Bond Dealers of America

APRIL 2011

Economic Advisory Committee Survey

NATIONAL OUTLOOK

- Pace of Economic Growth Accelerates Over the Next Year and Will Approach Long-Term Trend Level
- Downside Risks to the National Forecast Prevail
- Employment Growth Gaining Traction but Unemployment Rate Remains Elevated
- Inflation Risk Rising From Low Level
- Fed Expected to Keep Target Rates Unchanged at FOMC Meeting April 26-27; Probability of Higher Rates Rises Over the Next Year
- Committee Considers Recession Unlikely

REGIONAL OUTLOOK

- Economic Conditions Expected to Improve Significantly Across Regions
- Economic Growth Outlook Is Most Favorable in Great Lakes, Plains and Northeast Regions, Less So in Southeast and West

Moody's Analytics

DEVELOPED IN COLLABORATION WITH MOODY'S ANALYTICS

Introduction

This report is the third in the semiannual economic forecast survey series of the Bond Dealers of America Economic Advisory Committee. BDA developed the forecast survey questionnaire with the assistance, advice and guidance of Moody's Analytics. This economic forecast survey stands apart from other forecast surveys in at least two respects. First, the economic advisory committee includes both chief economists of middle market bond dealers and other market participants and market strategists at the firms. Second, the survey addresses both national economic and regional economic issues.

About BDA

» The Bond Dealers of America is the Washington DC-based trade organization for securities dealers and banks primarily focused on the U.S. fixed income markets. The BDA provides advocacy on federal legislative and regulatory matters in addition to a wide range of conferences and events and publishes research on trends, policy, and market practice issues affecting the demographic of the fixed income securities dealer.

About Moody's Analytics

» Moody's Analytics is a leading independent provider of economic, financial, country and industry research designed to meet the needs of businesses, governments and professional investors. Its research has diverse dimensions: country, financial market, industrial market and regional market analysis.

Executive Summary

Macroeconomic forecast

The Bond Dealers of America's Economic Advisory Committee consensus view, according to the survey,[1] is for the economy to build on recent trends and to gain momentum this year and next. The forecasts are dependent on the effectiveness of monetary and fiscal policies to sustain private sector growth and mitigate inflation risks on the horizon.

» The median forecast calls for GDP growth of 2.9% in 2011, and 3.1% in 2012, with growth rates steadily rising quarter over quarter from 2.5% in the first quarter in 2011 to 3.3% during the second half of 2012.

» Inflation, as measured by the consumer price index, is expected to rise to 2.8% in 2011 and slow to 1.7% in 2012. The acceleration in consumer prices this year is due to the increase in energy and food prices that is expected to moderate in 2012. Core CPI, excluding energy and food, will remain relatively low at 1.3% in 2011 and 1.4% in 2012, according to the median forecast. The committee consensus expects "moderate inflation" over the next year.

» Personal consumption expenditures are expected to rise from 2.7% in 2011 to 2.8% in 2012 after advancing 1.8% in 2010. Nonresidential fixed investment spending is expected rise 7.2% in 2011 and 8.9% in 2012.

» The unemployment rate will remain above its prerecession average but will fall to an average of 8.7% in 2011 and 8.2 % in 2012. Job growth will not be fast enough to make a dramatic dent in the unemployment rate. Net employment gains will increase from the recent modest clip to an average monthly rate of 150,000 in 2011 and 196,000 in 2012.

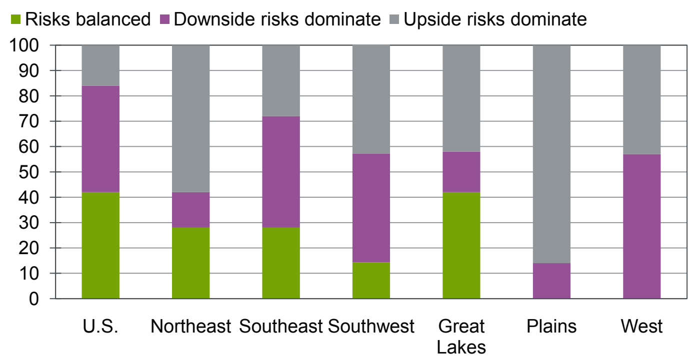
Forecast risk

Despite the generally upbeat outlook, substantial economic headwinds remain. By more than a 2:1 margin (42% vs. 16%), the survey respondents believe that the dominant forecast risks are to the downside. The dominant downside risk is the uncertainty surrounding the path of energy prices. Other significant risks are the housing market and state and local government finances, followed by the European debt crisis and the effects of the tragic events in Japan on the U.S. economy. The housing market recovery was cited as the leading upside risk to the economic forecast. Monetary policy and expanded credit availability were also cited as upside risks.

