PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
II-B-10 RATE BASE ACCOUNTS - PREPAYMENTS - INTERIM
For the Projected Test Year Ended March 31, 2013

Line No.	Account Number	Description	Reference Schedule	1 Total Company	2 Non-Regulated or Non-Electric	3 Known Change	4 Company Total Electric	5 FF #	6 Funct Factor Name	7 Allocation to Texas	8 TRAN	9 DIST
72	PUBLIC UTILITY COMMISSION OF TEXAS											
73	LONE STAR TRANSMISSION, LLC											
74	II-B-10 RATE BASE ACCOUNTS - PREPAYMENTS - FINAL											
75	For the Projected Test Year Ended March 31, 2014											
76												
77												
78				1	2	3	4	5	6	7	8	9
79–82	Account Number	Description	Reference Schedule	Total Company	Non-Regulated or Non-Electric	Known Change	Company Total Electric	FF #	Funct Factor Name	Allocation to Texas	TRAN	DIST
83												
84	Other Rate Base Items											
85	Working Capital											
86	165	Prepayments - Insurance	II-B-10									
87		Balance at March 31, 2013		$35,846	$0	($7,140)	$28,706			$28,706	$28,706	$0
88		Balance at April 30, 2013		28,706	0	(7,213)	21,493			21,493	21,493	0
89		Balance at May 31, 2013		21,493	0	(7,213)	14,280			14,280	14,280	0
90		Balance at June 30, 2013		14,280	0	91,645	105,924			105,924	105,924	0
91		Balance at July 31, 2013		105,924	0	(11,400)	94,524			94,524	94,524	0
92		Balance at August 31, 2013		94,524	0	(11,400)	83,124			83,124	83,124	0
93		Balance at September 30, 2013		83,124	0	10,812	93,935			93,935	93,935	0
94		Balance at October 31, 2013		93,935	0	(11,446)	82,489			82,489	82,489	0
95		Balance at November 30, 2013		82,489	0	(11,446)	71,044			71,044	71,044	0
96		Balance at December 31, 2013		71,044	0	(11,446)	59,598			59,598	59,598	0
97		Balance at January 31, 2014		59,598	0	925	60,523			60,523	60,523	0
98		Balance at February 28, 2014		60,523	0	(11,471)	49,053			49,053	49,053	0
99		Balance at March 31, 2014		49,053	0	(11,471)	37,582			37,582	37,582	0
100		13-Month Average - Prepayments		$61,580	$0	$134	$61,713	$0	$0	$61,713	$61,713	$0
101												
102		Subtotal		$61,580	$0	$134	$61,713	$0	$0	$61,713	$61,713	$0
103												
104	TOTAL PREPAYMENTS		II-B-10	$61,580	$0	$134	$61,713	$0	$0	$61,713	$61,713	$0

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC.
II-B-10 RATE BASE ACCOUNTS - PREPAYMENTS - INTERIM
For the Projected Test Year Ended March 31, 2013

Line No.	Account Number	Description	10 MET	11 TBILL	12 ABILL	13 TDCS	14 Total	CHECK
72	PUBLIC UTILITY COMMISSION OF TEXAS							
73	LONE STAR TRANSMISSION, LLC.							
74	II-B-10 RATE BASE ACCOUNTS - PREPAYMENTS - FINAL							
75	For the Projected Test Year Ended March 31, 2014							
76								
77			10	11	12	13	14	
78								
79								
80	Account Number	Description	MET	TBILL	ABILL	TDCS	Total	CHECK
81								
82								
83								
84	**Other Rate Base Items**							
85	**Working Capital**							
86	165	**Prepayments - Insurance**						
87		Balance at March 31, 2013	$0	$0	$0	$0	$28,706	
88		Balance at April 30, 2013	0	0	0	0	$21,493	
89		Balance at May 31, 2013	0	0	0	0	$14,280	
90		Balance at June 30, 2013	0	0	0	0	$105,924	
91		Balance at July 31, 2013	0	0	0	0	$94,524	
92		Balance at August 31, 2013	0	0	0	0	$83,124	
93		Balance at September 30, 2013	0	0	0	0	$93,935	
94		Balance at October 31, 2013	0	0	0	0	$82,489	
95		Balance at November 30, 2013	0	0	0	0	$71,044	
96		Balance at December 31, 2013	0	0	0	0	$59,598	
97		Balance at January 31, 2014	0	0	0	0	$60,523	
98		Balance at February 28, 2014	0	0	0	0	$49,053	
99		Balance at March 31, 2014	0	0	0	0	$37,582	
100		13-Month Average - Prepayments	$0	$0	$0	$0	$61,713	
101								
102		Subtotal	$0	$0	$0	$0	$61,713	
103								
104	**TOTAL PREPAYMENTS**		$0	$0	$0	$0	$61,713	

WORKPAPER SUPPORT
FOR
SCHEDULE II-C-2.4 (INTERIM)

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
Workpaper Support for Schedule II-C-2.4 - INTERIM
Weighted Average Cost of Long-Term Debt
For the Interim Rate Period Ended March 31, 2013
Docket No. 40020

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
	Construction Bank Loan Details											Effective Interest Rate Calculation			
Line	Month	Number of Days	Cumulative Project Costs(1)	Debt Ratio	Debt Amount(2)	Interest Rate(3)	Avg Commitments Remaining(4)	Commitment Fee	Interest & Commitment Fees(5)	Upfront Fees & Issuance Costs	Net Cash Proceeds(6)	Beginning Balance	Effective Interest(7)	Borrowings (less Int, Cmt, & Issuance Costs)	Ending Balance
1	Nov-11	30	$ 207,300,000	48%	$ 99,500,000	2.260%	$ 287,100,000	0.75%	$ -	$ 7,500,207	$ 91,999,793	$ -		$ 91,999,793	$ 91,999,793
2	Dec-11	31	$ 241,594,909	48%	$ 116,000,000	2.260%	$ 270,600,000	0.75%	$ 366,829	$ -	$ 16,133,171	$ 91,999,793	$ 362,526	$ 16,133,171	$ 108,495,489
3	Jan-12	31	$ 282,378,508	48%	$ 135,500,000	2.260%	$ 251,100,000	0.75%	$ 400,511	$ -	$ 19,099,489	$ 108,495,489	$ 441,778	$ 19,099,489	$ 128,036,756
4	Feb-12	29	$ 340,971,884	48%	$ 163,700,000	2.260%	$ 222,900,000	0.75%	$ 425,867	$ -	$ 27,774,133	$ 128,036,756	$ 521,347	$ 27,774,133	$ 156,332,236
5	Mar-12	31	$ 404,103,701	48%	$ 194,000,000	2.260%	$ 192,600,000	0.75%	$ 432,694	$ -	$ 29,867,306	$ 156,332,236	$ 595,494	$ 29,867,306	$ 186,795,036
6	Apr-12	30	$ 464,790,648	48%	$ 223,100,000	2.260%	$ 163,500,000	0.75%	$ 501,933	$ -	$ 28,598,067	$ 186,795,036	$ 760,603	$ 28,598,067	$ 216,153,706
7	May-12	31	$ 517,624,856	48%	$ 248,500,000	2.260%	$ 138,100,000	0.75%	$ 522,359	$ -	$ 24,877,641	$ 216,153,706	$ 851,755	$ 24,877,641	$ 241,883,102
8	Jun-12	30	$ 572,884,327	48%	$ 275,000,000	2.260%	$ 111,600,000	0.75%	$ 572,798	$ -	$ 25,927,202	$ 241,883,102	$ 984,913	$ 25,927,202	$ 268,795,217
9	Jul-12	31	$ 619,980,891	48%	$ 297,600,000	2.260%	$ 89,000,000	0.75%	$ 587,667	$ -	$ 22,012,333	$ 268,795,217	$ 1,059,189	$ 22,012,333	$ 291,866,739
10	Aug-12	31	$ 661,281,763	48%	$ 317,400,000	2.260%	$ 69,200,000	0.75%	$ 636,642	$ -	$ 19,163,358	$ 291,866,739	$ 1,188,439	$ 19,163,358	$ 312,218,537
11	Sep-12	30	$ 691,057,246	48%	$ 331,700,000	2.260%	$ 54,900,000	0.75%	$ 662,387	$ -	$ 13,637,613	$ 312,218,537	$ 1,271,309	$ 13,637,613	$ 327,127,458
12	Oct-12	31	$ 720,611,252	48%	$ 345,900,000	2.260%	$ 40,700,000	0.75%	$ 659,014	$ -	$ 13,540,986	$ 327,127,458	$ 1,289,048	$ 13,540,986	$ 341,957,492
13	Nov-12	30	$ 735,355,944	48%	$ 353,000,000	2.260%	$ 33,600,000	0.75%	$ 699,445	$ -	$ 6,400,555	$ 341,957,492	$ 1,392,402	$ 6,400,555	$ 349,750,448
14	Dec-12	31	$ 749,519,082	48%	$ 359,800,000	2.260%	$ 26,800,000	0.75%	$ 685,817	$ -	$ 6,114,183	$ 349,750,448	$ 1,378,194	$ 6,114,183	$ 357,242,825
15	Jan-13	31	$ 763,024,558	48%	$ 366,300,000	2.260%	$ 20,300,000	0.75%	$ 717,519	$ -	$ 5,782,481	$ 357,242,825	$ 1,454,641	$ 5,782,481	$ 364,479,948
16	Feb-13	28	$ 772,775,055	48%	$ 370,900,000	2.260%	$ 15,700,000	0.75%	$ 725,971	$ -	$ 3,874,029	$ 364,479,948	$ 1,484,110	$ 3,874,029	$ 369,838,087
17	Mar-13	14	$ 792,799,595	48%	$ 380,500,000	2.260%	$ 6,100,000	0.75%	$ 661,118	$ -	$ 8,938,882	$ 369,838,087	$ 1,360,193	$ 8,938,882	$ 380,137,161
18	Apr-13		$ -	48%	$ -	2.260%	$ -	0.75%	$ 336,196	$ -	$ (380,836,196)	$ 380,137,161	$ 699,035	$ (380,836,196)	$ -
19												Effective Interest Rate(8):	4.794%		
20															
21															
22															

Line	Upfront Fees & Issuance Costs:		
24	Type	Amount	Comments
25	Upfront Fees	$ 5,799,000	Based upon total commitments of $386,600,000 and 1.50% rate
26	Admin Agent & Collateral Agent Fees	$ 83,500	
27	Depository Agent & Process Agent Fees	$ 41,882	
28	Legal Fees	$ 1,198,592	Borrower's Counsel, Lender's Counsel, Local Counsel, Regulatory Counsel, Depository Agent Counsel
29	Consultant Fees	$ 173,211	Independent Engineer, Insurance Consultant and Environmental Consultant
30	Title Insurance Costs	$ 13,737	Based upon limited title insurance (only for substation sites)
31	Time, Travel, and Miscellaneous Costs	$ 190,286	Employee, third party, and shared services labor and travel expenses, and other miscellaneous costs directly related to financing
32	Total	$ 7,500,207	

(1) - Equal to projected cumulative capital expenditures at start of month plus forecasted cumulative AFUDC and rate case expenditures
(2) - Equal to cumulative project costs multiplied by the debt ratio, rounded to nearest $100,000 increment
(3) - Represents the interpolated 1 yr and 2 yr LIBOR swap rates as of close of business on 11/18/11 (0.76%) plus a 1.50% margin - see Page 3
(4) - Average remaining outstanding commitments on the Construction Bank Loan ("Debt Financing"), consisting of $386,600,000 facility size (less) the debt amount outstanding
(5) - Equal to prior month debt amount multiplied by the interest rate, plus prior month average commitments remaining multiplied by the commitment fee, each on an Actual/360 day basis
(6) - Equal to monthly debt borrowing (repayment), less interest and commitment fees, less upfront fees and issuance costs
(7) - Effective interest calculated using the effective interest rate and an Actual/365 day count
(8) - Equal to the rate which fully amortizes the net cash flows including borrowings, interest, commitment fees, and upfront fees and issuance costs over the period

2301

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
Workpaper Support for Schedule II-C-2.4 - FINAL
Weighted Average Cost of Long-Term Debt
For the Final Rate Period Ended March 31, 2014
Docket No. 40020

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Line	Bank	Type of Issuance	Structure	Maturity	Indicative Credit Spread	30 Year Treasury Rate Frcst	Forecasted Coupon Rate	Indicative Placement Fees
1	A	Private Placement	Partially Amortizing	30 years	2.125%	3.883%	6.008%	0 6000%
2	B	Private Placement or 144A Bond	Partially Amortizing	30 years	2.125%	3.883%	6.008%	0.8750%
3	C	Private Placement	Partially Amortizing	30 years	2.300%	3.883%	6.183%	0.6500%
4	D	Private Placement	Partially Amortizing	30 years	2.300%	3.883%	6.183%	1.0000%
5	E	Private Placement or 144A Bond	Partially Amortizing	30 years	2.375%	3.883%	6 258%	1.0625%
6						**Low:**	**6.008%**	**0.600%**
7						**High:**	**6.258%**	**1.063%**
8						**Average:**	**6.128%**	**0.838%**

Line				
10	**Customary Underwriting/Placement Fees & Issuance Expenses:**			
11	Type		Amount	Comments
12	Underwriting/Placement Fees	$	2,310,000	Based upon principal amount (Line 25) and 60 bps placement fee on most attractive proposal
13	Credit Rating Fees	$	300,000	Based upon 2012 Standard & Poor's Credit Rating Suscription Fee Schedule[(1)]
14	Investor's/Underwriters' Counsel	$	650,000	
15	Issuer's Counsel	$	400,000	
16	Trustee Fees	$	25,000	Annual cost with initial payment due at closing
17	Consultant Expenses	$	125,000	Independent Engineer, Insurance Consultant, Environmental Consultant, Accounting Fees, etc.
18	Miscellaneous Expenses	$	75,000	Roadshow, distribution, printing, conference calls, data room, third-party labor, etc
19	Affiliate and Internal Time & Travel Costs	$	100,000	Shared service and travel costs related to financing
20	**Total**	**$**	**3,985,000**	
21				
22	**30 Year Treasury Rate Forecast**			Comments
23	IHS Global Insight[(2)]		3.75%	Projected annual 30-year bond yield in 2013
24	Value Line Investment Survey[(3)]		4 10%	Projected long-term treasury bond rate in 2013
25	Blue Chip Financial Forecasts[(4)]		3.80%	Projected 30 year treasury note rate in 1Q 2013 (last quarterly projection)
26	**Avergae**		**3.883%**	
27				
28	Required Net Proceeds[(5)]	$	380,500,000	
29	Underwriting Fees & Issuance Expenses	$	3,985,000	
30	**Principal Amount**	**$**	**384,485,000**	
31				

Line				
32	**Cost of Long-term Debt:**			
33	**Description**			**Amount**
34	Coupon Interest	6.008%	$	23,101,140
35	Amortization of Issuance Expenses[(6)]	30 years	$	132,833
36	**Total Annual Interest Expense**		**$**	**23,233,974**
37	Net Proceeds		$	380,500,000
38	**Cost of Long-term Debt**			**6.106%**

(1) - Based upon issuance fees of 5.25 bps (first $200mm) and 3.65 bps (next $300mm), plus $65,000 initial CCR Fee and $66,500 Annual Long-term CCR Fee
(2) - Value Line Investment Survey: Selection & Opinion, *Value Line Publishing, LLC*, Volume LXVII, Number 14, Part 2, Nov. 25, 2011.
(3) - IHS Global Insight: US Economic Outlook, *IHS Global Insight, Inc.*, Financial Markets Section, Dec. 2011
(4) - Blue Chip Financial Forecasts, *Aspen Publishers*, Vol. 30, No 11, Nov. 1, 2011
(5) - Based upon amount outstanding in March 2013 for the Debt Financing as indicated in Line 17, Page 1 of WP / II-C-2.4 - INTERIM
(6) - Based upon straight line amortization over 30 years

WITNESS: ALDO E. PORTALES

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
Workpaper Support for Schedule II-C-2.4 - INTERIM
Weighted Average Cost of Long-Term Debt
For the Interim Rate Period Ended March 31, 2013
Docket No. 40020

Display Actual Cost Line Items for Projects

Layout	/MAV			CWIP/List for CWIP for Fixed Assets
Object	WBS E-2500-080			Financing Costs
Cost Element	4000000	To	8999999	Energy Rev-Merchant
Posting Date	01/01/2007	To	11/30/2011	

Doc. Date	Posting Date	CO object name	Object	Cost Elem.	Val/COArea Crcy
		Employees Labor	P-2500-081-01		34.66
		Employees Labor	P-2500-081-05		45,303.68
		Third Party Labor	P-2500-083-01		0.00
		Third Party Labor	P-2500-083-05		27,483.68
		Third Party Other	P-2500-083-08		7,309,921.22
		Shared Services-NEER	P-2500-084-01		1,821.82
		Shared Services-FPL	P-2500-084-02		302.79
		Shared Services-US Transmission	P-2500-084-03		0.00
		Shared Services-NextEra Energy Inc	P-2500-084-04		0.00
		Shared Services-NEER	P-2500-084-05		111,708.80
		Shared Services-FPL	P-2500-084-06		3,471.40
		Shared Services-US Transmission	P-2500-084-07		61.61
		Shared Services-NextEra Energy Inc	P-2500-084-08		167.03
					7,500,207.37

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
Workpaper Support for Schedule II-C-2.4 - INTERIM
Weighted Average Cost of Long-Term Debt
For the Interim Rate Period Ended March 31, 2013
Docket No. 40020

Selected Interest Rates (Weekly) - H.15

Current Release Release Dates Daily Update Historical Data About Announcements

Current Release (48 KB PDF)

Release Date: November 21, 2011

The weekly release is posted on Monday. Daily updates of the weekly release are posted Tuesday through Friday on this site. If Monday is a holiday, the weekly release will be posted on Tuesday after the holiday and the daily update will not be posted on that Tuesday.

November 21, 2011
H.15 Selected Interest Rates

Yields in percent per annum

Instruments	2011 Nov 14	2011 Nov 15	2011 Nov 16	2011 Nov 17	2011 Nov 18	Week Ending Nov 18	Week Ending Nov 11	2011 Oct
Federal funds (effective) 1 2 3	0.08	0.09	0.08	0.08	0.08	0.08	0.08	0.07
Commercial Paper 3 4 5 6								
Nonfinancial								
1-month	0.10	0.11	0.09	0.11	0.07	0.10	0.11	0.09
2-month	0.11	0.11	0.12	n.a.	0.11	0.11	0.11	0.10
3-month	0.16	0.16	0.11	n.a.	0.13	0.14	0.13	0.15
Financial								
1-month	0.10	0.11	0.11	0.16	0.09	0.11	0.08	0.11
2-month	0.24	0.17	0.12	0.12	0.18	0.17	0.15	0.15
3-month	0.21	0.23	0.26	0.20	0.21	0.22	0.21	0.24
CDs (secondary market) 1 2								
1-month	0.20	0.20	0.20	0.21	0.21	0.20	0.20	0.20
3-month	0.41	0.42	0.43	0.43	0.44	0.43	0.39	0.37
6-month	0.59	0.59	0.59	0.61	0.62	0.60	0.54	0.50
Eurodollar deposits (London) 1 2								
1-month	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
3-month	0.50	0.49	0.49	0.49	0.49	0.49	0.50	0.49
6-month	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
Bank prime loan 2 3 8	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25

Discount window primary credit 2 10	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
U.S. government securities								
Treasury bills (secondary market) 3 4								
4-week	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01
3-month	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.02
6-month	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.05
1-year	0.08	0.11	0.11	0.10	0.12	0.10	0.09	0.11
Treasury constant maturities								
Nominal 11								
1-month	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01
3-month	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.02
6-month	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.05
1-year	0.09	0.11	0.11	0.10	0.12	0.11	0.10	0.11
2-year	0.24	0.25	0.26	0.27	0.29	0.26	0.25	0.28
3-year	0.39	0.40	0.40	0.40	0.43	0.40	0.38	0.47
5-year	0.91	0.93	0.90	0.88	0.94	0.91	0.90	1.06
7-year	1.46	1.48	1.44	1.41	1.48	1.45	1.45	1.62
10-year	2.04	2.06	2.01	1.96	2.01	2.02	2.05	2.15
20-year	2.77	2.79	2.73	2.66	2.69	2.73	2.79	2.87
30-year	3.09	3.10	3.05	2.98	2.99	3.04	3.08	3.13
Inflation indexed 12								
5-year	-0.93	-0.83	-0.78	-0.71	-0.70	-0.79	-1.00	-0.63
7-year	-0.50	-0.42	-0.40	-0.36	-0.35	-0.41	-0.57	-0.28
10-year	-0.01	0.04	0.05	0.06	0.05	0.04	-0.05	0.19
20-year	0.56	0.61	0.59	0.60	0.60	0.59	0.51	0.72
30-year	0.79	0.84	0.83	0.83	0.83	0.82	0.73	0.99
Inflation-indexed long-term average 13	0.51	0.56	0.56	0.56	0.56	0.55	0.48	0.74
Interest rate swaps 14								
1-year	0.64	0.67	0.68	0.75	0.74	0.70	0.59	0.57
2-year	0.70	0.71	0.73	0.79	0.78	0.74	0.62	0.64
3-year	0.83	0.83	0.84	0.85	0.89	0.86	0.74	0.82
4-year	1.06	1.05	1.07	1.10	1.10	1.08	0.97	1.09
5-year	1.33	1.32	1.32	1.35	1.35	1.33	1.24	1.38
7-year	1.80	1.77	1.78	1.79	1.79	1.78	1.73	1.87
10-year	2.25	2.20	2.22	2.22	2.20	2.22	2.18	2.31

WITNESS: ALDO E. PORTALES

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
Work Papers - Richard B. Cribbs - WP/II-B-12 - Interim - ASC 740 (SFAS 109) - AFUDC Equity
For the Interim Rate Period Ended March 31, 2013
Docket No. 40020

ASC 740 (SFAS 109) - AFUDC Equity

Interim

Line No.	FERC Acct	Detail			Beginning	Ending	Average	Reference To Schedule
1								
2								
3	282	DTL - ASC 740 (FAS 109)			(683,538)	(670,892)	(677,215)	II-B-12
4	182.3	Reg Asset - ASC 740 (FAS 109)			683,538	670,892	677,215	II-B-12
5								
6								
7								
8	Equity Percentage							
9	Debt		2.30%	28.69%				
10	Equity		5.72%	71.31%				
11			8.02%	100.00%				
12								
13								
14								
15		AFUDC Interim		1,780,110				
16		Equity AFUDC		1,269,427				
17								
18		Federal Tax Rate		35.00%				
19		Total AFUDC Equity Grossed up		1,952,965				
20		ASC 740 (SFAS 109) - AFUDC Equity		683,538				
21								
22		Eff Rate Check		35.00%				
23								
24		Amortization Rate		1 85%				
25								
26		Annual		12,645				
27		Monthly		1,054				
28								
29		Interim - ASC 740 (SFAS 109) - AFUDC Equity			683,538			
30								
31		Interim - ASC 740 (SFAS 109) - AFUDC Equity Less Annual Amortization				670,892		

PUBLIC UTILITY COMMISSION OF TEXAS
LONE STAR TRANSMISSION, LLC
Work Papers - Richard B. Cribbs - WP/II-B-12.1 - Final - ASC 740 (SFAS 109) - AFUDC Equity
For the Final Rate Period Ended March 31, 2014
Docket No. 40020

ASC 740 (SFAS 109) - AFUDC Equity

Final

Line No	FERC Acct	Detail			Beginning	Ending	Average	Reference To Schedule
1								
2								
3	282	DTL - ASC 740 (FAS 109)			(23,761,791)	(23,321,964)	(23,541,877)	II-B-12
4	182 3	Reg Asset - ASC 740 (FAS 109)			23,761,791	23,321,964	23,541,877	II-B-12
5								
6								
7	Equity Percentage							
8	Debt		2.30%	28.69%				
9	Equity		5.72%	71.31%				
10			8.02%	100.00%				
11								
12			AFUDC Final	60,134,698				
13			Equity AFUDC	42,883,098				
14								
15			Effective Rate	35 00%				
16			Total AFUDC Equity Grossed up	65,973,997				
17			ASC 740 (SFAS 109) - AFUDC Equity	23,090,899				
18								
19			Eff Rate Check	35.00%				
20								
21			Amortization Rate	1.85%				
22								
23			Annual	427,182				
24			Monthly	35,598				
25								
26		Final - ASC 740 (SFAS 109) - AFUDC Equity			23,090,899			
27								
28		Final - ASC 740 (SFAS 109) - AFUDC Equity Less Annual Amortization				22,663,717		
29								
30		Interim			670,892	658,247		
31								
32		Ending Balance Less Annual Amortization			23,761,791	23,321,964		

WORKPAPER SUPPORT
FOR
SCHEDULE II-C-2.4 (FINAL)

US ECONOMIC OUTLOOK

DECEMBER 2011

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Financial Markets

by Patrick Newport

Highlights

- Large daily movements in US equity markets have become more common because of unfolding events in the Eurozone.
- We expect bond yields to move substantially higher over the long term, but see them staying below 2.5% until late 2012.
- The Federal Reserve has given as firm a commitment as possible to keep the federal funds rate near zero through at least mid-2013. Our expectation is that it will not be raising rates until 2014.

Changes to the Forecast

	Short Term	Long Term
Prime Rate	▸	▸
Treasury Bond, 10-Year Yield	▸	▸
Corporate Bond Yield	▸	▸
Consumer Nonmortgage Credit	▲	▲
Mortgage Credit	▲	▲
Business Credit	▸	▲

▲ = Higher
▼ = Lower
▸ = No Change

Issue to Watch

- The major immediate risks remain to the downside. The most worrisome one is a financial meltdown in the Eurozone, with some countries exiting the euro, and/or a messy default by one or more of the large Eurozone countries, especially Italy or Spain.

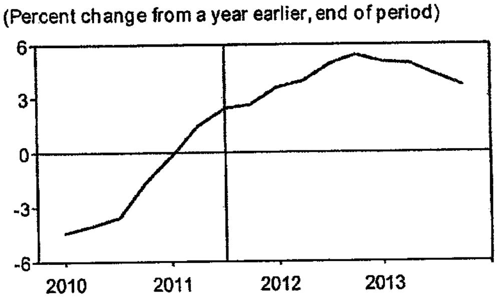
Financial Markets Outlook

(Percent)

	Quarterly						Years			
	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2010	2011	2012	2013
Federal Funds Rate	0.09	0.08	0.08	0.10	0.10	0.10	0.18	0.10	0.10	0.11
3-Month Treasury Bill Rate	0.05	0.02	0.02	0.03	0.04	0.06	0.14	0.05	0.05	0.09
10-Year Treasury Note Yield	3.21	2.43	2.06	2.10	2.26	2.43	3.21	2.79	2.32	2.84
30-Year Fixed Mortgage Rate	4.66	4.31	4.01	3.87	3.98	4.13	4.69	4.46	4.04	4.38
Corporate AAA Bond Yield	5.04	4.46	3.89	4.03	4.18	4.29	4.94	4.63	4.21	4.54
S&P 500 Stock Index	1,319	1,228	1,220	1,216	1,251	1,269	1,139	1,267	1,256	1,334
Year-on-Year Percent Change	16.2	12.0	1.3	-6.7	-5.2	3 4	20.3	11.2	-0.9	6.2
Year-on-Year Percent Change (End-of-period basis)										
Consumer Credit	-1.8	-1.5	-1.7	-1.6	-1.6	-1.3	-2.9	-1.7	-1.0	0.9
Nonmortgage	1.5	2.4	2.6	3.6	4.0	4.9	-1.7	2.6	5.4	3.7
Mortgages	-2.5	-2.4	-2.6	-2.8	-2.9	-2.8	-3.2	-2.6	-2.5	0.1
Business Credit	4.1	7.7	8.5	7.7	7.7	7.0	-5.6	8.5	7.9	6.5
Total Credit	-1.3	-0.8	-0.8	-0.8	-0.7	-0.5	-3.1	-0.8	-0.2	1.4

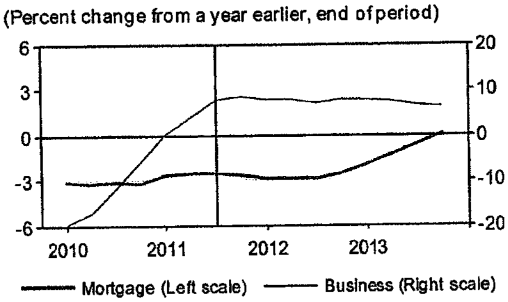
Consumer Nonmortgage Credit

(Percent change from a year earlier, end of period)



Consumer Mortgage and Business Credit

(Percent change from a year earlier, end of period)



Analysis

Recent Developments. Large daily movements in US equity markets have become more common because of unfolding events in the Eurozone. On November 9, the Dow dropped 3.7% after Italian 10-year bond yields crossed the 7% threshold. And on November 30, the Dow jumped 4.3% on news that the Fed and five other central banks would expand a program that allows foreign banks to borrow dollars at low interest rates. Despite these occasional large swings, the CBOE Volatility Index (VIX), which measures expected volatility in the S&P 500 over the next 30 days, has been edging down. On December 8, the VIX ended at 27.8, down from an average reading of 31.9 in November, indicating that while investors expected markets to remain volatile, they also expected volatility to diminish slightly.

