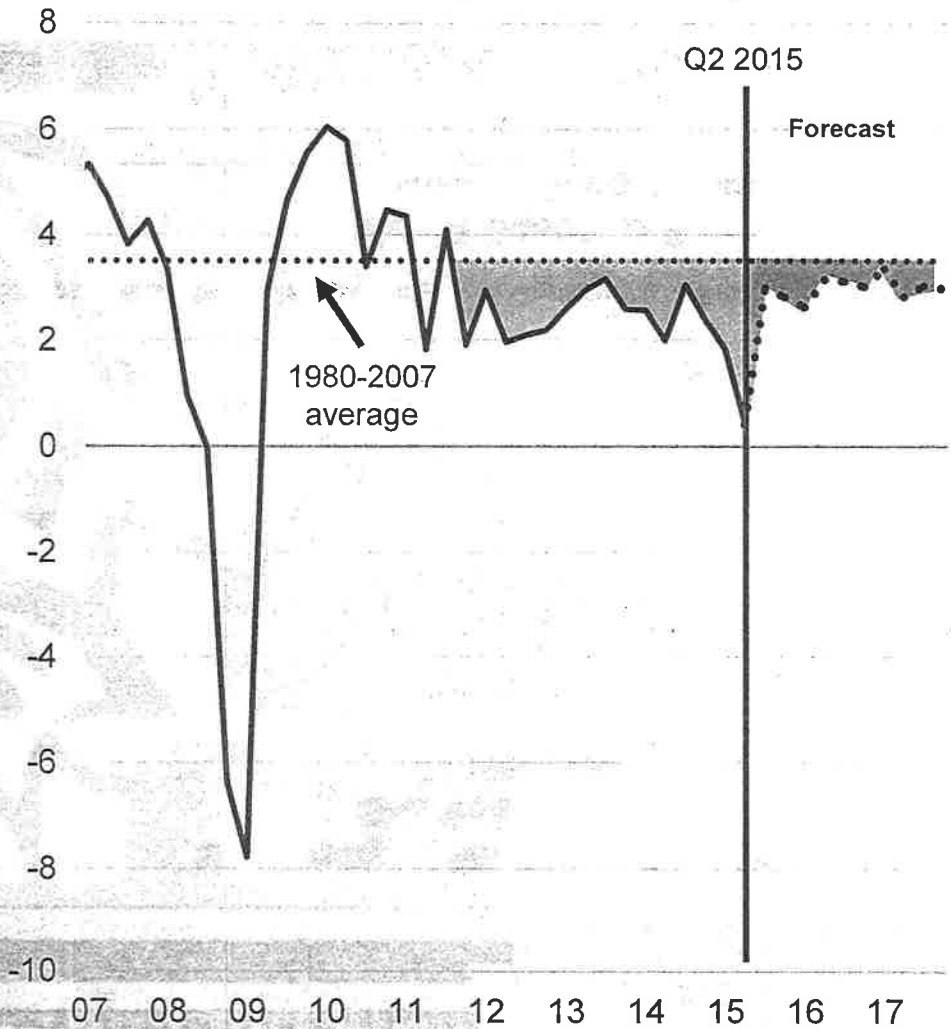
percent



Source: Bureau of Economic Analysis through September 2015

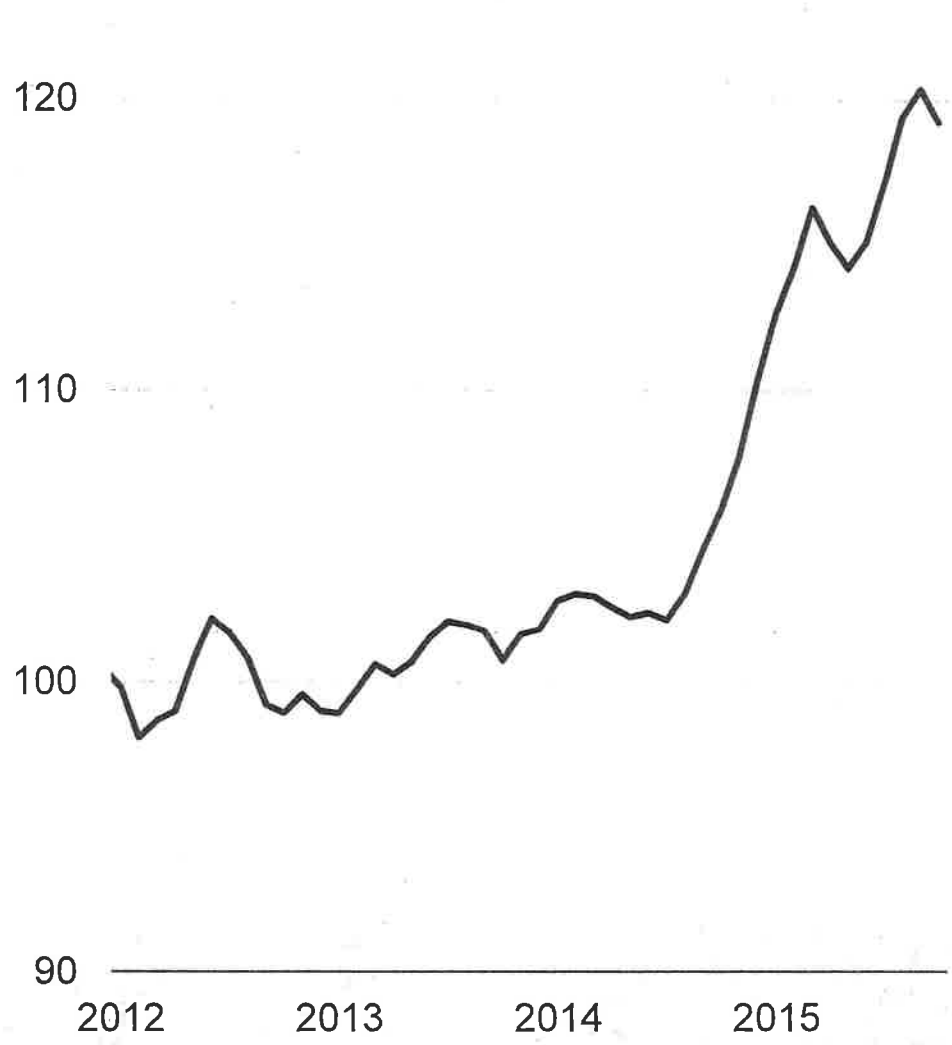
Foreign growth has slowed thus far in 2015. Forecasts generally predict that foreign GDP will accelerate but remain below trend over the medium term. Combined with the appreciation of the dollar over the past year, this does not bode well for US exports.

Broad Real Foreign Gross Domestic Product Index (2005=100)
percent change, annualized



Source: Macroeconomic Advisers

Broad Trade-Weighted Exchange Value of the U.S. Dollar
nominal, monthly, January 1997=100