Committee members view economic risks as dominant on the upside in half of the six regions, and downside risks dominate in two regions. According to the survey, upside risks to economic growth dominate in the Northeast, Great Lakes and Plains, downside economic growth risks dominate in the Southeast and West, and risks are evenly balanced in the Southwest. By contrast, according to the previous BDA economic survey taken in late 2010, the survey respondents viewed downside risks as being dominant in every region except one, the Plains states.

Risks Are Weighted to the Downside

Growth forecast risks, % of responses



Monetary policy and treasury yields

With some variation, the core of the FOMC statement has been largely unchanged for the last two years, specifically the "(economic conditions) warrant exceptionally low federal funds rates for an extended period of time" language. The committee's unanimous consensus is for that phrase to remain unchanged in the upcoming meeting on April 26-27. There is a minimal probability that the federal funds target rate will be increased at the next FOMC meeting, and more than a 60% probability that monetary policymakers will not begin to increase the federal funds rate until 2012, according to committee members. Most of the committee expects the two-year to 10-year yield curve spread to steepen and then flatten, such that the shape of the yield curve at the end of 2011 will be about where it now is. The median forecast

[1] The BDA Economic Forecast Survey was conducted during the first week of April. Eleven firms participated in the survey.

has the two-year to 10-year yield curve spread at 286 basis points at the end of the second quarter of 2011, flattening to 270 basis points at the end of the year, 260 points a year from now, and 217 basis points at the end of 2012. (The yield curve spreads stood at 260 basis points at the end of the first quarter and 272 basis points as of April 15.) The expectation for a flattening yield curve is based on the forecast for accelerating GDP growth and the increased likelihood that the Fed will begin to raise the federal funds rate target in early 2012.

Fiscal policy and deficit

The deficit for the current fiscal year is expected to reach $1.4 trillion. It is expected to fall slightly to a still-concerning $1 trillion in fiscal 2012 as faster economic growth leads to higher revenues. The forecast calls for a reduction in federal government spending growth next year compared with this year on both a calendar-year basis and on a quarter-over-quarter basis.

Both Congress and the administration conceptually supported the broad recommendations of the President's National Commission on Fiscal Responsibility and Reform. The extent to which the detailed recommendations are implemented into policy will determine the extent to which budget deficits will be reduced in the years to come. The committee was asked to rate the likelihood that major recommendations will be enacted on a 1 to 5 scale with 5 being a high degree of likelihood, 1 highly unlikely, and 3 representing a 50/50 possibility. The committee rated a substantial reduction in discretionary nondefense spending as the most likely to be implemented, while substantial increases in personal income tax revenues and in the Social Security taxable wage base were viewed as least likely to be implemented.

Regional forecast trends

Business conditions, manufacturing, the service sector, retail sales and commercial real estate will improve significantly over the next six months in every region. The greatest improvements across regions are expected in general business conditions and in business spending; commercial real estate is expected to show the smallest improvement. The committee expects the strongest relative performance in terms of economic improvement to be in the Great Lakes closely followed by the West.

Housing prices are expected to remain generally weak over the next six months with declines seen in the Northeast, Southeast, Southwest and Great Lakes. Modest gains are expected in the West, and prices are forecast to be flat in the Plains states.

Homebuilding, as measured by residential building permit issuance, is expected to increase significantly in all regions from the current low base over the next six months, except in the West where continued declines are expected, and in the Southeast, where the committee's outlook is for only modest improvement.

Employment growth and the unemployment rate are expected to improve over the next six months in all regions except the Plains where job growth is expected to be flat.

Monetary Policy

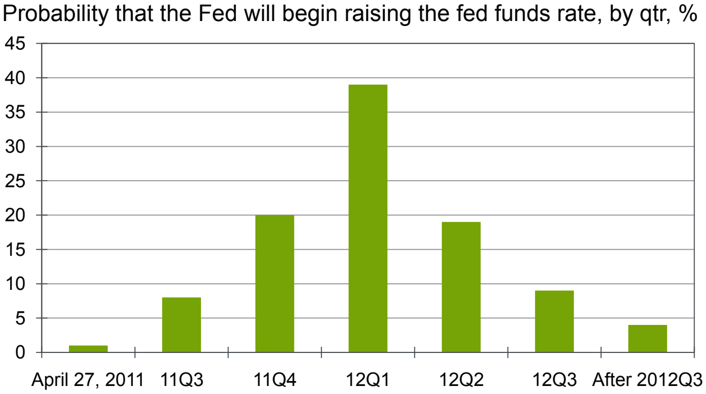
Rates policy unlikely to change

The unanimous consensus view of the BDA Economic Advisory Committee is that the Federal Open Market Committee will retain its accommodative monetary policy stance with respect to the target federal funds rate at the upcoming meeting on April 26-27. The phrase "warrant low federal funds rates for an extended period of time" has been in every FOMC statement for the past two years as a summary of the FOMC's position on the target rate and economic conditions. Although the committee was not asked about future FOMC statements, the rising expectations for a Fed rate hike as the year progresses would suggest some change in language to a less accommodative/more inflation-conscious wording later in the year.

