

2nd quarter 2009



Tennessee Housing Market

Business and Economic Research Center • David A. Penn, Director • Jennings A. Jones College of Business • Middle Tennessee State University

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Economic Overview

The Tennessee economy continued to shed jobs during the second quarter, with job losses accelerating in manufacturing and construction. Over the year ending in June, six of 10 lost payroll jobs occurred in the goods-producing industries (construction and manufacturing); only the healthcare industry generated new jobs during the second quarter.

Increasing job losses moved the unemployment rate to 10.5 percent in the second quarter, with the number unemployed averaging nearly 318,000. By contrast, the first quarter unemployment rate was 9.1 percent and unemployment was 276,000 (Table 2).

Rural areas have been hit particularly hard by manufacturing job losses, as factory jobs represent a larger portion of payrolls in the rural counties than in urban areas. The unemployment rate for rural areas in June was 13.8 percent, compared with 10.0 percent for metropolitan areas. Also in June, 21 counties experienced unemployment rates of 15 percent or higher.

But as bad as the second quarter was for the labor market, the first quarter was worse. For example, total employment declined 44,000 during the second quarter, compared with a loss of 55,000 jobs during the first quarter.

New claims for unemployment insurance offer modestly positive news. As reported last quarter, initial claims for unemployment insurance are on the decline, although the rate of decline is very modest (Figure 1). Initial claims are a leading

Table 1. Selected Tennessee employment indicators (in thousands, seasonally adjusted)

	2008.2	2008.3	2008.4	2009.1	2009.2
Employment by industry (nonfarm)					
Total nonfarm	2,790	2,769	2,741	2,696	2,663
Goods-producing sectors	502	493	478	448	430
Manufacturing	366	361	350	332	320
Services-providing sectors	2,288	2,276	2,264	2,248	2,233
Unemployed	189	204	221	276	318
Total employment	2,853	2,839	2,827	2,766	2,722
Labor force	3,042	3,042	3,047	3,042	3,040
Unemployment rate	6.2%	6.7%	7.2%	9.1%	10.5%

Source: Bureau of Labor Statistics

Figure 1. Tennessee initial claims for unemployment insurance, 2008–2009 (weekly, seasonally adjusted)