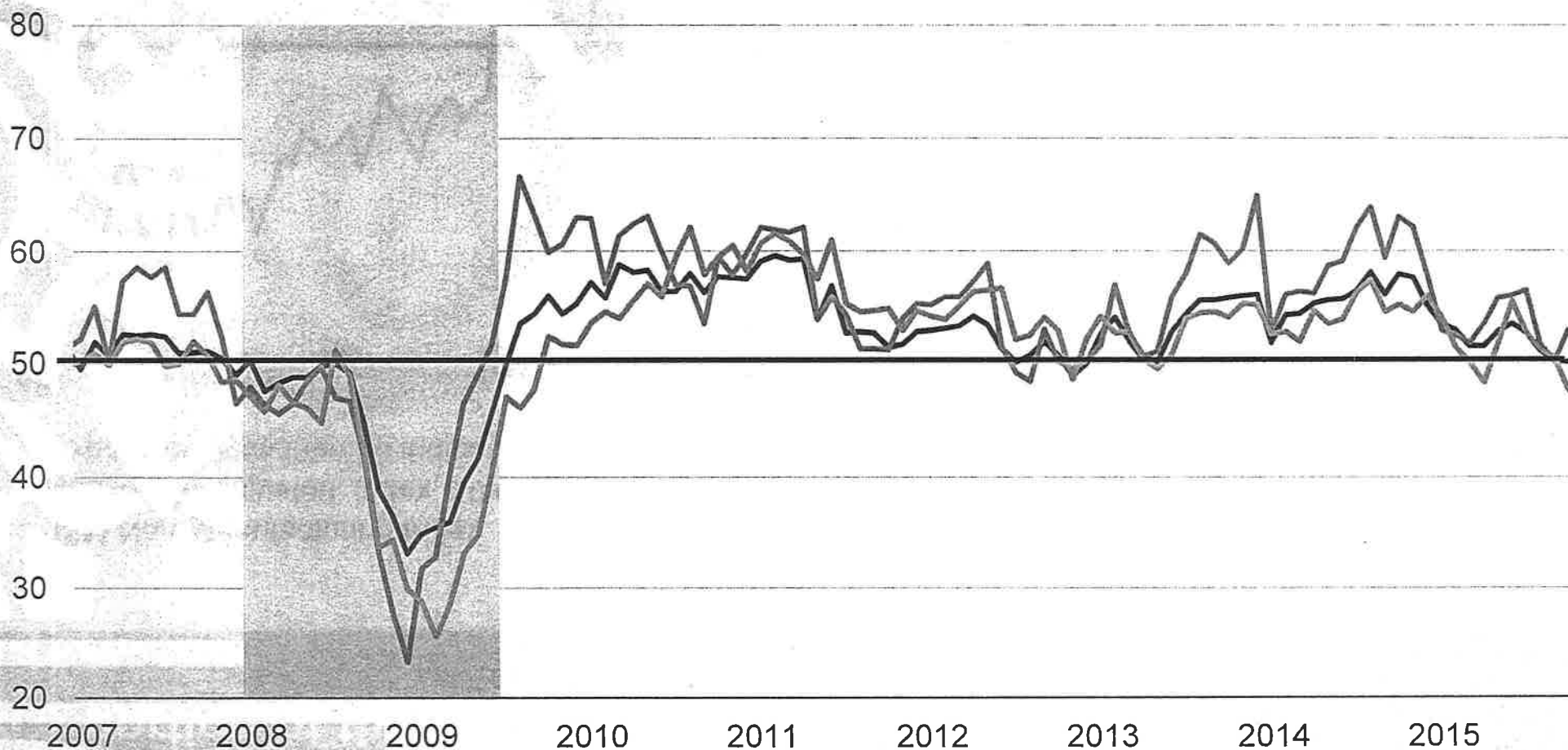


Source: Federal Reserve Board through October 2015

Measures of US manufacturing activity appear to indicate some slowing and only moderate expansion, at best.