The committee believes there is little chance that the federal funds rate will be increased at this week's meeting as noted. The respondents place a more than 60% probability that the Fed will postpone raising the target federal funds rate until 2012, and a 35% chance the target rate will not be raised in 2011.

Fed Unlikely to Raise Rates Until 2012

Probability that the Fed will begin raising the fed funds rate, by qtr, %



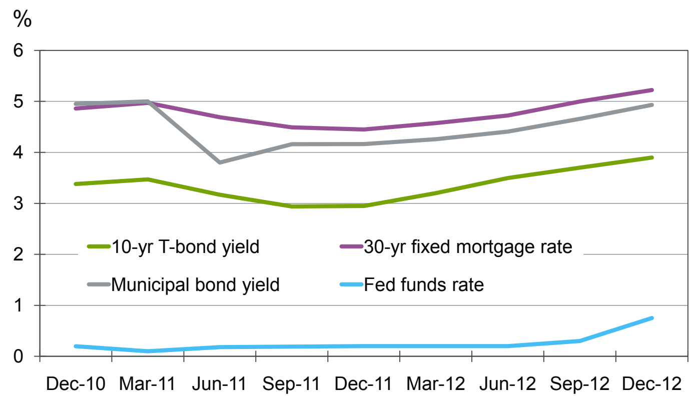
Interest rates & financial markets

The Fed's second round of quantitative easing or QE2 sparked a range of reactions, including negative commentary, especially outside of the U.S. The strategy was implemented to ensure that the still-fragile financial market improvements that began in 2010 took hold. The committee viewed the QE2 results relative to economic growth to be "positive" by 77% and the remaining 23% viewed QE2 as "very positive." One respondent noted that QE2 provided "some stimulus for growth but also boosted core inflation from very low levels."

Treasury & yield curve

The consensus view calls for the yield curve to end the year close to where it is now, though with some volatility in the intervening quarters. The historically steep yield curve is expected to flatten in 2012. The movements reflect the higher likelihood of a rate hike next year, increased government bond issuance to finance the deficit, and the GDP growth forecast. As of the end of March, the two-year to 10-year spread was 267 basis points. The median projection has the yield curve spread at 286 basis points at the end of the second quarter of 2011, 275 basis points at the end of the year, and 260 basis points at the end of the second quarter of 2012. The median 10-year yield forecast was 3.61% as of June 30, 2011[2] and 4.05% at the end of this year (The 10-year yield on April 15 was 3.41%).

Rates Expected to Rise in 2011 and 2012



Note: After March 2011, data are forecast.

Credit markets

Mixed views of corporate credit spreads

Both the taxable (corporate) and tax-exempt markets have rallied strongly since the height of the credit crisis at the end of 2008 and since the introduction of various policy measures to support the credit market. In the corporate bond sector, spreads have narrowed as a result of improved profits and a stronger appetite for risk. Since the onset of the European credit crisis nearly a year ago, there has been more volatility with respect to risk appetite characterized by a "risk on," risk off" market psychology. The current uncertainty and volatility are reflected in the committee's diverse opinions on corporate bond spreads. An

[2] The 10-year yield forecast ranged from 3.75% to 4.36% at the end of 2011 and 3.45% to 3.7% on June 30, 2011.

equal number of respondents expect spreads to widen and tighten over the next six months in both the high-yield and investment grade sectors.

Municipal yields expected to rally relative to treasuries; municipal issuance to increase

Affected by state and local government financial concerns, the municipal market has been challenging to the say the least. The committee consensus is that the market is either "oversold" or correctly priced. One-third of the respondents expect yields to decline, 55% expect the muni to treasury yield relationship to remain where it is, and only 11% expect municipal yields to increase relative to treasuries. The committee, however, does view market conditions as volatile and state and local government finances uncertain, and thus two-thirds expect lower issuance over the next year; one-third expect issuance to rise.

Fiscal Policy

The median forecast has the federal budget deficit this year (fiscal 2011) rising to $1.4 trillion for the fiscal year ending September 30, but declining to a still-elevated $1.09 trillion in fiscal 2012.[3] Contributing to the deficit is the growth rate of federal spending over the past year; the median forecast projects a 0.7% growth rate this calendar year, and 0.3% next year. On a quarter-over-quarter basis, the median forecast is for a slower rate of federal government spending over the next three quarters. The slightly improved deficit is most likely based on projected higher tax revenues from faster economic growth next year combined with the assumed reduction in the rate of spending growth based on recent federal spending actions in Congress.

State and local government budget impact

Federal spending, including direct financial assistance to the states, had offset the drag from slower local government spending as state budgets were squeezed. An improving economy has helped push up corporate and individual tax receipts. Local and state government spending is expected to contract in 2011 and then rise very slightly in 2012 by 0.1%.

