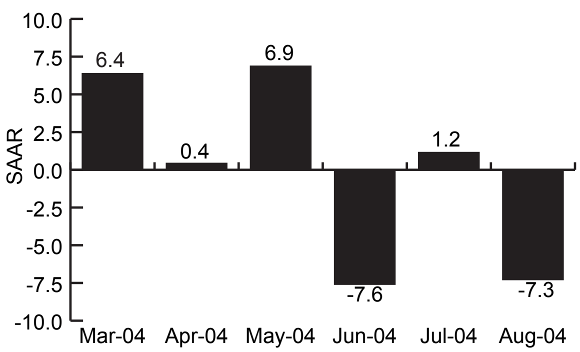
TENNESSEE ECONOMIC OVERVIEW

August 2004 Index as of October 2004

TENNESSEE

FIGURE 1
Monthly Percentage Change in the Tennessee Leading Index
(seasonally adjusted at annual rates)



In August, Tennessee's leading index–a signal of the strength of the state's economy in the coming six to nine months–decreased at a seasonally adjusted annual rate (SAAR) of 7.3 percent. This decline in the leading index resulted from downturns in four of the five component series that make up the index.

The most significant negative contributor to the decline in the index was the increase in initial claims for unemployment insurance. There were 2,527 new jobless claims filed in the month, which is a 166.7 percent (SAAR) increase over last month. Even though initial claims increased from July 2004, the number is still less than in August 2003. The second negative contributor to the Tennessee leading index was a decrease in inflation-adjusted taxable sales. They fell by 42.1 percent (SAAR) bringing the level of inflation-adjusted taxable sales to $6,357 million. The U.S. leading index suffered a 4.1 percent (SAAR) decline in August which contributed to the decline in the Tennessee index. The average length of a manufacturing work week decreased for the third consecutive month, down 3.0 percent (SAAR) to 39.8 hours per week. The one positive contributor to the index was the increase in construction employment for the state. Construction employment increased by 5.3 percent (SAAR) or by 500 jobs.

Labor market data for the state that are not used to calculate the Tennessee leading index are mixed. While total nonagricultural employment rose at a 2.8 percent (SAAR) rate in August due to the gain of 6,200 jobs, manufacturing employment decreased and the unemployment rate increased. The

(Continued on page 2)

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(Continued from page 1)

manufacturing sector lost 1,100 jobs from July to August, translating to a 3.0 percent (SAAR) decline. The unemployment rate increased to 4.9 percent after remaining at 4.5 percent for two consecutive months. The August 2004 unemployment rate compares favorably to the 6.0 percent rate that prevailed in August 2003 and continues to lie well below he U.S. unemployment rate (5.4 percent).

As mentioned above, the national economy also experienced losses for the third consecutive month as the U.S. leading index fell 4.1 percent (SAAR). According to The Conference Board, "The weakness in the last three months has become more widespread. However, these declines in the leading index have not been long enough nor deep enough to signal an end to the upward trend in the leading index underway since March 2003." The U.S. coincident index, a measure of current economic activity, remained steady in August. Total nonagricultural employment increased for the twelfth consecutive month, and the year-over-year percentage change remains positive. Manufacturing and total nonagricultural employment increased at 0.3 percent and 1.2 percent (SAAR) rates, respectively. These gains helped drive the unemployment rate down one-tenth of a point to 5.4 percent, which is the lowest the unemployment rate has been in over twelve months. Even with the gains in certain employment sectors, the number of initial claims for unemployment insurance rose by 79.9 percent (SAAR). On the consumption side of the economy, note that consumer sentiment and inflation-adjusted taxable sales both diminished.

Even with this month's setback, the Tennessee leading index remains above that from August 2003. Since September 2003, the year-over-year percentage change in Tennessee's leading index has remained positive. However, the decline in the August Tennessee leading index coupled with the fall in the U.S. leading index suggests that the economy will show a marked performance into the new year.

FIGURE 2
Tennessee Quarterly Leading Index

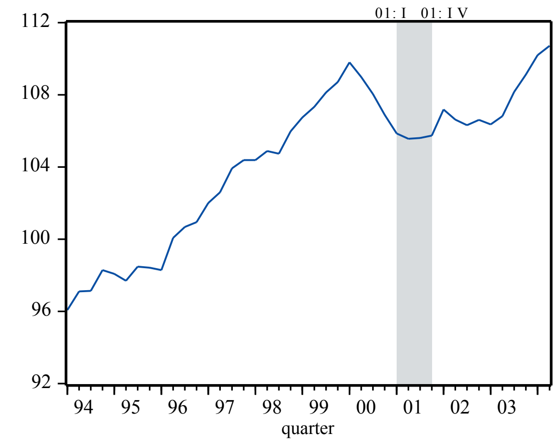


FIGURE 3
Total Nonfarm Employment

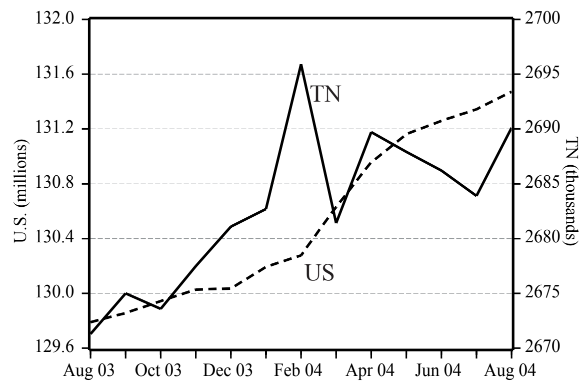
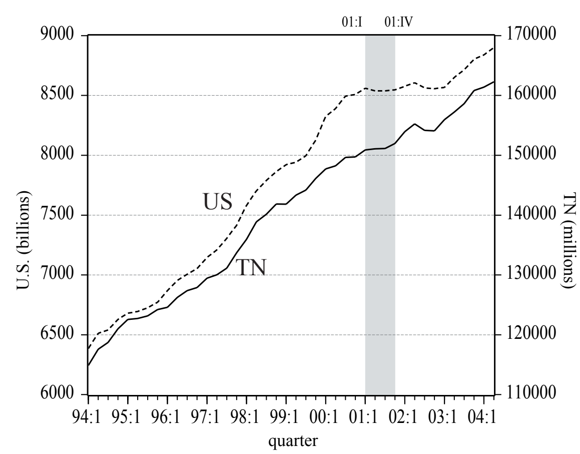