The 10-year yield has been hovering around the 2.0% mark since early November, and 30-year yields have settled about 100 basis points above the 10-year yield, as investors continued to show a preference for the liquidity and security of US securities. The dollar's movements against other currencies has been mixed. The Federal Reserve's trade-weighted exchange rate—the broad index—was up 0.6% in the 30 days ended December 2. During this interval, the dollar gained 3.3% against the euro and 2.7% against the British pound, but lost 0.5% against the yen.

The Outlook. Economic growth has improved. Fourth-quarter GDP is expected to be up 2.6%—the best quarter this year. We expect growth to slip below 2.0% again in the first half of 2012, however, because of domestic headwinds from high household and public debt, as well as slower economic growth abroad. We have cut our recession probability to 35%, from 40%. Domestic recession risks have eased, but the threat from the Eurozone remains high.

We expect the dollar to strengthen against the euro as the Eurozone tips into recession, but we see no clear medium-term trend in the dollar against major currencies. We expect a continuing downward trend against emerging-market currencies, dictated by the pace at which China allows the renminbi to appreciate.

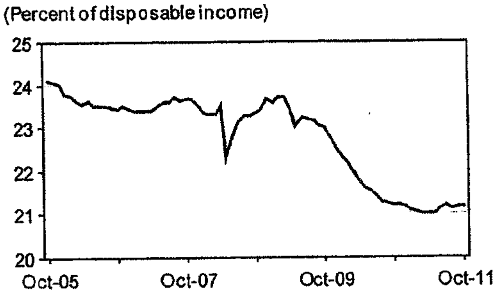
Ten-year Treasury bond yields have fallen sharply on fears for global growth and an expectation that short-term interest rates will remain very low for a long time. We expect bond yields to move substantially higher over the long term, but see them staying below 2.5% until late 2012.

The Fed's willingness to jump in with extra liquidity for European banks indicates its concern at the size of the risks facing the global financial system. We expect that it will follow through with a domestic QE III program in 2012 of similar size to QE II ($600 billion), targeted mostly or entirely towards mortgage-backed securities. We do not believe, however, that either this action or the current "twist" operation will give much support to growth.

Risks to the Forecast. In the pessimistic scenario, facing an outlook of weak growth, the Federal Reserve keeps the federal funds rate in the 0.00-0.25% target range until 2015. Ten-year yields remain below the baseline through 2015.

In the optimistic scenario, long-term interest rates initially climb more quickly than in the baseline because the outlook is brighter. In light of stronger-than-expected growth, the Fed rethinks its pledge to keep interest rates near zero through mid-2013 and begins hiking rates in the first quarter of that year.

Nonmortgage Consumer Debt
(Percent of disposable income)



Consumer Credit Outstanding
(Billions of dollars)

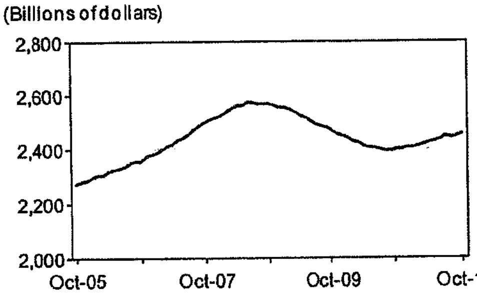
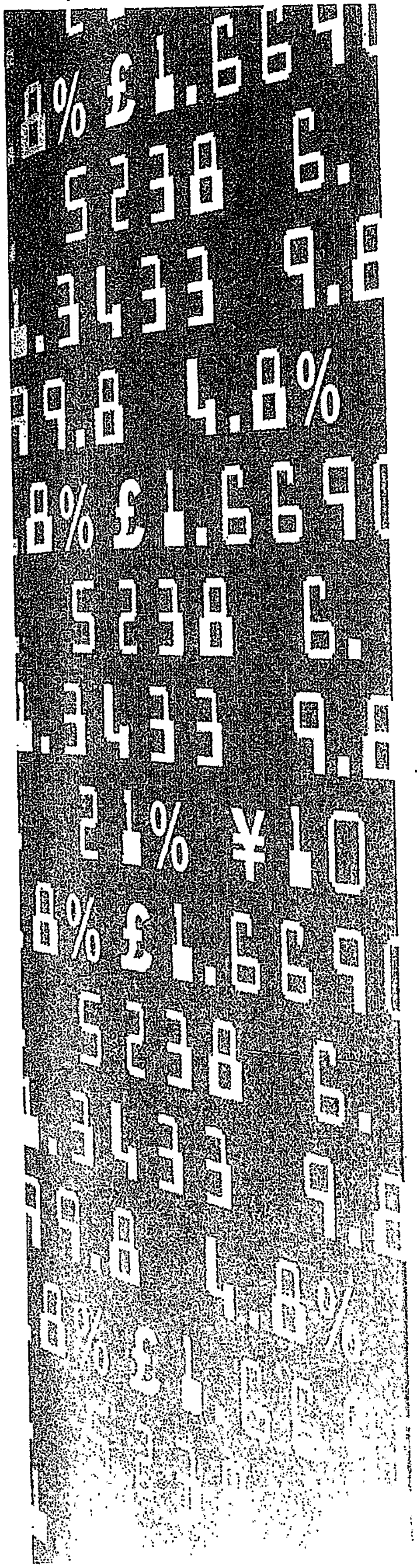


TABLE 1
Interest Rates, Money, and Financial Variables

	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2010	2011	2012	2013	2014	2015	2016
Percent per Annum, NSA													
Federal Funds Rate	0.09	0.08	0.08	0.10	0.10	0.10	0.18	0.10	0.10	0.11	1.23	3.27	4.00
New York Fed Discount Rate	0.75	0.75	0.75	0.75	0.75	0.75	0.72	0.75	0.75	0.75	1.99	4.27	5.00
Prime Rate	3.25	3.25	3.25	3.25	3.25	3 25	3.25	3.25	3.25	3.25	4.23	6.27	7.00
US Treasury Yield Curve													
3-Month Bill, Bond Equiv. Yield	0.05	0.02	0.02	0.03	0.04	0.06	0.14	0.05	0.05	0.09	1.33	3.27	3.86
6-Month Bill, Bond Equiv. Yield	0.10	0.06	0.06	0.07	0.08	0.10	0.20	0.10	0.09	0.14	1.51	3.48	4.02
1-Year Bill/Note Yield	0.21	0.13	0.12	0.13	0.14	0.17	0.32	0.18	0.16	0.25	1.70	3.62	4.01
2-Year Note Yield	0.57	0.28	0.27	0.26	0.29	0.37	0.70	0.45	0.33	0.52	1.96	3.76	4.12
5-Year Note Yield	1.86	1.15	0.97	1.04	1.21	1.41	1.93	1.53	1.29	1.64	2.66	4.18	4.50
10-Year Note Yield	3.21	2.43	2.06	2.10	2.26	2.43	3.21	2.79	2.32	2.84	3.58	4 60	4.91
30-Year Bond Yield	4.34	3.69	3.04	3.06	3.22	3.36	4.25	3.91	3.27	3.75	4.45	5.09	5.31
Short-Term Rates													
3-Month Treasury Bill	0.05	0.02	0.02	0.03	0.04	0.06	0.14	0.05	0.05	0.09	1.31	3.20	3.77
6-Month Treasury Bill	0.10	0.06	0.05	0.07	0.08	0.10	0.19	0.10	0.08	0.14	1.47	3.38	3.89
3-Month Negotiable CDs	0.22	0.29	0.42	0.50	0.46	0.32	0.31	0.30	0.38	0.24	1.47	3.51	4.16
3-Month Commercial Paper	0.17	0.15	0.13	0.17	0.20	0.22	0.23	0.17	0.20	0.22	1.42	3.40	4.04
3-Month LIBOR	0.26	0.30	0.48	0.57	0.53	0.39	0.34	0.34	0.45	0.31	1.54	3.58	4.25
4-Year New Auto Loan (Banks)	5.81	5.94	5.64	5.55	5.56	5.71	6.21	5.81	5.65	5.90	6.62	7.95	8.44
Long-Term Rates													
Seasoned Aaa Corporate Bonds	5.04	4.46	3.89	4.03	4.18	4.29	4.94	4.63	4.21	4.54	5.13	5.96	6.22
Seasoned Baa Corporate Bonds	5.85	5.46	5.21	5.29	5.31	5.33	6.04	5.65	5.32	5.61	6.29	7.12	7.38
Seasoned Aa Public Utility Bonds	5.14	4.75	4.01	4.15	4.33	4.50	5.24	4.81	4.40	4.92	5.63	6.52	6.79
Bond Buyer Index, 20 GO Munis	4.67	4.19	4.08	4.07	4.13	4.20	4.29	4.51	4.15	4.43	4.84	5.49	5.70
Mortgage Rates													
30-Year Conventional Fixed	4.66	4.31	4.01	3.87	3.98	4.13	4.69	4.46	4.04	4.38	5.02	5.98	6.29
11th District Cost of Funds	1.35	1.31	1.18	1.22	1.26	1.25	1.71	1.33	1.24	1.19	1.69	3.01	3.50
Billions of Dollars, SA													
Monetary Aggregates and Reserves													
M1	1924.1	2081.7	2155.0	2186.0	2209.0	2244.7	1808.3	2155.0	2283.1	2416.1	2469.3	2488.7	2517.5
(Percent Change, Annual Rate)	12.1	37.0	14.8	5.9	4.3	6.6	7.4	19.2	5.9	5.8	2.2	0.8	1.2
Cash & Travelers' Checks	962.3	981.0	994.2	1014.4	1027.5	1046.2	916.3	994.2	1064.6	1119.6	1150.0	1181.4	1222.6
Checkable Deposits	961.7	1100.7	1160.8	1171.6	1181.5	1198.5	892.0	1160.8	1218.5	1296.4	1319.3	1307.3	1295.0
M2	9021.6	9469.2	9653.4	9723.9	9779.1	9859.3	8777.3	9653.4	9947.0	10416.1	10919.5	11311.0	11732.2
(Percent Change, Annual Rate)	6.2	21.4	8.0	3.0	2.3	3.3	3.2	10.0	3.0	4.7	4.8	3.6	3.7
M1 Velocity (GDP/M1)	7.80	7.29	7.10	7.05	7.02	6.95	8.03	7.00	6.81	6.68	6.88	7.18	7.43
M2 Velocity (GDP/M2)	1.66	1.60	1.58	1.59	1.58	1.58	1.66	1.56	1.56	1.55	1.56	1.58	1.60
Outstanding Credit													
Com'l & Indus. Loans, Com'l.Banks	1260.8	1295.3	1311.4	1332.8	1358.3	1386.5	1209.1	1311.4	1415.3	1506.6	1595.3	1688.7	1776.6
Percent Change, Annual Rate	7.8	11.4	5.1	6.7	7.9	8.6	-5.6	8.5	7.9	6.5	5.9	5.9	5.2
Nonmortgage Consumer Credit	2442.5	2452.0	2471.8	2509.2	2539.0	2572.6	2408.3	2471.8	2604.7	2702.0	2789.0	2898.9	3013.0
Percent Change, Annual Rate	3.5	1.6	3.3	6.2	4.8	5.4	-1.7	2.6	5.4	3.7	3.2	3.9	3.9
Mortgage Loans, All Issuers	13628.3	13559.1	13487.0	13404.7	13340.8	13302.1	13817.4	13487.0	13276.9	13381.6	13837.2	14604.8	15543.5
Percent Change, Annual Rate	-2.4	-2.0	-2.1	-2.4	-1.9	-1.2	-3.6	-2.4	-1.6	0.8	3.4	5.5	6.4
Mortgage Loans													
Net Acquisitions	-334.0	-276.7	-288.2	-329.3	-255.6	-155.0	-509.2	-330.4	-210.1	104.7	455.6	767.6	938.6
Single-Family	-268.4	-249.3	-287.1	-363.5	-296.5	-208.9	-342.5	-278.1	-259.1	10.0	309.2	547.5	645.6
Multi-Family	4.1	9.2	16.2	20.4	25.2	29.7	-10.1	6.9	27.3	41.1	54.3	69.3	84.8
Commercial	-65.0	-31.9	-12.6	11.3	13.3	21.8	-161.6	-54.5	19.2	49.6	87.0	145.8	203.2
Farm	-4.8	-4.7	-4.7	2.5	2.5	2.5	4.9	-4.7	2.5	4.0	5.0	5.0	5.0
Outstandings, End of Period													
Single-Family	10380.1	10317.7	10245.9	10155.1	10080.9	10028.7	10524.0	10245.9	9986.9	9996.9	10306.1	10853.6	11499.2
Multi-Family	839.9	842.2	846.3	851.4	857.7	865.1	839.4	846.3	873.6	914.7	969.0	1038.3	1123.1
Commercial	2274.4	2266.4	2263.3	2266.1	2269.4	2274.9	2317.8	2263.3	2282.4	2332.0	2419.1	2564.9	2768.1
Farm	133.9	132.7	131.5	132.2	132.8	133.4	136.3	131.5	134.0	138.0	143.0	148.0	153.0

TABLE 2
Saving and Investment

	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2010	2011	2012	2013	2014	2015	2016
Billions of Dollars													
Gross Saving	1890.5	1887.3	1984.0	2007.9	1998 0	2003.0	1820.5	1914 3	2012.2	2215.7	2518.8	2756.8	2957.5
Net Saving	-49.5	-74.5	-0.5	13.1	-6.3	-13.5	-54.6	-35.9	0.3	135 0	345.0	477.4	577.0
Net Private Saving	1266.1	1176.5	1220.8	1152.4	1115.1	1056.8	1244.5	1225.7	1088.1	930.2	1046.5	1127.5	1217.9
Personal Saving	556.5	434.6	421.4	464.3	471.2	441.8	592.8	497.8	449.9	366.9	472.8	572.6	641.3
Adjusted Corporate Retained Earnings	709.6	741.9	799.4	688.1	643.8	615.0	651.7	727.8	638.1	563.4	573.7	554.9	576.6
Undistributed Profits	662.7	685.9	702.3	688.5	644.1	639.5	671.0	678.0	653.4	759.2	802.1	695.4	686.8
Inventory Valuation Adjustment	-60.4	-47.3	2.8	36.7	35.1	9.0	-39.1	-55.2	19.2	-11.0	-19.8	-7.8	-5.1
Capital Consumption Adjustment	107.3	103.3	94.3	-37.0	-35.3	-33.4	19.7	105.1	-34.5	-184.9	-208.6	-132.7	-105.1
Wage Accruals less Disbursements'	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Government Saving	-1315.6	-1251.0	-1221.3	-1139.3	-1121.3	-1070.4	-1299.0	-1261.5	-1087.8	-795.3	-701.5	-650.1	-640.9
Federal	-1275.4	-1172.8	-1143.3	-1074.0	-1063.4	-1025.6	-1273.7	-1198.2	-1035.8	-770.2	-692.1	-652.2	-653.2
State & Local	-40.2	-78.2	-78.0	-65.3	-57.9	-44.7	-25.3	-63.4	-51.9	-25.1	-9.4	2.1	12.3
Consumption of Fixed Capital													
Private	1590.5	1606.7	1625.5	1634.6	1643.2	1655.0	1540.9	1598.3	1650.7	1715.2	1798.8	1892.6	1982.3
Government	349.4	355.2	359.0	360.2	361.1	361.5	334.0	351.8	361.1	365.6	375.0	386.8	398.3
General Government	291.0	295.6	298.4	298.8	298.9	298.5	278.6	292.8	298.5	299.8	305.8	314.4	322.4
Federal	129.8	132.2	133.4	134.4	135.2	135.9	123.3	130.8	135.5	138.0	140.2	142.0	142.8
State & Local	161.1	163.5	165.0	164.5	163.7	162.6	155.3	162.1	163.0	161.8	165.6	172.4	179.6
Government Enterprise	58.4	59.6	60.6	61.4	62.2	63.0	55.4	59.0	62.6	65.9	69.2	72.4	75.8
Gross Domestic Investment													
Gross Domestic Investment	1895.3	1895.4	1943.0	1990.1	2013.0	2022.7	1795.1	1896.7	2018.6	2195.8	2501.7	2771.7	2940.9
Gross Government Investment	478.2	487.1	478.3	472.6	466.8	465.5	505.3	481.8	467.0	464.5	471.5	482.8	494.7
Net Lending or Borrowing (-) *	-496.7	-444.3	-462.7	-480.3	-507.4	-510.8	-479.9	-474.4	-499.0	-470.2	-480.1	-523.5	-504.1
Statistical Discrepancy	-10.0	51.4	-25.0	-25.0	-25.0	-25.0	0.8	-8.9	-25.0	-25.0	-25.0	-25.0	-25.0
* Includes a small amount of capital transfers.													
Percent of GDP													
Gross Saving	12.4	12.2	12.8	12.8	12.7	12.7	12.4	12.5	12.7	13.5	14.7	15.3	15.7
Private	18.7	18.0	18.3	17.8	17.6	17.1	18.9	18.4	17.4	16.2	16.6	16.8	17.0
Government	-6.3	-5.8	-5.5	-5.0	-4.8	-4.5	-6.6	-5.9	-4.6	-2.6	-1.9	-1.5	-1.3
Stock Market and Equities													
S&P 500 Common Stock Index	1319	1228	1220	1216	1251	1269	1139	1267	1256	1334	1408	1488	1578
Four-Quarter Percent Change	16.2	12.0	1.3	-6.7	-5.2	3.4	12.1	10.5	5.1	10.2	5.2	3.0	1.4
Reported Earnings	22.24	22.74	23.22	24.72	24.12	25.02	77.35	89.64	98.30	108.91	120.95	129.23	131.91
Operating Earnings	24.86	25.37	25.92	24.98	25.66	26.62	83.8	98.7	104.9	112.9	121.3	128.1	131.5
Price-(Reported) Earnings Ratio	16 2	14.6	14.0	13.6	13.5	13.4	18.4	15.4	13.4	13.1	12.4	11.9	12.1
Dividend Yield (Annual rate)	1.97	2.15	2.21	2.25	2.21	2.20	1.98	2.05	2.22	2.19	2.20	2.19	2.14
Cost of Funds - Percent													
Financial Capital	4.87	4.87	4.81	4.86	4.87	4.86	4.95	4.84	4.85	4 80	4.93	5.22	5.33
To Limited Partnerships	3.47	2.89	2.62	2.65	2.77	2 89	3.52	3.16	2.82	3.20	3.72	4.44	4.66
To Public Utilities	4.62	4.62	4.45	4.51	4.54	4.56	4.73	4.58	4.54	4.59	4.80	5.15	5.27
After-Tax Cost of Equity	6.03	6.26	6.40	6.42	6.37	6.30	6.19	6.14	6.33	6.11	6.06	6.22	6.30
After-Tax Cost of Corporate Debt	3.14	2.79	2.44	2.52	2.62	2.68	3.08	2.90	2.63	2.84	3.21	3.73	3.89



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BLUE CHIP FINANCIAL FORECASTS

Top Analysts' Forecasts Of
U.S. And Foreign Interest Rates,
Currency Values And The
Factors That Influence Them.

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Odds Of Recession Have Eased

Domestic Commentary Consensus forecasts of how much U.S. real GDP will grow over the next six quarters edged a bit lower this month, according to our October 24th-25th survey. However, fears that the U.S. economy might slide back into recession actually eased in the face of better-than-expected domestic economic news and more recently hopes that the latest plan to address the Eurozone's sovereign debt/banking crisis will avert a global slowdown. As a result, U.S. equity markets staged spectacular rallies in October and the Treasury market was hit with selling as "risk on" trades regained favor. Nonetheless, it remains debatable whether the U.S. will continue to register sequentially stronger economic growth over the forecast horizon. Moreover, the financial markets' current euphoria about the latest plan to solve Europe's woes may fade in coming weeks as investors scrutinize its details and the potential impediments to a successful implementation.

The government's first estimate of real GDP growth in Q3 (released after our survey) was stronger than last month's consensus estimate but basically in line with more recent forecasts of economists. However, the mix of growth during the quarter was better than expected by most analysts given the considerable drag from business inventories. Indeed, real final sales – GDP minus inventories – grew at an annual rate of 3.6%. Coupled with the strong rally in equity prices that has boosted household wealth and easing fears about Europe, we suspect that many of our panelists will raise their estimates of near-term U.S. economic growth a bit in coming days.

Real GDP in the U.S. during Q3 grew at an annual rate of 2.5%. That marked the best performance in exactly a year and was a considerable improvement over the average 0.9% rate of growth registered in the first two quarters of 2011. After eight quarters, the level of real GDP in Q3 finally surpassed its pre-recession peak indicating that the US economy had moved from recovery to the expansion phase of the business cycle.

Real personal consumption expenditures (PCE) increased at an annual rate of 2.4% in Q3. Growth was supported by stronger vehicle sales that lifted spending on consumer durable goods to an annual rate of 4.1% and a 3.0% rate of growth in spending on consumer services, the best quarterly performance since Q2 2006. Nonresidential fixed investment grew 16.3% during Q3 as spending on equipment and software increased at a 17.4% clip and investment in structures jumped at a 13.3% rate. Residential investment increased just 2.4% during Q3, but that marked the third increase in the last four quarters. Net exports contributed 0.22 percentage points to real GDP's growth rate during the quarter while a drawdown in business inventories shaved a large 1.1 percentage points off the rate of GDP growth. Spending by state and local governments contracted at a 1.3% rate, the 11th decline in the last 15 quarters.

The tumble in inventories exceeded expectations and may have resulted from undue pessimism about consumer spending during the holiday shopping season. Indeed, it is possible that PCE growth could be restrained in Q4 if caution about inventories has left firms with too little of the goods that consumers' desire. Most analysts will likely assume stronger production in Q4 as inventory levels are rebuilt. Moreover, the leaner level of inventories in Q3 reduces the odds that an inventory correction will depress GDP growth during the first half of 2012.

In terms of specifics, the consensus now predicts real GDP will grow at an annual rate of 2.0% in the current quarter. That estimate is unchanged from a month ago but likely to be revised up by many of our panelists in the wake of news about how much business inventories were a drag on GDP in Q3 and the fact that consumer spending ended Q3 with considerable momentum. The sharp rebound in equity markets during October also suggests an improved outlook for consumer spending this quarter. However, real disposable personal income contracted at a 1.7% clip in Q3, the personal saving rate in September fell to its lowest level since December 2007, and consumer sentiment remains very depressed. Moreover, the strength in consumer spending on services in Q3 is likely unsustainable in Q4.

Real GDP now is forecast by the consensus to grow at an annual rate of 1.8% in Q1 of next year and at a 2.1% pace in Q2, both estimates 0.2 of a percentage point less than estimated a month ago. Again, these estimates may be subject to upward revisions in coming days due to the surprisingly large drawdown in business inventories in Q3. However, considering the partisan atmosphere in Washington, extension for another year of the two percentage point reduction in workers' payroll taxes is not a given. If not extended, disposable income, will take a hit, restraining growth in PCE as a result. Consensus forecasts of real GDP growth in Q3 and Q4 of 2012 also slipped 0.2 of a percentage point this month to 2.4% and 2.6%, respectively, while the forecast of growth in Q1 2013 remained at 2.8%.

The consensus continues to predict that the pace of increase in consumer price inflation will further subside in coming quarters, stabilizing in an area just north of 2.0%. The Consumer Price Index increased at an annual rate of 5.2% in Q1 of this year, at a 4.1% clip in Q2 and a 3.1% pace in Q3. However, we have yet to see a deceleration in its 12-month rate of change which increased to 3.9% in September, the fastest pace since September 2008. Going forward, the CPI now is predicted to increase at an annual 1.8% clip in the current quarter and at a rate of 2.2% in the first two quarters of 2012. It is forecast to increase at rates of 2.3% in Q3 2012, 2.2% in Q4 2012 and 2.3% in Q1 2013. In contrast to the headline CPI, the core CPI has registered sequentially faster increases over the past four quarters, rising from a 0.6% pace in Q4 2010 to a 2.7% pace last quarter. On year-over-year basis, the core CPI remained at 2.0% for a second straight month in September, the highest since November 2008.

In answer to a special question, the consensus odds of a U.S. recession by the end of 2012 dropped to 30.1%, down from 34.6% last month and 34.7% in September. Asked if spillover effects from Europe or tightening U.S. fiscal policy posed a bigger threat to U.S. GDP growth in 2012, about 71% of the panelists said spillover effects from Europe. A bit less than 74% said their forecasts of GDP growth in 2012 assume an extension of this year's temporary reduction in workers' payroll taxes, down from 77.3% a month ago.

Having already made a conditional promise in August to leave its overnight policy rate at the current level of 0%-0.25% until at least mid-2013; and announcing at its September meeting plans to sell $400 billion of shorter duration assets on its balance sheet and replacing them with an equal amount of longer maturity Treasurys over the next nine months, markets anticipate little major news out of the FOMC's November 1st-2nd meeting. While several influential FOMC members have recently talked up the possibility of additional quantitative easing (mostly likely purchases of mortgage-backed securities), a move in that direction has likely been forestalled in the near-term by better U.S. economic news, coupled with adoption of Europe's latest plan to deal with its sovereign debt/banking crisis.

Consensus Forecast Forecasts of GDP growth over the next six quarters eased a bit over the past month but odds of a recession also were lowered. Inflation still is expected to decelerate, with the CPI stabilizing a little north of 2.0%. Fed policy is likely to be on hold until at least next year as policymakers' access the effects of changes announced earlier. However, more alterations to the FOMC's communications strategy could soon be forthcoming *(see page 2)*.

Special Questions The consensus forecast of the average monthly increase in nonfarm payrolls during 2012 slipped to 126,300 this month versus 149,900 in our September poll *(see page 14)*.