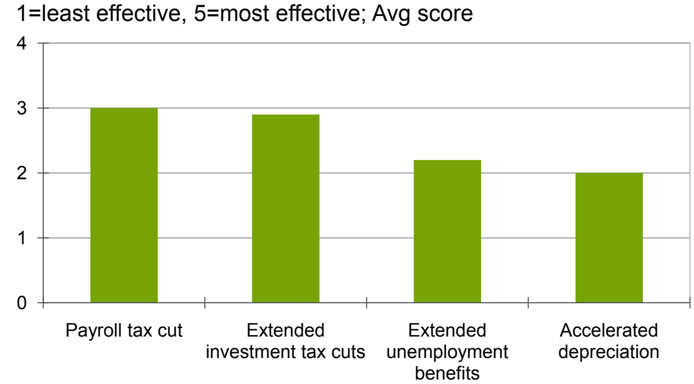
There was a clear consensus as to which states will have the most difficult budget situation in the next fiscal year. California and then Florida were identified as among the states in the most difficult budget situation; New York, Nevada, Illinois and New Jersey were also prominently mentioned as states facing difficult budget challenges. There was less of a committee consensus as to which states were the strongest, with 11 states in total mentioned among the fiscally strongest. North Dakota was mentioned most frequently, followed by Alaska, South Dakota and Wyoming, all thinly populated and natural resource-rich states. Some committee members identified states facing difficult budgetary conditions but did not identify states that had favorable budget outlooks.[4]

Which of the provisions in the economic stimulus package will be most effective?

At the end of 2010 when the deadline for an extension of the 2003 investment (dividend and capital gains) tax rate reduction was approaching, Congress and the president signed into law a stimulus package that extended the investment tax rate reductions, accelerated depreciation, temporarily reduced payroll taxes, and extended unemployment benefits. The consensus view is that the payroll tax deduction will be the most stimulative, closely followed by the extension of the lower investment tax rates. The extension of unemployment insurance benefits is expected to have the smallest effect on economic growth.

How Stimulative Will 2010 Fiscal Policies Be?

1=least effective, 5=most effective; Avg score



[3] The federal deficit forecast for fiscal 2012 ranged from $0.96 trillion to $1.27 trillion.

[4] New Jersey was mentioned in both the most favorable and the most unfavorable financial conditions, perhaps reflecting both the budget difficulties and recent progress in resolving the fiscal situation.

Economy

GDP

The median projection calls for GDP growth of 2.9% in 2011 (3.1% fourth quarter to fourth quarter) and 3.1% (3.2% fourth quarter to fourth quarter) in 2012. Quarterly growth in 2011 will accelerate from 2.5% in the first quarter to 3.5% in the fourth quarter. In 2012, first quarter growth will average 3.1% and rise to 3.3% in the second half of the year.

Downside forecast risks dominate—Energy prices the critical variable

The consensus view of the committee is that the forecast risks are predominantly to the downside (42% of the respondents held that view) rather than on the upside (16%), with the remaining 42% judging the forecast risks to be balanced. The most prevalent downside risks are energy price volatility and specifically, rising energy prices. Other prominent risks are that the housing market will weaken further, and that state and local government financial conditions deteriorate. Conversely, the most prominent upside risks are that housing will recover more quickly than expected, followed by monetary policy and increased credit availability resulting in more favorable financial conditions. Thus, an important variable on both the downside and upside is housing.

The committee's regional outlook diverges depending on the region. For the Northeast, 17% believe that the downside risks dominate, and 57% see upside risks as dominant[5]. For the Southeast, 42% believe that the downside growth risks are dominant compared with 28% who believe the risks are mostly to the upside. For the Southwest, 42% believe that the downside risks dominate and an equal 42% see the upside risks as dominant. For the Great Lakes (industrial Midwest), 14% believe the downside risks dominate, and 42% believe the upside risks dominate. In the Plains, 14% believe downside risks dominate and 86% see upside risks as dominant. For the West, 57% believed the downside risks are dominant, and 43% believe that upside risks dominate.[6]

Core inflation under wraps: Energy and oil prices drive headline inflation up this year

The median responses suggest an expectation that core inflation will remain within the Federal Reserve's target range, but higher energy and food prices will move the headline CPI number up. Excess capacity in the economy has held back prices and wages, but rising economic growth and increased capacity utilization will eventually put upward pressure on prices. Core price measures are expected to remain well within a range of 1% to 2% that traditionally has been considered acceptable by policymakers. Energy and food prices especially are expected to drive the headline number to 2.8% in 2011 before easing back to 1.7% in 2012 based on the committee's median forecast.[7] The deflationary risk appears to be behind us. As might be expected, the panelists identified energy prices as the most prominent risks to the inflation forecast on the upside followed by a weak dollar and continued accommodative monetary policies. The median forecast calls for the price of a barrel of oil to be at about $100 at the end of 2011 and 2012 compared with $79 at the beginning of this year. The most prominent inflation forecast risk on the downside was a lagging housing market, followed by still-weak wage growth. A third downside risk is energy; energy prices could fall back if political stability returns to the Middle East more quickly than anticipated, or if a more sluggish global economy results in lower energy demand. Thus, energy is the critical risk factor in forecasting inflation.