FIGURE 4
Real Personal Income (2000 $)



TENNESSEE ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	2003
Leading Index (1996=100)	108.3	108.4	109.0	109.1	109.2	110.1	109.9	110.5	110.5	111.2	110.4	110.5	109.8	107.6
% Chg Prev Month SAAR	6.0	1.2	6.7	1.4	1.2	10.4	-2.1	6.4	0.4	6.9	-7.6	1.1	-7.3	0.9
% Chg Same Month Last Yr ...	1.5	2.1	2.5	2.3	2.2	3.2	3.5	4.1	3.9	4.0	3.0	2.6	1.4	0.9
Nonfarm Employment (THOU)[1] ..	2,671.3	2,675.0	2,673.6	2,677.5	2,681.1	2,682.7	2,695.9	2,681.4	2,689.7	2,687.9	2,686.2	2,683.9	2,690.1	2,667.0
% Chg Prev Month SAAR	4.5	1.7	-0.6	1.8	1.6	0.7	6.1	-6.3	3.8	-0.8	-0.8	-1.0	2.8	0.1
% Chg Same Month Last Yr ...	0.1	0.1	0.0	0.2	0.3	0.8	1.4	0.9	1.1	1.0	1.0	0.8	0.7	0.1
Unemployment (%)[1]	6.0	6.1	6.1	6.1	6.0	4.9	5.0	5.0	4.9	4.8	4.5	4.5	4.9	5.8
Mfg Employment (THOU)[1]	411.1	410.7	414.0	415.2	414.0	416.1	415.8	414.3	414.3	413.1	411.4	413.2	412.1	414.1
% Chg Prev Month SAAR	-0.3	-1.1	9.9	3.6	-3.5	6.5	-0.8	-4.5	0.1	-3.3	-4.9	5.3	-3.0	-3.3
% Chg Same Month Last Yr ...	-4.2	-3.9	-3.0	-2.0	-2.0	-0.6	-0.5	-0.6	-0.1	-0.1	-0.2	0.5	0.2	-3.3
Mfg Avg Weekly Hours[1]	39.9	39.9	39.7	40.1	40.2	40.6	40.9	41.0	40.3	40.9	40.4	39.9	39.8	39.8
% Chg Prev Month SAAR	17.6	-0.8	-3.9	11.1	2.7	12.7	10.3	2.4	-17.2	17.2	-13.0	-13.8	-3.0	-0.8
% Chg Same Month Last Yr ...	-0.3	-1.0	-0.9	0.6	0.3	2.3	2.9	3.5	1.1	3.3	1.5	1.4	-0.2	-0.8
Const Employment (THOU)[1]	115.5	116.1	116.2	115.7	116.2	117.1	115.3	115.9	117.3	117.5	117.1	116.4	116.9	115.5
% Chg Prev Month SAAR	4.3	6.4	1.0	-5.0	5.3	9.7	-17.0	6.4	15.5	2.1	-4.0	-6.9	5.3	0.5
% Chg Same Month Last Yr ...	1.0	1.5	1.0	0.9	0.7	0.9	0.6	1.0	1.6	1.8	1.8	1.1	1.2	0.5
Taxable Sales (MIL $)[2]	6,814	6,847	6,916	6,799	6,871	6,971	6,995	7,055	7,031	6,948	6,932	7,181	6,862	80,418
% Chg Prev Month SAAR	1.3	6.1	12.8	-18.6	13.6	18.8	4.3	10.8	-4.1	-13.3	-2.8	52.9	-42.1	3.6
% Chg Same Month Last Yr ...	4.2	6.8	6.4	3.8	5.2	7.5	8.1	7.4	7.7	4.1	4.4	5.5	0.7	3.6
Taxable Sales (MIL 2000 $)[2]	6,446	6,466	6,529	6,418	6,473	6,541	6,547	6,583	6,551	6,449	6,419	6,653	6,357	76,213
% Chg Prev Month SAAR	-1.6	3.7	12.4	-18.5	10.7	13.4	1.1	6.7	-5.7	-17.1	-5.5	53.7	-42.1	1.7
% Chg Same Month Last Yr ...	2.5	4.9	4.5	2.1	3.6	5.7	6.4	5.7	5.6	1.7	1.8	3.1	-1.4	1.7
Initial Claims for UI[3]	35,291	36,595	31,983	31,231	35,903	31,053	31,464	33,110	31,861	29,297	35,420	29,672	32,199	440,607
% Chg Prev Month SAAR	-4.7	54.5	-80.1	-24.8	432.7	-82.5	17.1	84.4	-37.0	-63.5	875.4	-88.1	166.7	-5.1
% Chg Same Month Last Yr ...	0.5	-8.9	-22.2	-18.1	-6.4	-16.9	-16.8	-15.8	-20.5	-27.5	-9.7	-16.3	-8.8	-5.1

	2001:2	2001:3	2001:4	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2003
Personal Income (BIL $)[4]	154.3	154.6	155.7	158.0	160.5	160.2	160.6	163.9	165.5	167.6	170.5	172.5	174.8	166.9
% Chg Prev Month SAAR	3.1	0.7	2.8	6.2	6.4	-0.9	1.1	8.3	4.1	5.2	6.9	4.8	5.4	4.4
% Chg Same Month Last Yr ...	4.3	3.1	3.3	3.2	4.0	3.6	3.2	3.7	3.1	4.7	6.1	5.3	5.6	4.4
Personal Income (BIL 2000 $)[4] ...	151.1	151.1	152.0	154.0	155.2	154.2	154.1	155.9	157.2	158.6	160.8	161.4	162.3	158.1
% Chg Prev Month SAAR	0.5	0.1	2.2	5.3	3.4	-2.8	-0.2	4.9	3.4	3.6	5.6	1.5	2.2	2.5
% Chg Same Month Last Yr ...	1.9	1.0	1.5	2.0	2.8	2.0	1.4	1.3	1.3	2.9	4.4	3.5	3.2	2.5

NOTES:
1. Calculated from U.S. Bureau of Labor Statistics data.
2. Calculated from Tennessee Department of Revenue data.
3. Calculated from Tennessee Department of Labor and Workforce Development data.
4. Calculated from U.S. Bureau of Economic Analysis (BEA) data.