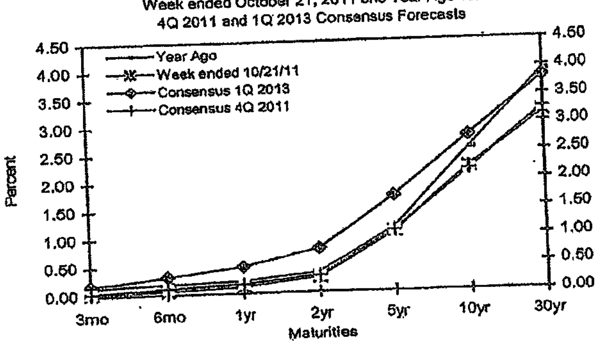
Consensus Forecasts Of U.S. Interest Rates And Key Assumptions[1]

	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month			Latest Q						
Interest Rates	Oct. 21	Oct. 14	Oct. 7	Sep. 30	Sep.	Aug.	July	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013
Federal Funds Rate	0.07	0.07	0.07	0.08	0.08	0.10	0.07	0.08	0.1	0.1	0.1	0.1	0.1	0.2
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.3	3.3	3.3	3.3	3.3	3.3
LIBOR, 3-mo.	0.41	0.40	0.38	0.37	0.35	0.29	0.25	0.30	0.4	0.4	0.4	0.4	0.4	0.4
Commercial Paper, 1-mo.	0.09	0.09	0.08	0.07	0.08	0.11	0.09	0.09	0.1	0.2	0.2	0.2	0.2	0.3
Treasury bill, 3-mo.	0.03	0.02	0.01	0.02	0.01	0.02	0.04	0.02	0.0	0.1	0.1	0.1	0.1	0.2
Treasury bill, 6-mo.	0.06	0.06	0.04	0.04	0.04	0.06	0.08	0.06	0.1	0.1	0.2	0.2	0.2	0.3
Treasury bill, 1 yr.	0.12	0.11	0.11	0.11	0.10	0.11	0.19	0.13	0.2	0.2	0.3	0.3	0.4	0.5
Treasury note, 2 yr.	0.28	0.30	0.27	0.26	0.21	0.23	0.41	0.28	0.3	0.3	0.5	0.5	0.6	0.8
Treasury note, 5 yr.	1.07	1.14	0.96	0.96	0.90	1.02	1.54	1.15	1.1	1.2	1.3	1.4	1.6	1.7
Treasury note, 10 yr.	2.20	2.22	1.93	1.97	1.98	2.30	3.00	2.43	2.2	2.3	2.4	2.5	2.7	2.8
Treasury note, 30 yr.	3.18	3.17	2.88	3.02	3.18	3.65	4.27	3.70	3.2	3.3	3.4	3.6	3.7	3.8
Corporate Aaa bond	3.98	4.10	3.91	4.06	4.09	4.37	4.93	4.46	4.1	4.1	4.2	4.3	4.4	4.5
Corporate Baa bond	5.41	5.52	5.26	5.31	5.27	5.36	5.76	5.46	5.4	5.4	5.4	5.5	5.6	5.6
State & Local bonds	4.08	4.17	4.14	3.93	4.01	4.02	4.52	4.18	4.1	4.1	4.1	4.2	4.3	4.3
Home mortgage rate	4.11	4.12	3.94	4.01	4.11	4.27	4.55	4.31	4.1	4.1	4.2	4.3	4.4	4.5

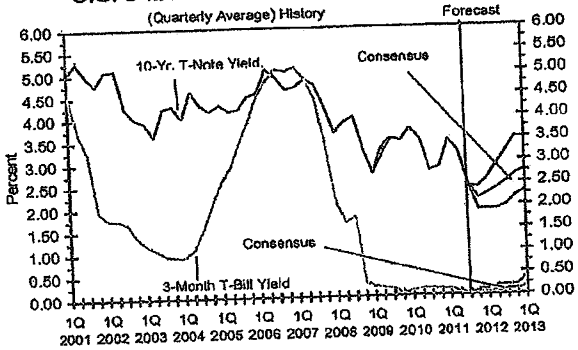
	History								Consensus Forecasts-Quarterly					
Key Assumptions	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013
Major Currency Index	72.8	74.8	77.6	75.9	73.0	71.9	69.6	69.9	71.1	71.2	71.2	71.1	71.1	71.5
Real GDP	3.8	3.9	3.8	2.5	2.3	0.4	1.3	2.5	2.0	1.8	2.1	2.4	2.6	2.8
GDP Price Index	1.1	1.5	1.5	1.4	1.9	2.5	2.5	2.5	1.8	1.9	1.9	2.0	2.0	2.1
Consumer Price Index	2.7	1.3	-0.5	1.4	2.6	5.2	4.1	3.1	1.8	2.2	2.2	2.3	2.2	2.3

[1]Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are the same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

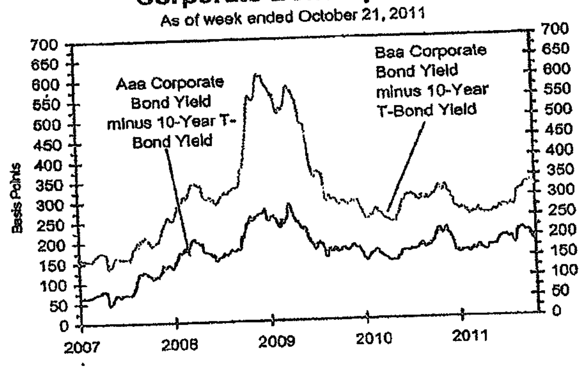
U.S. Treasury Yield Curve
Week ended October 21, 2011 and Year Ago vs. 4Q 2011 and 1Q 2013 Consensus Forecasts



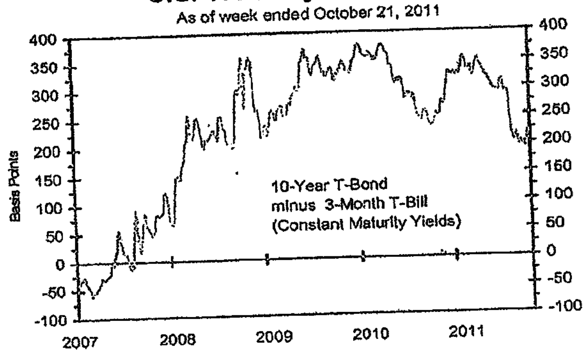
U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield
(Quarterly Average) History Forecast



Corporate Bond Spreads
As of week ended October 21, 2011



U.S. Treasury Yield Curve
As of week ended October 21, 2011



3-Month Interest Rates[1]

	History			Consensus Forecasts Months From Now:		
	Latest:	Month Ago:	Year Ago:	3	6	12
U.S.	0.55	0.55	0.41	0.41	0.37	0.39
Japan	0.21	0.82	0.25	0.24	0.24	0.24
U.K.	1.02	1.61	0.95	0.83	0.70	0.70
Switzerland	0.20	0.26	0.36	0.10	0.10	0.10
Canada	1.69	1.17	1.57	1.20	1.18	1.40
Australia	4.95	4.94	4.78	4.80	4.90	5.00
Eurozone	1.76	1.61	1.08	0.41	0.37	0.39

10-Yr. Government Bond Yields[2]

	History			Consensus Forecasts Months From Now:		
	Latest:	Month Ago:	Year Ago:	3	6	12
U.S.	2.13	1.72	2.55	2.20	2.28	2.68
Germany	2.06	1.69	2.46	2.06	2.15	2.38
Japan	1.02	0.99	0.90	1.07	0.93	1.15
U.K.	2.51	2.32	2.92	2.43	2.51	2.84
France	3.19	2.53	2.79	3.21	3.09	3.12
Italy	5.96	5.70	3.77	5.74	5.71	5.82
Switzerland	1.03	0.92	1.55	1.05	1.08	1.18
Canada	2.28	2.03	2.73	2.51	2.66	3.10
Australia	4.48	4.01	5.21	4.55	4.91	5.43
Spain	5.54	5.30	4.08	5.73	5.64	5.67

Foreign Exchange Rates[3]

	History			Consensus Forecasts Months From Now:		
	Latest:	Month Ago:	Year Ago:	3	6	12
U.S.	70.876	70.615	72.498	72.3	72.6	72.9
Japan	76.100	76.890	81.370	77.6	78.1	80.5
U.K.	1.5945	1.5802	1.5681	1.52	1.52	1.57
Switzerland	0.8852	0.8753	0.9797	0.88	0.88	0.90
Canada	1.0090	0.9813	1.0271	1.00	1.00	0.98
Australia	1.0330	1.0380	0.9813	1.00	1.01	1.03
Euro	1.3873	1.3780	1.3929	1.36	1.35	1.35

Consensus 3-Month Rates vs. U.S. Rate

	Now	In 12 Mo.
Japan	-0.34	-0.15
U.K.	0.47	0.31
Switzerland	-0.35	-0.29
Canada	1.14	1.01
Australia	4.40	4.61
Eurozone	1.21	0.62

Consensus 10-Year Gov't Yields vs. U.S. Yield

	Now	In 12 Mo.
Germany	-0.07	-0.30
Japan	-1.11	-1.53
U.K.	0.38	0.16
France	1.06	0.44
Italy	3.83	3.13
Switzerland	-1.10	-1.51
Canada	0.15	0.42
Australia	2.35	2.75
Spain	3.41	2.98

Forecasts of panel members are on pages 10 and 11. Definitions of variables are as follows: [1]Three month rate on interest-earning money market deposits denominated in selected currencies. [2]Government bonds are yields to maturity. Foreign exchange rate forecasts for U.K., Australia and the Euro are U.S. dollars per currency unit. For the U.S dollar, forecasts are of the U.S. Federal Reserve Board's Major Currency Index.

International Commentary After torturous negotiations, Eurozone leaders' latest attempt at solving the currency zone's sovereign debt/banking crisis exceeded investors' expectations by enough to send global equity markets soaring, sharply narrow sovereign debt spreads in Europe and rally the Euro – at least in the short run. However, sketchy details on the plan's implementation over the next several months seem likely to re-inject some degree of caution back into markets in coming weeks. According to press reports, officials reached agreement with private banks on a "voluntary" 50% haircut on their holdings of Greek debt, up from the 21% agreed to in July. Despite the size of the haircut, it's assumed that authorities will declare that this does not constitute a "credit event" for holders of credit default swaps. There also was agreement in principle that the 220-billion euro not already earmarked in the 440-billion euro European Financial Stability Facility (EFSF) would be leveraged through guarantees and outside investment, allowing it to guarantee up to 1-trillion euro of bonds issued by European nations. However, details on how this will be accomplished remain vague. Lastly, the Eurozone's 70 largest banks would be required to boost their Tier 1 capital ratio to 9% by next July (estimated cost 106 billion euro), putting pressure on cash strapped southern-European nations that would be on the hook for the funds if private monies cannot be raised. Eurozone officials also extracted from Italy more promises to cut its debt, the European Central Bank is expected to maintain its purchases of bonds and the International Monetary Fund may play a bigger role in resolving the debt crisis.

The ECB left rates unchanged in early October, but signs of weakening economic growth in the Eurozone have increased speculation of a rate cut by year's end, reversing one or both of the 25 basis point hikes it enacted earlier in 2011. While a cut on November 3rd (Mario Draghi's first as president) seems like a long shot, we could see Draghi at least hint of an easing in December.

On October 6th, the Bank of England (BoE) announced a second round of quantitative easing with GBP75 billion of gilt purchases scheduled to take place over a four-month period. Although additional QE had been telegraphed by the BoE, it occurred sooner than expected. The economy likely remained weak in Q3 and may have contracted as government spending fell after rising at an unexpectedly fast clip in Q2. Future growth is expected to remain constrained by declining real wages, high unemployment, and weaker export demand. If the economy falls back into recession, additional QE from the MPC cannot be ruled out, especially if inflation recedes.

As expected the Bank of Canada (BoC) left its target rate at 1.0% on October 25th but the accompanying policy statement was more dovish than expected with no reference to the removal of stimulus. The BoC axed its domestic growth outlook for this year and next and also cut its estimate of consumer price inflation. The dovish theme of the October 25th announcement was underscored by the subsequent release of the Monetary Policy Report a day later and suggests that BoC policy will likely remain on hold through at least Q1 of next year.

Markets are discounting some easing of policy from the Reserve Bank of Australia (RBA). The bank's language went from hawkish to neutral recently amid worries about slowing global economic growth and easing inflationary worries. With monetary conditions tight and consumer confidence weakening, the RBA has stated that "an improved inflation outlook would increase the scope for monetary policy to provide some support for demand, should that prove necessary." Nonetheless, a cut in rates is not yet assured.

The Bank of Japan (BoJ) left its overnight policy rate unchanged at 0-0.1% on October 7th but on October 27th announced a 5-trillion yen addition to its 50-trillion yen QE program. The BoJ was prompted to act by continued strength in the yen. The rebound in manufacturing has slowed noticeably as export demand waned in the face of global uncertainty. Domestic demand remains poor and capital spending is on the wane *(see pages 10-11 for individual panelists' forecasts).*

Fourth Quarter 2011

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum -- Average For Quarter: Short-Term: 1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	Intermediate-Term: 8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Bond 30-Yr.	Long-Term: 12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	Avg. For --Qtr.-- A. Fed's Major Currency $ Index	(Q-Q % Change) (SAAR) B. Real GDP	C. GDP Price Index	D. Cons. Price Index
JPMorgan Private Banking	0.3 H	3.3 H	0.5 H	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.2	3.3	4.1	5.4	4.0	4.1	71.0	1.5	2.1	2.1
Bank of Toyko-Mitsubishi UFJ	0.3 H	3.3	0.4	0.2 H	0.1	0.1	0.2	0.3	1.0	2.1	3.2	4.2	5.4	3.9	4.0	71.0	3.0	2.2	1.0
Swiss Re	0.3 H	3.3	0.3	0.1 L	0.0 L	0.1	0.2	0.3	1.0	2.2	3.1	4.0	5.3	na	4.2	na	1.7	-0.6 L	-0.4
Scotiabank Group	0.3 H	3.3	na	na	0.0 L	na	na	0.3	1.0	1.8 L	2.8	na	na	na	na	na	1.5	1.5	1.5
Cycledata Corp.	0.2	3.3	0.4	0.1 L	0.0 L	0.1	0.2	0.3	1.1	2.2	3.3	4.0	5.5	4.0	4.0	70.0	1.5	2.0	3.0
Fannie Mae	0.2	3.3	na	na	0.2 H	na	na	na	na	2.0	3.1	4.1	na	na	4.0	na	1.3	1.5	1.4
SunTrust Banks	0.2	3.3	0.3	0.2 H	0.1	0.5	0.4	0.6 H	1.5	2.4	3.5	4.4	4.9 L	4.8 H	4.0	71.8	3.1 H	2.8	3.7 H
Naroff Economic Advisors	0.2	3.3	0.5 H	0.2 H	0.1	0.1	0.2	0.3	1.1	2.1	3.2	4.0	5.4	4.1	4.0	71.0	3.0	2.5	2.4
Bank of America Merrill Lynch	0.1 L	3.3	0.5 H	na	0.1	na	na	0.2 L	1.0	2.3	3.7	na	na	na	na	na	2.3	1.5	1.2
BMO Capital Markets	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.9 H	1.0 H	0.3	1.1	2.2	3.1	4.1	5.5	4.2	4.0	73.5	1.5	2.2	2.7
Wells Capital Management	0.1 L	3.3	0.5 H	0.1 L	0.1	0.1	0.2	0.3	1.1	2.2	3.1	4.0	5.3	4.3	4.2	71.8	2.3	2.4	3.1
GLC Financial Economics	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.1 L	0.3	1.0	2.2	3.3	4.1	5.7	4.2	4.1	72.2	1.8	1.8	1.9
J.W. Coons Advisors LLC	0.1 L	3.3	0.4	0.2 H	0.0 L	0.1	0.2	0.3	1.1	2.2	3.2	4.0	5.4	na	4.1	69.9	1.9	2.2	2.3
Economist Intelligence Unit	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.1	3.3	na	na	na	4.1	na	2.0	na	2.4
J.P. Morgan Chase	0.1 L	na	0.4	na	0.0 L	na	na	0.3	1.1	2.1	3.2	na	na	na	na	na	1.0	1.0	0.5
UBS	0.1 L	na	0.4	na	0.1	na	na	0.2 L	1.0	1.9	3.0	na	na	na	na	na	2.0	1.0	0.6
MF Global	0.1 L	na	na	na	0.1	0.1	0.2	0.3	1.1	2.1	3.2	na	na	na	na	na	2.5	2.3	3.3
Comerica Bank	0.1 L	3.3	0.4	na	0.0 L	0.1	0.1 L	0.4	1.2	2.3	4.3	na	na	na	4.3	na	2.1	1.6	1.6
Chmura Economics & Analytics	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1	0.1 L	0.3	1.2	2.3	3.3	4.1	na	na	4.2	68.3 L	2.0	1.8	0.1
Nat'l Assn. of Realtors	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.3	3.3	4.2	5.4	4.2	4.2	na	2.6	2.5	3.2
Daiwa Capital Markets America	0.1 L	3.3	0.5 H	0.1 L	0.1	0.1	0.2	0.3	1.1	2.2	3.3	4.0	5.4	4.1	4.0	71.0	1.9	1.5	1.8
Barclays Capital	0.1 L	3.3	0.4	0.2 H	0.0 L	0.1	0.1 L	0.3	1.1	2.3	3.3	4.3	5.3	4.1	4.2	na	2.5	2.4	1.6
RidgeWorth Investments	0.1 L	3.3	0.4	0.2 H	0.0 L	0.1	0.1 L	0.2 L	0.9 L	1.9	3.2	4.0	5.2	3.5 L	3.9 L	72.0	2.6	1.8	1.8
RDQ Economics	0.1 L	3.3	0.4	0.2 H	0.0 L	0.1	0.2	0.4	1.1	2.2	3.3	4.1	5.3	4.1	4.1	70.4	2.7	2.2	2.3
The Northern Trust Company	0.1 L	3.3	0.4	na	0.1	na	0.1 L	0.3	1.2	2.2	3.2	na	na	na	na	na	1.1	2.2	2.4
Action Economics	0.1 L	3.3	0.4	0.2 H	0.0 L	0.1	0.1 L	0.4	1.2	2.3	3.4	4.1	5.5	4.1	4.1	70.5	2.5	2.3	2.4
MacroFin Analytics	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.2	0.3	1.1	2.1	3.2	4.1	5.3	4.1	4.1	71.6	1.9	1.7	2.5
Wells Fargo	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.3	0.3	1.1	2.2	3.3	4.0	5.4	4.1	4.1	71.6	1.7	2.0	2.6
Russell Investments	0.1 L	3.3	0.4	0.2 H	0.1	0.1	0.1 L	0.4	1.1	2.2	3.4	4.0	5.4	4.1	4.1	70.5	2.1	2.3	2.8
Oxford Economics	0.1 L	3.3	0.4	na	0.0 L	0.1	0.1 L	0.2 L	1.0	2.1	3.4	4.2	na	na	4.2	72.5	1.8	2.3	1.2
PNC Financial Services Corp.	0.1 L	3.3	0.4	na	0.0 L	0.0 L	0.1 L	0.3	1.0	2.0	na	na	na	3.9	3.9 L	69.1	2.4	1.3	1.4
Mesirow Financial	0.1 L	3.3	0.3	0.2 H	0.1	0.1	0.2	0.3	1.0	2.1	3.1	4.3	5.2	4.0	4.0	75.5 H	1.9	1.4	1.3
Woodworth Holdings	0.1 L	3.3	0.3	0.1 L	0.0 L	0.1	0.1 L	0.2 L	1.0	2.2	3.2	4.1	5.5	4.2	4.2	70.0	2.0	1.8	1.9
Thredgold Economic Assoc.	0.1 L	3.3	0.3	0.1 L	0.1	0.1	0.1 L	0.3	1.0	2.2	3.2	4.1	5.1	3.8	4.1	70.0	2.0	1.9	2.2
Wintrust Wealth Management	0.1 L	3.3	0.3	0.1 L	0.1	0.1	0.1 L	0.3	1.0	2.3	3.4	4.5	5.3	3.9	4.0	69.4	2.1	2.0	2.2
Goldman Sachs & Co.	0.1 L	3.3	0.3	na	0.0 L	na	na	0.3	1.1	2.3	3.0	3.5 L	na	na	3.9 L	na	1.0	1.7	1.9
Kellner Economic Advisers	0.1 L	3.3	0.2 L	0.2 H	0.1	0.1	0.1 L	0.3	1.2	1.9	2.8	3.9	4.9 L	4.2	4.0	70.0	1.5	1.9	2.2
Georgia State University	0.1 L	3.3	na	na	0.0 L	0.1	0.1 L	0.2 L	1.0	2.2	3.5	4.3	5.4	na	4.0	na	1.2	1.3	1.1
Stone Harbor Investment Partners	0.1 L	3.3	0.3	0.1 L	0.0 L	0.1	0.1 L	0.2 L	1.0	2.0	3.0	4.0	5.2	na	4.3	72.0	0.7 L	1.3	1.6
Standard & Poor's Corp.	0.1 L	3.3	0.3	0.1 L	0.0 L	0.1	0.1 L	0.2 L	1.0	1.9	2.7 L	4.0	5.3	4.0	3.9 L	na	1.5	1.7	-0.8 L
ClearView Economics	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.2	3.5	4.0	5.4	4.1	4.1	71.5	1.8	1.5	1.8
Pierpont Securities	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.2	3.2	4.1	5.5	4.2	4.1	71.0	2.7	2.0	2.1
Loomis, Sayles & Company	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.1 L	0.3	1.0	2.0	3.0	4.0	5.4	4.1	4.0	71.2	1.9	1.6	0.7
Nomura Securities, Inc.	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.2	3.1	4.2	5.4	na	4.1	72.0	2.8	0.9	1.8
Moody's Analytics	0.1 L	3.3	0.3	0.2	0.0 L	0.1	0.3	0.6	1.7 H	3.1 H	4.4 H	4.9 H	6.0 H	na	4.6 H	na	2.2	1.6	0.9
DePrince & Associates	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1	0.2	0.4	1.1	2.2	3.2	4.0	5.4	4.0	4.1	70.3	2.2	2.0	2.4
RBS Securities	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1	0.1 L	0.3	1.1	2.2	3.2	4.0	5.4	4.1	4.1	72.5	2.7	3.0 H	1.8
Societe Generale	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1	0.1 L	0.2 L	0.9 L	2.0	2.8	4.2	5.3	na	3.9 L	na	1.6	2.1	2.2
Moody's Capital Markets Group	0.1 L	3.3 L	0.5 H	0.1 L	0.0 L	0.1	0.2	0.3	1.1	2.3	3.3	4.0	5.5	4.2	4.2	71.5	1.8	1.4	2.2
November Consensus	**0.1**	**3.3**	**0.4**	**0.1**	**0.0**	**0.1**	**0.2**	**0.3**	**1.1**	**2.2**	**3.2**	**4.1**	**5.4**	**4.1**	**4.1**	**71.1**	**2.0**	**1.8**	**1.8**
Top 10 Avg.	0.2	3.3	0.5	0.2	0.1	0.2	0.3	0.4	1.2	2.4	3.6	4.4	5.5	4.2	4.2	72.6	2.8	2.5	2.9
Bottom 10 Avg.	0.1	3.3	0.3	0.1	0.0	0.0	0.1	0.2	1.0	1.9	3.0	3.9	5.2	3.9	3.9	69.7	1.2	1.1	0.6
October Consensus	0.1	3.3	0.3	0.1	0.1	0.1	0.1	0.3	1.0	2.1	3.3	4.2	5.3	3.9	4.1	70.5	2.0	1.8	2.1
Number of Forecasts Changed From A Month Ago:																			
Down	12	1	3	18	19	12	10	4	11	12	23	19	8	3	16	4	16	9	21
Same	34	44	10	14	22	20	18	14	7	10	8	9	4	6	11	10	15	27	17
Up	3	0	31	4	8	9	13	29	30	27	17	12	22	19	16	15	18	12	11
Diffusion Index	41 %	49 %	82 %	31 %	39 %	46 %	54 %	77 %	70 %	65 %	44 %	41 %	69 %	79 %	50 %	69 %	52 %	53 %	40 %

First Quarter 2012

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum – Average For Quarter: Short-Term: 1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	Intermediate-Term: 8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Bond 30-Yr.	Long-Term: 12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	Avg. For Qtr.: A. Fed's Major Currency $ Index	(Q-Q % Change) (SAAR): B. Real GDP	C. GDP Price Index	D. Cons. Price Index
JPMorgan Private Banking	0.3 H	3.3 H	0.5 H	0.2	0.0 L	0.1 L	0.1 L	0.3	1.1	2.3	3.3	4.1	6.4	4.0	4.1	70.8	0.8	2.0	2.0
J.W. Coons Advisors LLC	0.3 H	3.3	0.5 H	0.2	0.2 H	0.3	0.3	0.5	1.3	2.3	3.2	4.1	5.5	na	4.2	70.5	1.3	2.3	2.5
Bank of Toyko-Mitsubishi UFJ	0.3 H	3.3	0.4	0.2	0.1	0.1 L	0.2	0.3	1.3	2.6	3.6	4.3	5.7	4.0	4.4	70.0	2.8	2.4	2.5
Swiss Re	0.3 H	3.3	0.3	0.1 L	0.1	0.1 L	0.2	0.4	1.1	2.3	3.3	4.1	5.4	na	4.3	na	-0.4 L	1.8	1.8
Scotiabank Group	0.3 H	3.3	na	na	0.1	na	na	0.4	1.2	1.9	2.9	na	na	na	na	na	1.2	1.6	2.2
Cycledata Corp.	0.2	3.3	0.4	0.1 L	0.0 L	0.1 L	0.2	0.3	1.1	2.2	3.3	4.0	5.5	4.0	4.0	69.0	0.8	2.1	3.0
Fannie Mae	0.2	3.3	na	na	0.2 H	na	na	na	na	2.0	3.1	4.1	na	na	3.9	na	1.0	1.4	1.6
SunTrust Banks	0.2	3.3	0.3	0.2	0.1	0.7	0.6	0.8 H	1.7	2.8	3.6	4.5	6.0	5.2 H	4.1	73.2	3.4 H	2.7	4.0 H
Wells Capital Management	0.2	3.3	0.5 H	0.2	0.1	0.2	0.3	0.4	1.3	2.6	3.4	4.2	5.4	4.6	4.5	71.6	2.0	2.3	2.8
Chmura Economics & Analytics	0.2	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.3	1.3	2.4	3.4	4.1	na	na	4.2	69.2	1.9	2.0	2.8
Naroff Economic Advisors	0.2	3.3	0.4	0.2	0.1	0.2	0.2	0.4	1.1	2.0	3.1	4.0	5.3	4.0	3.9	70.0	2.4	2.4	2.5
Comerica Bank	0.2	3.3	0.4	na	0.0 L	0.2	0.2	0.5	1.3	2.4	4.2	na	na	na	4.3	na	2.5	2.0	2.9
BMO Capital Markets	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.9 H	1.0 H	0.4	1.1	2.1	2.9	4.1	5.8	4.1	3.9	74.8 H	1.7	2.0	2.8
Bank of America Merrill Lynch	0.1 L	3.3	0.5 H	na	0.1	na	na	0.3	1.1	2.5	3.9	na	na	na	na	na	2.0	1.2	1.2
GLC Financial Economics	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.1	2.2	3.4	4.3	5.8	4.3	4.2	72.0	1.4	1.9	2.1
Economist Intelligence Unit	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.2	2.1	3.5	na	na	na	4.1	na	1.0	na	1.8
Oxford Economics	0.1 L	3.3	0.3	na	0.0 L	0.1 L	0.2	0.4	1.1	2.2	3.1	4.3	na	na	4.3	73.9	1.8	3.2 H	2.2
J.P. Morgan Chase	0.1 L	na	0.4	na	0.0 L	na	na	0.3	1.2	2.4	3.7	na	na	na	na	na	0.5	1.0	0.7 L
UBS	0.1 L	na	0.4	na	0.1	na	na	0.3	1.1	2.1	3.3	na	na	na	na	na	2.1	2.0	2.3
MF Global	0.1 L	na	na	na	0.2 H	0.2	0.2	0.3	1.3	2.5	3.6	na	na	na	na	na	2.5	2.1	2.5
RBS Securities	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	0.8	1.9	2.9	3.8	4.7	3.9	3.9	73.5	1.9	2.7	2.3
Nat'l Assn. of Realtors	0.1 L	3.3	0.5 H	0.2	0.0 L	0.1 L	0.1 L	0.5	1.2	2.4	3.5	4.4	5.5	4.4	4.4	na	2.0	2.7	3.5
Pierpont Securities	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1 L	0.1 L	0.4	1.1	2.4	3.3	4.2	5.6	4.3	4.2	70.0	2.9	2.5	3.0
Nomura Securities, Inc.	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.1 L	0.3	1.3	2.3	3.2	4.3	5.5	na	4.2	73.0	1.5	0.5 L	2.0
RidgeWorth Investments	0.1 L	3.3	0.4	0.2	0.1	0.2	0.2	0.3	1.0	2.1	3.3	4.0	5.2	3.6 L	4.0	71.0	2.0	1.8	1.8
Daiwa Capital Markets America	0.1 L	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.3	1.2	2.2	3.3	4.0	5.4	4.0	4.0	71.0	2.4	1.6	1.9
The Northern Trust Company	0.1 L	3.3	0.4	na	0.1	na	0.1 L	0.2 L	1.1	2.0	3.0	na	na	na	na	na	1.3	1.7	1.9
MacroFin Analytics	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.2	0.3	1.2	2.2	3.3	4.2	5.4	4.1	4.2	72.0	2.1	1.6	2.0
Action Economics	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.1 L	0.5	1.4	2.5	3.5	4.1	5.4	3.9	4.0	69.5	2.6	2.1	2.6
RDQ Economics	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.3	0.7	1.5	2.5	3.7	4.4	5.5	4.3	4.4	71.0	2.8	2.3	2.7
Russell Investments	0.1 L	3.3	0.4	0.2	0.1	0.2	0.2	0.4	1.2	2.3	3.6	4.1	5.3	4.1	4.1	70.1	2.5	2.2	2.3
Mesirow Financial	0.1 L	3.3	0.3	0.2	0.2 H	0.2	0.2	0.4	1.1	2.2	3.3	4.3	5.2	4.0	4.0	74.6	2.0	1.6	1.5
Woodworth Holdings	0.1 L	3.3	0.3	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	1.0	2.2	3.2	4.1	5.5	4.2	4.2	68.5 L	1.5	1.7	1.8
Wells Fargo	0.1 L	3.3	0.3	0.1 L	0.0 L	0.1 L	0.3	0.3	1.2	2.2	3.3	4.0	5.5	4.1	4.1	72.5	1.5	2.0	1.8
Stone Harbor Investment Partners	0.1 L	3.3	0.3	0.2	0.0 L	0.1 L	0.1 L	0.2 L	0.7 L	1.4 L	2.5 L	3.2 L	4.6 L	na	3.8	74.0	-0.3	2.3	1.8
Thredgold Economic Assoc.	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.3	1.1	2.3	3.3	4.2	5.2	3.8	4.2	70.0	2.1	2.0	2.2
Wintrust Wealth Management	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.4	1.1	2.4	3.6	4.6	5.4	4.0	4.1	68.9	2.3	2.1	2.4
Barclays Capital	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.3	1.3	2.8	4.0	4.8	5.6	4.3	4.3	na	2.5	2.5	2.6
PNC Financial Services Corp.	0.1 L	3.3	0.3	na	0.0 L	0.1 L	0.1 L	0.3	1.0	2.0	na	na	na	3.8	3.8	68.7	2.6	1.7	2.0
Goldman Sachs & Co.	0.1 L	3.3	0.3	na	0.0 L	na	na	0.3	1.1	2.3	3.0	3.5	na	na	4.0	na	0.5	1.9	2.0
Kellner Economic Advisers	0.1 L	3.3	0.2 L	0.2	0.1	0.1 L	0.2	-0.4	1.3	2.0	2.9	3.9	4.9	4.3	4.0	70.0	1.7	2.0	2.2
Georgia State University	0.1 L	3.3	na	na	0.1	0.1 L	0.1 L	0.2 L	1.2	2.5	3.7	4.4	5.4	na	4.1	na	1.7	1.1	1.2
ClearView Economics	0.1 L	3.3	0.5 H	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.1	2.2	3.5	4.0	5.4	4.1	4.1	72.0	2.1	1.7	2.0
Loomis, Sayles & Company	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.0	2.0	3.0	3.9	5.3	3.9	3.9	72.2	1.7	0.6	2.4
Standard & Poor's Corp.	0.1 L	3.3	0.4	0.3 H	0.1	0.1 L	0.2	0.3	1.1	2.1	2.7	4.1	5.3	4.0	3.8	na	1.3	1.5	1.2
Moody's Analytics	0.1 L	3.3	0.2 L	0.3	0.0 L	0.1 L	0.3	0.6	2.0 H	3.4 H	4.7 H	6.1 H	6.2 H	na	5.0 H	na	2.4	1.9	1.8
Societe Generale	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	0.7 L	1.8	2.7	3.9	4.9	na	3.6 L	na	2.2	1.8	1.0
DePrince & Associates	0.1 L	3.3	0.4	0.2	0.1	0.2	0.3	0.5	1.2	2.3	3.4	4.1	5.3	3.7	4.2	70.2	2.1	2.0	2.2
Moody's Capital Markets Group	0.1 L	3.3 L	0.4	0.1 L	0.1	0.1 L	0.2	0.3	1.2	2.3	3.3	4.0	5.4	4.1	4.2	71.5	2.0	1.3	1.3
November Consensus	**0.1**	**3.3**	**0.4**	**0.2**	**0.1**	**0.1**	**0.2**	**0.3**	**1.2**	**2.3**	**3.3**	**4.1**	**5.4**	**4.1**	**4.1**	**71.2**	**1.8**	**1.9**	**2.2**
Top 10 Avg.	0.2	3.3	0.6	0.2	0.1	0.3	0.4	0.5	1.4	2.6	3.9	4.6	5.6	4.4	4.4	73.4	2.7	2.6	3.0
Bottom 10 Avg.	0.1	3.3	0.3	0.1	0.0	0.1	0.1	0.2	0.9	1.9	2.8	3.8	5.0	3.8	3.8	69.4	0.6	1.2	1.3
October Consensus	0.1	3.3	0.3	0.2	0.1	0.1	0.2	0.3	1.1	2.3	3.4	4.2	5.3	3.9	4.1	70.6	2.0	2.0	2.1
Number of Forecasts Changed From A Month Ago:																			
Down	9	0	3	17	15	6	10	9	12	14	21	18	9	4	14	5	23	10	15
Same	38	45	17	15	25	24	19	18	16	11	12	12	8	8	14	10	14	28	23
Up	2	0	25	5	9	11	12	20	21	24	15	10	19	16	15	16	12	10	11
Diffusion Index	43 %	50 %	74 %	34 %	44 %	56 %	52 %	62 %	59 %	60 %	44 %	40 %	64 %	73 %	51 %	68 %	39 %	50 %	46 %