Economic performance by sector

The committee expects private sector growth to be an increasingly important contributor to economic growth relative to government spending.

Consumer and business spending is expected to begin to accelerate further as government spending is reduced. Consumer

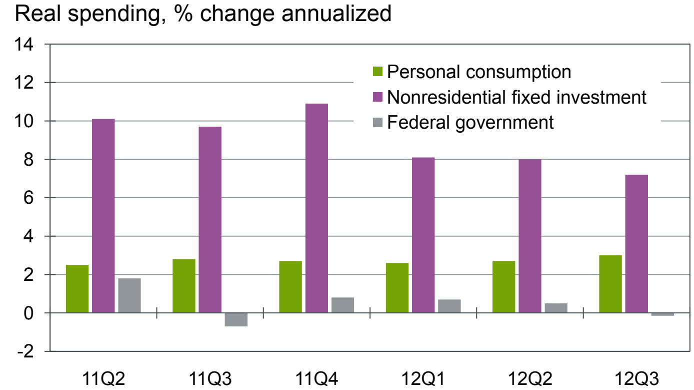
[5] The remaining percentages see the risks as balanced between the upside and the downside.

[6] For regional definitions, please use Census regional definitions: http://www.census.gov/geo/www/us_regdiv.pdf

[7] Consumer price index forecasts for 2011 ranged from 1.8% to 3.2%.

Private Sector Spending Will Drive Growth

Real spending, % change annualized



spending, representing the largest sector of the economy, is expected to grow by 2.5% this quarter, up from 1.8% in the first quarter, to over 2.9% in the second half of 2012.[8] Committee members expect retail sales to improve modestly in every region over the next six months, supporting the view of steadily rising consumer spending.

The median projection has business capital spending increasing 8.2% in 2011 and 8.9% in 2012. Quarterly capital spending is seen fluctuating on a quarter-over-quarter basis within a fairly tight 7% to 10% band during the eight quarter forecast period.

Employment: Improving, but unemployment problem still significant

Despite the forecast for sustained economic growth, the unemployment rate will remain at persistently high levels. The median forecast projects the unemployment rate to remain at current levels this year—8.7% for 2011, dropping to 8.2% in 2012. The committee expects monthly payroll employment growth to average 150,000 in 2011 and 196,000 in 2012; this compares with gains of fewer than 100,000 in 2010.[9]

Unemployment Rate Will Remain Stubbornly High

GDP, % change annualized vs. unemployment rate, %

Starting from the current weak employment environment, the BDA economic committee expects the pace of employment growth to pick up gradually and unemployment to decline over the next six months across the regions. The committee expects net employment gains over the next six months across all regions.

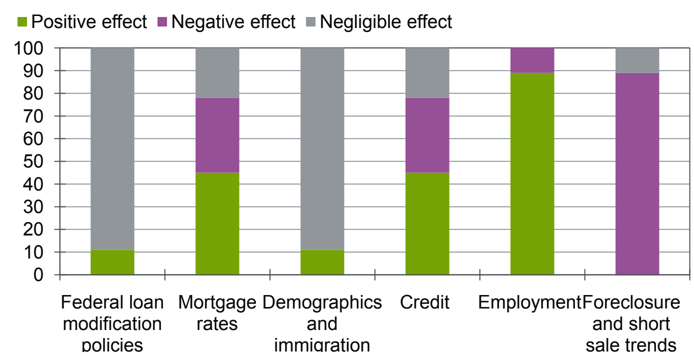
Housing

The committee expects housing to begin its long-delayed recovery this year with rising housing starts and sales. The consensus is for house prices as measured by the Case-Shiller home price index to be lower through the end of this year, and to rise modestly, by 0.97%, in 2012. Similarly, existing-home sales are expected to rise from 4.5 million units annualized in the first quarter of 2011 to 5.4 million in the fourth quarter of 2012. Housing starts will rise from 0.5 million units to 1 million units over the same period.[10]

The chart below summarizes the respondents' views of which market trends and policies most affect their housing outlooks. The biggest negative effect is from foreclosure/distress sales. By contrast, the most positive effect is from the improvement in employment trends. The committee generally expects federal loan modification policies, as well as demographic trends, to have little effect on the housing sector. Credit and mortgage rate conditions are seen as a slight positive in a low but rising rate environment.

What Will Impact the Housing Outlook?