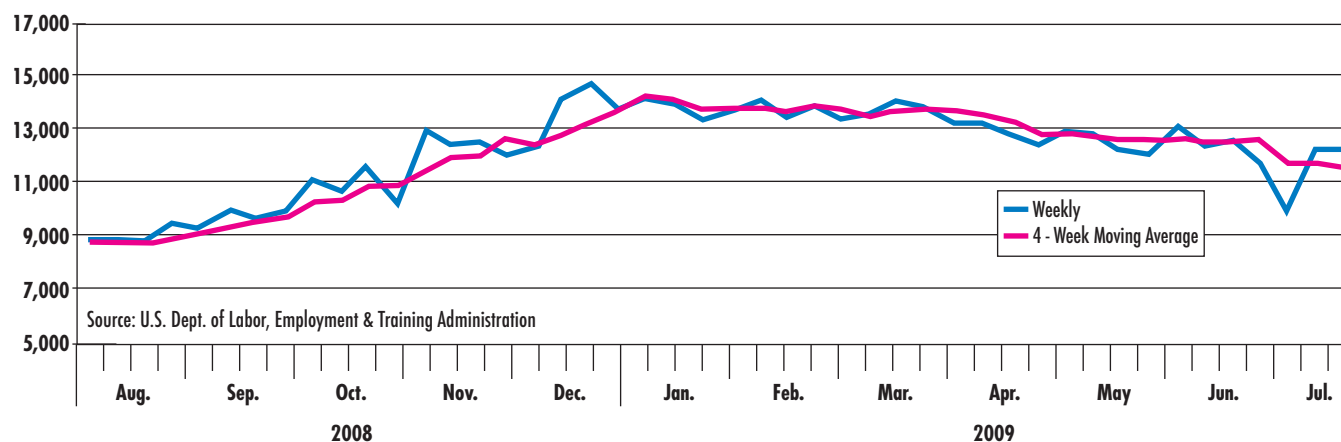


Table 2. Permits issued for privately owned new housing, seasonally adjusted annual rate (in thousands)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2007.2	29.3	528.3	1,031.7	7.4	204.3	425.0	36.7	732.7	1,456.7
2007.3	27.5	474.7	916.3	6.1	163.3	398.0	33.6	638.0	1,314.3
2007.4	22.3	414.0	786.0	8.8	175.3	402.3	31.2	589.3	1,188.3
2008.1	18.2	364.0	670.0	5.4	174.0	358.3	23.7	538.0	1,028.3
2008.2	17.3	327.7	627.0	3.6	154.3	420.7	20.9	482.0	1,047.7
2008.3	15.7	286.3	550.7	5.7	159.3	311.7	21.3	445.7	862.3
2008.4	9.8	219.7	420.7	5.4	104.3	220.3	15.2	324.0	641.0
2009.1	10.4	198.7	361.0	2.8	79.0	169.7	13.0	277.7	530.7
2009.2	11.2	202.7	373.0	1.9	70.3	146.7	13.0	273.0	519.7
Change from previous quarter	7.3%	2.0%	3.3%	-27.3%	-11.0%	-13.6%	-0.3%	-1.7%	-2.1%
Change from previous year	-35.7%	-38.1%	-40.5%	-47.3%	-54.4%	-65.1%	-37.7%	-43.4%	-50.4%

Source: Census Bureau

indicator for the unemployment rate, with growing initial claims leading to higher unemployment rates. Initial claims have moderated, but not enough to halt the increase in the unemployment rate.

Housing Construction

In the previous issue of this newsletter, we noted that the Tennessee housing market may be approaching a turning point.

Figures for the second quarter offer additional evidence that this is indeed the case. For example, single-family permits rose 7.3 percent from the first quarter, the second consecutive quarterly increase (Table 2). Figure 2 shows gradual improvement for single-family permits beginning with the first quarter of 2009. Multi-family permits continued to decline, however, but total permits (single-family plus multi-family) broke even with the first quarter. Tennessee’s single-family permit growth

Figure 2. Tennessee single-family home permits (thousands, seasonally adjusted annual rate)

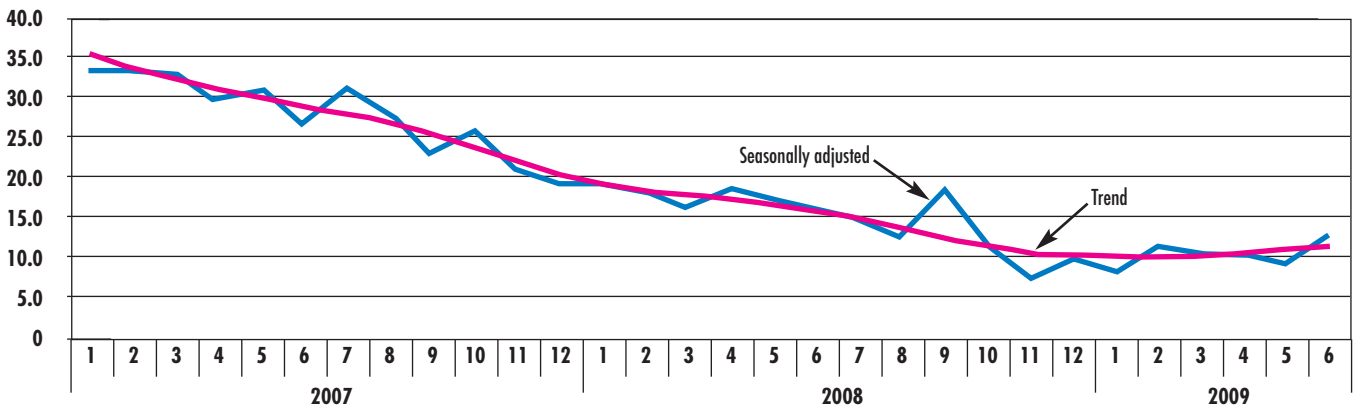


Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)