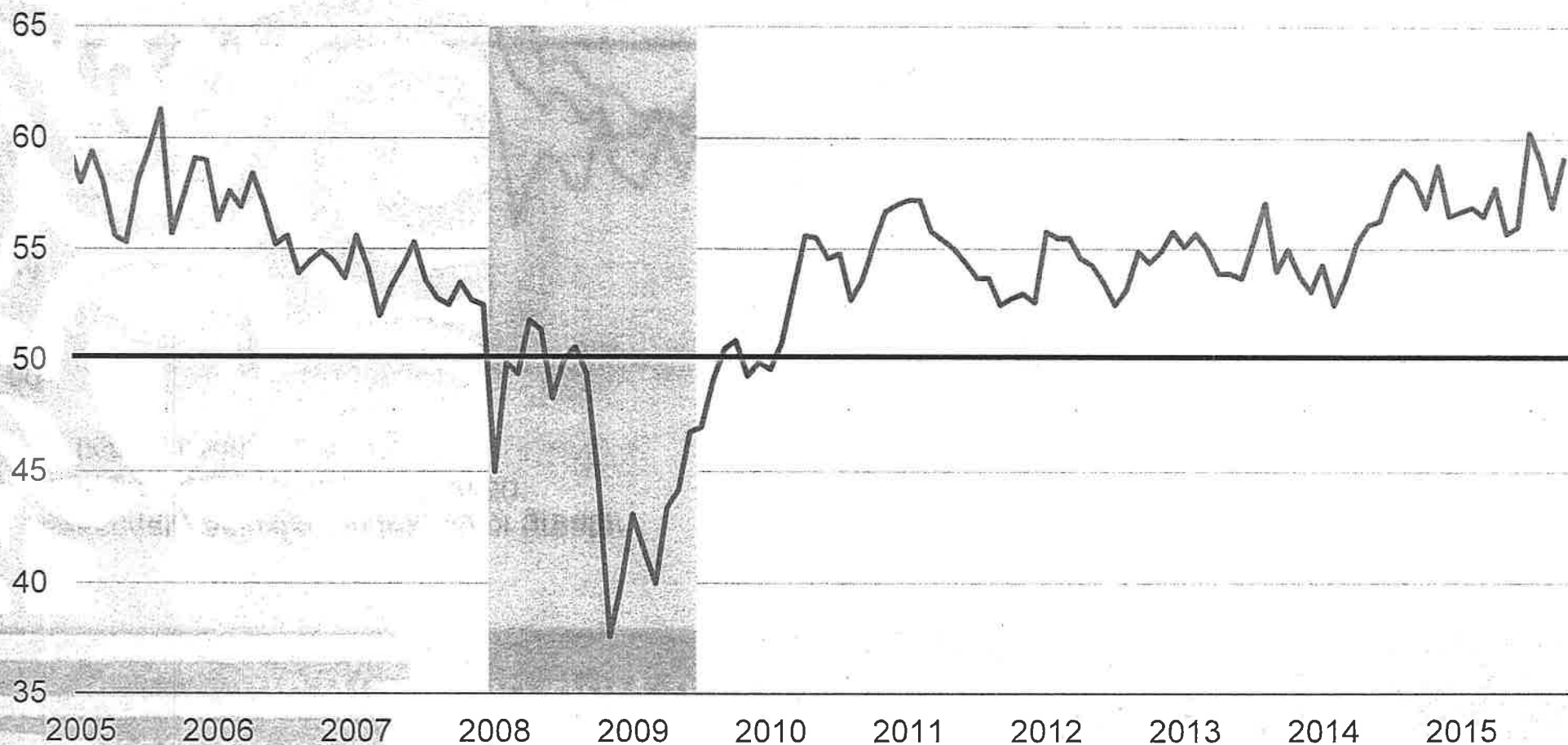
seasonally adjusted, index, 50 or greater indicates expansion, less than 50 indicates contraction

— PMI Composite Index: October 2015= 50.1
— New Orders Index: October 2015= 52.9
— Employment Index: October 2015= 47.6