U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	2003
Personal Income (BIL 2000 $)[1]	9,208.9	9,243.7	9,276.6	9,337.9	9,375.3	9,404.1	9,445.9	9,484.9	9,542.3	9,592.1	9,615.7	9,635.6	9,670.7	9,161.8
% Chg Prev Month SAAR	4.5	4.6	4.4	8.2	4.9	3.7	5.5	5.1	7.5	6.4	3.0	2.5	4.5	3.2
% Chg Same Month Last Yr	3.5	3.9	4.2	4.7	4.9	4.9	4.9	4.9	5.4	5.3	5.1	5.0	5.0	3.2
Pers Cons Price Index (2000=100)[2] ...	105.7	105.9	105.9	105.9	106.2	106.6	106.8	107.2	107.3	107.7	108.0	107.9	107.9	105.5
% Chg Prev Month SAAR	2.9	2.3	0.4	-0.1	2.6	4.8	3.1	3.8	1.7	4.6	2.9	-0.5	0.0	1.9
% Chg Same Month Last Yr	1.7	1.8	1.8	1.6	1.6	1.8	1.7	1.7	2.0	2.4	2.5	2.4	2.1	1.9
Nonfarm Employment (MIL)[2]	129.8	129.9	129.9	130.0	130.0	130.2	130.3	130.6	131.0	131.2	131.3	131.3	131.5	129.9
% Chg Prev Month SAAR	-0.2	0.6	0.8	0.8	0.1	1.5	0.8	3.3	3.0	1.9	0.9	0.8	1.2	-0.3
% Chg Same Month Last Yr	-0.40	-0.31	-0.31	-0.21	-0.05	0.00	0.19	0.55	0.81	0.99	1.08	1.18	1.30	-0.31
Unemployment (%)[2]	6.1	6.1	6.0	5.9	5.7	5.6	5.6	5.7	5.6	5.6	5.6	5.5	5.4	6.0
Bank Prime Interest Rate (%)[2]	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.3	4.4	4.1
Coincident Index (1996=100)[2]	114.7	114.9	115.2	115.6	115.8	116.0	116.3	116.8	117.1	117.4	117.4	117.7	117.8	114.7
% Chg Prev Month SAAR	0.0	2.1	3.2	4.2	2.1	2.1	3.1	5.3	3.1	3.1	0.0	3.1	1.0	0.4
% Chg Same Month Last Yr	0.3	0.5	0.8	1.0	1.4	1.4	1.8	2.3	2.6	2.7	2.6	2.6	2.7	0.4
Leading Index (1996=100)[2]	113.2	113.3	113.9	114.2	114.5	114.9	114.9	115.8	115.9	116.5	116.4	116.1	115.7	112.3
% Chg Prev Month SAAR	4.3	1.1	6.5	3.2	3.2	4.3	0.0	9.8	1.0	6.4	-1.0	-3.0	-4.1	1.3
% Chg Same Month Last Yr	2.2	2.7	3.3	2.9	3.1	3.5	3.9	4.9	4.9	4.4	3.9	2.9	2.2	1.3
Mfg Employment (MIL)[2]	14.4	14.4	14.4	14.3	14.3	14.3	14.3	14.3	14.4	14.4	14.4	14.4	14.4	14.5
% Chg Prev Month SAAR	-3.9	-2.4	-2.0	-0.6	-1.7	-0.8	0.6	1.9	1.8	2.6	-0.2	0.4	0.3	-4.8
% Chg Same Month Last Yr	-5.1	-5.0	-4.7	-4.3	-3.9	-3.5	-3.0	-2.5	-1.8	-1.2	-0.8	-0.4	0.0	-4.8
Initial Claims for UI (THOU)[3]	1,699.5	1,833.2	1,679.2	1,453.2	1,650.8	1,497.5	1,586.5	1,572.0	1,453.2	1,398.2	1,559.5	1,468.3	1,541.9	20,971.9
% Chg Prev Month SAAR	-57.0	148.1	-65.1	-82.4	361.8	-69.0	100.0	-10.4	-61.0	-37.1	270.8	-51.5	79.9	-0.5
% Chg Same Month Last Yr	-1.7	2.1	-8.6	-10.3	-7.5	-14.3	-11.8	-11.4	-21.6	-23.3	-15.1	-19.5	-9.3	-0.5
Retail Sales (BIL $)[2]	290.3	287.1	287.3	290.7	291.3	292.3	295.0	301.8	299.1	303.7	301.3	304.4	303.9	3,399.0
% Chg Prev Month SAAR	23.8	-12.5	0.7	15.5	2.4	3.9	12.0	31.3	-10.0	19.8	-9.0	12.8	-1.7	5.2
% Chg Same Month Last Yr	6.4	6.7	6.1	6.9	6.1	5.8	8.1	8.4	7.2	9.3	6.6	6.7	4.7	5.2
Cons Sentiment Index (1966=100)[1]	89.3	87.7	89.6	93.7	92.6	103.8	94.4	95.8	94.2	90.2	95.6	96.7	95.9	87.6
% Chg Prev Month SAAR	-19.2	-19.5	29.3	71.1	-13.2	293.6	-68.0	19.3	-18.3	-40.6	100.9	14.7	-9.5	-2.2
% Chg Same Month Last Yr	1.9	1.9	11.2	11.3	6.8	26.0	18.1	23.5	9.5	-2.1	6.6	6.4	7.4	-2.2

