

# MIDSTATE

## ECONOMIC INDICATORS

# Q308

Business and Economic Research Center | Jennings A. Jones College of Business | Middle Tennessee State University

## The Downturn Gains Steam

**T**he economic downturn tightened its grip on the Nashville area economy in the third quarter; economic indicators suggest the area had slipped into recession by September. The most telling indicators include a sharp drop in consumer spending, especially for new autos and appliances, a large decline in manufacturing employment, a rapidly rising unemployment rate, and large increases in initial claims for unemployment insurance (Table 1). Job losses are spreading from manufacturing to the services-providing sectors, with the unemployment rate reaching an 18-year high and taxable sales tumbling off the table.

Some consolation can be found in the fact that even though the local economy is slowing, a number of metropolitan areas are experiencing much larger

increases in unemployment. For September, Nashville's over-the-year unemployment rate increase of 1.7 percent ranks 19th highest among the 52 largest MSAs. Charlotte, Orlando, Jacksonville, and Memphis experienced much larger increases in unemployment rates, but Columbus, Birmingham, and Indianapolis witnessed smaller increases.

Manufacturing continues to lose the most jobs, down 5,700 (-7.2 percent) over the year. Most of the lost jobs occurred in durable goods manufacturing, which is down 8.9 percent over the year (Table 2). State-

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by David A. Penn

**Table 1. Economic Indicators for Middle Tennessee**

Series (seasonally adjusted)	2007Q3	2007Q4	2007Q1	2008Q2	2008Q3	% Change 08Q2-08Q3	% Change 07Q3-08Q3
<b>Labor Force and Employment</b>							
Midstate							
Total Employment	1,145,479	1,144,664	1,144,028	1,139,580	1,127,925	-1.0%	-1.5%
Labor Force	1,201,207	1,203,262	1,205,417	1,208,911	1,203,013	-0.5%	0.2%
Unemployed	55,728	58,598	61,390	69,331	75,088	8.3%	34.7%
Unemployment Rate	4.6%	4.9%	5.1%	5.7%	6.2%		
Initial Claims Unemployment Compensation	37,630	40,383	41,127	49,452	64,121	29.7%	70.4%
Nashville MSA							
Total Employment	762,470	761,652	760,935	759,574	750,313	-1.2%	-1.6%
Labor Force	793,539	795,360	797,351	800,393	796,691	-0.5%	0.4%
Unemployed	31,070	33,709	36,416	40,819	46,378	13.6%	49.3%
Unemployment Rate	3.9%	4.2%	4.6%	5.1%	5.8%		
Nonfarm employment	760,500	760,900	767,000	766,600	766,500	0.0%	0.8%
<b>Nashville MSA Housing Construction</b>							
New Residential Permits							
Single-Family	2,616	2,024	1,557	1,534	1,347	-12.2%	-48.5%
Multi-Family	433	1,057	233	244	351	43.7%	-19.1%
Total	3,049	3,082	1,790	1,778	1,698	-4.5%	-44.3%
Value of New Residential Units (million \$)							
Single-Family	481.8	387.2	281.4	286.2	245.7	-14.2%	-49.0%
Multi-Family	44.9	92.1	21.0	18.1	21.6	19.8%	-51.8%
Total	526.7	479.3	302.4	304.3	267.3	-12.1%	-49.2%
<b>Davidson County Tourism</b>							
Total Air Passengers, Nashville International Airport	2,490,293	2,484,353	2,415,497	2,384,748	2,309,185	-3.2%	-7.3%
<b>Taxable Sales (estimates, million \$)</b>							
Nashville MSA	7,424	7,466	7,443	7,374	7,186	-2.5%	-3.2%
Midstate	10,067	10,068	10,076	10,016	9,780	-2.4%	-2.9%

Notes: Seasonal adjustment with X11. \*Nashville MSA includes 13 counties. \*\*Midstate is a 41-county area. Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Bureau of the Census; Davidson County Clerk's office; Metropolitan Nashville Airport Authority; U.S. Bankruptcy Court, Middle Tennessee District.