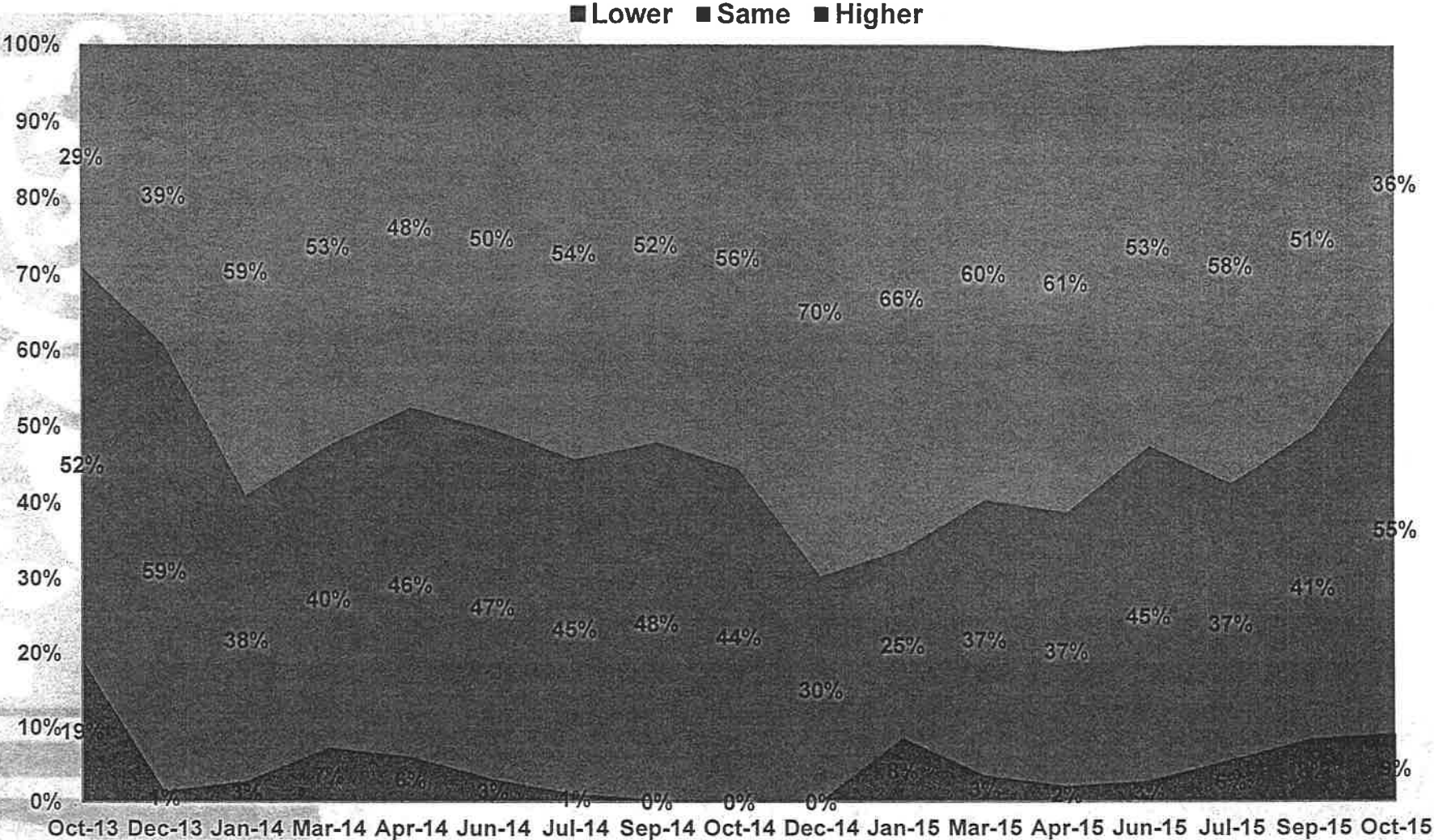
However, the services sector, which makes up a much larger portion of the US economy (80%), appears to be healthy and expanding.

ISM Non-Manufacturing Index
seasonally adjusted, index, 50 or greater indicates
expansion, less than 50 indicates contraction



Our directors' optimism with respect to the short-term outlook for their businesses has been steadily waning over the past year, with a shift in the majority at our most recent meeting from those expecting higher growth to those expecting the same level of growth.