	2001:2	2001:3	2001:4	2002:1	2002:2	2002:3	2002:4	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2003
U.S. GDP (BIL 2000 $)[1]	9,906	9,871	9,910	9,994	10,053	10,117	10,136	10,184	10,287	10,473	10,581	10,698	10,785	10,381
% Chg Prev Month SAAR	1.2	-1.4	1.6	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	3.0
% Chg Same Month Last Yr	0.6	0.4	0.2	1.2	1.5	2.5	2.3	1.9	2.3	3.5	4.4	5.0	4.8	3.0
U.S. Personal Income (BIL 2000 $)[4] ...	8,537	8,538	8,547	8,575	8,606	8,562	8,556	8,567	8,650	8,714	8,801	8,839	8,900	8,683
% Chg Prev Month SAAR	-1.1	0.0	0.4	1.4	1.4	-2.0	-0.3	0.5	3.9	3.0	4.1	1.7	2.8	1.3
% Chg Same Month Last Yr	1.7	0.5	0.5	0.2	0.8	0.3	0.1	-0.1	0.5	1.8	2.9	3.2	2.9	1.3

NOTES:
1. U.S. Bureau of Economic Analysis (BEA).
2. Global Insight, Inc.
3. Calculated from Global Insight, Inc. data.
4. Calculated from BEA data.

MSA PERSPECTIVE

August was a discouraging month for economic activity in Tennessee's largest metropolitan statistical areas (MSAs) as four of the five MSAs' indices suffered losses. The Tri-Cities MSA leading index was the only one to enjoy gains, increasing 0.4 percent (SAAR), while the Nashville MSA experienced the sharpest decline of 11.0 percent (SAAR). Construction employment fell in all MSAs except Chattanooga and inflation-adjusted taxable sales decreased in all five. Even though construction employment fell in most of the MSAs, all the year-over-year percentage changes remained positive suggesting a higher level of construction employment in August 2004 relative to August 2003. Unemployment rates in all five areas either increased or remained the same with all of them but the Memphis MSA being equal to or below the Tennessee rate. While total nonagricultural employment increased in all five MSAs, manufacturing employment contracted in all MSAs. Even though four of the five MSAs' indices fell in August, all five of the year-over-year percentage changes were positive indicating a higher level of economic activity in August 2004 relative to August 2003.

FIGURE 6
MSA Employment Growth
August 2004

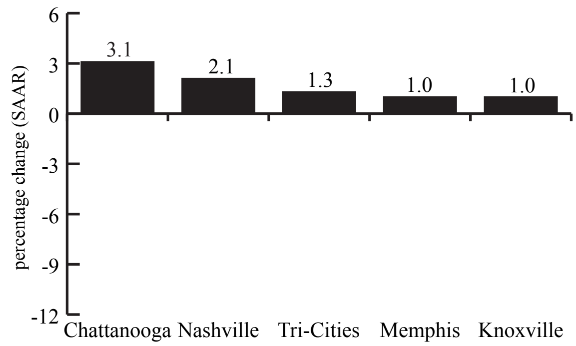


FIGURE 5
MSA Index Growth
August 2004

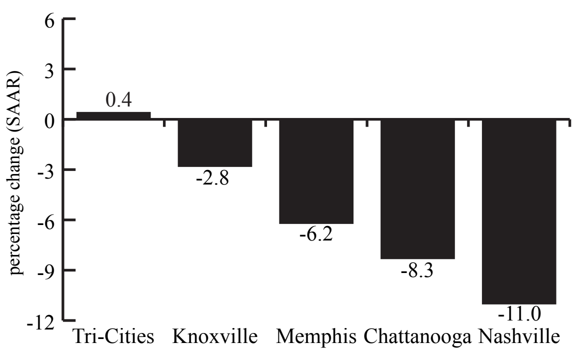
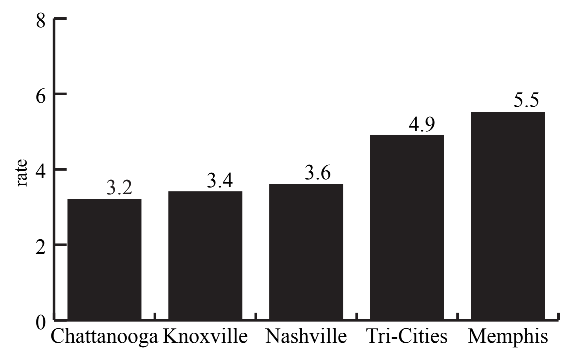
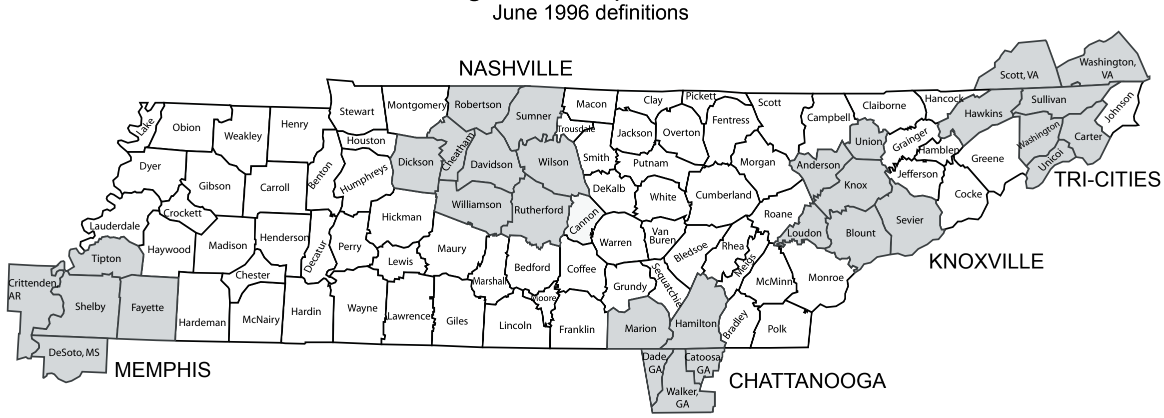