Second Quarter 2012

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum -- Average For Quarter: Short-Term: 1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	Intermediate-Term: 8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Bond 30-Yr.	Long-Term: 12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	Avg. For --Qtr.-- A. Fed's Major Currency $ Index	(Q-Q % Change) (SAAR) B. Real GDP	C. GDP Price Index	D. Cons. Price Index
JPMorgan Private Banking	0.3 H	3.3 H	0.5	0.2	0.0 L	0.1 L	0.1 L	0.3	1.1	2.3	3.4	4.1	5.5	4.1	4.1	70.7	1.1	2.0	2.1
J.W. Coons Advisors LLC	0.3 H	3.3	0.5	0.3 H	0.2	0.3	0.4	0.6	1.4	2.4	3.3	4.2	5.6	na	4.3	70.3	1.9	2.2	2.5
Bank of Toyko-Mitsubishi UFJ	0.3 H	3.3	0.4	0.2	0.1	0.1 L	0.2	0.4	1.6	2.9	3.7	4.4	5.9	4.2	4.6	69.0	3.0	2.6	3.0
Swiss Re	0.3 H	8.3	0.3	0.2	0.1	0.1 L	0.2	0.8	1.2	2.3	3.3	4.3	5.6	na	4.3	na	-0.3 L	2.1	2.3
Scotiabank Group	0.3 H	3.3	na	na	0.1	na	na	0.7	1.4	2.2	3.2	na	na	na	na	na	1.4	1.6	2.6
SunTrust Banks	0.2	3.3	0.6	0.3 H	0.1	1.0	0.9	1.0	1.8	2.5	3.3	4.4	4.9	5.0 H	4.0	74.7	3.6 H	2.7	4.1 H
Cycledata Corp.	0.2	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.4	1.2	2.4	3.5	4.2	5.6	4.1	4.0	69.0	1.0	2.1	3.0
Fannie Mae	0.2	3.3	na	na	0.2	na	na	na	na	2.1	3.2	4.1	na	na	3.9	na	1.3	1.5	1.7
Wells Capital Management	0.2	3.3	0.6 H	0.2	0.1	0.2	0.3	0.5	1.5	2.8	3.7	4.3	5.5	4.8	4.7	71.7	2.3	2.2	2.6
Chmura Economics & Analytics	0.2	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.4	1.3	2.5	3.6	4.2	na	na	4.3	70.8	2.4	2.3	2.6
Comerica Bank	0.2	3.3	0.4	na	0.0 L	0.2	0.3	0.7	1.5	2.6	4.2	na	na	na	4.3	na	2.4	2.1	2.3
Naroff Economic Advisors	0.2	3.3	0.4	0.3 H	0.2	0.2	0.3	0.5	1.2	2.0	3.1	3.9	5.1	4.0	3.8	69.0	2.7	2.6	2.7
GLC Financial Economics	0.1 L	3.3	0.5	0.2	0.0 L	0.1 L	0.1 L	0.3	1.1	2.3	3.5	4.4	5.9	4.4	4.3	71.9	1.9	2.3	2.5
Bank of America Merrill Lynch	0.1 L	3.3	0.5	na	0.1	na	na	0.4	1.3	2.8	4.2	na	na	na	na	na	2.0	1.0	1.5
Economist Intelligence Unit	0.1 L	3.3	0.5	0.1 L	0.1	0.1 L	0.2	0.4	1.2	2.2	3.7	na	na	na	4.2	na	1.3	na	1.7
BMO Capital Markets	0.1 L	3.3	0.6	0.2	0.0 L	0.9	1.0	0.4	1.1	2.0	2.9	4.0	5.6	4.0	3.8	74.8	2.1	1.8	2.9
Oxford Economics	0.1 L	3.3	0.3	na	0.0 L	0.1 L	0.3	0.6	1.2	2.3	3.0	4.3	na	na	4.2	74.4	2.3	2.8 H	2.8
UBS	0.1 L	na	0.4	na	0.1	na	na	0.3	1.3	2.2	3.5	na	na	na	na	na	2.7	1.5	1.0
J.P. Morgan Chase	0.1 L	na	0.4	na	0.1	na	na	0.3	1.4	2.7	3.8	na	na	na	na	na	1.5	1.2	1.2
MF Global	0.1 L	na	na	na	0.4 H	1.4 H	2.8 H	3.7 H	na	na	na	na	na	na	na	na	3.0	2.0	2.0
Pierpont Securities	0.1 L	3.3	0.5	0.1 L	0.0 L	0.1 L	0.1 L	0.5	1.3	2.7	3.5	4.4	5.8	4.5	4.4	69.0	3.0	2.3	3.1
DePrince & Assoc.	0.1 L	3.3	0.6	0.3 H	0.2	0.3	0.4	0.6	1.3	2.5	3.5	4.2	5.3	3.6	4.3	70.7	2.6	2.0	2.7
RBS Securities	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.2	0.2 L	0.8 L	1.9	2.8	3.7	4.6 L	3.7	3.8	72.0	2.4	2.2	2.6
Nat'l Assn. of Realtors	0.1 L	3.3	0.5	0.2	0.1	0.1 L	0.2	0.7	1.6	2.7	3.7	4.6	5.7	4.7	4.5	na	2.4	2.5	3.4
Nomura Securities, Inc.	0.1 L	3.3	0.5	0.2	0.1	0.1 L	0.1 L	0.4	1.4	2.4	3.3	4.4	5.6	na	4.3	75.0.	2.5	1.2	1.2
MacroFin Analytics	0.1 L	3.3	0.4	0.2	0.1	0.2	0.3	0.4	1.3	2.2	3.4	4.3	5.7	4.3	4.2	72.5	2.6	1.5	2.0
RDQ Economics	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.4	0.8	1.9	3.0	4.2	4.9	6.0	4.8	4.8	71.8	2.9	2.4	2.8
Action Economics	0.1 L	3.3	0.4	0.2	0.1	0.1 L	0.2	0.6	1.6	2.6	3.7	4.1	5.3	3.8	3.9	69.4	2.9	1.7	3.0
Russell Investments	0.1 L	3.3	0.4	0.2	0.2	0.2	0.3	0.5	1.6	2.6	3.7	4.2	5.2	4.2	4.2	70.2	2.9	2.3	2.0
The Northern Trust Company	0.1 L	3.3	0.4	na	0.1	na	0.1 L	0.2 L	1.1	2.0	3.0	na	na	na	na	na	1.9	1.5	1.7
RidgeWorth Investments	0.1 L	3.3	0.4	0.2	0.1	0.2	0.2	0.3	1.0	2.1	3.3	3.8	4.9	3.3 L	3.9	70.0	2.5	1.8	1.8
Daiwa Capital Markets America	0.1 L	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.4	1.3	2.3	3.3	4.0	5.4	4.0	4.1	70.0	2.5	1.6	2.0
Barclays Capital	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.4	1.4	2.8	4.0	4.8	5.5	4.3	4.3	na	2.5	2.6	1.1
Mesirow Financial	0.1 L	3.3	0.3	0.2	0.2	0.2	0.3	0.5	1.2	2.4	3.4	4.3	5.2	3.9	4.1	75.5 H	2.0	1.3	1.5
Woodworth Holdings	0.1 L	3.3	0.3	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	1.0	2.2	3.2	4.1	5.5	4.2	4.2	66.0 L	1.5	1.6	1.7
Wells Fargo	0.1 L	3.3	0.3	0.1 L	0.1	0.2	0.4	0.4	1.3	2.2	3.4	4.0	5.5	4.2	4.1	73.5	1.6	2.0	1.9
Stone Harbor Investment Partners	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.2 L	0.8 L	1.6 L	2.6 L	3.3 L	4.8	na	3.8	74.0	0.7	2.8 L	2.1
Kellner Economic Advisers	0.1 L	3.3	0.3	0.3 H	0.1	0.2	0.3	0.5	1.4	2.0	3.0	4.0	5.0	4.4	4.0	70.0	1.8	2.0	2.2
Thredgold Economic Assoc.	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.4	1.2	2.4	3.4	4.3	5.3	3.9	4.3	70.0	2.2	2.0	2.3
Wintrust Wealth Management	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.3	0.4	1.3	2.5	3.6	4.8	5.6	4.1	4.1	68.5	2.5	2.3	2.5
PNC Financial Services Corp.	0.1 L	3.3	0.3	na	0.0 L	0.1 L	0.1 L	0.4	1.2	2.1	na	na	na	3.9	3.8	68.2	2.5	2.2	2.1
Goldman Sachs & Co.	0.1 L	3.3	0.3	na	0.0 L	na	na	0.4	1.2	2.5	3.3	3.5	na	na	4.1	na	1.5	1.4	2.1
Georgia State University	0.1 L	3.3	na	na	0.1	0.1 L	0.1 L	0.3	1.3	2.6	3.9	4.6	5.5	na	4.3	na	1.7	0.3	1.5
Standard & Poor's Corp.	0.1 L	3.3	0.3	0.2	0.1	0.1 L	0.2	0.3	1.3	2.3	2.8	4.2	5.2	4.1	4.0	na	1.3	0.2 L	0.6 L
ClearView Economics	0.1 L	3.3	0.5	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.1	2.2	3.5	4.0	5.4	4.1	4.1	72.5	2.3	1.8	2.3
Loomis, Sayles & Company	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.0	2.1	3.1	4.0	5.3	3.9	4.0	72.6	1.6	0.8	2.8
Moody's Analytics	0.1 L	3.3	0.2 L	0.3 H	0.0 L	0.1 L	0.4	0.6	2.2 H	3.8 H	6.0 H	5.5 H	6.6 H	na	5.4 H	na	3.3	1.7	1.6
Societe Generale	0.1 L	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	0.8 L	1.9	2.8	3.9	4.8	na	3.6 L	na	1.4	2.0	1.6
Moody's Capital Markets Group	0.1 L	3.3 L	0.4	0.1 L	0.1	0.1 L	0.3	0.4	1.2	2.4	3.4	4.1	5.3	4.0	4.3	71.5	2.6	1.2	0.7
November Consensus	**0.1**	**3.3**	**0.4**	**0.2**	**0.1**	**0.2**	**0.3**	**0.5**	**1.3**	**2.4**	**3.4**	**4.2**	**5.4**	**4.1**	**4.2**	**71.2**	**2.1**	**1.9**	**2.2**
Top 10 Avg.	0.2	3.3	0.5	0.3	0.2	0.6	0.7	1.0	1.7	2.9	4.0	4.7	5.8	4.5	4.6	73.9	3.0	2.6	3.1
Bottom 10 Avg.	0.1	3.3	0.3	0.1	0.0	0.1	0.1	0.2	1.0	1.9	2.9	3.8	4.9	3.8	3.8	68.8	1.1	1.0	1.2
October Consensus	0.1	3.3	0.3	0.2	0.1	0.1	0.2	0.4	1.3	2.4	3.5	4.3	5.3	4.0	4.2	70.6	2.3	1.9	2.1
Number of Forecasts Changed From A Month Ago:																			
Down	10	0	4	17	13	8	10	10	11	15	23	16	10	5	17	8	21	12	9
Same	37	45	19	16	27	22	19	21	17	14	12	11	7	4	13	9	17	23	26
Up	2	0	22	4	9	11	12	16	19	19	12	13	15	17	13	14	11	13	14
Diffusion Index	42 %	50 %	70 %	32 %	46 %	54 %	52 %	56 %	59 %	54 %	38 %	46 %	58 %	73 %	45 %	60 %	40 %	51 %	55 %

Third Quarter 2012

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum -- Average For Quarter: Short-Term: 1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	Intermediate-Term: 8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Bond 30-Yr.	Long-Term: 12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	Avg For --Qtr.-- A. Fed's Major Currency $ Index	(Q-Q % Change) (SAAR) B. Real GDP	C. GDP Price Index	D. Cons. Price Index
JPMorgan Private Banking	0.3 H	3.3 H	0.5	0.2	0.0	0.1 L	0.2	0.3	1.1	2.3	3.4	4.1	5.5	4.1	4.2	70.6	1.4	2.0	2.0
J.W. Coons Advisors LLC	0.3 H	3.3	0.5	0.3	0.3 H	0.4	0.4	0.6	1.5	2.4	3.3	4.3	5.6	na	4.3	70.1	2.8	2.2	2.5
Bank of Toyko-Mitsubishi UFJ	0.3 H	3.3	0.4	0.2	0.1	0.1 L	0.2	0.7	1.9	3.2	3.9	4.6	6.0	4.4	4.9	67.0	3.3	2.8 H	2.8
Swiss Re	0.3 H	3.3	0.3	0.2	0.2	0.2	0.3	0.8	1.5	2.4	3.4	4.4	5.8	na	4.4	na	2.3	2.5	2.7
Scotiabank Group	0.3 H	3.3	na	na	0.0 L	na	na	0.9 H	1.6	2.6	3.6	na	na	na	na	na	1.7	1.8	2.0
DePrince & Associates	0.2	3.3	0.6	0.4 H	0.3 H	0.4	0.5	0.8	1.5	2.6	3.6	4.3	5.4	3.6	4.5	71.0	2.9	2.1	2.5
SunTrust Banks	0.2	3.3	0.5	0.3	0.1	1.2 H	1.1 H	0.9 H	1.5	2.3	3.0	4.3	4.8	4.9	3.8	76.2 H	3.4	2.6	4.1 H
Cycledata Corp.	0.2	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.4	1.2	2.4	3.5	4.2	5.6	4.1	4.0	68.0	1.5	2.2	3.1
Russell Investments	0.2	3.3	0.4	0.2	0.2	0.3	0.3	0.7	1.8	2.7	3.8	4.2	5.2	4.3	4.3	70.6	3.1	2.3	1.9
Naroff Economic Advisors	0.2	3.3	0.3	0.3	0.2	0.3	0.4	0.6	1.4	2.0	3.1	4.0	5.2	4.0	3.9	67.0	3.3	2.7	2.5
Fannie Mae	0.2	3.3	na	na	0.3 H	na	na	na	na	2.1	3.2	4.1	na	na	4.0	na	1.2 L	1.7	1.7
MacroFin Analytics	0.2	3.3	0.6	0.2	0.2	0.3	0.5	0.5	1.5	2.3	3.6	4.4	6.8	4.6	4.3	73.0	2.6	1.4	1.8
Wells Capital Management	0.2	3.3	0.7 H	0.3	0.2	0.3	0.4	0.6	1.7	3.3	4.2	4.8	5.9	5.4 H	5.2	72.4	2.6	2.2	2.5
Chmura Economics & Analytics	0.2	3.3	0.5	0.1 L	0.1	0.1 L	0.2	0.4	1.4	2.6	3.7	4.3	na	na	4.4	72.5	2.9	2.1	2.3
Comerica Bank	0.2	3.3	0.4	na	0.0 L	0.2	0.4	0.8	1.7	2.7	4.2	na	na	na	4.4	na	2.5	1.6	2.8
Pierpont Securities	0.1	3.3	0.5	0.2	0.0 L	0.1 L	0.2	0.6	1.6	3.1	4.1	4.7	6.1	4.8	4.8	69.0	3.3	2.5	3.3
Bank of America Merrill Lynch	0.1	3.3	0.5	na	0.1	na	na	0.6	1.5	3.0	4.5	na	na	na	na	na	1.5	1.0	1.5
GLC Financial Economics	0.1	3.3	0.5	0.2	0.0 L	0.1 L	0.1 L	0.2 L	1.1	2.4	3.6	4.4	5.8	4.4	4.5	71.6	2.3	2.8 H	2.9
Economist Intelligence Unit	0.1	3.3	0.5	0.2	0.1	0.1 L	0.2	0.5	1.4	2.4	3.9	na	na	na	4.2	na	1.8	na	1.5
BMO Capital Markets	0.1	3.3	0.3	0.2	0.0 L	0.9	1.1 H	0.6	1.3	2.2	3.0	4.1	5.4	4.1	3.8	73.6	2.6	1.8	2.3
Oxford Economics	0.1	3.3	0.3	na	0.0 L	0.1 L	0.3	0.8	1.4	2.3	2.9 L	4.2	na	na	4.1	74.7	2.9	2.7	2.8
UBS	0.1	na	0.4	na	0.1	na	na	0.3	1.5	2.3	3.7	na	na	na	na	na	2.8	2.6	3.6
J.P. Morgan Chase	0.1	na	0.3	na	0.2	na	na	0.4	1.6	2.8	4.0	na	na	na	na	na	2.5	1.3	1.3
MF Global	0.1	na	na	na	0.2	0.2	0.4	0.6	1.7	3.1	3.9	na	na	na	na	na	3.5	1.8	1.8
RBS Securities	0.1	3.3	0.4	0.2	0.1	0.2	0.2	0.3	0.8 L	1.7 L	2.9 L	3.6 L	4.4 L	3.7	3.5 L	72.5	2.1	2.0	2.4
Nat'l Assn. of Realtors	0.1	3.3	0.6	0.3	0.2	0.2	0.3	0.8	1.8	2.9	4.0	4.8	6.0	4.9	4.7	na	2.2	2.3	3.2
Nomura Securities, Inc.	0.1	3.3	0.5	0.2	0.1	0.1 L	0.1 L	0.6	1.6	2.6	3.6	4.5	5.8	na	4.4	75.0	2.7	1.4	1.2 L
RDQ Economics	0.1	3.3	0.4	0.2	0.1	0.2	0.5	0.9 H	2.2	3.5	4.7	5.3	6.4	5.3	5.2	72.3	3.2	2.5	2.8
Action Economics	0.1	3.3	0.4	0.2	0.1	0.1 L	0.2	0.7	1.8	2.8	3.8	4.6	5.2	3.8	3.9	69.3	3.1	1.5	2.9
RidgeWorth Investments	0.1	3.3	0.4	0.2	0.1	0.2	0.2	0.3	1.0	2.1	3.3	3.6	4.7	3.1 L	3.9	69.0	3.0	1.8	1.8
Standard & Poor's Corp.	0.1	3.3	0.3	0.2	0.1	0.1 L	0.2	0.4	1.4	2.4	2.9 L	4.3	5.3	4.2	4.1	na	1.3	1.2	2.4
Mesirow Financial	0.1	3.3	0.3	0.2	0.2	0.3	0.3	0.6	1.3	2.5	3.5	4.3	5.2	3.9	4.2	74.6	2.0	1.1	1.5
Woodworth Holdings	0.1	3.3	0.3	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	1.0	2.2	3.2	4.1	5.5	4.2	4.2	65.0 L	2.0	1.5	1.6
The Northern Trust Company	0.1	3.3	0.3	na	0.1	na	0.1 L	0.2 L	1.1	2.2	3.2	na	na	na	na	na	2.4	1.7	1.9
Wells Fargo	0.1	3.3	0.3	0.1 L	0.1	0.2	0.4	0.5	1.4	2.3	3.5	4.1	5.6	4.2	4.1	74.0	1.8	2.0	1.9
Kellner Economic Advisers	0.1	3.3	0.3	0.3	0.1	0.2	0.4	0.6	1.5	2.1	3.0	4.0	5.0	4.4	4.1	70.0	1.9	2.1	2.2
Thredgold Economic Assoc.	0.1	3.3	0.3	0.2	0.1	0.2	0.3	0.6	1.4	2.5	3.5	4.4	5.4	3.9	4.4	70.0	2.3	2.0	2.3
PNC Financial Services Corp.	0.1	3.3	0.3	na	0.1	0.1 L	0.2	0.5	1.3	2.4	na	na	na	4.0	4.0	67.6	2.4	2.0	2.3
Wintrust Wealth Management	0.1	3.3	0.3	0.2	0.1	0.1 L	0.4	0.5	1.4	2.6	3.7	4.8	5.6	4.2	4.2	68.3	2.6	2.4	2.6
Barclays Capital	0.1	3.3	0.3	0.2	0.1	0.1 L	0.2	0.5	1.5	2.8	4.0	4.8	5.5	4.3	4.3	na	3.0	2.7	3.8
Goldman Sachs	0.1	3.3	0.3	na	0.0 L	na	na	0.4	1.3	2.6	3.3	3.6	na	na	4.2	na	2.0	1.5	1.9
Daiwa Capital Markets America	0.1	3.3	0.3	0.1 L	0.1	0.1 L	0.2	0.4	1.4	2.4	3.4	4.1	5.4	4.0	4.3	70.0	3.0	1.7	2.0
Stone Harbor Investment Partners	0.1	3.3	0.3	0.2	0.1	0.1 L	0.2	0.3	0.9	1.8	2.9	3.6	4.8	na	3.9	72.0	2.0	2.5	2.2
ClearView Economics	0.1	3.3	0.5	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.1	2.2	3.6	4.0	6.4	4.1	4.1	73.0	2.6	2.0	2.6
Loomis, Sayles & Company	0.1	3.3	0.3	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.1	2.4	3.4	4.2	5.5	4.0	4.1	72.7	2.1	0.6 L	2.7
Moody's Analytics	0.1	3.3	0.2 L	0.3	0.0 L	0.1 L	0.4	0.7	2.4 H	4.2 H	5.3 H	5.8 H	6.8 H	na	5.8 H	na	3.5 H	2.0	2.0
Societe Generale	0.1	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	0.9	2.2	3.2	4.0	4.9	na	3.7	na	1.7	1.9	1.3
Moody's Capital Markets Group	0.1	3.3	0.4	0.1 L	0.1	0.1 L	0.3	0.6	1.4	2.6	3.5	4.2	5.3	3.9	4.4	71.5	2.5	1.8	1.7
Georgia State University	0.0 L	3.3 L	na	na	0.0 L	0.1 L	0.1 L	0.3	1.4	2.7	3.9	4.6	5.6	na	4.4	na	1.9	1.2	1.6
November Consensus	**0.1**	**3.3**	**0.4**	**0.2**	**0.1**	**0.2**	**0.3**	**0.5**	**1.4**	**2.5**	**3.6**	**4.3**	**5.5**	**4.2**	**4.3**	**71.1**	**2.4**	**2.0**	**2.3**
Top 10 Avg.	0.2	3.3	0.5	0.3	0.2	0.4	0.6	0.8	1.8	3.2	4.3	4.9	6.0	4.7	4.8	73.9	3.3	2.6	3.2
Bottom 10 Avg.	0.1	3.3	0.3	0.1	0.0	0.1	0.1	0.2	1.0	2.0	3.0	3.8	4.9	3.8	3.8	68.0	1.6	1.2	1.5
October Consensus	0.1	3.3	0.4	0.2	0.1	0.2	0.3	0.5	1.4	2.6	3.7	4.4	5.4	4.1	4.3	70.6	2.6	1.9	2.3
Number of Forecasts Changed From A Month Ago:																			
Down	7	0	5	12	13	6	9	10	11	15	22	19	10	6	16	7	19	11	8
Same	40	44	20	23	27	24	22	24	20	15	14	10	9	7	12	10	20	25	30
Up	2	1	20	2	9	11	10	13	17	19	12	11	17	17	15	14	10	12	11
Diffusion Index	46 %	51 %	67 %	36 %	46 %	56 %	51 %	53 %	56 %	54 %	40 %	40 %	60 %	68 %	49 %	61 %	41 %	51 %	53 %