% of responses



Regionally, the consensus view is that housing starts will be rising over the next six months in all regions from the current low level. The regional house price situation is more mixed, with prices expected to be essentially flat in the Southwest and Plains and declining in the West, Great Lakes, Northeast and Southeast.

The European debt crisis lingers

The sovereign debt situation and attendant financial risks in Greece, Ireland, Spain and Portugal are well known and reaching a mature stage. Whether the crisis will worsen and spread has implications for European and global financial markets. The committee believes further expansion of the European sovereign

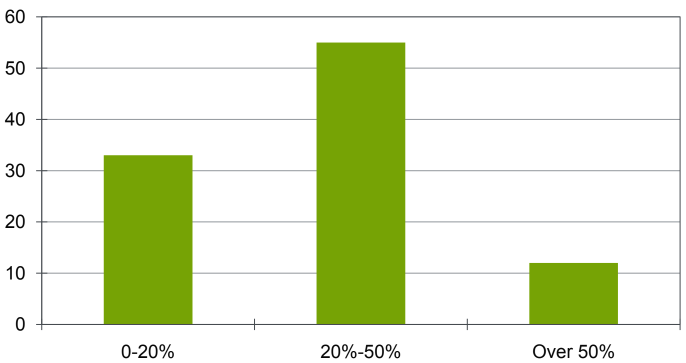
8 Consumer spending forecasts for 2011 range from 1.7% to 3.5%, and from 2.2% to 3.5% for 2012.

9 The average unemployment rate forecasts for 2011 ranged from 8.5% to 9.1%, and employment growth forecasts ranged from 100,000 to 184,000 per month.

10 The difference between the quarterly and annual existing-home sales forecasts reflects the fact that some committee members provided annual forecasts but not quarterly forecasts.

Risk of Another European Country in Crisis Is High

Odds of another European debt crisis in the next yr, % of responses



debt problems is a nontrivial risk. Slightly over half of the respondents place a 20% to 50% probability that another European country will face a sovereign debt crisis within the next year.

What is the likelihood of a recession?

Despite sources of strength in some sectors of the economy, the weak housing market and persistently high unemployment rate raise the specter of a double-dip recession. The committee's consensus view, however, is that a recession within the next year is unlikely. The committee places a less than one in five chance of another recession, with none of the committee members placing higher than a one in four probability of a recession within the next year.

Regional Outlook

Business/economic conditions

Business and economic conditions are generally expected to improve across each of the six regions over the next six months. On average, the strongest improvement is expected in business spending, followed by business conditions and the service sector. Across the regions, commercial real estate markets are expected to show only slight improvements with no change expected in the Plains states. The smallest regional disparities or differentials (as measured by the differential between the highest and lowest regional score) are expected in retail sales and business conditions, and the largest differential is expected in commercial real estate and business spending.

Labor market

The consensus view is that net employment or job creation is projected to increase significantly in every region. The strongest growth is expected in the Northeast and Plains.

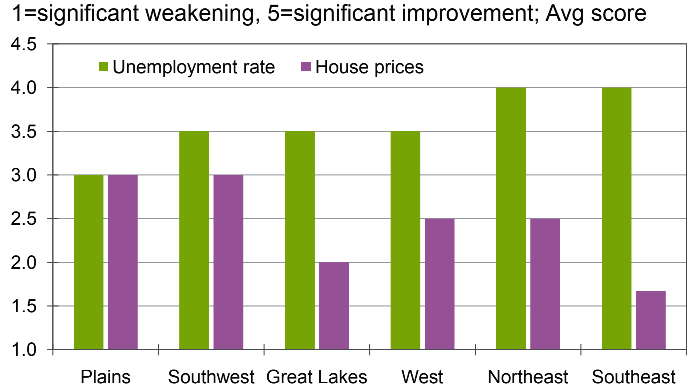
Unemployment rates are projected to improve to a lesser degree across regions, except for in the Plains states where the unemployment rate is expected to be unchanged over the next six months. The biggest declines in the unemployment rate are expected in the Southeast and Northeast.

Housing

The committee's consensus view is that housing prices generally will remain weak over the next six months in most regions, with price declines in four of the regions and prices flat in the Plains and Southwest. Housing starts or new-home construction, as proxied by new residential building permits, are expected to increase significantly, with the strongest gains expected in the West and Plains and the smallest gains expected in the Southeast.

Employment Growth and House Price Trends

1=significant weakening, 5=significant improvement; Avg score



Conclusion

The Bond Dealers of America Economic Advisory Committee forecasts sustained private sector growth mixed with caution. The projection is for energy-led inflation, employment gains, and steady economic growth driven by increased business capital investment spending and consumer spending. Although the committee's forecasters are optimistic, the dominant forecast risks are to the downside, primarily driven by rising energy prices and concerns about state government fiscal problems. Stronger than expected credit availability is the largest upside risk to the forecasts. The committee views housing as the biggest uncertainty, identifying the sector as both an upside and downside risk. The committee continues to see substantial federal budget deficits, although the deficit is expected to recede somewhat in fiscal 2012. Public policy will continue to be an important variable in the form of fiscal management and monetary policy responses with the consensus view that the Federal Reserve probably will delay raising rates until early 2012.