FIGURE 7
MSA Unemployment Rate
August 2004



Tennessee's Largest Metropolitan Statistical Areas
June 1996 definitions



CHATTANOOGA

The Chattanooga Metropolitan Statistical Area (MSA) index of leading economic activity declined 8.3 percent (SAAR) in August as a result of three of its four components falling. Even with the decrease in August, the year-over-year percentage change in Chattanooga's leading index now stands at 0.2 percent, indicating a higher level of economic activity in the area relative to August 2003. Perhaps the largest contributor to the dwindling of the index was the loss in inflation-adjusted taxable sales. Inflation-adjusted taxable sales fell $15 million from July, representing a 38.1 percent (SAAR) decline. An additional negative contributor was the Tennessee index, which decreased 7.3 percent (SAAR). The final negative component of the index was the fall in average manufacturing weekly hours from 39.6 hours to 39.5 hours per week. Construction employment increased 5.4 percent (SAAR) due to the introduction of 100 new jobs, representing the only positive factor of the Chattanooga leading index.

Labor market data not used in compiling Chattanooga's index were mixed. While total nonagricultural employment increased by 3.1 percent (SAAR) or 600 jobs, manufacturing employment fell at the rate of 7.8 percent (SAAR) or 200 jobs. The gain in nonagricultural employment was insufficient to stave off a 0.1 point increase in the unemployment rate which now stands at 3.2 percent. This is still considerably below the state unemployment rate of 4.9 percent.

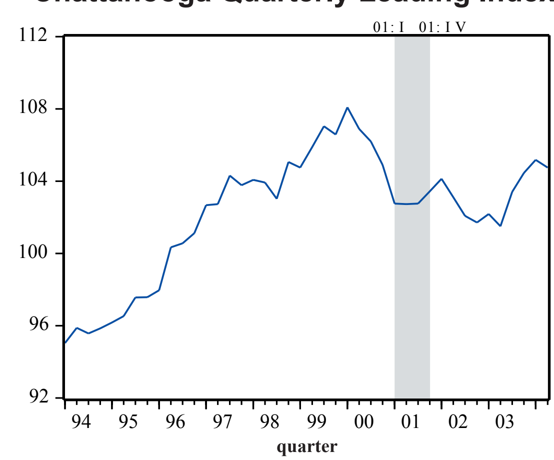
The Chattanooga area experienced a loss in the leading index in August, but the year-over-year percentage change continues to be positive. Even though manufacturing employment fell in August, the Chattanooga MSA continues to maintain low unemployment rates. The outlook depends upon how the state and national economies do in the near future. Like the state, the Chattanooga MSA should expect mixed growth in the short term.

CHATTANOOGA ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Jun-04	Jul-04	Aug-04	2003
Leading Index (1996=100)	104.2	104.5	103.7	102.9
% Chg Prev Month SAAR	-9.8	3.0	-8.3	0.1
% Chg Same Month Last Yr	2.1	1.8	0.2	0.1
Nonfarm Employment (THOU)[1] ..	234.7	235.1	235.7	233.5
% Chg Prev Month SAAR	-0.5	2.3	3.1	0.4
% Chg Same Month Last Yr	0.9	0.9	1.1	0.4
Unemployment (%)[1]	3.1	3.1	3.2	3.9
Mfg Employment (THOU)[1]	34.7	34.6	34.4	35.4
% Chg Prev Month SAAR	-5.1	-2.0	-7.8	-5.7
% Chg Same Month Last Yr	-1.6	-1.9	-2.2	-5.7
Mfg Avg Weekly Hours[1]	40.4	39.6	39.5	41.0
% Chg Prev Month SAAR	1.7	-23.0	-2.7	-1.8
% Chg Same Month Last Yr	0.5	-1.9	-4.1	-1.8
Const Employment (THOU)[1]	9.0	9.0	9.1	8.9
% Chg Prev Month SAAR	5.8	1.1	5.4	1.1
% Chg Same Month Last Yr	2.2	2.5	2.4	1.1
Taxable Sales (MIL $)[2]	389	415	398	4,686
% Chg Prev Month SAAR	-51.0	115.7	-38.1	-0.4
% Chg Same Month Last Yr	2.0	5.5	-0.1	-0.4
Taxable Sales (MIL 2000 $)[2]	360	384	369	4,441
% Chg Prev Month SAAR	-52.4	116.8	-38.1	-2.2
% Chg Same Month Last Yr	-0.5	3.1	-2.2	-2.2

NOTES:
1. Calculated from U.S. Bureau of Labor Statistics data.
2. Calculated from Tennessee Department of Revenue data.

FIGURE 8
Chattanooga Quarterly Leading Index



KNOXVILLE

Due to decreases in three of its four component series, the Knoxville Metropolitan Statistical Area (MSA) index of leading economic activity fell 2.8 percent (SAAR) in August. The only positive contributor to the index was the increase in average manufacturing workweek hours from 39.7 to 41.0 hours. The largest negative factor contributing to the decline in the index was the 45.3 percent (SAAR) decrease in inflation-adjusted taxable sales. Inflation-adjusted taxable sales fell from $946 million to $899 million. Another negative factor was the loss in jobs in the construction sector. Construction employment fell by 100 jobs, or at an 8.3 percent (SAAR) rate. The year-over-year percentage change in construction employment remained positive even after the loss in August. The final component of the index is the Tennessee leading index, which fell 7.3 percent.

Labor market data not included in the Knoxville leading index offer mixed evidence on the condition of the area economy. Nonagricultural employment rose at a 1.0 percent (SAAR) rate, representing a gain of 300 jobs. Manufacturing employment fell 8.1 percent (SAAR), or by 200 jobs. These changes coupled with the decline in construction employment helped push the unemployment rate up four-tenths of a point to 3.4 percent, which is still well below the level in August 2003 and below the state and national unemployment rates.