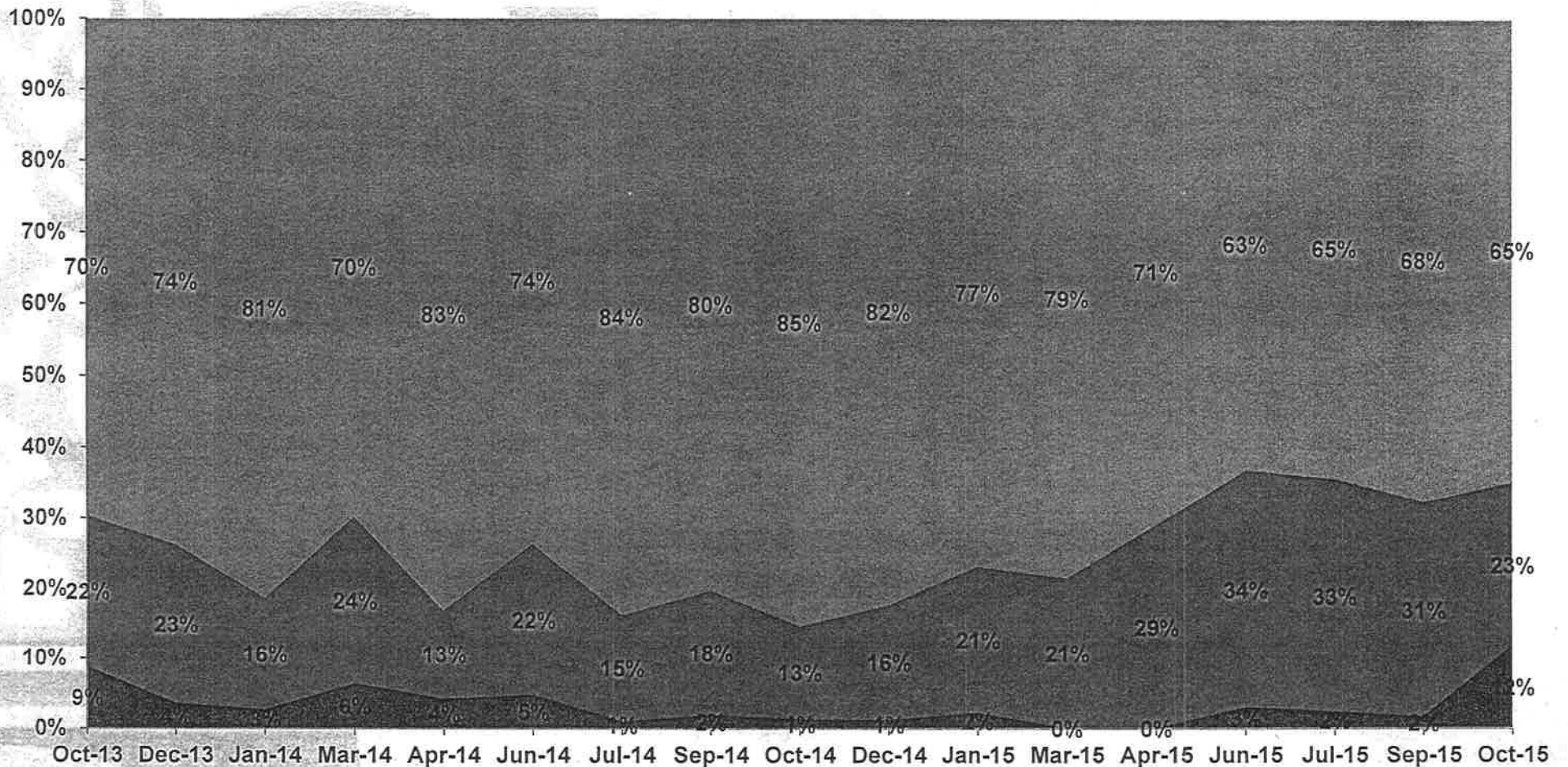
What is your outlook for the rate of growth in your business over the next 3 to 6 months compared to current rates?



While some slippage has also occurred with respect to directors' medium-term outlooks for the rate of growth in their businesses, approximately two thirds continue to expect growth to accelerate.

What is your medium-term outlook (over the next two to three years) for the rate of growth in your business compared to current rates?