Fourth Quarter 2012

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum -- Average For Quarter: Short-Term							Intermediate-Term				Long-Term				Avg. For --Qtr.--	(Q-Q % Change) (SAAR)		
	1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Bond 30-Yr.	12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	A. Fed's Major Currency $ Index	B. Real GDP	C. GDP Price Index	D. Cons. Price Index
J.W. Coons Advisors LLC	0.3 H	3.3 H	0.7	0.4	0.3 H	0.4	0.4	0.7	1.5	2.4	3.3	4.4	6.7	na	4.3	69.8	3.0	2.2	2.5
JPMorgan Private Banking	0.3 H	3.3	0.5	0.2	0.0 L	0.1	0.2	0.4	1.2	2.4	3.4	4.2	5.5	4.1	4.2	70.6	1.5	2.0	2.1
Bank of Toyko-Mitsubishi UFJ	0.3 H	3.3	0.5	0.2	0.1	0.1	0.2	1.3 H	2.1	3.4	4.0	4.7	6.1	4.6	5.1	65.0	3.5	3.0 H	2.5
Naroff Economic Advisors	0.3 H	3.3	0.4	0.4	0.3 H	0.3	0.5	0.8	1.7	2.2	3.2	4.3	5.3	4.1	4.1	65.0 L	3.6	2.8	2.6
Swiss Re	0.3 H	3.3	0.3	0.3	0.2	0.3	0.4	0.9	1.7	2.5	3.5	4.5	5.7	na	4.5	na	2.7	0.8	1.0 L
Scotiabank Group	0.3 H	3.3	na	na	0.2	na	na	1.1	1.7	3.0	4.0	na	na	na	na	na	2.0	1.8	1.5
DePrince & Assoc.	0.2	3.3	0.6	0.5 H	0.3 H	0.5	0.7	1.0	1.6	2.8	3.8	4.5	6.5	3.7	4.6	71.3	2.5	2.1	2.7
SunTrust Banks	0.2	3.3	0.5	0.3	0.1	1.3 H	1.2	1.0	1.5	2.3	3.0	4.2	4.7	4.9	3.8	77.7 H	3.3	2.4	3.8 H
MacroFin Analytics	0.2	3.3	0.5	0.3	0.2	0.3	0.6	0.7	1.7	2.4	3.6	4.5	6.0	4.7	4.5	73.5	2.8	1.5	1.7
Russell Investments	0.2	3.3	0.4	0.3	0.2	0.4	0.4	0.9	1.9	2.8	4.0	4.3	5.2	4.3	4.3	70.8	3.0	2.4	1.8
Wells Fargo	0.2	3.3	0.4	0.2	0.2	0.3	0.5	0.6	1.5	2.4	3.6	4.2	5.7	4.3	4.1	76.0	1.8	2.0	1.9
Cycledata Corp.	0.2	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.4	1.2	2.4	3.5	4.2	5.6	4.1	4.0	68.0	1.5	2.2	3.1
Fannie Mae	0.2	3.3	na	na	0.3 H	na	na	na	na	2.2	3.3	4.1	na	na	4.1	na	1.4	1.5	1.7
Wells Capital Management	0.2	3.3	0.8 H	0.3	0.2	0.3	0.5	0.7	1.8	3.6	4.5	5.1	6.1	5.9 H	5.5	73.3	2.8	2.3	2.6
Chmura Economics & Analytics	0.2	3.3	0.5	0.1 L	0.1	0.2	0.3	0.5	1.4	2.7	3.8	4.4	na	na	4.6	74.2	3.2	2.0	2.8
Pierpont Securities	0.2	3.3	0.5	0.2	0.1	0.1 L	0.2	0.8	1.9	3.4	4.7	4.9	6.2	5.0	5.2	70.0	3.9 H	2.7	3.5
Comerica Bank	0.2	3.3	0.4	na	0.0 L	0.3	0.5	0.9	1.8	2.9	4.3	na	na	na	4.5	na	2.5	1.9	2.7
Economist Intelligence Unit	0.1	3.3	0.6	0.2	0.2	0.2	0.3	0.7	1.5	2.5	4.1	na	na	na	4.4	na	2.1	na	1.5
GLC Financial Economics	0.1	3.3	0.5	0.2	0.0 L	0.1 L	0.1 L	0.2	1.0	2.4	3.6	4.3	5.9	4.2	4.5	71.2	2.7	2.5	2.7
Bank of America Merrill Lynch	0.1	3.3	0.5	na	0.1	na	na	0.8	1.8	3.3	4.8	na	na	na	na	na	1.0 L	1.0	1.5
BMO Capital Markets	0.1	3.3	0.3	0.2	0.0 L	0.9	1.3 H	0.9	1.6	2.4	3.2	4.2	5.4	4.1	3.9	71.8	2.9	1.9	1.7
Oxford Economics	0.1	3.3	0.3	na	0.0 L	0.1 L	0.4	0.9	1.6	2.4	3.0	4.2	na	na	4.1	74.7	3.2	2.4	2.4
Moody's Analytics	0.1	3.3	0.2 L	0.4	0.0 L	0.1 L	0.5	0.9	2.8 H	4.8 H	5.9 H	6.1 H	7.2 H	na	6.4 H	na	3.7	2.4	2.1
UBS	0.1	na	0.4	na	0.2	na	na	0.4	1.7	2.4	3.8	na	na	na	na	na	2.7	2.0	2.1
MF Global	0.1	na	na	na	0.2	0.4	0.5	0.9	1.9	3.3	4.1	na	na	na	na	na	3.5	2.1	2.1
RBS Securities	0.1	3.3	0.4	0.2	0.1	0.2	0.2	0.3	0.8 L	1.7 L	2.8 L	3.2 L	4.1 L	3.4	3.4 L	71.5	2.7	1.8	2.0
Nat'l Assn. of Realtors	0.1	3.3	0.6	0.4	0.3 H	0.4	0.5	1.1	2.1	3.2	4.3	5.1	6.2	5.1	4.9	na	2.8	2.2	2.9
Nomura Securities, Inc.	0.1	3.3	0.5	0.2	0.1	0.1 L	0.1	0.7	1.7	2.7	3.7	4.6	5.9	na	4.6	75.0	2.6	1.0	1.2
Action Economics	0.1	3.3	0.5	0.2	0.1	0.2	0.4	0.9	2.0	3.1	4.1	4.1	5.2	3.8	3.9	69.2	3.3	2.5	2.7
Thredgold Economic Assoc.	0.1	3.3	0.4	0.3	0.1	0.3	0.4	0.6	1.6	2.6	3.6	4.5	5.5	4.1	4.5	70.5	2.4	2.0	2.4
Kellner Economic Advisers	0.1	3.3	0.4	0.4	0.2	0.3	0.5	0.7	1.6	2.1	3.1	4.1	5.1	4.5	4.1	70.0	2.0	2.2	2.4
Wintrust Wealth Management	0.1	3.3	0.4	0.3	0.1	0.2	0.5	0.6	1.5	2.7	3.8	4.9	5.7	4.3	4.3	67.9	2.7	2.4	2.7
RDQ Economics	0.1	3.3	0.4	0.2	0.1	0.2	0.6	1.0	2.5	4.0	5.3	5.8	6.8	5.8	5.7	72.7	3.2	2.5	2.8
RidgeWorth Investments	0.1	3.3	0.4	0.2	0.1	0.2	0.2	0.3	1.0	2.2	3.6	3.6	4.7	3.0 L	4.0	69.0	3.0	1.9	2.4
Standard & Poor's Corp.	0.1	3.3	0.3	0.3	0.1	0.1 L	0.2	0.4	1.5	2.5	3.0	4.3	5.3	4.2	4.2	na	1.7	1.1	1.9
Mesirow Financial	0.1	3.3	0.3	0.2	0.3 H	0.3	0.4	0.8	1.5	2.6	3.6	4.4	5.3	4.0	4.4	73.7	2.3	1.0	1.4
Woodworth Holdings	0.1	3.3	0.3	0.1 L	0.0 L	0.1 L	0.1	0.2	1.0	2.2	3.2	4.1	5.5	4.2	4.2	67.0	2.0	1.4	1.5
PNC Financial Services Corp.	0.1	3.3	0.3	na	0.1	0.1 L	0.2	0.6	1.5	2.6	na	na	na	4.2	4.1	67.0	2.4	2.1	2.4
Goldman Sachs & Co.	0.1	3.3	0.3	na	0.0 L	na	na	0.5	1.5	2.8	3.5	3.7	na	na	4.3	na	2.5	1.4	1.8
Daiwa Capital Markets America	0.1	3.3	0.3	0.1 L	0.1	0.1 L	0.2 L	0.5	1.4	2.5	3.5	4.2	5.5	4.0	4.4	68.0	3.3	1.8	2.2
The Northern Trust Company	0.1	3.3	0.3	na	0.1	na	0.1	0.2	1.1	2.5	3.6	na	na	na	na	na	2.8	2.1	2.3
Stone Harbor Investment Partners	0.1	3.3	0.3	0.2	0.1	0.2	0.3	0.6	1.4	2.5	3.7	4.2	5.2	na	4.5	70.0	2.3	2.9	2.5
ClearView Economics	0.1	3.3	0.5	0.1 L	0.0 L	0.1 L	0.1	0.3	1.1	2.2	3.5	4.0	5.4	4.1	4.1	73.5	2.7	2.1	2.6
Loomis, Sayles & Company	0.1	3.3	0.3	0.1 L	0.0 L	0.1 L	0.1	0.3	1.3	2.6	3.6	4.4	5.6	4.1	4.3	72.9	2.3	0.5 L	2.6
Societe Generale	0.1	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1	0.2 L	0.9	2.3	3.3	4.0	4.9	na	3.7	na	2.0	1.9	1.2
Moody's Capital Markets Group	0.1	3.3	0.3	0.1 L	0.2	0.2	0.4	0.7	1.6	2.8	3.6	4.2	5.3	3.8	4.5	74.0	2.5	1.8	1.9
Georgia State University	0.0 L	3.3 L	na	na	0.0 L	0.0 L	0.1 L	0.4	1.5	2.8	4.0	4.6	5.6	na	4.4	na	2.1	1.3	1.6
November Consensus	**0.1**	**3.3**	**0.4**	**0.2**	**0.1**	**0.2**	**0.4**	**0.6**	**1.6**	**2.7**	**3.7**	**4.4**	**5.6**	**4.3**	**4.4**	**71.1**	**2.6**	**2.0**	**2.2**
Top 10 Avg.	0.2	3.3	0.6	0.4	0.2	0.5	0.7	1.0	2.1	3.5	4.6	5.0	6.2	4.9	5.1	74.5	3.5	2.6	3.0
Bottom 10 Avg.	0.1	3.3	0.3	0.1	0.0	0.1	0.1	0.3	1.1	2.2	3.1	3.9	5.0	3.8	3.9	67.6	1.7	1.1	1.4
October Consensus	0.1	3.3	0.4	0.3	0.1	0.2	0.4	0.6	1.6	2.7	3.8	4.5	5.5	4.2	4.5	70.6	2.8	1.9	2.2
Number of Forecasts Changed From A Month Ago:																			
Down	8	1	4	12	8	5	8	10	13	16	21	17	10	6	17	8	20	8	9
Same	36	42	23	20	29	23	20	20	18	17	11	12	9	6	10	11	18	25	26
Up	2	1	16	4	10	12	12	15	15	14	12	10	16	16	15	12	9	13	12
Diffusion Index	43 %	50 %	64 %	39 %	52 %	59 %	55 %	56 %	52 %	48 %	40 %	41 %	59 %	68 %	48 %	56 %	38 %	55 %	53 %

First Quarter 2013

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum -- Average For Quarter: Short-Term							Intermediate-Term				Long-Term				Avg. For Qtr.	(Q-Q % Change) (SAAR)		
	1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Bond 30-Yr.	12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	A. Fed's Major Currency $ Index	B. Real GDP	C. GDP Price Index	D. Cons. Price Index
Bank of Toyko-Mitsubishi UFJ	0.8 H	3.8 H	1.2 H	0.9 H	0.9 H	1.0	1.2	2.0 H	2.6	3.5	4.1	5.0	6.3	4.5	5.1	65.0 L	3.4	2.9	2.7
Nat'l Assn. of Realtors	0.3	3.3	0.6	0.5	0.4	0.6	0.8	1.5	2.4	3.4	4.6	5.3	6.4	5.2	5.1	na	3.0	2.3	3.0
Wells Fargo	0.3	3.3	0.5	0.3	0.3	0.4	0.6	0.7	1.6	2.5	3.7	4.3	5.7	4.3	4.2	75.5	2.0	2.1	2.0
Naroff Economic Advisors	0.3	3.3	0.4	0.5	0.4	0.5	0.7	0.9	1.9	2.4	3.6	4.6	5.6	4.3	4.4	65.5	4.3 H	2.6	2.8
Pierpont Securities	0.3	3.3	0.6	0.3	0.2	0.3	0.4	1.3	2.4	3.8	5.3	5.2	6.5	6.3	5.6	72.0	4.2	3.0 H	3.7 H
SunTrust Banks	0.3	3.3	0.6	0.4	0.1	1.7 H	1.6 H	1.5	1.9	2.6	3.4	4.5	5.0	6.2	4.1	79.3 H	2.9	2.4	3.7 H
J.W. Coons Advisors LLC	0.3	3.3	0.8	0.3	0.3	0.4	0.5	0.7	1.6	2.5	3.4	4.5	5.7	na	4.4	69.9	2.7	2.2	2.5
JPMorgan Private Banking	0.3	3.3	0.5	0.2	0.0 L	0.1 L	0.2	0.4	1.2	2.4	3.5	4.2	5.6	4.2	4.2	70.7	2.0	1.9	2.0
Swiss Re	0.3	3.3	0.3	0.3	0.2	0.3	0.4	0.9	1.9	2.7	3.6	4.8	5.8	na	4.6	na	3.0	2.0	2.0
Wintrust Wealth Management	0.2	3.4	0.4	0.3	0.2	0.3	0.6	0.8	1.6	2.8	4.0	5.1	5.9	4.3	4.4	67.8	2.8	2.5	2.9
DePrince & Assoc.	0.2	3.3	0.5	0.4	0.2	0.4	0.6	1.0	1.6	2.9	3.9	4.6	5.6	3.8	4.7	71.7	3.1	2.2	2.9
MacroFin Analytics	0.2	3.3	0.5	0.3	0.3	0.5	0.8	0.9	2.0	2.5	3.9	4.7	6.2	4.8	4.5	74.0	3.0	1.5	1.6
Russell Investments	0.2	3.3	0.5	0.3	0.3	0.4	0.5	1.0	2.2	3.0	4.2	4.4	5.3	4.4	4.5	71.1	2.8	2.3	1.8
RidgeWorth Investments	0.2	3.3	0.5	0.3	0.1	0.3	0.4	0.4	1.3	2.4	3.9	3.7	4.8	2.9 L	4.2	72.0	3.0	2.0	2.4
Thredgold Economic Assoc.	0.2	3.3	0.4	0.3	0.2	0.4	0.5	0.7	1.7	2.7	3.7	4.5	5.5	4.2	4.6	70.5	2.5	2.0	2.4
Cycledata Corp.	0.2	3.3	0.4	0.1 L	0.1	0.1 L	0.2	0.4	1.3	2.5	3.6	4.3	5.7	4.2	4.1	68.0	1.5 L	2.2	3.1
Fannie Mae	0.2	3.3	na	na	0.3	na	na	na	na	2.3	3.3	4.1	na	na	4.1	na	1.8	1.9	1.8
Wells Capital Management	0.2	3.3	0.8	0.4	0.3	0.3	0.5	0.9	1.8	3.8	4.7	5.3	6.2	6.1 H	5.6	73.8	3.0	2.1	2.6
Chmura Economics & Analytics	0.2	3.3	0.6	0.1 L	0.1	0.2	0.3	0.6	1.5	2.8	3.8	4.5	na	na	4.5	75.8	3.0	2.4	2.7
Comerica Bank	0.2	3.3	0.5	na	0.0 L	0.3	0.6	1.1	2.0	3.0	4.4	na	na	na	4.6	na	2.4	1.9	2.6
Economist Intelligence Unit	0.1	3.3	0.6	0.3	0.2	0.2	0.4	0.9	1.7	2.7	4.3	na	na	na	4.6	na	2.3	na	1.7
GLC Financial Economics	0.1	3.3	0.5	0.2	0.0 L	0.1 L	0.1 L	0.2 L	1.1	2.5	3.7	4.5	6.0	4.3	4.7	71.1	2.9	2.6	2.8
BMO Capital Markets	0.1	3.3	0.3 L	0.2	0.0 L	1.2	1.6	1.2	1.9	2.6	3.4	4.3	5.4	4.2	4.0	71.0	3.0	2.0	2.0
Moody's Analytics	0.1	3.3	0.3 L	0.4	0.0 L	0.1 L	0.5	1.0	3.2 H	5.1 H	6.1 H	6.2 H	7.3 H	na	6.6 H	na	3.6	2.5	2.4
Oxford Economics	0.1	3.3	0.3 L	na	0.0 L	0.2	0.5	1.1	1.6	2.6	3.1	4.2	na	na	4.1	76.8	3.3	2.0	1.9
RBS Securities	0.1	3.3	0.4	0.2	0.2	0.2	0.4	0.4	1.1	1.9 L	2.9 L	3.2 L	4.1 L	3.3	3.5 L	73.0	2.0	2.8	2.1
Standard & Poor's Corp.	0.1	3.3	0.3 L	0.3	0.1	0.1 L	0.2	0.4	1.6	2.6	3.1	4.4	5.4	4.3	4.2	na	2.0	1.4	1.9
Nomura Securities, Inc.	0.1	3.3	0.5	0.2	0.1	0.1 L	0.1 L	0.8	1.8	2.8	3.8	4.7	6.1	na	4.6	76.0	2.4	1.1 L	1.2
Action Economics	0.1	3.3	0.5	0.2	0.1	0.2	0.6	1.2	2.2	3.3	4.3	4.2	5.3	3.9	4.0	69.1	3.8	2.4	2.9
Kellner Economic Advisers	0.1	3.3	0.4	0.5	0.3	0.4	0.6	0.8	1.6	2.2	3.1	4.1	5.1	4.5	4.2	70.0	2.2	2.2	2.4
PNC Financial Services Corp.	0.1	3.3	0.3 L	na	0.1	0.2	0.3	0.7	1.6	2.8	na	na	na	4.4	4.3	66.7	2.6	2.1	2.2
Mesirow Financial	0.1	3.3	0.3 L	0.2	0.3	0.4	0.5	0.9	1.7	2.7	3.7	4.4	5.3	4.1	4.4	72.7	2.7	1.2	1.2
Woodworth Holdings	0.1	3.3	0.3 L	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	1.0	2.2	3.2	4.1	5.5	4.2	4.2	70.0	2.5	1.3	1.4
Daiwa Capital Markets America	0.1	3.3	0.3 L	0.1 L	0.1	0.1 L	0.2	0.5	1.4	2.5	3.5	4.2	5.6	3.8	4.4	68.0	3.4	1.8	2.2
Stone Harbor Investment Partners	0.1	3.3	0.3 L	0.2	0.1	0.2	0.4	0.9	1.8	3.0	4.2	4.7	5.5	na	4.8	68.0	2.0	2.5	2.5
ClearView Economics	0.1	3.3	0.5	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.1	2.2	3.5	4.0	5.4	4.1	4.1	74.0	3.0	2.2	2.8
Loomis, Sayles & Company	0.1	3.3	0.3 L	0.1 L	0.0 L	0.1 L	0.1 L	0.3	1.3	2.8	3.8	4.6	5.7	4.1	4.4	73.1	1.7	1.5	2.2
Societe Generale	0.1	3.3	0.4	0.1 L	0.0 L	0.1 L	0.1 L	0.2 L	0.9 L	2.3	3.4	4.0	4.9	na	3.7	na	2.4	1.8	1.0 L
Moody's Capital Markets Group	0.1	3.3	0.3 L	0.1 L	0.2	0.3	0.5	0.8	2.0	2.9	3.6	4.3	5.2	3.9	4.5	75.0	3.0	1.9	2.0
Georgia State University	0.0 L	3.3 L	na	na	0.0 L	0.1 L	0.1 L	0.4	1.5	2.8	4.0	4.6	5.7	na	4.4	na	2.4	1.6	1.8
November Consensus	**0.2**	**3.3**	**0.4**	**0.3**	**0.2**	**0.3**	**0.5**	**0.8**	**1.7**	**2.8**	**3.8**	**4.5**	**5.6**	**4.3**	**4.5**	**71.5**	**2.8**	**2.1**	**2.3**
Top 10 Avg.	0.3	3.3	0.7	0.5	0.4	0.7	0.9	1.3	2.3	3.5	4.6	5.1	6.3	4.9	5.1	75.1	3.5	2.6	3.1
Bottom 10 Avg.	0.1	3.3	0.3	0.1	0.0	0.1	0.1	0.3	1.2	2.3	3.2	4.0	5.0	3.8	4.0	67.8	2.0	1.5	1.5
October Consensus	0.2	3.3	0.5	0.3	0.2	0.3	0.5	0.8	1.7	2.8	3.9	4.6	5.6	4.2	4.6	71.2	2.8	2.1	2.3
Number of Forecasts Changed From A Month Ago:																			
Down	8	0	4	13	6	5	6	4	8	13	17	17	10	7	14	6	16	9	9
Same	29	37	20	18	25	22	22	18	16	13	11	10	10	8	13	14	13	22	20
Up	3	2	14	4	9	11	10	16	15	14	11	10	14	13	13	10	11	8	11
Diffusion Index	44 %	63 %	63 %	37 %	54 %	58 %	55 %	66 %	69 %	51 %	42 %	41 %	56 %	61 %	49 %	57 %	44 %	49 %	53 %

International Interest Rate And Foreign Exchange Rate Forecasts

United States

Blue Chip Forecasters	3 Mo. Interest Rate %			10 Yr. Gov't Bond Yield %			Fed's Major Currency $ Index		
	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	1.90	2.20	3.00	na	na	na
Moody's Analytics	0.48	0.39	0.45	3.06	3.40	4.18	na	na	na
BMO Capital Markets	na	na	na	2.10	2.00	2.35	74.1	74.8	73.4
Mizuho Research Institute	0.40	0.20	0.20	2.10	2.10	2.30	74.0	74.1	76.0
Wells Fargo	0.45	0.45	0.45	2.20	2.20	2.30	71.5	72.6	74.0
ING Financial Markets	0.30	0.40	0.40	1.80	1.80	2.00	69.9	68.8	66.3
Moody's Captial Markets	0.40	0.43	0.47	2.25	2.25	2.65	72.0	73.0	75.0
November Consensus	0.41	0.37	0.39	2.20	2.28	2.68	72.3	72.6	72.9
High	0.48	0.45	0.47	3.06	3.40	4.18	74.1	74.8	76.0
Low	0.30	0.20	0.20	1.80	1.80	2.00	69.9	68.8	66.3
Last Months Avg.	0.29	0.28	0.31	2.07	2.11	2.35	68.6	68.4	68.2

Japan

Blue Chip Forecasters	3 Mo. Interest Rate %			10 Yr. Gov't Bond Yield %			Yen/USD		
	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	na	na	na	82.0	83.0	86.0
Moody's Analytics	na	na	na	1.10	1.15	1.16	78.9	81.7	85.7
BMO Capital Markets	na	na	na	1.00	1.00	1.00	76.2	76.0	79.0
Mizuho Research Institute	0.33	0.33	0.33	1.00	1.00	1.00	77.0	78.0	79.0
Wells Fargo	0.20	0.20	0.20	1.00	0.04	1.08	77.1	77.7	80.0
ING Financial Markets	0.20	0.20	0.20	1.20	1.20	1.35	73.0	70.0	70.0
Moody's Captial Markets	na	na	na	1.10	1.20	1.32	79.0	80.0	85.0
November Consensus	0.24	0.24	0.24	1.07	0.93	1.15	77.6	78.1	80.5
High	0.33	0.33	0.33	1.20	1.20	1.35	82.0	83.0	85.7
Low	0.20	0.20	0.20	1.00	0.04	1.00	73.0	70.0	70.0
Last Months Avg.	0.24	0.24	0.24	1.08	1.09	1.16	77.8	77.2	78.8

United Kingdom

Blue Chip Forecasters	3 Mo. Interest Rate %			10 Yr. Gilt Yields %			USD/Pound Sterling		
	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	na	na	na	1.61	1.62	1.64
Moody's Analytics	na	na	na	2.60	2.78	3.26	1.57	1.56	1.60
BMO Capital Markets	na	na	na	2.35	2.25	2.55	1.52	1.50	1.58
Mizuho Research Institute	0.90	0.70	0.70	2.60	2.60	2.80	na	na	na
Wells Fargo	0.90	0.75	0.75	2.60	2.70	3.30	1.35	1.31	1.26
ING Financial Markets	0.70	0.65	0.65	2.20	2.40	2.70	1.56	1.59	1.69
Moody's Captial Markets	na	na	na	2.30	2.45	2.65	1.63	1.65	1.65
November Consensus	0.83	0.70	0.70	2.43	2.51	2.84	1.52	1.52	1.57
High	0.90	0.75	0.75	2.60	2.78	3.30	1.61	1.62	1.69
Low	0.70	0.65	0.65	2.20	2.25	2.55	1.35	1.31	1.26
Last Months Avg.	0.73	0.68	0.68	2.45	2.46	2.64	1.63	1.62	1.66

Switzerland

Blue Chip Forecasters	3 Mo. Interest Rate %			10 Yr. Gov't Bond Yield %			CHF/USD		
	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	na	na	na	0.86	0.86	0.86
Moody's Analytics	na	na	na	1.20	1.25	1.35	0.86	0.85	0.87
BMO Capital Markets	na	na	na	na	na	na	0.91	0.92	0.93
Mizuho Research Institute	na	na	na	na	na	na	na	na	na
Wells Fargo	na	na	na	na	na	na	0.91	0.93	1.01
ING Financial Markets	0.10	0.10	0.10	0.90	0.90	1.00	0.86	0.86	0.83
Moody's Captial Markets	na	na	na	na	na	na	na	na	na
November Consensus	0.10	0.10	0.10	1.05	1.08	1.18	0.88	0.88	0.90
High	0.10	0.10	0.10	1.20	1.25	1.35	0.91	0.93	1.01
Low	0.10	0.10	0.10	0.90	0.90	1.00	0.86	0.85	0.83
Last Months Avg.	0.10	0.10	0.10	1.00	1.05	1.10	0.82	0.82	0.81

Canada

Blue Chip Forecasters	3 Mo. Interest Rate %			10 Yr. Gov't Bond Yield %			CAD/USD		
	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	2.20	2.45	2.90	1.00	1.01	1.02
Moody's Analytics	na	na	na	3.13	3.25	3.65	1.00	1.01	1.00
BMO Capital Markets	na	na	na	2.30	2.25	2.55	1.06	1.08	1.03
Mizuho Research Institute	na	na	na	na	na	na	Na	na	na
Wells Fargo	1.20	1.15	1.50	2.60	2.80	3.50	1.01	0.99	0.94
ING Financial Markets	1.20	1.20	1.30	2.30	2.40	2.80	1.00	0.98	0.95
Moody's Captial Markets	na	na	na	2.50	2.80	3.30	0.95	0.95	0.96
November Consensus	1.20	1.18	1.40	2.51	2.66	3.10	1.00	1.00	0.98
High	1.20	1.20	1.50	3.13	3.25	3.65	1.06	1.08	1.03
Low	1.20	1.15	1.30	2.20	2.25	2.55	0.95	0.95	0.94
Last Months Avg.	1.18	1.23	1.63	2.34	2.39	2.81	0.97	0.97	0.96

International Interest Rate And Foreign Exchange Rate Forecasts

Australia

	3 Mo. Interest Rate %			10 Yr. Gov't Bond Yield %			USD/AUD		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	na	na	na	1.02	1.04	1.08
Moody's Analytics	na	na	na	4.94	5.12	5.50	1.02	1.01	0.99
BMO Capital Markets	na	na	na	na	na	na	0.96	0.95	0.98
Mizuho Research Institute	na	na	na	na	na	na	na	na	na
Wells Fargo	na	na	na	na	na	na	1.02	1.03	1.05
ING Financial Markets	4.80	4.90	5.00	4.20	4.20	4.50	1.01	1.03	1.06
Moody's Captial Markets	na	na	na	4.50	5.40	6.30	0.98	1.00	1.05
November Consensus	**4.80**	**4.90**	**5.00**	**4.55**	**4.91**	**5.43**	**1.00**	**1.01**	**1.03**
High	4.80	4.90	5.00	4.94	5.40	6.30	1.02	1.04	1.08
Low	4.80	4.90	5.00	4.20	4.20	4.50	0.96	0.95	0.98
Last Months Avg.	4.90	5.00	5.15	4.35	4.40	4.70	1.06	1.06	1.06

Eurozone

	3 Mo. Interest Rate %			USD/EUR		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank Group	na	na	na	1.42	1.42	1.40
Moody's Analytics	na	na	na	1.40	1.40	1.35
BMO Capital Markets	na	na	na	1.32	1.30	1.38
Mizuho Research Institute	1.40	0.70	0.70	1.30	1.30	1.26
Wells Fargo	1.30	0.90	0.90	1.35	1.31	1.26
ING Financial Markets	1.20	1.15	1.15	1.40	1.40	1.45
Moody's Captial Markets	1.15	1.23	1.29	1.30	1.32	1.35
November Consensus	**1.26**	**1.00**	**1.01**	**1.36**	**1.35**	**1.35**
High	1.40	1.23	1.29	1.42	1.42	1.45
Low	1.15	0.70	0.70	1.30	1.30	1.26
Last Months Avg.	1.55	1.55	1.55	1.43	1.43	1.42

10 Yr. Gov't Bond Yields %

	Germany			France			Italy			Spain		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
ING Financial Markets	2.00	2.00	2.20	3.10	2.90	2.85	6.00	5.80	5.70	5.70	5.60	5.60
Mizuho Research Institute	1.90	2.00	2.10	3.10	3.00	3.00	5.70	5.50	5.50	5.40	5.20	5.20
Moody's Analytics	2.24	2.39	2.83	3.44	3.14	3.04	5.40	5.60	5.95	5.97	6.06	6.21
Moody's Captial Markets	2.10	2.20	2.40	3.20	3.30	3.60	5.85	5.95	6.11	5.85	5.70	5.65
November Consensus	**2.06**	**2.15**	**2.38**	**3.21**	**3.09**	**3.12**	**5.74**	**5.71**	**5.82**	**5.73**	**5.64**	**5.67**
High	2.24	2.39	2.83	3.44	3.30	3.60	6.00	5.95	6.11	5.97	6.06	6.21
Low	1.90	2.00	2.10	3.10	2.90	2.85	5.40	5.50	5.50	5.40	5.20	5.20
Last Months Avg.	2.82	2.94	3.27	3.32	3.39	3.64	5.04	5.06	5.14	5.44	5.38	5.35

Consensus Forecasts 10-year Bond Yields vs U.S. Yield

	Current	In 3 Mo.	In 6 Mo.	In 12 Mo.
Japan	-1.11	-1.13	-1.35	-1.53
United Kingdom	0.38	0.22	0.23	0.16
Switzerland	-1.10	-1.15	-1.20	-1.51
Canada	0.15	0.30	0.38	0.42
Australia	2.35	2.35	2.63	2.75
Germany	-0.07	-0.14	-0.13	-0.30
France	1.06	1.01	0.81	0.44
Italy	3.83	3.54	3.43	3.13
Spain	3.41	3.53	3.36	2.98

Consensus Forecasts 3 Mo. Deposit Rates vs U.S. Rate

	Current	In 3 Mo.	In 6 Mo.	In 12 Mo.
Japan	-0.34	-0.16	-0.62	-0.15
United Kingdom	0.47	0.43	0.33	0.31
Switzerland	-0.35	-0.31	-0.27	-0.29
Canada	1.14	0.79	0.80	1.01
Australia	4.40	4.39	4.53	4.61
Eurozone	1.21	0.86	0.62	0.62

Viewpoints:

A Sampling of Views on the Economy, Financial Markets and Government Policy Excerpted from Recent Reports Issued by our Blue Chip Panel Members and Others

Good News On Inflation?