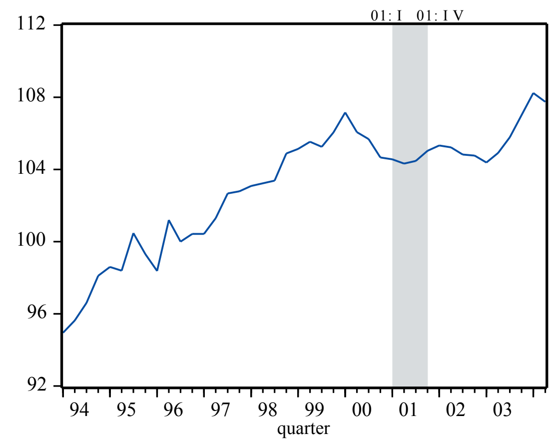
August was a slow month for the Knoxville MSA as the leading index declined by 2.8 percent (SAAR). On a positive note, the year-over-year percentage change in the leading index remains positive, as it has now for over twelve months, which suggests that the level of economic activity is higher now than it was one year ago. The decline in the index was driven primarily by the loss in inflation-adjusted taxable sales. The Knoxville MSA must see a turnaround in manufacturing and construction employment to regain momentum.

KNOXVILLE ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Jun-04	Jul-04	Aug-04	2003
Leading Index (1996=100)	107.7	107.5	107.2	105.5
% Chg Prev Month SAAR	-4.9	-2.5	-2.8	0.5
% Chg Same Month Last Yr	2.7	1.8	1.5	0.5
Nonfarm Employment (THOU)[1] ..	360.4	361.1	361.4	355.4
% Chg Prev Month SAAR	0.1	2.5	1.0	2.1
% Chg Same Month Last Yr	1.8	1.8	1.5	2.1
Unemployment (%)[1]	3.1	3.0	3.4	3.9
Mfg Employment (THOU)[1]	41.2	41.1	40.9	42.1
% Chg Prev Month SAAR	-2.8	-0.9	-8.1	-1.2
% Chg Same Month Last Yr	-1.8	-1.7	-2.3	-1.2
Mfg Avg Weekly Hours[1]	41.0	39.7	41.0	40.5
% Chg Prev Month SAAR	8.5	-32.7	45.6	-2.2
% Chg Same Month Last Yr	1.9	-1.7	2.7	-2.2
Const Employment (THOU)[1]	17.7	17.7	17.6	17.1
% Chg Prev Month SAAR	-1.1	4.9	-8.3	3.0
% Chg Same Month Last Yr	4.7	4.0	4.3	3.0
Taxable Sales (MIL $)[2]	978	1,021	971	11,614
% Chg Prev Month SAAR	-18.5	66.6	-45.3	2.5
% Chg Same Month Last Yr	1.8	4.0	-2.6	2.5
Taxable Sales (MIL 2000 $)[2]	906	946	899	11,007
% Chg Prev Month SAAR	-20.8	67.4	-45.3	0.6
% Chg Same Month Last Yr	-0.7	1.6	-4.6	0.6

NOTES:
1. Calculated from U.S. Bureau of Labor Statistics data.
2. Calculated from Tennessee Department of Revenue data.

FIGURE 9
Knoxville Quarterly Leading Index



MEMPHIS

After last month's increase, the Memphis Metropolitan Statistical Area (MSA) index of leading economic activity suffered a loss with a 6.2 percent (SAAR) decrease in August. The decrease in the index was a result of declines in four of the five component series that make up the Memphis MSA index. The only positive factor was the 22.7 percent (SAAR) increase in average weekly manufacturing hours, from 41.3 to 42.0 hours. The most significant depressant to the index was the decline in inflation-adjusted taxable sales. In July, taxable sales were $994 million. They subsequently fell to $948 million in August, representing a 43.2 percent (SAAR) decline. The Memphis area help-wanted index, which decreased 34.0 percent (SAAR) in August, was another leading contributor. Construction employment fell by 4.3 percent (SAAR), representing 100 fewer jobs in the sector. The final component, the Tennessee leading index, fell 7.3 percent (SAAR).

Labor market data from August for the Memphis area is varied. Total nonagricultural employment increased 1.0 percent (SAAR), representing 500 additional jobs. The number of jobs in the manufacturing sector dropped in August. These 100 jobs lost represent a 1.6 percent (SAAR) decrease. The losses in employment in the manufacturing and construction sectors helped raise the unemployment rate two-tenths of a point to 5.5 percent. This is significantly lower than it was in August 2003, but it is still higher than the statewide unemployment rate of 4.9 percent.

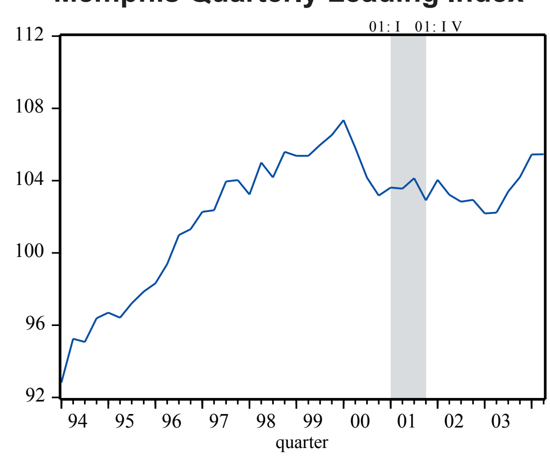
Even with the loss in the index this month, the Memphis economy remains at a higher level of activity than the year before as seen by the positive year-over-year percentage change of 0.4 percent. The decline in the index this month was led by the drop in inflation-adjusted taxable sales, but weak employment conditions contributed to the fall. Given the region's recent performance and the outlook for the state and the nation, expect some further bumps along the road in the months ahead.