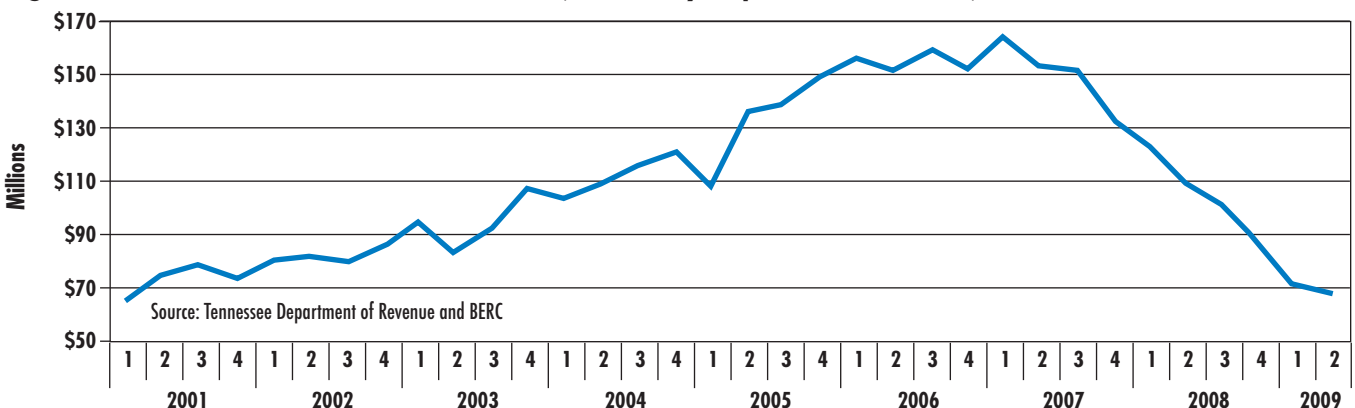
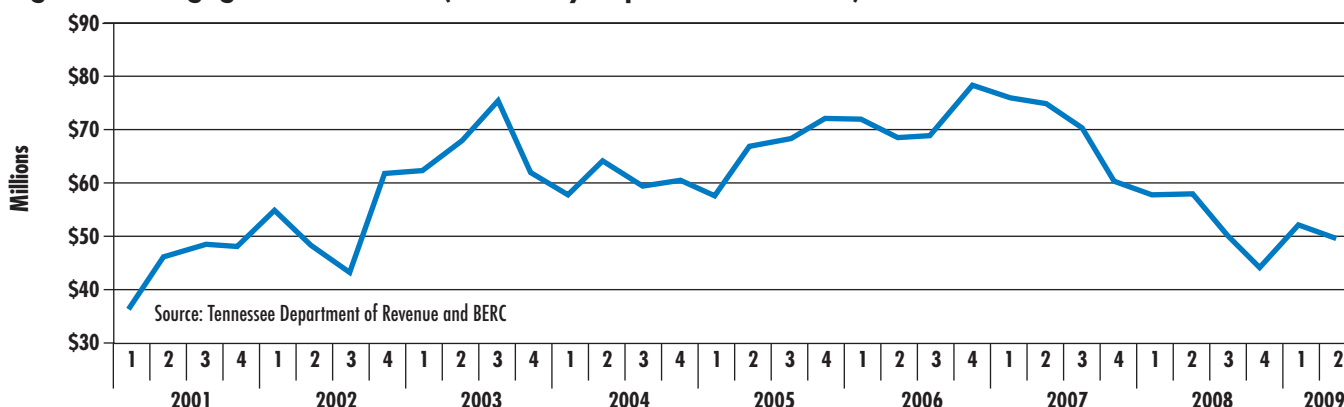


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



outdistanced that of the South (2.0 percent gain) and the United States (3.3 percent increase). Total permits for Tennessee are unchanged from the previous quarter, compared with a 1.7 percent decline for the South and a drop of 2.1 percent for the United States.

Real Estate Transactions and Mortgages

Taxes collected on new mortgages and real estate transactions dipped from the first quarter, indicating slower real estate activity. Mortgage tax collections fell 5.4 percent after seasonal adjustments but remain above the low reached during the fourth quarter of 2008. Collections for the real estate transfer tax fell for the eighth consecutive quarter, although the second quarter decline was the smallest since 2007. In general, the trend for both indicators shows improvement, although activity remains far from robust.

Home Sales and Prices

Home sales picked up in the Nashville and Knoxville areas in the second quarter, the first quarterly increase since 2005. Memphis area sales continue to drop. Sales of new and existing homes rose 6.4 percent in Nashville and 3.6 percent in Knoxville but fell in Memphis. Increased home sales can be attributed to a combination of factors including very low mortgage rates, increases in the loan limits for FHA-backed loans, lower housing prices, and the \$8,000 tax credit for new home buyers.

Mortgage Delinquencies and Foreclosures

The latest data from the Mortgage Bankers Association of America (MBAA) for the first quarter of 2009 show a large increase in mortgages past due and new foreclosures in Tennessee (Table 3). However, Tennessee continues to compare well with the United States. Mortgages past due as a percentage of all mortgages rose more than one percentage point, from 9.08 to 10.15 in the first quarter, the largest increase since 1988. The current inventory of foreclosed homes rose to 1.95 percent of mortgages, the highest figure for at least the past 30 years. Still, Tennessee foreclosures remain well behind the United States, with new foreclosures started in the quarter at 1.33 percent and an inventory of 3.79 percent of all mortgages in foreclosure at the end of the quarter.