■ Lower ■ Same ■ Higher

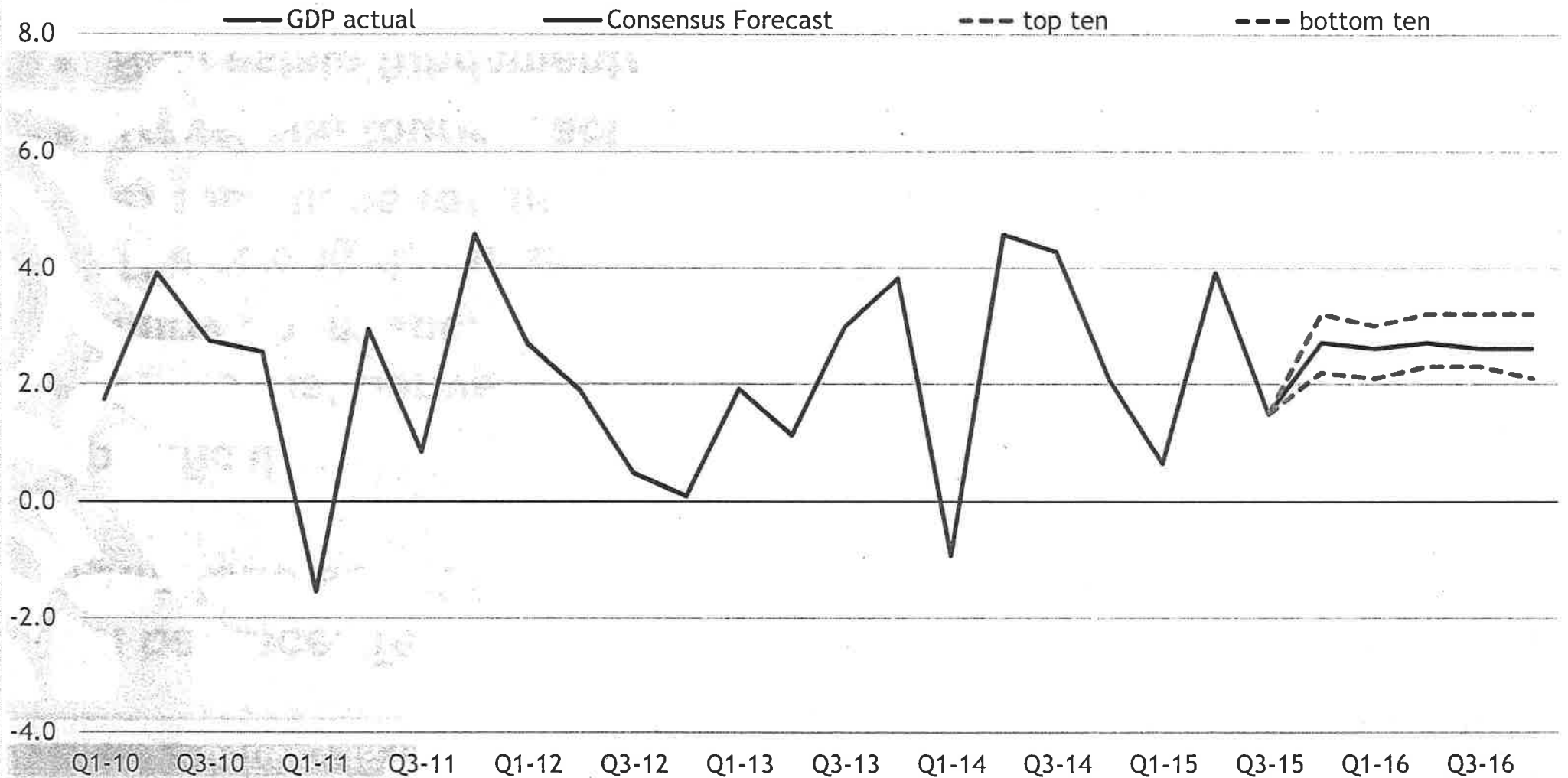


Source: FRB Atlanta

Private economists expect GDP growth to expand at roughly 2.5% through the end of next year

Blue Chip Real GDP Forecast

Annualized quarterly percent change



**What we're hearing anecdotally from Tennessee business contacts:
Increasing optimism from domestically oriented contacts; businesses whose
activity is tied to foreign demand are facing sizeable headwinds**

On balance, Tennessee businesses contacts are moderately optimistic about the growth of activity next year.

Specifically:

- **Firms that derive most of their sales domestically are generally fairly optimistic.**
- **The strong dollar and weak global demand are dampening expectations for many foreign-oriented companies.**
- **Travel and tourism activity remains a bright spot.**
- **Real estate fundamentals continue to be positive.**
- **Even with declines in some input costs, many businesses have been able to hold the line on prices, supporting margins.**
- **Hiring activity appears to be strengthening, though trend varies by industry, skill and geography**



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