MEMPHIS ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Jun-04	Jul-04	Aug-04	2003
Leading Index (1996=100)	104.3	105.0	104.4	103.0
% Chg Prev Month SAAR	-21.1	7.2	-6.2	-0.3
% Chg Same Month Last Yr	1.7	1.7	0.4	-0.3
Nonfarm Employment (THOU)[1] ..	591.3	591.7	592.2	590.2
% Chg Prev Month SAAR	-3.6	0.8	1.0	0.9
% Chg Same Month Last Yr	0.4	0.6	0.7	0.9
Unemployment (%)[1]	5.2	5.3	5.5	6.2
Mfg Employment (THOU)[1]	50.3	50.2	50.1	51.2
% Chg Prev Month SAAR	-2.1	-1.5	-1.6	-1.7
% Chg Same Month Last Yr	-1.9	-1.7	-1.5	-1.7
Mfg Avg Weekly Hours[1]	40.7	41.3	42.0	41.2
% Chg Prev Month SAAR	-44.4	18.2	22.7	1.0
% Chg Same Month Last Yr	-2.3	-2.8	3.2	1.0
Const Employment (THOU)[1]	25.3	25.2	25.1	24.7
% Chg Prev Month SAAR	-7.1	-5.0	-4.3	0.1
% Chg Same Month Last Yr	3.7	2.7	1.2	0.1
Taxable Sales (MIL $)[2]	1,031	1,073	1,023	12,074
% Chg Prev Month SAAR	13.2	61.3	-43.3	-2.7
% Chg Same Month Last Yr	4.3	7.1	-1.9	-2.7
Taxable Sales (MIL 2000 $)[2]	955	994	948	11,443
% Chg Prev Month SAAR	10.0	62.1	-43.2	-4.6
% Chg Same Month Last Yr	1.7	4.6	-3.9	-4.6
Help Wanted Index (1987=100 $)	89.0	91.6	88.4	95.2
% Chg Prev Month SAAR	-83.3	39.8	-34.0	-12.0
% Chg Same Month Last Yr	-5.7	0.8	-17.3	-12.0

NOTES:
1. Calculated from U.S. Bureau of Labor Statistics data.
2. Calculated from Tennessee Department of Revenue data.
3. Source: The Conference Board.

FIGURE 10
Memphis Quarterly Leading Index



NASHVILLE

After increasing last month, the Nashville Metropolitan Statistical Area (MSA) index of leading economic activity suffered the largest decline of any of the MSAs with a 11.0 percent (SAAR) drop in August. As disappointing as this is, the year-over-year percentage change in Nashville's leading index was up 1.2 percent compared to August 2003. All four of the component series of the Nashville index experienced losses. A significant contributor to the decline in the index was the 41.4 percent (SAAR) drop in inflation-adjusted taxable sales. The level of taxable sales fell from $1,629 million in July to $1,558 million in August. Average weekly manufacturing hours fell by 22.2 percent (SAAR), representing a drop from 40.3 hours to 39.5 hours per week. Construction employment in Nashville fell by 100 jobs translating into a 2.1 percent (SAAR) decline. The Tennessee leading index, the final component series of the index, fell 7.3 percent (SAAR).

Other employment data from the Nashville MSA not used to compile the leading index were somewhat conflicting. Total nonagricultural employment rose 2.1 percent (SAAR) due to the gain of 1,200 jobs. The manufacturing sector lost 300 jobs, a 4.0 percent (SAAR) setback. These losses in manufacturing and construction employment contributed to an increase in the unemployment rate of three-tenths of a point to 3.6 percent. The unemployment rate remains well below the rate for the state and the nation.

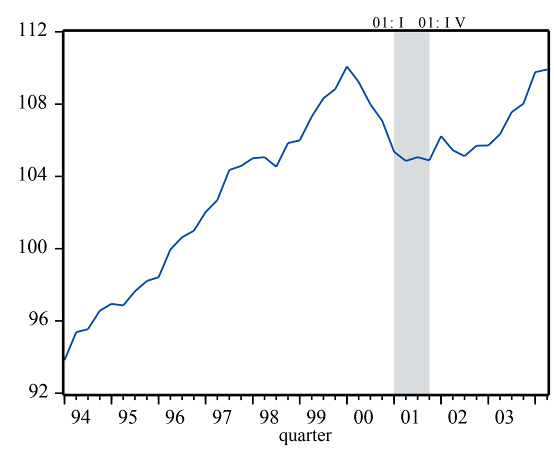
As is the case for all of the MSAs, Nashville's performance for the month of August is weak, but the performance marks improvement when compared to August 2003. Even with the losses in employment and inflation-adjusted taxable sales, the Nashville area has some positive news. In particular, the unemployment rate for the MSA remains low and the year-over-year percentage change in the leading index, as well as most of its components, remains positive. Nashville will likely experience a rebound in the months ahead, but expect continued up and down movement in labor market indicators.

NASHVILLE ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Jun-04	Jul-04	Aug-04	2003
Leading Index (1996=100)	109.5	110.0	108.9	106.9
% Chg Prev Month SAAR	-8.3	5.4	-11.0	1.2
% Chg Same Month Last Yr	2.6	2.4	1.2	1.2
Nonfarm Employment (THOU)[1] ..	687.5	688.0	689.2	680.8
% Chg Prev Month SAAR	-0.4	0.9	2.1	1.3
% Chg Same Month Last Yr	1.3	1.3	1.1	1.3
Unemployment (%)[1]	3.4	3.3	3.6	4.4
Mfg Employment (THOU)[1]	79.3	80.1	79.8	78.4
% Chg Prev Month SAAR	5.3	13.0	-4.0	-1.9
% Chg Same Month Last Yr	1.7	2.8	2.0	-1.9
Mfg Avg Weekly Hours[1]	39.7	40.3	39.5	39.0
% Chg Prev Month SAAR	-15.9	20.5	-22.2	-1.9
% Chg Same Month Last Yr	0.5	2.9	0.0	-1.9
Const Employment (THOU)[1]	34.2	34.1	34.0	33.5
% Chg Prev Month SAAR	-9.2	-5.1	-2.1	5.4
% Chg Same Month Last Yr	1.9	1.8	1.8	5.4
Taxable Sales (MIL $)[2]	1,687	1,758	1,682	19,425
% Chg Prev Month SAAR	5.6	64.9	-41.4	2.4
% Chg Same Month Last Yr	6.1	3.6	2.0	2.4
Taxable Sales (MIL 2000 $)[2]	1,562	1,629	1,558	18,409
% Chg Prev Month SAAR	2.6	65.7	-41.4	0.5
% Chg Same Month Last Yr	3.5	1.2	-0.1	0.5
Help Wanted Index (1987=100 $)	na	na	na	82
% Chg Prev Month SAAR	–	–	–	14.2
% Chg Same Month Last Yr	–	–	–	14.2