The Consumer Price Index (CPI) increased by a cumulative 1.2% over the past three months in September. Nevertheless, in the latest Sept. 21 post-FOMC statement, Fed policymakers continued to state that: "Inflation appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks" and communicated that: "[the] Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further."

Of course, the energy price gains boosting overall CPI in recent months are behind us, at least for the time being. And recently falling energy prices may subtract around 0.2 percentage point from reported overall CPI inflation in October. However, core (non-food, non-energy) inflation has trended higher so far in 2011. It has risen at a 2.4% annual rate this year through September. That was down a tad from the 2.6% pace through August but still well above the 0.8% y/y seen last December. We still expect the core CPI to rise 2.1% (Q4/Q4) in 2012—a moderate slowing from its recent annualized pace.

The recent monthly pattern of core inflation offers some hope that the uptrend in the core inflation may be slowing somewhat. After two straight 0.3% monthly gains through June, core CPI prices rose 0.2% in each of the following two months before rising just 0.1% in September. The rise in September was a "low" 0.1%—0.054% before rounding. While September was just one month, it is possible that the worst of the monthly gains in the core CPI are behind us. Part of the earlier run-up in new auto prices reflected temporary shortages of Japanese models. Also, recently falling cotton prices suggest that their earlier boost to apparel prices will not be sustained in the latter quarters of 2012.

The Fed's reported preferred measure of inflation, the core Personal Consumption Expenditures (PCE) chain price index (which has a housing weight roughly half that of the CPI), is projected to increase by 1.9% on a Q4/Q4 basis this year. For September, we calculate that the core PCE, which will be reported on Oct. 28, was unchanged on a monthly basis after rising at a 2.0% annual rate in the previous three months.

It appears Fed officials are exploring ways through its communications to better manage the markets' monetary policy expectations. The Sept. 21 FOMC minutes noted that most participants favored taking steps to increase transparency, including providing more information about the Committee's longer-run policy objectives for inflation and jobs. Fed Chairman Bernanke also discussed the subject in a speech delivered on Oct. 18. Chairman Bernanke evaluated the benefits of adopting a "flexible inflation targeting" (FIT) framework. Mr. Bernanke explained that a FIT approach to policy "combines commitment to a medium-run inflation objective with the flexibility to respond to economic shocks as 'needed to moderate deviations of output from its potential, or 'full employment,' level". Mr. Bernanke used the term "constrained discretion" to describe the framework. In theory, it would allow the Fed to pursue countercyclical monetary policy while maintaining medium- and long-run price stability. However, it introduces this distinction between the short-run and the long-run. Critics of the framework often ask a valid question: Can the Fed have its cake and eat it too?

Ultimately, it's likely to take more time for a consensus to be reached and specific targets to be agreed on. For example, will they target headline or core; over what time period; what inflation gauge would be used; how would any revisions to the data be handled; how much latitude in the short run policy decisions should be taken given the long run target; and what is the most effective means of communicating a change?

According to the September 21 FOMC minutes: "a number of participants expressed concerns about the conceptual issues associated with establishing and communicating explicit longer-run objectives for the unemployment rate or other measures of labor market conditions, inasmuch as the long-run equilibrium levels of such measures are influenced importantly by non-monetary factors, are subject to change over time, and are estimated with considerable uncertainty. In contrast, participants noted that the long-run level of inflation is determined primarily by monetary policy."

Kevin Cummins, UBS, New York, NY

Modified Program Aims To Alleviate Residential Mortgage Problems, Will it Raise Consumer Spending?

The Federal Housing Finance Agency (FHFA), the regulator of Fannie Mae and Freddie Mac and the 12 Federal Home Loan Banks, has announced a modification of the original Home Affordable Refinance Program (HARP) passed in 2009. The objective is to make refinancing easier for people with mortgages backed by Fannie Mae and Freddie Mac. HARP allows borrowers whose mortgage is worth more than the current value of their homes to refinance and take advantage of the low interest rate environment. CoreLogic estimates that currently 22.6% of mortgages (10.8 million mortgages) exceed the current value of homes.

The announced modifications of the original HARP includes removing the current 125% cap on loan-to-value ratio. In other words, borrowers owing more than 125% of their home's value can tap into this program, while eliminating limits set under the original HARP. Requirement of an appraisal may be waived and underwriting requirements will be reduced. This is noteworthy because the National Association of Realtors reported last week that contract cancellations have risen in September in cases where the negotiated prices have exceeded appraisal values. Although, refinancing does not involve a purchase, the prevailing preference for conservative appraisals could have presented a hurdle for refinancing. Fannie and Freddie have also indicated that burdensome fees entailed in refinancing will be waived. The program will be in place until December 31, 2013 for loans originally sold to Fannie Mae and Freddie Mac on or before May 31, 2009. The original HARP was set to expire in June 2012. The streamlining of procedures and reduction of fees is expected to help homeowners and bring about stability in the housing market. As of August 31, 2011, 894,000 borrowers had refinanced under the original HARP. The sheer size of existing mortgages underwater (10.8 million) suggests that the latest modification of the HARP program should be beneficial per se and more so if a larger number are able to refinance compared with the achievement so far.

It is generally assumed that home mortgage refinancing should increase cash flow of households and translate into increased consumer spending. Consumer spending has shown a decelerating trend since the beginning of the year and Fed officials, Bernanke included, have expressed concern in recent speeches. Disposable income also has failed to post meaningful growth in recent months. At first blush, it appears that refinancing will change the current income constraint of households and enable more spending on goods and services in an environment of negligible growth in income. But, a more thorough analysis suggests that the impact of mortgage refinancing is likely to be muted because lenders obtain less interest income and their spending will suffer a setback (Paul Kasriel, my boss, had repeatedly educated me about this overlooked aspect). Therefore, the likely spending outcome of mortgage refinancing is less positive than expected and could also be a wash when considering the macroeconomic impact.

There is an alternative route that will have a significant positive impact on consumer spending. Recently, Fed officials *(continued on next page)*

Viewpoints

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have been speaking about the possibility of purchasing more securities to bolster economic activity. Fed Governor Tarullo mentioned that there is "ample room" to purchase mortgage-backed securities to enhance economic growth. If the Fed were to purchase MBS from lenders, it would lead to more credit created in the economy, without offsets. If lenders spend the newly created credit or extend funds to a new borrower it would create a virtuous cycle of economic activity.

It is also important to note that households have been focused on reducing debt in recent quarters (voluntary and involuntary). It is entirely conceivable that the new found dollars could be channeled into paying off debt. Household debt as a percentage of GDP has declined from a historical peak of 99.42% in first quarter of 2009 to 88.6% in the second quarter of 2011. This is a positive long-term trend but has pitfalls in the near term because consumer spending is adversely affected as households strengthen their balance sheets.

Asha Bangalore, Northern Trust, Chicago, IL

Ceteris Paribus And Default Risk

Two aspects of financial reporting appear regularly and, unfortunately, are very misleading to investors and decision makers.

First, there is a tendency to associate a movement in one economic variable with the movement or lack thereof of another to suggest cause and effect. The latest misconstruction appeared recently with the argument that perhaps Operation Twist was working because the 30-year Treasury rate rose in value. Huh? Yes, that was our response.

Operation Twist was suppose to lower the long end of the yield curve not raise the 30-year yield, so the premise of the article is all wrong. More importantly, the article fails to appreciate the importance of ceteris paribus—all else held constant.

While the Fed was discussing Operation Twist, something else more important was happening—market expectations on the economy were becoming less negative as retail sales, employment and, most recently this week, the Philadelphia Fed index all were better than market expectations. From our viewpoint, it was this change in economic expectations that altered the path of long-term rates and most likely obscured any impact from Operation Twist.

Unfortunately, U.S. Treasury debt is not risk free, as is frequently asserted in both written and televised commentary. Treasury debt may be default-risk free but for anyone familiar with the history of credit markets from the 1970s on Treasury debt is very risk-full due to the uncertainties of inflation, currency and therefore interest rate fluctuations.

Inflation destroys the real return on Treasuries, and with consumer prices rising at 3%+, the real value of the return on Treasuries is negative. Dollar depreciation is a risk for foreign investors. The experience of 1994-1995 is a dramatic example of interest rate risk. Today's low Treasury rates are a bet on many factors—not just default.

John Silvia, Wells Fargo, Charlotte, NC

Zeroing In On Housing

U.S. policymakers are starting to zero in on measures that could revive the housing market—which is ground zero for the fragile recovery. The Administration and state governments are pushing a plan to encourage banks to allow underwater homeowners who are current on their payments to refinance at lower interest rates. If successful, this could have a meaningful impact on the economy by discouraging "strategic" defaults among the over 10 million borrowers who owe more than their house is worth, and by putting extra money in the pockets of roughly 8 million of these borrowers (according to CoreLogic) who could reduce their mortgage rate by at least one percentage point if allowed to refinance. The Fed also is considering actions that would help homeowners, according to the Wall Street Journal.

Recently, Fed Governor Tarullo said he favors renewing large-scale purchases of mortgage-backed securities, since this would reduce the spread between mortgage rates and Treasury yields. Mortgage spreads widened sharply this year, though they have narrowed modestly since September when the Fed chose to rollover its maturing MBS securities. A recent backup in mortgage rates, coupled with a sharp, recent drop in applications for both purchasing and refinancing, could lift Tarullo's policy proposal to the top of Bernanke's stimulus toolkit.

Given better economic news of late, the Fed is unlikely to do much at the November 1-2 meeting. However, continued modest growth, stubbornly-high unemployment and expected lower inflation should spur additional easing measures in coming months. Actions aimed at lowering mortgage rates directly and allowing more homeowners to reduce their borrowing costs are likely to prove more effective at reviving the economy than the current shotgun approach. Although the overhang of unsold homes is declining slowly, the high number of distressed properties, coupled with still-sluggish sales, suggests home prices could stay soft for some time. This depresses household wealth, confidence and spending, and feeds back into undermining employment and real estate. Breaking this vicious cycle will likely motivate future policy actions.

Sal Guatieri, BMO Capital Markets, Toronto, Canada

Home Price Pressure

A broad range of home price measures show that home prices have not yet bottomed. Both the Case Shiller and FHFA index showed a slight monthly drop in prices in August, leaving prices down 3.8% and 4.0% y/y, respectively. This is in line with the 4.4% y/y decline in the CoreLogic index. The continued drop in home prices is a function of the large imbalance between supply and demand in the housing market. There is too much inventory, particularly of distressed properties, relative to the pace of home sales, which means that prices must fall further to equilibrate the market.

While prices have continued to slide on an annual basis, monthly declines have moderated, with some measures showing a brief gain. We believe this reflects seasonal distortions: during the spring, voluntary sales increase, making distressed sales a smaller proportion of total activity and, therefore, supporting home prices. This dynamic reverses in the winter. We, therefore, advise preparing for a string of weak home price data starting next quarter.

Of the 20 cities tracked by Case Shiller, all but two – Detroit and Washington DC – reported an annual decline in home prices. We can explain the strength in prices in our capital since the federal government has continued to spend. But, we worry about weakness to come, given the austerity that will kick in early next year. The gain in Detroit is more startling, but after getting past the initial shock, it can also be explained. Home prices in Detroit have returned to 1995 levels on a nominal basis. With auto output slowly starting to recover, there has been some support to the regional economy. And since prices are only based on actual *transactions*, the data is only capturing conditions in the neighborhoods that are relatively desirable to live in. The ghost towns on the outskirts are not being captured in the data.

We believe home prices have further to fall. The foreclosure process has been delayed, which has left an abundance of distressed properties in the shadows. These homes must be cleared, either by selling to new homeowners or investors, or simply demolished. The division of these outcomes will be important when forecasting future home prices.

Ethan S. Harris, Bank of America-Merrill Lynch, New York, NY

Special Questions:

1. What are the odds of a U.S. recession by the end of 2012?

	Odds of U.S. recession by end of 2012 (between 0% and 100%)
Consensus	**30.1%**
Top 10 Average	44.5%
Bottom 10 Average	17.5%

2. Which is the bigger threat to U.S. economic growth in 2012: (A) potential spillover effects from the problems in Europe's debt/bank crisis or (B) tightening U.S. fiscal policy?

(Percentage of those responding)

Spillover effects from European crisis	Tightening U.S. fiscal policy
70.5%	29.5%

3. By November 23rd, Congress's so-called Super Committee is tasked with fashioning a $1.5 trillion package of spending cuts and or tax increases designed to reduce future U.S. budget deficits. If Congress and the White House then fail to approve the Super Committee's proposal, automatic cuts in spending of $1.2 trillion will be triggered" on January 15, 2011 that would go into effect January 2nd 2013. Do you think (A) the proposal from the Super Committee will be approved by Congress and the White House; (B) the plan will fail to be approved and automatic spending cuts will occur in January 2013, or (C) Congress ultimately changes the rules and prevents some or all of the automatic cuts in spending from occurring come January 2013?

(Percentage of those responding)

Super Committee plan will be approved by Congress and White House	Plan fails, spending cuts occur January 2013	Plan fails, but Congress prevents all/some of cuts from occurring
31.9%	14.9%	53.2%

4. Does your forecast of economic growth in 2012 assume an extension of this year's temporary reduction in workers' payroll taxes?

(Percentage of those responding)

Yes	No
73.9%	26.1%

5. Do you think the Federal Reserve will ultimately announce a new asset purchase program (QE3) prior to the end of 2012?

(Percentage of those responding)

Yes	No
47.8%	52.2%

6. The FOMC's policy statement from the September 20-21 meeting stated that "inflation appears to have moderated since earlier in the year" yet the 12-month change in the Producer Price Index remained near 7.0% in September while the 12-month change in the Consumer Price Index rose to 3.9%. Is the FOMC underestimating U.S. inflationary pressures?

(Percentage of those responding)

Yes	No
45.7%	54.3%

7. What will be the average MONTHLY change in total nonfarm employment during 2012?

	Average monthly change in total nonfarm employment during 2012
Consensus	**126.3 thousand**
Top 10 Avg.	180.6 thousand
Bottom 10 Avg.	60.4 thousand

Databank:

2011 Historical Data

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	0.8	1.3	0.8	0.2	-0.1	0.2	0.4	0.3	1.1			
Auto & Light Truck Sales (b)	12.64	13.24	13.02	13.13	11.68	11.51	12.20	12.09	13.04			
Personal Income (a, current $)	1.1	0.5	0.5	0.4	0.3	0.2	0.1	-0.1	0.1			
Personal Consumption (a, current $)	0.4	0.8	0.6	0.3	0.2	-0.2	0.9	0.2	0.6			
Consumer Credit (e)	2.2	3.2	2.2	2.8	3.0	5.6	5.9	-4.6				
Consumer Sentiment (U. of Mich.)	74.2	77.5	67.5	69.8	74.3	71.5	63.7	55.7	59.4			
Household Employment (c)	117	250	291	-190	105	-445	-38	331	398			
Non-farm Payroll Employment (c)	68	235	194	217	53	20	127	57	103			
Unemployment Rate (%)	9.0	8.9	8.8	9.0	9.1	9.2	9.1	9.1	9.1			
Average Hourly Earnings (All, cur. $)	22.86	22.88	22.89	22.93	23.02	23.01	23.12	23.08	23.13			
Average Workweek (All, hrs.)	34.2	34.3	34.3	34.4	34.4	34.3	34.3	34.2	34.3			
Industrial Production (d)	5.8	5.2	5.3	4.5	3.4	3.3	3.5	3.3	4.6			
Capacity Utilization (%)	76.9	76.5	77.0	76.6	76.7	76.6	77.4	77.3	77.4			
ISM Manufacturing Index (g)	60.8	61.4	61.2	60.4	53.5	55.3	50.9	50.6	52.0			
ISM Non-Manufacturing Index (g)	59.4	59.7	57.3	52.8	54.6	53.3	52.7	53.3	53.0			
Housing Starts (b)	.636	.518	.593	.549	.553	.615	.615	.572	.658			
Housing Permits (b)	.568	.534	.574	.563	.609	.617	.601	.625	.594			
New Home Sales (1-family, c)	310	281	305	316	308	303	297	296	313			
Construction Expenditures (a)	-1.4	-1.0	-0.2	0.7	2.5	1.6	-1.4	1.4				
Consumer Price Index (nsa., d)	1.6	2.1	2.7	3.2	3.6	3.6	3.6	3.8	3.9			
CPI ex. Food and Energy (nsa., d)	1.0	1.1	1.2	1.3	1.5	1.6	1.7	2.0	2.0			
Producer Price Index (n.s.a., d)	3.6	5.4	5.6	6.6	7.3	7.0	7.2	6.5	6.9			
Durable Goods Orders (a)	4.0	-1.1	4.6	-2.5	2.0	-1.2	4.2	-0.1	-0.8			
Leading Economic Indicators (g)	0.2	0.9	0.7	-0.3	0.7	0.3	0.6	0.3	0.2			
Balance of Trade & Services (f)	-47.9	-45.7	-46.4	-43.2	-50.2	-51.6	-45.6	-45.6				
Federal Funds Rate (%)	0.17	0.16	0.14	0.10	0.09	0.09	0.07	0.10	0.08			
3-Mo. Treasury Bill Rate (%)	0.15	0.13	0.10	0.06	0.04	0.04	0.04	0.02	0.01			
10-Year Treasury Note Yield (%)	3.39	3.58	3.41	3.46	3.17	3.00	3.00	2.30	1.98			

2010 Historical Data

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	0.4	0.3	2.2	0.6	-0.8	-0.2	0.3	1.0	1.0	1.3	0.7	0.6
Auto & Light Truck Sales (b)	10.81	10.42	11.69	11.28	11.55	11.25	11.53	11.52	11.78	12.14	12.24	12.46
Personal Income (a, current $)	0.8	0.2	0.5	0.7	0.6	0.1	0.4	0.5	0.0	0.5	0.1	0.5
Personal Consumption (a, current $)	0.2	0.4	0.6	0.1	0.3	0.0	0.4	0.6	0.3	0.6	0.4	0.4
Consumer Credit (e)	3.2	-3.8	-2.5	-6.4	-1.2	-0.9	-2.7	-2.5	0.0	3.9	0.7	2.3
Consumer Sentiment (U. of Mich.)	74.4	73.6	73.6	72.2	73.6	76.0	67.8	68.9	68.2	67.7	71.6	74.5
Household Employment (c)	551	187	254	430	-29	-261	-101	276	111	-294	-175	297
Non-Farm Payroll Employment (c)	-39	-35	192	277	458	-192	-49	-59	-29	171	93	152
Unemployment Rate (%)	9.7	9.7	9.7	9.8	9.6	9.5	9.5	9.6	9.6	9.7	9.8	9.4
Average Hourly Earnings (All, cur. $)	22.44	22.48	22.48	22.52	22.57	22.57	22.61	22.67	22.70	22.77	22.76	22.77
Average Workweek (All, hrs.)	34.0	33.4	34.1	34.1	34.2	34.1	34.2	34.2	34.2	34.3	34.2	34.3
Industrial Production (d)	0.2	1.0	3.4	4.6	7.2	7.8	7.6	6.8	6.3	5.9	6.0	6.8
Capacity Utilization (%)	71.9	72.2	72.8	73.2	74.3	74.5	75.3	75.5	75.7	75.7	75.8	76.8
ISM Manufacturing Index (g)	58.3	57.1	60.4	59.6	57.8	55.3	55.1	55.2	55.3	56.9	58.2	58.5
ISM Non-Manufacturing Index (g)	50.7	52.7	54.1	54.6	54.8	53.5	53.7	52.8	53.9	54.6	56.0	57.1
Housing Starts (b)	.615	.603	.626	.687	.580	.539	.550	.606	.597	.539	.551	.526
Housing Permits (b)	.636	.655	.688	.632	.582	.585	.575	.575	.562	.555	.564	.630
New Home Sales (1-family, c)	346	344	385	420	281	307	279	278	316	282	287	331
Construction Expenditures (a)	-0.1	-3.0	1.0	2.3	-2.8	0.1	-2.6	-1.0	1.2	1.1	0.2	-2.5
Consumer Price Index (s.a., d)	2.6	2.1	2.3	2.2	2.0	1.1	1.2	1.1	1.1	1.2	1.1	1.5
CPI ex. Food and Energy (s.a., d)	1.6	1.3	1.1	0.9	0.9	0.9	0.9	0.9	0.8	0.6	0.8	0.8
Producer Price Index (n.s.a., d)	4.5	4.2	5.9	5.4	5.1	2.7	4.1	3.3	3.9	4.3	3.4	3.8
Durable Goods Orders (a)	4.9	0.5	0.1	2.9	-0.7	-0.2	1.2	-0.8	4.9	-3.1	-0.1	-0.7
Leading Economic Indicators (g)	0.6	0.4	1.5	-0.1	0.5	-0.2	0.2	0.1	0.7	0.2	1.2	0.8
Balance of Trade & Services (f)	-37.5	-41.0	-41.1	-41.5	-42.2	-46.9	-41.6	-45.5	-44.0	-39.5	-38.8	-40.5
Federal Funds Rate (%)	0.11	0.13	0.16	0.20	0.20	0.18	0.18	0.19	0.19	0.19	0.19	0.18
3-Mo. Treasury Bill Rate (%)	0.06	0.11	0.15	0.16	0.16	0.12	0.16	0.16	0.15	0.13	0.14	0.14
10-Year Treasury Note Yield (%)	3.73	3.69	3.73	3.82	3.42	3.20	3.01	2.70	2.65	2.54	2.76	3.29

(a) month-over-month % change; (b) millions, saar; (c) thousands, saar; (d) year-over-year % change; (e) annualized % change; (f) $ billions; (g) level. Most series are subject to frequent government revisions. Use with care.

Calendar Of Upcoming Economic Data Releases

Monday	Tuesday	Wednesday	Thursday	Friday
October 31 Chicago PMI (Oct) Dallas Fed Index (Oct) Agricultural Prices (Oct)	**November 1** **FOMC Meeting** Vehicle Sales (Oct) ISM Manufacturing (Oct) Construction Spending (Sep) ABC Consumer Comfort Index Weekly Store Sales	**2** **FOMC Meeting** ADP Employment (Oct) Challenger Survey (Oct) Mortgage Applications EIA Crude Oil Stocks	**3** ISM Non-Manufacturing (Oct) Monster Employment Index (Oct) Factory Orders (Sep) Weekly Jobless Claims Weekly Money Supply	**4** Employment Report (Oct)
7 Consumer Credit (Sep) Fed's Loan Officer Survey	**8** NFIB Small business Optimism (Oct) ABC Consumer Comfort Index Weekly Store Sales	**9** Wholesale Trade (Sep) EIA Crude Oil Stocks Mortgage Applications	**10** Trade Balance (Sep) Import Price Index (Oct) Chain Store Sales (Oct) Treasury Budget (Oct) Weekly Jobless Claims Weekly Money Supply	**11** **Veterans Day** **U.S. Bond Market Closed** **Equity Markets Open** Consumer Sentiment (Nov, Preliminary, University of Michigan)
14	**15** Retail Sales (Oct) Producer Price Index (Oct) Empire State Manufacturing Index (Nov) Business Inventories (Sep) ABC Consumer Comfort Index Weekly Store Sales	**16** Industrial Production (Oct) Consumer Price Index (Oct) NAHB Housing Market Index (Nov) Net Long-term TIC flows (Sep) Mortgage Applications EIA Crude Oil Stocks	**17** Housing Starts (Oct) Philadelphia Fed Index (Nov) Weekly Jobless Claims Weekly Money Supply	**18** Leading Economic Indicators (Oct)
21 Existing Home Sales (Oct)	**22** GDP (Q3, Second revision) Corporate Profits (Q3) Weekly Store Sales ABC Consumer Comfort Index	**23** Personal Income and Consumption (Oct) Durable Goods Orders (Oct) Consumer Sentiment (Nov, Final, University of Michigan) FOMC Minutes (Nov 1st-2nd meeting) Weekly Jobless Claims EIA Crude Oil Stocks Mortgage Applications	**24** **Thanksgiving Day** **U.S. Markets Closed**	**25** Weekly Money Supply
28 New Home Sales (Oct)	**29** S&P/Case-Shiller Home Price Index (Sep) Consumer Confidence (Nov, Conference Board) ABC Consumer Comfort Index Weekly Store Sales	**30** ADP Employment (Nov) Challenger Survey (Nov) Chicago PMI (Nov) Pending Home Sales (Oct) Beige book for Dec. 13 FOMC meeting Agricultural Prices (Nov) EIA Crude Oil Stocks Mortgage Applications	**December 1** ISM Manufacturing (Nov) Vehicle Sales (Nov) Construction Spending (Oct) Weekly Jobless Claims Weekly Money Supply	**2** Employment Report (Nov)
5 ISM Non-Manufacturing (Nov Factory Orders (Oct))	**6** ABC Consumer Comfort Index Weekly Store Sales	**7** Consumer Credit (Oct) Mortgage Applications EIA Crude Oil Stocks	**8** Wholesale Inventories (Oct) ICSC Chain Store Sales (Nov) Weekly Jobless Claims Weekly Money Supply	**9** Trade Balance (Oct) Consumer Sentiment (Dec, Preliminary, University of Michigan)

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The Quarterly Economic Review

In This Issue

The *Selection & Opinion* Index appears on page 2040 (September 2, 2011).

In Three Parts: Part 1 is the Summary & Index. This is Part 2, Selection & Opinion. Part 3 is Ratings & Reports. Volume LXVII, Number 14.