# Downturn

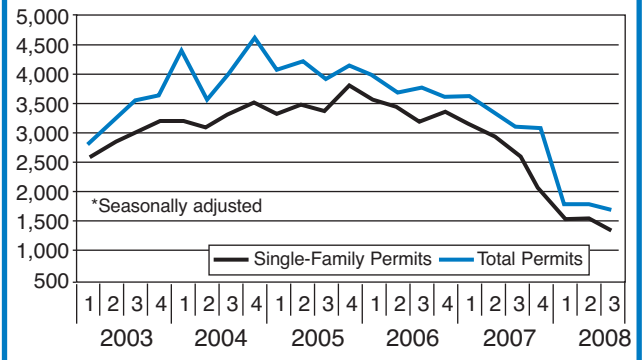
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wide data show that many of the losses in durable manufacturing are occurring in transportation equipment (including auto manufacturing, auto parts, and aircraft) and fabricated metal products (including home appliances).

The current precarious outlook for the domestic auto manufacturers has profound implications for Tennessee, particularly middle Tennessee. The auto sector is a very important source of jobs and income for the state. Auto assembly and parts manufacturing, for example, generated 2.0 percent of Tennessee's gross state product in 2006, compared with the 50-state average of 0.7 percent. In terms of share of GSP, Tennessee ranked fifth highest behind Michigan, Ohio, Indiana, and Kentucky, followed by Alabama. And, due to the economic multiplier effect, at least one other job in Tennessee depends on retaining each job in auto assembly and auto-parts manufacturing.

It is important to understand that Tennessee's auto related jobs are not just in the well-known assembly plants (Nissan, GM, and Peterbilt) but also in auto parts manufacturers scattered throughout the midstate region. In fact, for each job in auto assembly, the

**Figure 1. Building Permits Issued for Housing, Nashville MSA**



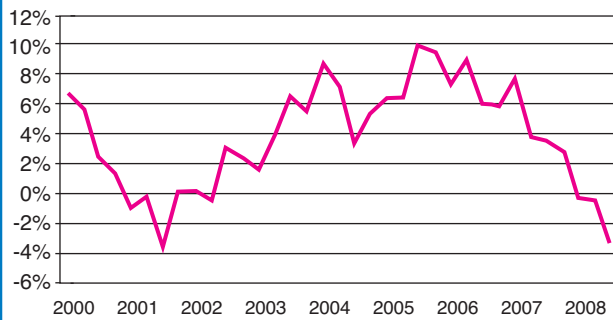
state has two jobs in auto-parts manufacturing. The auto-parts plants tend to be much smaller in size than the assembly plants, consisting of a few hundred jobs, but tend to be located in rural areas that depend heavily on these plants as a source of jobs and income.

Housing construction activity, as measured by permits issued for new construction, has not yet hit bottom in the Nashville MSA. In fact, the rate of decline accelerated in the third quarter for single-family homes, down 12.2 percent compared with an over-the-year decline of 41.3 percent (Table 2 and Figure 1). Most of the decline for the third quarter occurred

**Table 2. Nashville-Davidson-Murfreesboro MSA Nonfarm Employment (thousands)**

Sector	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	% Change 08Q2-08Q3	% Change 07Q3-08Q3
Total Nonfarm	763.6	765.3	768.2	767.5	764.8	-0.4%	0.2%
Total Private	664.1	665.9	669.1	668.2	664.3	-0.6%	0.0%
Manufacturing	78.9	77.8	76.3	74.9	73.2	-2.3%	-7.2%
Durable Goods	53.9	52.9	51.6	50.6	49.1	-3.0%	-8.9%
Nondurable Goods	25.0	24.9	24.7	24.4	24.1	-1.2%	-3.6%
Wholesale Trade	36.8	37.2	37.3	37.5	37.3	-0.5%	1.4%
Retail Trade	87.7	88.0	89.5	89.9	90.1	0.2%	2.7%
Transportation and Utilities	30.5	30.2	30.4	30.2	29.6	-2.0%	-3.0%
Information	19.5	19.6	19.8	19.8	19.9	0.5%	2.1%
Financial Activities	46.6	46.6	46.6	46.4	46.3	-0.2%	-0.6%
Finance and Insurance	35.5	35.5	35.6	35.3	35.3	0.0%	-0.6%
Real Estate and Rental and Leasing	11.1	11.1	11.0	11.0	11.0	0.0%	-0.9%
Professional and Business Services	102.0	100.8	101.8	102.5	102.5	0.0%	0.5%
Professional, Scientific, and Technical Services	37.5	37.3	37.5	37.7	38.3	1.6%	2.1%
Management of Companies and Enterprises	9.0	9.0	9.4	9.5	9.4	-1.1%	4.4%
Educational and Health Services	108.9	110.4	111.1	110.7	110.5	-0.2%	1.5%
Educational Services	24.2	24.6	24.6	23.8	23.8	0.0%	-1.7%
Health Care and Social Assistance	84.7	85.9	86.6	87.0	86.7	-0.3%	2.4%
Leisure and Hospitality	80.9	81.7	82.5	82.5	82.4	-0.1%	1.9%
Arts, Entertainment, and Recreation	9.8	9.8	9.8	9.8	9.9	1.0%	1.0%
Accommodation and Food Services	71.1	72.0	72.6	72.6	72.5	-0.1%	2.0%
Accommodation	12.6	12.9	12.8	12.9	12.8	-0.8%	1.6%
Food Services and Drinking Places	58.6	59.1	59.8	59.7	59.7	0.0%	1.9%
Other Services	30.4	30.4	30.4	30.4	30.2	-0.7%	-0.7%
Government	99.5	99.4	99.1	99.3	100.6	1.3%	1.1%