NOTES:
1. Calculated from U.S. Bureau of Labor Statistics data.
2. Calculated from Tennessee Department of Revenue data.
3. Source: The Conference Board.
n.a. not available

FIGURE 11
Nashville Quarterly Leading Index



TRI-CITIES

Due to gains in two of its four component series, the Tri-Cities Metropolitan Statistical Area (MSA) index of leading economic activity rose 0. 4 percent (SAAR) in August. The average workweek of the manufacturing sector experienced the largest gain, rising 81.2 percent (SAAR) to 39.9 hours per week. The other positive contributor to the index was the 100 new jobs in the construction sector, representing a 1.0 percent (SAAR) increase. Inflation-adjusted taxable sales suffered the largest setback as they fell 31.7 percent (SAAR). August sales suffered losses of $11 million, lowering the level of sales to $332 million, which was enough to cause the year-over-year percentage change to be negative. The Tennessee leading index, which fell 7.3 percent (SAAR) in August, was the other negative factor.

Other employment data not used to compute the leading index were varied. Total nonagricultural employment rose 1.3 percent (SAAR) in August, while manufacturing employment lost 300 jobs for an 8.6 percent (SAAR) decline. These changes, coupled with the gains in construction employment, helped the unemployment rate remain unchanged at 4.9 percent. This is equal to the statewide unemployment rate and is lower than the national unemployment rate.

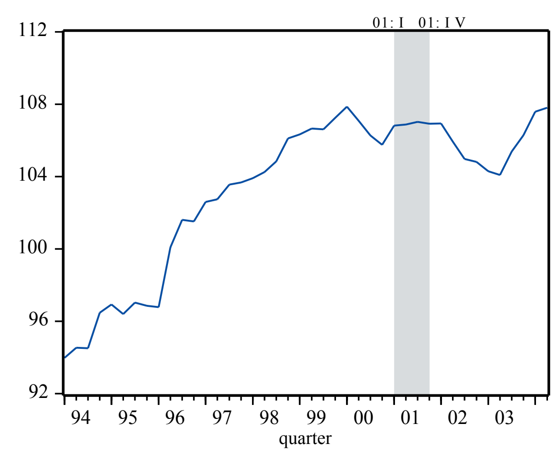
After suffering losses the last two months, the Tri-Cities area leading index enjoyed a gain this month, causing the year-over-year percentage change for the index to be positive. The Tri-Cities area must build upon this month's growth in employment and turn around its dismal performance in inflation-adjusted taxable sales. While further growth in the Tri-Cities area is expected, economic conditions will be mixed through the holiday season and into the new year.

TRI-CITIES ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	Jun-04	Jul-04	Aug-04	2003
Leading Index (1996=100)	107.7	107.1	107.1	105.0
% Chg Prev Month SAAR	-7.1	-6.2	0.4	-0.6
% Chg Same Month Last Yr	3.6	1.6	1.6	-0.6
Nonfarm Employment (THOU)[1] ..	197.7	199.0	199.2	198.5
% Chg Prev Month SAAR	-8.6	8.1	1.3	0.5
% Chg Same Month Last Yr	0.2	0.4	-0.1	0.5
Unemployment (%)[1]	4.8	4.9	4.9	5.9
Mfg Employment (THOU)[1]	37.9	37.8	37.5	38.9
% Chg Prev Month SAAR	-9.6	-1.0	-8.6	-4.2
% Chg Same Month Last Yr	-3.0	-2.1	-2.5	-4.2
Mfg Avg Weekly Hours[1]	40.7	38.0	39.9	38.8
% Chg Prev Month SAAR	-15.4	-56.3	81.2	-2.4
% Chg Same Month Last Yr	5.4	-1.9	4.3	-2.4
Const Employment (THOU)[1]	10.3	10.3	10.4	10.2
% Chg Prev Month SAAR	-8.6	11.6	1.0	-2.8
% Chg Same Month Last Yr	2.1	2.0	1.9	-2.8
Taxable Sales (MIL $)[2]	362	370	359	4,174
% Chg Prev Month SAAR	15.7	29.6	-31.7	-0.5
% Chg Same Month Last Yr	9.8	2.5	0.5	-0.5
Taxable Sales (MIL 2000 $)[2]	336	343	332	3,956
% Chg Prev Month SAAR	12.4	30.3	-31.6	-2.3
% Chg Same Month Last Yr	7.1	0.1	-1.6	-2.3

NOTES:
1. Calculated from U.S. Bureau of Labor Statistics data.
2. Calculated from Tennessee Department of Revenue data.

FIGURE 12
Tri-Cities Quarterly Leading Index



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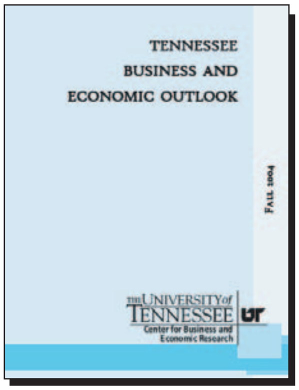

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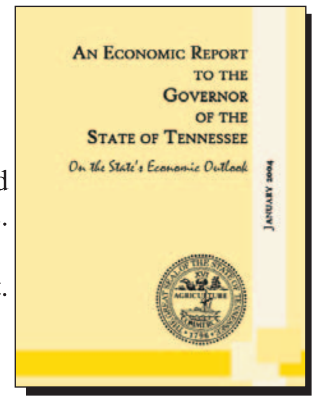

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