With the exception of the Plains, the committee also believes that their regional economic growth forecast risks are primarily to the downside. Outside of commercial real estate, however, the committee generally sees modest improvements across the regions over the next six months. Net job creation is expected across the regions, with the exception of the industrial Midwest where employment levels are expected to be unchanged over the next six months; the unemployment rate is projected to decline modestly across regions. Housing prices are expected to improve over the next six months in all regions except for in the Northeast and Southwest where there is expected to be little change in house prices. All of the regions are expected to experience a modest increase in residential construction from the current low base.

Appendix

Bond Dealers of America Economic Advisory Committee Survey Results (Median Response)

Table 1

National Economic Data Forecast

	Actual			Forecast								
National	**2010**	**10Q4**	**11Q1**	**11Q2**	**11Q3**	**11Q4**	**2011**	**12Q1**	**12Q2**	**12Q3**	**12Q4**	**2012**
Real GDP	**2.9**	3.1	2.5	3.2	3.3	3.5	**2.9**	3.1	3.1	3.3	3.3	**3.1**
GDP (4th quarter to 4th quarter)							***3.1***					***3.2***
Real personal consumption (expenditure) growth (%)	**1.7**	4.0	1.6	2.5	2.9	2.8	**2.7**	2.6	2.7	3.0	2.9	**2.8**
Real nonresidential fixed investment (% change)	**5.7**	7.7	4.6	10.2	9.7	10.9	**7.2**	8.1	8.0	7.2	7.9	**8.9**
Real federal government spending (% change)	**4.8**	-0.3	1.1	1.8	-0.8	0.8	**0.7**	0.7	0.5	-0.2	-0.2	**0.3**
Real state & local government spending (% change)	**-1.4**	-2.6	-1.8	-1.6	-1.2	-0.5	**-1.5**	0.0	0.8	0.4	0.8	**0.1**
Consumer price index - all urban consumers (%)	**1.6**	0.7	0.8	1.0	0.4	0.4	**2.8**	0.5	0.5	0.6	0.6	**1.7**
Consumer price index (4th quarter to 4th quarter)							**0.6**					**0.5**
Core consumer price index (%)	**1.0**	0.2	0.4	0.4	0.4	0.4	**1.3**	0.4	0.4	0.4	0.5	**1.4**
Core consumer price index (4th quarter to 4th quarter)							***2.2***					***0.4***
Housing price change: Case-Shiller® home price index: single-family aggregate index, (index), SA	**0.1**	-2.1	-1.9	-1.4	-0.5	0.0	**-3.8**	0.5	0.7	0.8	0.9	**1.0**
Nonfarm payroll employment (avg monthly change, ths)	**-80.6**	81.6	116.6	180.0	198.5	200.0	**150.0**	180.0	190.0	195.0	201.0	**195.8**
Single-family existing-home sales (mil, SAAR)	**4.3**	4.2	4.5	4.7	4.9	4.9	**4.5**	5.1	5.2	5.3	5.4	**5.2**
Housing starts (mil, SAAR)	**0.6**	0.5	0.6	0.6	0.6	0.7	**0.7**	0.8	0.8	0.9	1.0	**0.8**
Unemployment rate, %	**9.6**	9.6	9.0	8.8	8.6	8.5	**8.7**	8.3	8.3	8.2	8.1	**8.2**
Federal budget deficit fiscal yr ($ bil)	**-1,294.2**						**-1,400.0**					**-1,091.0**
Oil price ($ per barrel, annual average)	**79.4**						**100.0**					**101.0**

Table 2

Interest Rate Forecast

	Actual				Forecast						
End of Quarter	**Week of 12/31/10**	**Week of 1/31/11**	**Week of 2/8/11**	**Week of 3/31/11**	**End of qtr 6/30/11**	**End of qtr 9/30/11**	**End of qtr 12/31/11**	**End of qtr 3/31/12**	**End of qtr 6/30/12**	**End of qtr 9/30/12**	**End of qtr 12/31/12**
2-yr T-bond yield	0.67	0.60	0.83	0.80	0.75	1.00	1.30	1.55	1.73	1.92	2.18
5-yr T-bond yield	2.07	1.98	2.36	2.24	2.20	2.34	2.53	2.87	3.05	3.28	3.21
10-yr T-bond yield	3.38	3.40	3.68	3.47	3.61	3.71	4.05	4.20	4.33	4.43	4.25
30-yr fixed mortgage (%)	4.86	4.80	5.05	4.97	5.00	5.23	5.50	5.74	5.83	5.93	5.84
Municipal bond yield (BBI)	4.95	5.25	5.29	5.00	4.67	4.93	5.15	5.25	5.30	5.40	5.55
Federal funds rate	0.19	0.17	0.15	0.10	0.17	0.20	0.20	0.43	0.89	1.25	1.49

Notes
All respondents did not provide for every data item and thus room for disparity between quarterly and annual forecasts/
Historical data provided by Moody's Analytics
The end of the quarter interest rate forecast should be interpreted as the rate as of the last day of the quarter.
SAAR = seasonally adjusted annual rates
SA = seasonally adjusted
Historic yields based on FRB H.15 report.