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ECONOMIC AND STOCK MARKET COMMENTARY

The world has changed in the three months since our last "Quarterly Economic Review." Unfortunately, it does not appear to have changed for the better. True, our nation did step up its pace of gross domestic product growth during the third quarter, as GDP rose by 2.5%—the high-water mark for the year so far—as business investment, exports, and consumer spending all rallied. However, even as those figures were being released, more forward-looking data were being issued on personal income growth, manufacturing, non-manufacturing, and consumer confidence that told a less-compelling story. Such reports, along with further sobering metrics on unemployment and housing, suggest that the third-quarter GDP level of growth may not persist. Then, there is China—the feel-good story of the early 21st Century. Growth there is now moderating and that could lead to other retracements on the global scene—especially on the export front. Most ominously, there is Europe, where efforts to shore up the flagging economies on the Continent—notably in Greece and now Italy—are works in progress. Three months ago, we had intoned that there was an effort under way "to stem Europe's widening debt crisis." We also observed that: "a recession on the Continent is quite possible." The intervening three months have changed little. In fact, the outlook in the euro zone looks even a little more challenging now.

Prospects are mixed for the next several quarters along our shores. As we noted, the recent third quarter may have exaggerated the strength in our economy somewhat, as several components of that accelerating gain, especially the rise in business fixed investment, might not be sustainable. Our sense is that the recent Federal Reserve meeting changed little of note, though Fed Chairman Bernanke raised the spector of renewed asset purchases if growth fails to improve. As things stand now, such assistance could be an option—especially if Europe goes into recession, raising the risks of a downturn here. Indeed, even a mild business downturn on the Continent would

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VALUE LINE FORECAST FOR THE U.S. ECONOMY

Statistical Summary for 2011-2013

	2011:3	2011:4	2012:1	2012:2	2012:3	2012:4	2013:1	2011	2012
GDP AND OTHER KEY MEASURES									
Real Gross Domestic Product	*13354*	*13421*	*13477*	*13537*	*13605*	*13682*	*13774*	*13319*	*13575*
Total Light Vehicle Sales (Mill. Units)	*12.5*	*12.5*	*13.0*	*13.0*	*13.5*	*13.5*	*14.0*	*12.5*	*13.3*
Housing Starts (Million Units)	*0.62*	*0.63*	*0.64*	*0.65*	*0.70*	*0.75*	*0.80*	*0.60*	*0.69*
After-Tax Profits ($Bill.)	*1558*	*1499*	*1572*	*1558*	*1605*	*1589*	*1698*	*1496*	*1581*
ANNUALIZED RATES OF CHANGE									
Gross Domestic Product (Real)	*2.5*	*2.0*	*1.7*	*1.8*	*2.0*	*2.3*	*2.7*	*1.8*	*1.9*
GDP Deflator	*2.5*	*1.0*	*1.0*	*1.0*	*1.0*	*1.1*	*1.2*	*2.1*	*1.0*
CPI-All Urban Consumers	*3.1*	*1.2*	*1.3*	*1.5*	*1.5*	*1.8*	*2.0*	*3.4*	*1.5*
AVERAGE FOR THE PERIOD									
National Unemployment Rate	*9.1*	*9.1*	*9.0*	*9.0*	*8.9*	*8.9*	*8.8*	*9.1*	*9.0*
Prime Rate	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*
10-Year Treasury Note Rate	*2.4*	*2.1*	*2.1*	*2.3*	*2.4*	*2.5*	*2.6*	*2.8*	*2.3*

Value Line Forecast for the U.S. Economy

	ACTUAL	ESTIMATED						
	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2012:4	2013:1
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS (2005 CHAIN WEIGHTED $) BILLIONS OF DOLLARS								
Final Sales	13234	13352	13418	13472	13525	13586	13660	13748
Total Consumption	9393	9449	9496	9543	9590	9638	9686	9734
Nonresidential Fixed Investment	1413	1468	1496	1511	1526	1545	1564	1587
Structures	322	332	336	335	331	325	323	326
Equipment & Software	1104	1149	1166	1180	1195	1212	1233	1254
Residential Fixed Investment	324	326	329	332	336	344	354	367
Exports	1765	1783	1796	1809	1823	1845	1877	1913
Imports	2181	2192	2197	2208	2222	2237	2254	2265
Federal Government	1059	1064	1056	1045	1034	1024	1015	1006
State & Local Governments	1456	1452	1441	1430	1419	1412	1408	1405
Gross Domestic Product	15122	15309	15424	15527	15636	15752	15886	16040
Real GDP (2005 Chain Weighted $)	13272	13354	13421	13477	13537	13605	13682	13774
PRICES AND WAGES-ANNUAL RATES OF CHANGE								
GDP Deflator	2.5	2.5	1.0	1.0	1.0	1.0	1.1	1.2
CPI-All Urban Consumers	4.1	3.1	1.2	1.3	1.5	1.5	1.8	2.0
PPI-Finished Goods	7.3	1.8	0.5	1.0	1.2	1.3	1.5	1.5
Employment Cost Index—Total Comp.	3.2	1.4	2.0	2.0	2.0	2.1	2.2	2.3
Productivity	-0.7	3.7	1.8	1.2	1.0	1.0	1.0	1.2
PRODUCTION AND OTHER KEY MEASURES								
Industrial Prod. (% Change, Annualized)	0.5	5.1	1.2	1.5	2.0	3.0	3.0	3.5
Factory Operating Rate (%)	74.3	74.9	75.0	75.5	75.7	76.0	76.5	76.5
Nonfarm Inven. Change (2005 Chain Weighted $)	51.0	19.0	20.0	30.0	35.0	40.0	40.0	40.0
Housing Starts (Mill. Units)	0.57	0.62	0.63	0.64	0.65	0.70	0.75	0.80
Existing House Sales (Mill. Units)	4.88	4.88	4.80	4.90	5.00	5.15	5.30	5.40
Total Light Vehicle Sales (Mill. Units)	12.1	12.5	12.5	13.0	13.0	13.5	13.5	14.0
National Unemployment Rate (%)	9.1	9.1	9.1	9.0	9.0	8.9	8.9	8.8
Federal Budget Surplus (Unified, FY, $Bill)	-141	-328	-350	-400	-100	-250	-300	-300
Price of Oil ($Bbl., U.S. Refiners' Cost)	107.78	95.54	97.00	100.00	102.00	104.00	105.00	106.00
MONEY AND INTEREST RATES								
3-Month Treasury Bill Rate (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Federal Funds Rate (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
10-Year Treasury Note Rate (%)	3.2	2.4	2.1	2.1	2.3	2.4	2.5	2.6
Long-Term Treasury Bond Rate (%)	4.3	3.8	3.7	3.8	3.9	3.9	4.0	4.0
AAA Corporate Bond Rate (%)	5.0	4.6	4.4	4.5	4.5	4.6	4.6	4.6
Prime Rate (%)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
INCOMES								
Personal Income (Annualized % Change)	4.6	0.9	2.0	3.0	3.5	3.5	3.5	3.5
Real Disp. Inc. (Annualized % Change)	0.6	-1.7	1.7	2.0	2.0	1.5	1.5	1.0
Personal Savings Rate (%)	5.1	4.1	4.0	4.0	4.0	4.0	3.5	3.0
After-Tax Profits (Annualized $Bill)	1470	1558	1499	1572	1558	1605	1589	1698
Yr-to-Yr % Change	0.3	10.2	12.0	8.0	6.0	3.0	6.0	8.0
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE								
Gross Domestic Product	1.3	2.5	2.0	1.7	1.8	2.0	2.3	2.7
Final Sales	1.6	3.6	2.0	1.6	1.6	1.8	2.2	2.6
Total Consumption	0.7	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Nonresidential Fixed Investment	10.3	16.3	8.0	4.0	4.0	5.0	5.0	6.0
Structures	22.6	13.3	5.0	-2.0	-4.0	-7.0	-3.0	4.0
Equipment & Software	6.2	17.4	6.0	5.0	5.0	6.0	7.0	7.0
Residential Fixed Investment	4.2	2.4	4.0	3.0	5.0	10.0	12.0	16.0
Exports	3.6	4.0	3.0	3.0	3.0	5.0	7.0	8.0
Imports	1.4	1.9	1.0	2.0	2.5	2.8	3.0	2.0
Federal Government	1.9	2.0	-3.0	-4.0	-4.0	-4.0	-3.5	-3.5
State & Local Governments	-2.8	-1.3	-3.0	-3.0	-3.0	-2.0	-1.0	-1.0

Value Line Forecast for the U.S. Economy

	ACTUAL					*ESTIMATED*				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS (2005 CHAIN WEIGHTED $) BILLIONS OF DOLLARS										
Final Sales	12899	13178	13201	12853	13029	*13297*	*13560*	*13896*	*14341*	*14829*
Total Consumption	9055	9263	9212	9038	9221	*9429*	*9614*	*9804*	*10010*	*10240*
Nonresidential Fixed Investment	1456	1550	1538	1263	1319	*1439*	*1536*	*1631*	*1762*	*1885*
Structures	384	438	466	367	309	*324*	*328*	*334*	*368*	*412*
Equipment & Software	1071	1107	1059	890	1019	*1127*	*1205*	*1289*	*1392*	*1475*
Residential Fixed Investment	718	584	444	346	331	*325*	*341*	*396*	*475*	*556*
Exports	1422	1554	1649	1494	1663	*1774*	*1839*	*1970*	*2147*	*2319*
Imports	2152	2203	2144	1853	2085	*2186*	*2230*	*2291*	*2383*	*2502*
Federal Government	895	906	971	1030	1076	*1058*	*1030*	*995*	*965*	*946*
State & Local Governments	1507	1528	1528	1514	1487	*1454*	*1417*	*1410*	*1417*	*1431*
Gross Domestic Product	13377	14029	14292	13939	14527	*15209*	*15700*	*16306*	*17097*	*17979*
Real GDP (2005 Chain Weighted $)	12959	13206	13162	12703	13088	*13319*	*13575*	*13933*	*14379*	*14853*
PRICES AND WAGES-ANNUAL RATES OF CHANGE										
GDP Deflator	3.2	2.9	2.2	1.1	1.2	*2.1*	*1.0*	*1.3*	*1.6*	*1.8*
CPI-All Urban Consumers	3.2	2.9	3.8	-0.3	1.6	*3.4*	*1.5*	*2.1*	*2.2*	*2.2*
PPI-Finished Goods	3.0	3.9	6.4	-2.5	4.2	*5.5*	*1.3*	*1.8*	*2.0*	*2.2*
Employment Cost Index—Total Comp.	2.9	3.1	2.9	1.4	1.9	*2.2*	*2.1*	*2.4*	*2.5*	*2.5*
Productivity	0.9	1.5	0.6	2.3	4.1	*1.1*	*1.1*	*1.4*	*1.2*	*1.0*
PRODUCTION AND OTHER KEY MEASURES										
Industrial Prod. (% Change)	2.2	2.7	-3.7	-11.2	5.3	*2.9*	*2.4*	*3.8*	*4.0*	*3.7*
Factory Operating Rate (%)	78.6	79.2	74.9	66.2	71.7	*74.7*	*75.9*	*77.3*	*79.0*	*80.0*
Nonfarm Inven. Change (2005 Chain Weighted $)	63.2	28.7	-37.6	-143.8	60.7	*37.4*	*36.3*	*45.0*	*50.0*	*40.0*
Housing Starts (Mill. Units)	1.81	1.34	0.90	0.55	0.59	*0.60*	*0.69*	*0.95*	*1.30*	*1.50*
Existing House Sales (Mill. Units)	6.51	5.68	4.89	5.15	4.92	*4.93*	*5.09*	*5.51*	*5.80*	*6.00*
Total Light Vehicle Sales (Mill. Units)	16.5	16.1	13.2	10.4	11.6	*12.5*	*13.3*	*14.6*	*15.0*	*15.0*
National Unemployment Rate (%)	4.6	4.6	5.8	9.3	9.6	*9.1*	*9.0*	*8.8*	*8.2*	*7.8*
Federal Budget Surplus (Unified, FY, $Bill)	-248.0	-162.0	-455.0	-1416	-1294	*-1280*	*-1050*	*-850*	*-650*	*-600*
Price of Oil ($Bbl., U.S. Refiners' Cost)	60.09	67.98	95.29	59.20	76.70	*98.54*	*102.75*	*109.00*	*110.00*	*115.00*
MONEY AND INTEREST RATES										
3-Month Treasury Bill Rate (%)	4.7	4.4	1.4	0.2	0.1	*0.1*	*0.1*	*0.2*	*1.3*	*2.0*
Federal Funds Rate (%)	5.0	5.0	1.9	0.2	0.2	*0.1*	*0.1*	*0.2*	*1.5*	*2.5*
10-Year Treasury Note Rate (%)	4.8	4.6	3.7	3.3	3.2	*2.8*	*2.3*	*2.8*	*3.5*	*4.0*
Long-Term Treasury Bond Rate (%)	4.9	4.8	4.3	4.1	4.3	*4.1*	*3.9*	*4.1*	*4.5*	*5.0*
AAA Corporate Bond Rate (%)	5.6	5.6	5.6	5.3	4.9	*4.8*	*4.6*	*4.7*	*5.2*	*5.7*
Prime Rate (%)	8.0	8.1	5.1	3.3	3.3	*3.3*	*3.3*	*3.4*	*4.5*	*6.0*
INCOMES										
Personal Income (% Change)	7.5	5.7	4.6	-4.3	3.7	*4.1*	*3.4*	*4.0*	*5.0*	*5.0*
Real Disp. Inc. (% Change)	4.0	2.4	2.4	-2.3	1.8	*0.5*	*1.8*	*1.8*	*3.0*	*3.0*
Personal Savings Rate (%)	2.6	2.4	5.4	5.2	5.3	*4.6*	*3.9*	*3.1*	*3.7*	*4.0*
After-Tax Profits ($Bill)	1349	1293	1051	1183	1408	*1496*	*1581*	*1748*	*1870*	*1964*
Yr-to-Yr % Change	9.9	-4.2	-18.7	12.6	19.0	*6.2*	*5.7*	*10.5*	*7.0*	*5.0*
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE										
Gross Domestic Product	2.7	1.9	-0.3	-3.5	3.0	*1.8*	*1.9*	*2.6*	*3.2*	*3.3*
Final Sales	2.6	2.2	0.2	-2.6	1.4	*2.1*	*2.0*	*2.5*	*3.2*	*3.4*
Total Consumption	2.9	2.3	-0.6	-1.9	2.0	*2.3*	*2.0*	*2.0*	*2.1*	*2.3*
Nonresidential Fixed Investment	8.0	6.5	-0.8	-17.9	4.4	*9.1*	*6.7*	*6.2*	*8.0*	*7.0*
Structures	9.2	14.1	6.4	-21.2	-15.8	*4.9*	*1.3*	*1.7*	*10.0*	*12.0*
Equipment & Software	7.6	3.3	-4.3	-16.0	14.6	*10.6*	*7.0*	*6.9*	*8.0*	*6.0*
Residential Fixed Investment	-7.3	-18.7	-23.9	-22.2	-4.3	*-1.7*	*5.0*	*16.0*	*20.0*	*17.0*
Exports	9.0	9.3	6.1	-9.4	11.3	*6.7*	*3.7*	*7.1*	*9.0*	*8.0*
Imports	6.1	2.4	-2.7	-13.6	12.5	*4.8*	*2.0*	*2.7*	*4.0*	*5.0*
Federal Government	2.1	1.2	7.2	6.0	4.5	*-1.7*	*-2.7*	*-3.3*	*-3.0*	*-2.0*
State & Local Governments	0.9	1.4	0.0	-0.9	-1.8	*-2.2*	*-2.5*	*-0.5*	*0.5*	*1.0*

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Continued from cover page

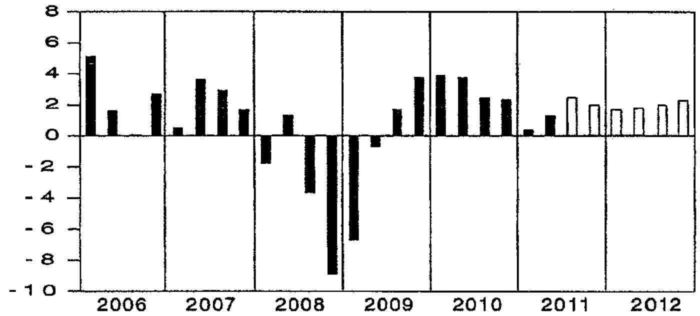
harm U.S. corporate balance sheets as well as the broad economy. A more severe shock over there, such as a disorderly default in Greece or a major financial setback in Italy—a far larger country—would have serious ramifications for our nation, and particularly so for China, where the euro zone is a big export market.

Absent such a European event, a misstep by the Fed, or an exogenous shock (such as a new war, a terrorist attack, or a major weather event), we do not figure to suffer a recession in 2012—that is, if we define a recession as two straight quarters of shrinking gross domestic product. A recession call by the recognized arbiter of such dour events—the National Bureau of Economic Research—is much harder to predict, or time. However, we have noted in the past that whether we technically suffer a mild recession or narrowly sidestep such an event, is largely a matter of semantics. In fact, some pundits are now claiming, with a degree of accuracy, that current sentiment readings say recession, but much of the underlying data suggests growth. Suffice it to say that even a near recession may have major side effects. These would possibly include new setbacks in housing, a further rise in joblessness, the potential for a decline in personal income, and the risk that consumers may begin to act on their gloomy sentiment readings and pull back on the spending front. Such an outcome might, in turn, lead to overzealousness in fiscal or monetary policies, with the long-term financial risks inherent in such efforts. On balance, we think the Fed will try to do more. However, its powers and options are limited at this stage of the game. Overall . . .

We think the odds our nation will fall into a new recession, so soon after the last one, and while the wounds of that downturn are still raw, are fairly low. We sense such a prospect has, at most, a one in three chance of evolving. Unfortunately, the risks appear to be to the down-

Gross Domestic Product *Chart 1*

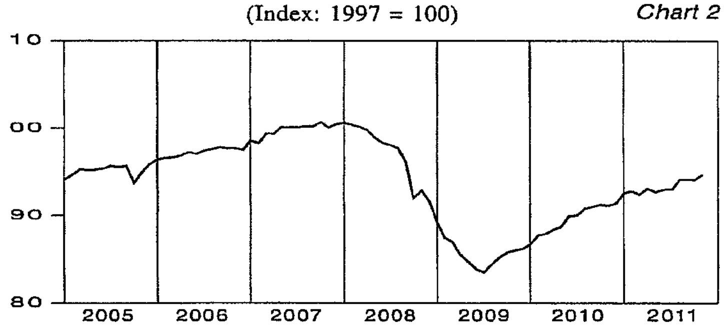
Real Annualized Percent Change - 2005 Chain-Weighted Dollars



Source: U.S. Dept. of Commerce

Industrial Production

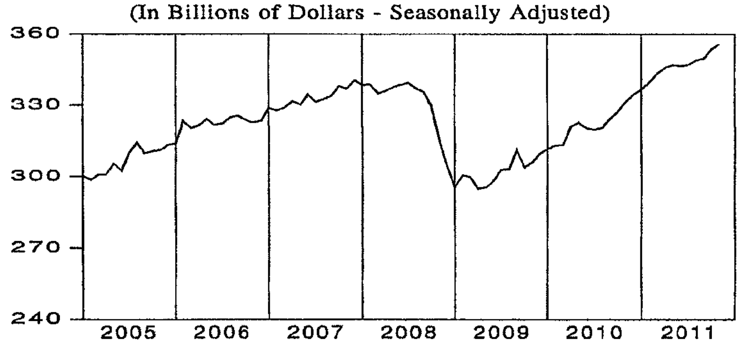
(Index: 1997 = 100) *Chart 2*



Source: Federal Reserve Board

Monthly Retail Sales *Chart 3*

(In Billions of Dollars - Seasonally Adjusted)



Source: U.S Dept. of Commerce

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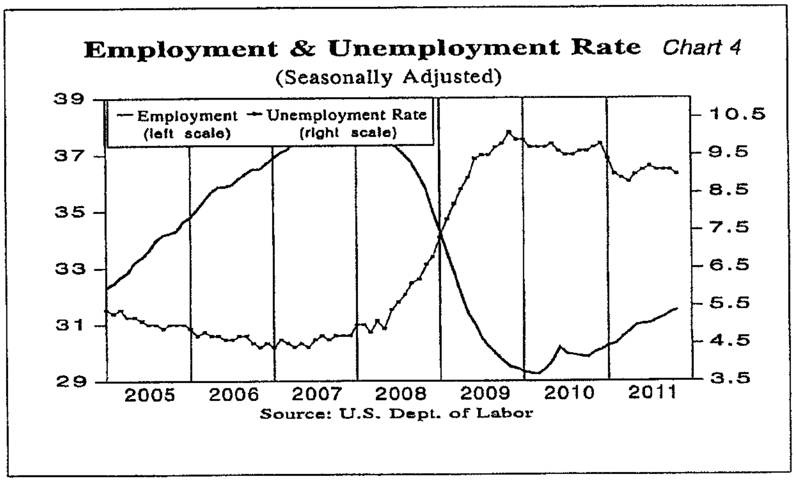

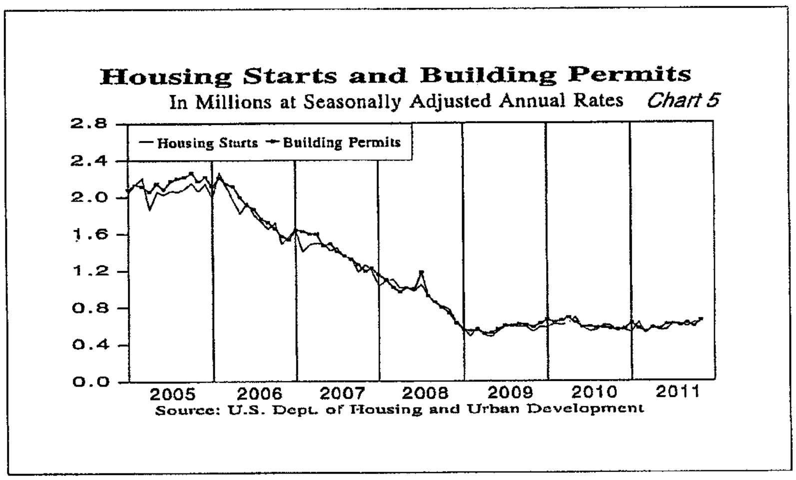

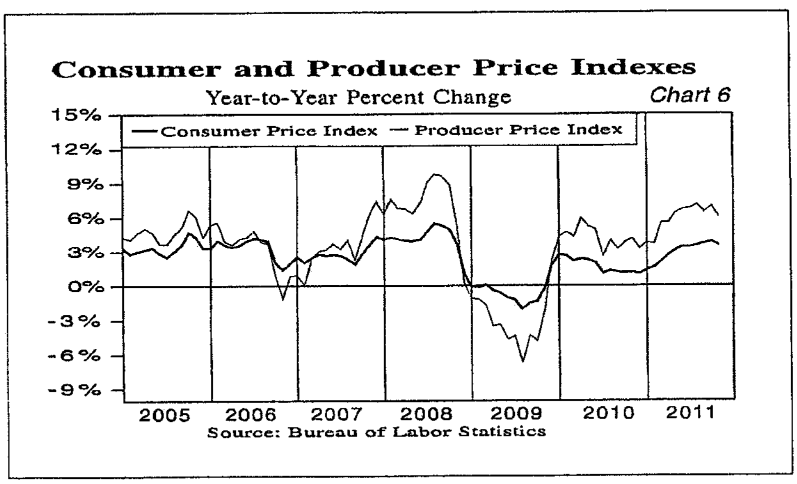

side, particularly if recent efforts to buy more time in Europe do not lead to a meaningful long-term resolution of the Continent's problems.

SOME SPECIFICS

Economic Growth: As noted, the nation's economy pressed forward by 2.5% in the third quarter. Now, taken by itself, that was not a memorable performance, as it was still a percent, or so, below the rate generally seen as needed to measurably reduce the 9.0% jobless rate. More important, it is likely that this moderately better economic pace is not sustainable. In fact, we expect growth during the final three months of this year and the first half of 2012 to ease back to 2%, or less, as business investment, which was so potent in the recent period, figures to be more restrained, along with consumer spending and export demand. Still, even that lesser rate of growth would be clearly preferable to the 1.3% gain inked during this year's second quarter and even further ahead of the 0.4% growth tallied in the initial period of this year (Chart 1).

Looking out, our economic model assumes that Europe will suffer no worse than a mild recession and that China and much of Asia will stay on a modest growth trajectory. Over here, a further rise in industrial production (Chart 2), modest retail improvement (Chart 3), progressively better payroll numbers and a gradual decline in the unemployment rate (Chart 4), and a belated turnaround in the troubled U.S. housing market, where pent-up demand is becoming a key variable (Chart 5) are all probable next year.

Combined, they should yield steadily strengthening growth later on in 2012. That said, we sense that much of this decade will be noted for below-trend growth of 3.0%-3.5%—at best. That is not an enterprising prospect, but it may be realistic given the excesses that prevailed in some areas (i.e., housing) during the first years of the young century. These excesses have taken years to wind down and could take further time to fully correct. Until that happens, a stable

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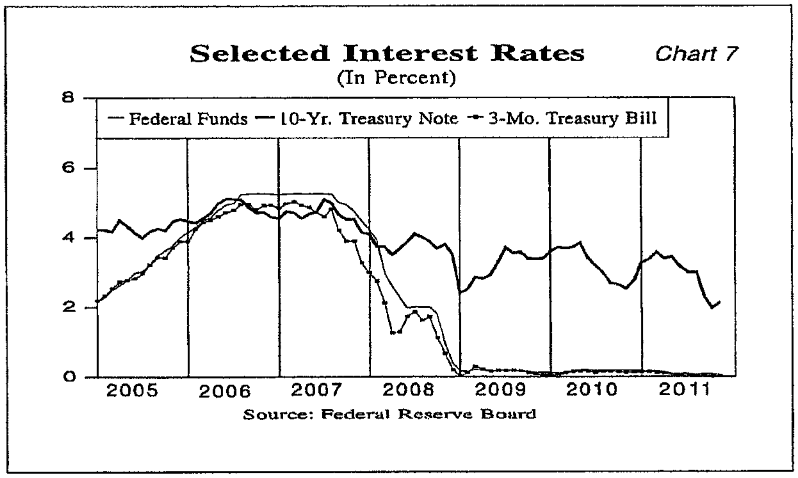
financial future may be at some risk.

Inflation: Worries here are easing, although that is hard to tell those who shop for food, fill up their cars with gas, or heat or cool their homes. On the whole, inflation at the producer (or wholesale) and consumer levels are now showing moderating gains this year. Meanwhile, there could well be limited pressure from oil and food in 2012, as GDP growth probably will be muted. Also, with listless business and consumer demand in 2012, there figures to be a pullback in commodity prices and limited wage growth. That should help to keep the so-called core rate of inflation, which excludes energy and food, under control. Over a more extended period, inflationary pressures should build, as the fiscal and monetary bills engendered by the efforts to fight the repercussions of the long 2007-2009 recession come due. That eventuality could well rattle equity investors and fixed-income holders alike (Chart 6).

Interest Rates: Interest rates have trended mostly lower since August's "Quarterly Economic Review," with yields on the benchmark 10-year Treasury note easing from 2.17% to 2.00%. Six months ago, such yields were up at 3.18%. At the same time, the yield on the companion 30-year Treasury bond has fallen from 3.56% three months ago to 3.00% recently. Six months ago, the 30-year bond was yielding 4.30%. Concerns about Europe, China, and our own ability to sidestep a recession have led to this "flight to quality," pushing yields down in the process. The Federal Reserve, in keeping with the present macroeconomic reality, has pared its growth targets, embarked on a $400 billion "twist" operation aimed at reducing long-term interest rates, and left the door open for another round of easing in 2012, a QE III program, if you will, following on the heels of the two prior efforts. We think the Fed, which has few options left, may push for such a move by early next year. Looking further out, we sense interest rates will stay near their historic lows until well into 2013 (Chart 7).



Corporate Profits: Here, the news has been good for almost three years now, as Corporate America has met or exceeded profit forecasts for the most part. Such steady progress has made comparisons that much tougher going forward. In fact, we saw some instances of that in the third quarter, when there looked to be more misses at the bottom line than in some prior quarters. With the economy likely to press ahead at an unexceptional gait in the months to come, it figures that profit matchups may get more difficult in 2012, making progressively smaller quarterly increases more the norm, in our view. We may then see a heating up in earnings in 2013.