**Figure 2. Growth of taxable sales, Nashville MSA (year-over-year percent change)**



in July and August, with September showing much less of a drop over the year. As we move later into the year, we may find that the over-the-year comparisons show much less of a decline in construction, because the brunt of the downturn began about a year ago. So, as long as permits do not experience another precipitous decline, we may witness a leveling off of activity, or bottoming out, within the next couple of months in comparison with last year.

Unfortunately, no bottom is in sight for taxable sales; households and businesses cut back sharply on purchases of all kinds in the third quarter, causing a very large drop in sales tax collections from the previous quarter. Sales for the Nashville MSA dipped 2.5 percent from the second quarter, while the midstate counties experienced a 2.4 percent decline. We have not experienced a decline of this magnitude since the 2001 recession (Figure 2). Once the bottom is reached for taxable sales, we will most likely experi-

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AA258-0408

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ence a very choppy path to recovery, with one or two quarters of gains followed with at least one negative quarter. Judging from the experience of the 20001 recession, the recovery will require from four to six quarters, perhaps more, starting from the bottom.

Economic activity also is on the decline for the other two metropolitan areas covered in this report, Chattanooga and Clarksville. Both areas are experiencing sharp increases in unemployment, sharp declines in taxable sales, and declining nonfarm employment (Table 3). Similar to the Nashville MSA and Tennessee, both experienced a very large drop in taxable sales in the third quarter, down 1.7 percent for the Chattanooga MSA and 5.5 percent in the Clarksville MSA over the year. Remarkably, most of the drop in sales occurred in the quarter just ended, with Chattanooga down 2.6 percent from the second quarter and Clarksville down 3.1 percent. Households appear to be cutting back on spending throughout the midstate area.

**Table 3. Economic Indicators for Chattanooga MSA and Clarksville MSA**

Series (seasonally adjusted)	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	% Change 08Q2-08Q3	% Change 07Q3-08Q3
<b>Chattanooga MSA</b>							
Nonfarm Employment (thousand)	248.0	247.9	248.1	247.4	247.3	0.0%	-0.3%
Unemployment Rate	3.8	4.4	4.9	5.3	5.9		
Taxable Sales (million \$)	1,676.2	1,717.1	1,667.3	1,692.2	1,647.5	-2.6%	-1.7%
Permit-Authorized Housing Construction							
Total	482	407	374	346	296	-14.5%	-38.7%
Single-Family	421	334	302	313	247	-20.9%	-41.3%
<b>Clarksville MSA</b>							
Nonfarm Employment (thousand)	85.3	85.5	85.2	85.3	84.7	-0.7%	-0.7%
Unemployment Rate	5.0	5.4	5.9	6.4	7.1		
Taxable Sales (million \$)	590.3	579.0	563.7	575.7	557.7	-3.1%	-5.5%
Permit-Authorized Housing Construction							
Total	361	380	452	229	419	82.8%	16.1%
Single-Family	281	281	231	199	297	49.0%	5.9%

Note: Taxable sales and permit-authorized housing construction are quarterly sums of activity.