Table 3

Labor Market and Housing Market Forecasts by Region Over the Next Six Months

SCALE: 1=Substantial Weakening 2=Modest Weakening 3=No Change 4=Modest Improvement 5= Substantial Improvement

	2010Q3	2010Q4	Average Score Next Six Months
Northeast			
Nonfarm employment (% change from previous quarter)	-0.2	0.2	4.50
Unemployment rate, %	8.6	8.5	4.00
National Assoc of Realtors median house price (quarter-to-quarter % change)	0.2	1.3	2.50
New residential construction permits: total, (ths, SAAR)	74.5	92.7	4.00
Southeast			
Nonfarm employment (% change from previous quarter)	-0.2	0.0	4.33
Unemployment rate, %	9.8	9.8	4.00
National Assoc of Realtors median house price (quarter-to-quarter % change)	-1.7	1.1	1.67
New residential construction permits: total, (ths, SAAR)	179.7	174.3	3.33
Southwest			
Nonfarm employment (% change from previous quarter)	0.0	0.5	4.00
Unemployment rate, %	7.9	8.0	3.50
National Assoc of Realtors median house price (quarter-to-quarter % change)	3.9	-1.2	3.00
New residential construction permits: total, (ths, SAAR)	110.7	106.5	4.00
Great Lakes			
Nonfarm employment (% change from previous quarter)	0.0	0.1	4.00
Unemployment rate, %	10.1	9.6	3.50
National Assoc of Realtors median house price (quarter-to-quarter % change)	-3.72	3.24	2.00
New residential construction permits: total, (ths, SAAR)	53.3	60.9	4.00
Plains			
Nonfarm employment (% change from previous quarter)	0.0	0.2	4.50
Unemployment rate, %	7.2	7.1	3.00
National Assoc of Realtors median house price (quarter-to-quarter % change)	-1.5	1.4	3.00
New residential construction permits: total, (ths, SAAR)	41.7	46.5	4.50
West			
Nonfarm employment (% change from previous quarter)	-0.4	0.3	4.00
Unemployment rate, %	11.0	11.0	3.50
National Assoc of Realtors median house price (quarter-to-quarter % change)	-1.0	-1.3	2.50
New residential construction permits: total, (ths, SAAR)	121.1	141.5	4.50

Notes

Historical data provided by Moody's Analytics; SAAR=seasonally adjusted annual rates.

Regional Definitions

Northeast: New England plus Mid-Atlantic
Southeast: Virginia to Florida plus East South Central Division
Southwest: West South Central
Great Lakes: East North Central (Industrial Midwest)
Plains: West North Central
West: Mountain plus Pacific
For regional responses, please use census regional definitions: http://www.census.gov/geo/www/us_regdiv.pdf

Table 4

Expected Changes in Economic and Business Conditions by Region Over Next Six Months

SCALE: 1=Substantial Weakening 2=Modest Weakening 3=No Change 4=Modest Improvement 5= Substantial Improvement

Region	Business Conditions	Manufacturing	Services	Business Spending	Retail sales	Commercial Real Estate	Average Score Across Sectors	Percentage of Sectors Region Exceeded the Regional Average
Northeast	4.17	4.00	4.00	4.00	4.00	3.50	3.94	83
Southeast	4.14	4.00	4.14	4.17	4.00	3.43	3.98	83
Southwast	4.33	4.00	4.00	4.50	4.00	3.40	4.04	33
Great Lakes	4.20	4.17	4.00	4.60	4.00	3.67	4.11	50
Plains	4.17	3.60	3.80	4.00	4.00	3.00	3.76	67
West	4.33	4.00	4.17	4.40	3.80	3.40	4.02	50
Regional Average	**4.22**	**3.96**	**4.02**	**4.28**	**3.97**	**3.40**	**3.97**	**60**

Regional Definitions

Northeast: New England plus Mid-Atlantic
Southeast: Virginia to Florida plus East South Central Division
Southwest: West South Central
Great Lakes: East North Central (Industrial Midwest)
Plains: West North Central
West: Mountain plus Pacific
For regional responses, please use census regional definitions: http://www.census.gov/geo/www/us_regdiv.pdf

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