THE STOCK MARKET

The words that might summarize this analysis thus far are steady, gradual, or muted. Specifically, the economy has ambled along at a slow, but uneven, growth pace; inflation has been muted; yields have risen or fallen within a tight range; and profits have climbed steadily. For the most part, few dramatics have been seen. That is not the case with the stock market, however, which has been on a frenetic path in 2011, most notably over the past few months, as moves of multiple percentage points have become the new norm, not only on a day-to-day basis, but often from hour to hour. We have seen such moves in the exaggerated gains and losses in the major averages and the elevated reading in the volatility indexes, such as the VIX, which have remained at unusually high levels this year. In large part, the market has stayed in a trading range—but it has been a wide range, from roughly 10,500 to 12,500 in the Dow Jones Industrial Average. And within this range, we have seen swings of 300 to 500 points a week, or more, mostly on changing fortunes in Europe, and to a lesser degree on the ebb and flow of economic news at home. At some point, Europe will lessen as a flash point, and volatility will ease. For now, though, investors seem to be captive to the daily musings from the Continent, with the outcome in our equity markets often pre-ordained by the latest tidings from the Continent. This isn't a confidence builder, to say the least.

Conclusion: Given the potential for unsettling developments abroad and the elevated level of volatility that has evolved from it, the respectable, but not inspiring, showing by equities this year is impressive, and gives us confidence that when the euro zone does settle down, as it will, stocks should again press forward nicely. For now, valuations and yields seem attractive enough for investors to stay the course. Please refer to the inside back cover of *Selection & Opinion* for our statistically-based Asset Allocation Model's current reading.

Investors' Datebook: December, 2011

DATE	EVENT
12/1	Initial Unemployment Claims-8:30 Construction Expenditures, October-10:00 ISM's Purchasing Manager's Index (Manufacturing), November-10:00 Weekly Fed Data-4:30 Productivity & Costs (Revised)
12/2	Employment Situation, November-8:30
12/5	13- & 26-Week Treasury Bill Auction Factory Orders, October-10:00 ISM's Purchasing Manager's Index (Non-Manufacturing), November-10:00
12/7	Consumer Credit, October-3:00
12/8	Initial Unemployment Claims-8:30 Weekly Fed Data-4:30 Wholesale Trade, October
12/9	Merchandise Trade Balance, October-8:30
12/12	13- & 26-Week Treasury Bill Auction Treasury Budget Report, November-2:00
12/13	FOMC Meeting Advance Retail Sales, November-8:30 Mfg. & Trade: Inventories & Sales, October-10:00
12/15	Initial Unemployment Claims-8:30 Producer Price Index, November-8:30 Capacity Utilization, November-9:15 Industrial Production, November-9:15 Weekly Fed Data-4:30
12/16	Consumer Price Index, November-8:30 Real Earnings, November
12/19	13- & 26-Week Treasury Bill Auction
12/20	Housing Starts & Building Permits, November-8:30
12/21	Existing Home Sales, November-10:00
12/22	Initial Unemployment Claims-8:30 Leading Indicators, November-10:00 Weekly Fed Data-4:30 Corporate Profits, 3Q11 (Final) Gross Domestic Product, 3Q11 (Final)
12/23	Durable Goods Orders, November-8:30 Personal Income and Outlays, November-8:30 New Home Sales, November-10:00
12/26	**Christmas (observed)—U.S. Financial Markets Closed**
12/27	13- & 26-Week Treasury Bill Auction
12/29	Initial Unemployment Claims-8:30 Weekly Fed Data-4:30
12/30	Agricultural Prices

Source: Office of Management & Budget.

Model Portfolios: Recent Developments

PORTFOLIO I

In contrast to the broad support that Portfolio I experienced during the month of October, our group has found November less pleasing, so far. It is not that the portfolio has lost that much ground. Indeed, at this writing, its market value has advanced better than 15.5% since the end of the third quarter, well ahead of its benchmark (the S&P 500 Index adjusted for dividends). Rather, the intensity of the market's enthusiasm appears to have fallen off, reflecting the ongoing sovereign-debt problems in southern Europe, the lackluster prospects for economic growth, the stubbornly high unemployment rate in the United States, and hints that economic progress may be slowing in China.

To be fair, many of the portfolio's holdings had taken on favorable valuations relative to their prospects in the wake of the drubbing meted out in July, August, and September, making them attractive just as investors turned more optimistic as October began. Accordingly, much of the damage that was sustained in the summer and early fall has now been repaired.

Although we are always on watch for new ideas, we remain comfortable with the portfolio's current composition, and we are making no changes to it this week.

PORTFOLIO II

The U.S. equity market has not been able to mount a sustained advance so far in November. Europe's problems, and the resulting fear that the region will slip into recession, have become the center of attention. The euro has weakened, making it hard for large multinational companies to sell goods to that region. The crisis could also influence the commodity markets, potentially depressing related equities, as well.

Portfolio II is holding up well, in our view. Generally, our companies have met their earnings targets of late. Recently, retailer *Wal-Mart* put out a mixed report. The top line was healthy. The company posted a sales increase at its U.S. stores, which had been weak for some time, and it is also enjoying success in China and Mexico. Still, earnings per share came in a bit lower than we had anticipated. Wall Street's response to the news was slightly negative. Prior to this, the issue had performed well in October and early November, hitting a 52-week high. We have noticed that recent retail data have been positive and think this stock may benefit from investors buying into the sector. The issue is ranked favorably for Timeliness and has a high Safety Rank. The yield is about 2.5%, the lowest in our portfolio, which would become a concern, if the stock price stagnates.

We have made no changes to our portfolio this week.

PORTFOLIO III

With the holiday season now in full swing, hopes for a "Santa Claus" rally across Portfolio III and the broader U.S. equity market may hinge on events in Europe, where policymakers continue to struggle with an ever-widening sovereign debt problem. Anxious investors seem to be hanging on every headline from the other side of the Atlantic these days, like the results of a recent bond auction in Spain (that left the country paying its highest interest rates in nearly 15 years), for clues as to whether the debt crisis can be contained. News on the domestic economic front is also garnering plenty of attention. Notably, data, including a drop in applications for unemployment benefits and an improvement in new building permits, has been fairly encouraging of late. This supports our view that the U.S. will be able to avoid slipping into another recession.

The price of crude, meanwhile, has topped the psychological $100-a-barrel threshold, bolstered by two new pipeline plans that promise to reduce large oil stockpiles in Middle America. This has given a lift to our volatile energy plays, namely *Halliburton* and *National Oilwell Varco*. And the strengthening of the U.S. dollar against the euro has prompted investors to bid up shares of *United States Steel*, our other big commodity play. The metal issue has badly lagged the Standard & Poor's 500 Index over the past few months, likely hurt by fears of a sharp drop-off in shipments to Europe. But we expect it to bounce back over time, as domestic demand further picks up and pricing trends stabilize. We are making no changes to Portfolio III this week.

PORTFOLIO IV

Portfolio IV is holding up well in a rocky market. Plus, the group's dividend yield, its primary allure, remains well above the *Value Line* median, providing investors with a healthy income stream. Many of the stocks in our portfolio are ranked favorably for Timeliness and the majority offers above-average Safety ranks and relatively low betas, indicating low volatility. As we enter the normally light trading holiday season, we continue to keep the portfolio's composition unchanged.

Northrop Grumman declared a fourth-quarter dividend of $0.50 a share, as anticipated. The stock yields 3.5% at the current quotation. We added shares of the global defense contractor in March, 2011, after the company spun off its shipbuilding unit, Huntington Ingalls. *NOC* caught our attention for its solid earnings outlook, and we continue to believe that it will benefit from strong military aircraft demand in the December quarter and into 2012. Besides the U.S., numerous other nations are looking to procure Northrop's F-35 fighter jets. Its wide array of product offerings is also a plus. *NOC* stock holds appeal to investors looking for year-ahead capital appreciation, along with a stable payout. It historically distributes just below 30% of profits as dividends. In addition, management utilizes cash to repurchase shares and occasionally to reduce long-term debt, moves that could help bolster returns.

PORTFOLIO I: STOCKS WITH ABOVE-AVERAGE YEAR-AHEAD PRICE POTENTIAL

(primarily suitable for more aggressive investors)

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
2121	AAP	Advance Auto Parts	68.45	1	3	14.3	0.4	0.85	B+	Retail Automotive
1400	AAPL	Apple Inc.	388.83	2	2	12.6	Nil	1.05	A++	Computers/Peripherals
1172	BLL	Ball Corp.	34.75	1	2	11.5	0.8	0.95	B++	Packaging & Container
381	CSTR	Coinstar Inc.	44.86	2	3	11.0	Nil	0.90	B+	Industrial Services
990	DAN	Dana Holding Corp.	13.85	1	4	7.4	Nil	2.60	B+	Auto Parts
1024	DTV	DIRECTV	47.08	1	3	12.4	Nil	0.90	B+	Cable TV
2218	FL	Foot Locker	22.57	2	3	12.0	2.9	1.05	B++	Retail (Softlines)
2157	GCO	Genesco Inc.	59.95	1	3	16.6	Nil	1.20	B+	Shoe
1015	HELE	Helen of Troy Ltd.	28.67	2	3	8.5	Nil	1.10	B++	Toiletries/Cosmetics
733	KMT	Kennametal Inc.	36.81	1	3	9.9	1.5	1.40	B++	Metal Fabricating
2141	KSS	Kohl's Corp.	55.76	1	2	11.5	2.1	1.00	A+	Retail Store
933	MIICF	Millicom Int'l Cellular	108.60	1	3	14.8	1.7	1.45	B++	Telecom. Services
343	NSC	Norfolk Southern	75.36	1	3	13.3	2.3	1.10	B++	Railroad
325	ODFL	Old Dominion Freight	39.07	1	3	15.8	Nil	1.10	B+	Trucking
2112	PVH	PVH Corp.	69.82	1	3	13.1	0.2	1.25	B+	Apparel
2420	RES	RPC Inc.	21.47	1	3	9.1	1.9	1.55	B++	Oilfield Svcs/Equip.
326	R	Ryder System	53.54	2	3	13.9	2.2	1.25	B+	Trucking
1345	TEL	TE Connectivity	34.65	2	3	10.2	2.1	1.25	B++	Electronics
737	TKR	Timken Co.	43.95	1	3	9.2	1.8	1.40	B+	Metal Fabricating
728	TGI	Triumph Group Inc.	58.37	1	3	12.6	0.3	1.10	B++	Aerospace/Defense

To qualify for purchase in the above portfolio, a stock must have a Timeliness Rank of 1 and a Financial Strength Rating of at least B+. If a stock's Timeliness rank falls below 2, it will be automatically removed. Stocks in the above portfolio are selected and monitored by Charles Clark, Associate Research Director.

PORTFOLIO II: STOCKS FOR INCOME AND POTENTIAL PRICE APPRECIATION

(primarily suitable for more conservative investors)

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
1589	ABT	Abbott Labs.	54.50	1	1	11.1	3.5	0.60	A++	Drug
2539	BLK	BlackRock, Inc.	165.88	3	3	13.1	3.3	1.20	A	Financial Svcs. (Div.)
503	CVX	Chevron Corp.	103.27	1	1	7.5	3.1	0.95	A++	Petroleum (Integrated)
1968	KO	Coca-Cola	68.00	3	1	16.5	2.8	0.60	A++	Beverage
1189	CL	Colgate-Palmolive	88.79	3	1	16.8	2.7	0.60	A++	Household Products
504	COP	ConocoPhillips	71.99	2	1	8.4	3.8	1.10	A++	Petroleum (Integrated)
358	DRI	Darden Restaurants	48.09	3	3	12.9	3.6	1.05	A	Restaurant
1582	DD	Du Pont	48.30	3	1	11.1	3.5	1.15	A++	Chemical (Basic)
1306	EMR	Emerson Electric	51.39	3	1	14.0	3.1	1.05	A++	Electrical Equipment
1753	HON	Honeywell Int'l	54.78	2	1	12.8	2.7	1.15	A++	Diversified Co.
1362	INTC	Intel Corp.	25.34	1	1	9.6	3.3	1.00	A++	Semiconductor
718	LMT	Lockheed Martin	77.85	2	1	9.8	5.1	0.80	A++	Aerospace/Defense
363	MCD	McDonald's Corp.	94.47	3	1	17.4	3.0	0.65	A++	Restaurant
193	MDT	Medtronic, Inc.	34.99	3	1	9.8	2.9	0.85	A++	Med Supp Invasive
1337	MOLX	Molex Inc.	24.73	3	2	13.3	3.2	1.20	A	Electronics
407	RSG	Republic Services	27.23	2	3	13.2	3.2	0.95	B+	Environmental
1621	SNY	Sanofi ADR	33.67	3	1	11.0	5.5	0.80	A+	Drug
1049	TEF	Telefonica SA ADR	18.60	3	2	7.5	11.6	0.90	B++	Telecom. Utility
316	UPS	United Parcel Serv.	70.57	3	1	16.5	2.9	0.85	A	Air Transport
2152	WMT	Wal-Mart Stores	57.46	2	1	12.0	2.5	0.60	A++	Retail Store

To qualify for purchase in the above portfolio, a stock must have a yield that is in the top half of the Value Line universe, a Timeliness Rank of at least 3 (unranked stocks may be selected occasionally), and a Safety Rank of 3 or better. If a stock's Timeliness Rank falls below 3, that stock will be automatically removed. Stocks are selected and monitored by Adam Rosner, Editorial Analyst.

PORTFOLIO III: STOCKS WITH LONG-TERM PRICE GROWTH POTENTIAL

(primarily suitable for investors with a 3- to 5-year horizon)

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	3- to 5-yr Appreciation Potential	Industry Name
1541	AFL	Aflac Inc.	44.20	2	3	7.1	3.0	1.15	45 - 115%	Insurance (Life)
974	CVS	CVS Caremark Corp.	38.95	2	1	13.1	1.3	0.80	55 - 95	Pharmacy Services
354	CBOU	Caribou Coffee	13.99	3	4	34.1	Nil	0.95	45 - 150	Restaurant
1596	CELG	Celgene Corp.	65.41	3	2	19.8	Nil	0.75	55 - 105	Drug
2327	DIS	Disney (Walt)	36.45	3	1	12.5	1.1	1.05	80 - 120	Entertainment
928	DY	Dycom Inds.	20.26	1	3	20.3	Nil	1.40	0 - 75	Telecom. Services
2623	GOOG	Google, Inc.	616.56	3	2	16.6	Nil	0.90	115 - 195	Internet
2105	GES	Guess Inc.	31.04	3	3	8.6	2.6	1.25	110 - 220	Apparel
2411	HAL	Halliburton Co.	38.91	2	3	10.0	0.9	1.35	65 - 155	Oilfield Svcs/Equip.
2309	HOG	Harley-Davidson	40.07	3	3	15.3	1.2	1.50	25 - 75	Recreation
1920	HRL	Hormel Foods	29.93	3	1	16.4	1.9	0.65	15 - 50	Food Processing
1998	ESI	ITT Educational	58.01	2	3	6.4	Nil	0.70	90 - 185	Educational Services
223	JNJ	Johnson & Johnson	64.99	3	1	13.0	3.5	0.65	30 - 55	Med Supp Non-Invasive
1922	K	Kellogg	49.80	4	1	14.7	3.5	0.55	50 - 90	Food Processing
1002	MGA	Magna Int'l 'A'	34.43	3	3	7.0	2.9	1.20	130 - 250	Auto Parts
2416	NOV	National Oilwell Varco	70.65	3	3	13.9	0.7	1.55	55 - 140	Oilfield Svcs/Equip.
1976	PEP	PepsiCo, Inc.	64.50	3	1	14.2	3.2	0.60	70 - 110	Beverage
752	X	U.S. Steel Corp.	27.13	2	3	9.7	0.7	1.70	160 - 305	Steel
813	UNH	UnitedHealth Group	46.55	2	2	10.4	1.4	1.00	70 - 135	Medical Services
1384	XLNX	Xilinx Inc.	32.97	4	2	16.4	2.3	0.90	35 - 80	Semiconductor

To qualify for purchase in the above portfolio, a stock must have worthwhile and longer-term appreciation potential. Among the factors considered for selection are a stock's Timeliness and Safety Rank and its 3- to 5-year appreciation potential. (Occasionally a stock will be unranked (NR), usually because of a short trading history or a major corporate reorganization.) Stocks in the above portfolio are selected and monitored by Justin Hellman, Editorial Analyst.

PORTFOLIO IV: STOCKS WITH ABOVE-AVERAGE DIVIDEND YIELDS

(primarily suitable for investors interested in current income)

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
1589	ABT	Abbott Labs.	54.50	1	1	11.1	3.5	0.60	A++	Drug
602	ARLP	Alliance Resource	73.60	1	3	9.3	5.2	1.10	B+	Coal
903	LNT	Alliant Energy	42.15	3	2	15.9	4.2	0.75	A	Electric Util. (Central)
1043	BT	BT Group ADR	30.73	1	3	8.6	3.9	1.00	B+	Telecom. Utility
1987	BTI	Brit. Amer Tobac. ADR	94.03	3	2	15.2	4.1	0.70	B++	Tobacco
140	ED	Consol. Edison	58.75	3	1	16.5	4.1	0.60	A+	Electric Utility (East)
358	DRI	Darden Restaurants	48.09	3	3	12.9	3.6	1.05	A	Restaurant
1582	DD	Du Pont	48.30	3	1	11.1	3.5	1.15	A++	Chemical (Basic)
1917	HNZ	Heinz (H.J.)	53.78	3	1	15.3	3.6	0.65	A+	Food Processing
1161	IP	Int'l Paper	28.14	1	3	8.9	3.7	1.45	B+	Paper/Forest Products
544	LG	Laclede Group	40.49	3	2	15.8	4.1	0.60	B++	Natural Gas Utility
363	MCD	McDonald's Corp.	94.47	3	1	17.4	3.0	0.65	A++	Restaurant
720	NOC	Northrop Grumman	59.45	2	1	8.3	3.5	0.85	A++	Aerospace/Defense
917	OGE	OGE Energy	52.15	2	2	15.1	3.0	0.80	A	Electric Util. (Central)
2247	POR	Portland General	24.52	3	3	13.0	4.4	0.75	B+	Electric Utility (West)
1990	RAI	Reynolds American	39.54	4	2	14.5	5.7	0.60	B+	Tobacco
1930	SLE	Sara Lee Corp.	18.55	NR	2	20.6	2.6	0.80	B++	Food Processing
154	SO	Southern Co.	43.45	2	1	16.6	4.5	0.55	A	Electric Utility (East)
1229	TA.TO	TransAlta Corp.	21.32	3	3	16.8	5.4	0.70	B+	Power
1039	WPC	W.P. Carey & Co. LLC	40.62	3	3	16.1	5.5	0.85	B+	Property Management

To qualify for purchase in the above portfolio, a stock must have a yield that is at least 1% above the median for the Value Line universe, a Timeliness Rank of at least 3, and a Financial Strength Rating of at least B+. If a stock's Timeliness Rank falls below 4, that stock will be automatically removed. Stocks are selected and monitored by Damon Churchwell, Senior Analyst.

Low-Risk Stocks for Worthwhile Total Return

This week we have screened the *Value Line* database for stocks that combine below-average risk with worthwhile total return potential over the long haul. First, we limited the field to equities with Safety ranks of 1 (or 2). By definition, these are stocks that, in our opinion, have less than normal total risk.

Then, we required price appreciation potential to 2014-2016 of at least 70%, which is in line with the current median for all stocks under our review. Next, we specified that the remaining equities must have a current dividend yield of at least 2.8%, 50 basis points higher than the 2.3% median yield for the *Value Line* universe. We further limited the selection to stocks with projected three- to five-year average annual dividend growth of at least 5.0% (well above the average pace of inflation that Value Line forecasts for the same period). To tie the growth and income criteria together, we required an average annual total return over the next three to five years of 17%, which is favorable given the returns currently available on low-risk assets. For reference, we also present the projected average annual earnings growth over the three- to five-year pull for companies that survived this examination.

Finally, we eliminated all holdings with subpar prospects for market performance over the next six to 12 months. That is, equities ranked below 3, or Average, for Timeliness were discarded. This step was taken to screen out stocks that are most at risk of underperformance in the near term, in spite of their otherwise attractive investment attributes.

Of course, the sturdy relative price momentum and high investment quality implied by the above criteria would suggest limited opportunities for a good dividend yield and worthwhile three- to five-year price gains. Indeed, the resulting roster is a quite small and elite group of stocks that appears suitable for patient investors who seek worthwhile total returns, but are also averse to excess risk.

We would advise investors to use this screen, and all others presented in *Selection & Opinion*, as a starting point for investigating stocks that meet specific investment criteria. We suggest that a point for further investigation would begin by consulting the latest *Ratings & Reports* page for those stocks of interest.

Ratings & Reports Page	Ticker	Company Name	Safety	3-5 Year E.P.S. Growth	3-5 Year Avg. Apprec. Potential	Current Yield	3-5 Year Div'd Growth	Total Return	Timeliness
993	ETN	Eaton Corp.	2	14.0%	90%	2.9%	8%	19%	2
1362	INTC	Intel Corp.	1	14.5	115	3.3	11	23	1
807	LNCR	Lincare Holdings	2	12.0	100	3.4	35	21	3
1988	LO	Lorillard Inc.	2	14.0	80	4.8	12	19	3
2584	MSFT	Microsoft Corp.	1	12.0	85	3.0	17	19	2
1430	SPLS	Staples, Inc.	2	11.5	170	2.9	9	30	3

CLOSING STOCK MARKET AVERAGES AS OF PRESS TIME

	11/9/2011	11/16/2011	%Change 1 week	%Change 12 months
Dow Jones Industrial Average	11780.94	11905.59	+1.1%	+8.0%
Standard & Poor's 500	1229.10	1236.91	+0.6%	+5.0%
N.Y. Stock Exchange Composite	7353.45	7392.02	+0.5%	-1.1%
NASDAQ Composite	2621.65	2639.61	+0.7%	+6.9%
NASDAQ 100	2314.10	2324.37	+0.4%	+11.0%
American Stock Exchange Index	2261.01	2271.00	+0.4%	+10.7%
Value Line (Geometric)	327.60	330.33	+0.8%	-3.0%
Value Line (Arithmetic)	2653.84	2679.13	+1.0%	+2.7%
London (FT-SE 100)	5460.38	5509.02	+0.9%	-3.0%
Tokyo (Nikkei)	8755.44	8463.16	-3.3%	-13.6%
Russell 2000	718.86	729.86	+1.5%	+3.5%

Income Stocks with Worthwhile Total Return Potential

This screen focuses on stocks with good current dividend yields that have at least average prospects for relative price performance over the next three to five years. This combination should result in a group of stocks with worthwhile total return potential.

In the first two steps of the selection process, we limited the field to equities with Timeliness ranks of 3 (Average), or better, and Safety ranks of at least 3 (Average). Next, we pared our universe with respect to income generation. We selected issues with current dividend yields of at least 3.3%, 100 basis points (1.0%) above the current median of 2.3% for all dividend-paying stocks under Value Line's review; projected 2014-2016 dividend yields were pegged to be at least 2.5%. At that point, equities with three- to five-year projected price appreciation of less than 80% were cast aside (the current median is 70%). We then selected the remaining issues with a projected average annual total return to 2014-2016 (price gains plus dividends) of at least 20%, which is quite favorable in light of the fact that we may experience a period of lower economic growth with a reduction in available investment returns. Finally, to be included in our list, a company had to have a financial strength rating of no lower than B, and a recent stock price at least $10 a share.

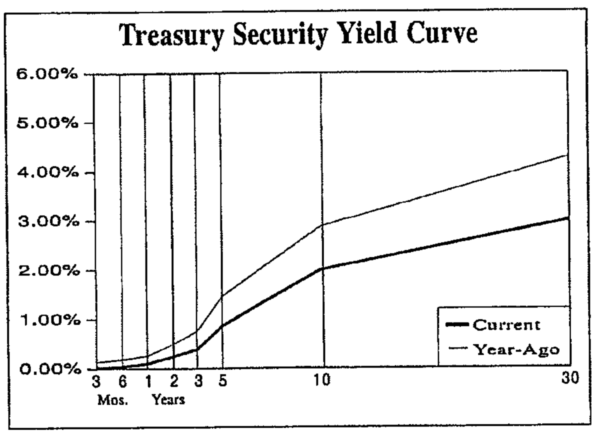
Investors seeking above-average current income, along with worthwhile three- to five-year total return potential, may find these equities of interest. Nonetheless, we would encourage subscribers to consult each company's most recent review in *Rating & Reports* before making new commitments.

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	Current Yield	3-5 Year Est. Yield	3-5 Year Appreciation Potential	3-5 Year Avg. Total Return
2534	AB	AllianceBernstein Hldg.	13.37	3	3	12.6%	5.6%	220%	40%
559	AVY	Avery Dennison	27.03	3	2	3.7	3.1	115	24
2539	BLK	BlackRock, Inc.	165.88	3	3	3.3	2.8	90	20
2642	BX	Blackstone Group LP	14.05	3	3	5.7	4.2	150	30
2306	FUN	Cedar Fair L.P.	22.08	2	3	4.5	4.4	105	23
102	DDAIF	Daimler AG	44.22	2	3	6.1	2.5	185	33
358	DRI	Darden Restaurants	48.09	3	3	3.6	2.8	90	20
2362	RRD	Donnelley (R.R) & Sons	15.86	2	3	6.6	2.8	170	31
956	ERIC	Ericsson ADR	10.22	3	3	3.9	2.6	100	22
1751	GE	Gen'l Electric	16.20	3	3	3.7	3.0	145	28
2364	MDP	Meredith Corp.	28.06	3	3	5.5	2.6	115	24
1030	SJRB.TO	Shaw Commun. 'B'	21.27	1	3	4.3	2.7	100	22
1380	TSM	Taiwan Semic. ADR	13.08	3	3	4.0	4.0	90	21
1049	TEF	Telefonica SA ADR	18.60	3	2	11.6	5.7	130	29
1229	TA.TO	TransAlta Corp.	21.32	3	3	5.4	3.1	100	22

Selected Yields

	Recent (11/16/11)	3 Months Ago (8/17/11)	Year Ago (11/17/10)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.75	0.75
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.47	0.36	0.24
3-month LIBOR	0.47	0.30	0.28
Bank CDs			
6-month	0.17	0.25	0.31
1-year	0.21	0.42	0.52
5-year	1.14	1.45	1.53
U.S. Treasury Securities			
3-month	0.01	0.01	0.13
6-month	0.04	0.05	0.18
1-year	0.10	0.09	0.26
5-year	0.87	0.91	1.47
10-year	2.00	2.17	2.88
10-year (inflation-protected)	0.03	-0.08	0.76
30-year	3.00	3.56	4.29
30-year Zero	3.21	3.94	4.71

	Recent (11/16/11)	3 Months Ago (8/17/11)	Year Ago (11/17/10)
Mortgage-Backed Securities			
GNMA 5.5%	1.25	0.87	1.85
FHLMC 5.5% (Gold)	2.35	1.48	2.14
FNMA 5.5%	2.09	1.43	2.00
FNMA ARM	2.43	2.49	2.81
Corporate Bonds			
Financial (10-year) A	4.38	3.86	4.35
Industrial (25/30-year) A	4.31	4.82	5.41
Utility (25/30-year) A	4.17	4.69	5.60
Utility (25/30-year) Baa/BBB	4.85	5.29	6.02
Foreign Bonds (10-Year)			
Canada	2.10	2.39	3.10
Germany	1.82	2.20	2.60
Japan	0.95	1.03	1.07
United Kingdom	2.16	2.43	3.27
Preferred Stocks			
Utility A	5.26	5.19	5.79
Financial A	6.30	6.48	6.07
Financial Adjustable A	5.52	5.52	5.52



	Recent (11/16/11)	3 Months Ago (8/17/11)	Year Ago (11/17/10)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.02	3.97	4.24
25-Bond Index (Revs)	5.00	5.09	4.87
General Obligation Bonds (GOs)			
1-year Aaa	0.24	0.18	0.40
1-year A	1.07	0.96	1.26
5-year Aaa	1.26	0.94	1.46
5-year A	2.33	1.95	2.54
10-year Aaa	2.50	2.39	2.96
10-year A	3.51	3.92	4.18
25/30-year Aaa	4.01	3.97	4.45
25/30-year A	5.38	5.67	5.64
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.56	4.68	4.86
Electric AA	4.89	5.05	4.88
Housing AA	5.57	5.65	5.75
Hospital AA	4.93	5.00	5.08
Toll Road Aaa	4.57	4.75	4.90

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	11/2/11	10/19/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1515866	1571894	-56028	1560865	1559243	1358832
Borrowed Reserves	10995	11317	-322	11545	12775	22311
Net Free/Borrowed Reserves	1504871	1560577	-55706	1549320	1546468	1336521

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	10/31/11	10/24/11	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2148.6	2125.4	23.2	10.2%	23.5%	21.7%
M2 (M1+savings+small time deposits)	9598.4	9592.5	5.9	6.0%	13.6%	9.4%