Conclusion

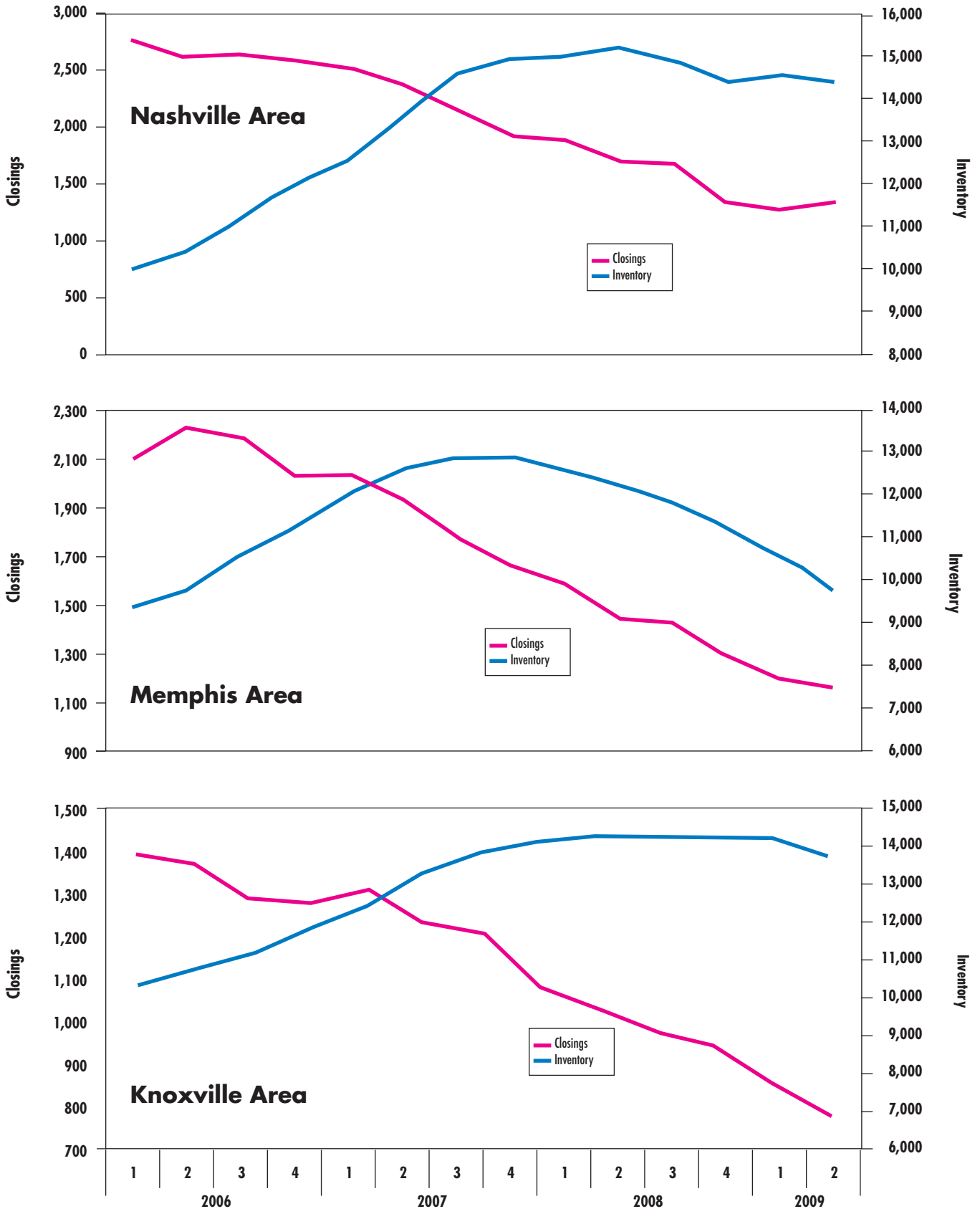
Tennessee’s economy continued to contract during the second quarter but not as severely as the first quarter. Although overall trends are negative, conditions are definitely improving in the housing market, as both construction and sales show signs that the worst may be over. As long as mortgage rates remain low and consumers slowly regain confidence, continued gradual improvement in the housing market can be expected. More robust growth for the housing market depends on sustained job growth, which for the present appears to be in the distant future. ■

Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory (% of mortgages serviced, seasonally adjusted)

Quarter	Tennessee			United States		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2007.3	7.40	0.69	1.29	5.55	0.78	1.72
2007.4	7.33	0.72	1.38	5.80	0.84	2.00
2008.1	7.79	0.71	1.48	6.30	0.98	2.43
2008.2	7.91	0.77	1.56	6.42	1.17	2.80
2008.3	8.41	0.77	1.60	6.96	1.07	3.02
2008.4	9.08	0.81	1.73	7.93	1.03	3.24
2009.1	10.15	0.93	1.95	9.18	1.33	3.79

Source: Mortgage Bankers Association of America and BEREC

Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)



Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, Knoxville Area Association of Realtors, and BEREC