Vol. 17.3 Spring 2008

MIDSTATE
ECONOMIC INDICATORS

Q407

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

Nashville Area

According to Nissan's Carlos Ghosn, the U.S. economy is in a recession, at least as far as the domestic auto industry is concerned. And from where Mr. Ghosn sits, I am sure he states the case accurately. In the Nashville area, the majority of available economic indicators show a definite slowing of economic activity in the fourth quarter 2007, with some sectors (housing construction and manufacturing) hard-hit but others (health care and education, accommodation and food services) still growing. In general, the indicators for Nashville do not yet convincingly support the case that a recession is upon us.

The reason for "no recession (yet)" is that the Nashville area has not experienced a decline in nonfarm employment. In fact, newly revised employment data show more job growth than previously reported for the Nashville area, up 1.5 percent from a year ago (Table 1). The problem is that very little of this job growth is recent. Employment gains we experienced during the past 12 months were pretty well exhausted by the third quarter. Compared with the third quarter, fourth quarter nonfarm employment is virtually unchanged. It is likely that the Nashville area is entering a period of very low employment growth for the next quarter or two. If a recession for the Nashville area is truly just around the corner, one would expect to experience a much sharper drop in nonfarm employment. Perhaps that time is coming, but it is not here yet.

The loss of manufacturing jobs is the primary culprit in flat local job growth. Manufacturing has lost 5,500 jobs over the year, mostly in durable goods production (Table 3). Though specifics are not available, auto industry production slowdowns suggest that much of the losses are due to cutbacks in local businesses that manufacture auto parts.

Compared with competitor metropolitan areas, Nashville area employment growth slowed substantially

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by David A. Penn

Table 1. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	Geographical Area	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4	% Change 07Q3-07Q4	% Change 06Q4-07Q4
Labor Force and Employment								
Midstate Total Employment	Midstate**	1,126,192	1,135,732	1,140,522	1,140,691	1,133,655	-0.6%	0.7%
Midstate Labor Force	Midstate	1,179,733	1,189,289	1,191,186	1,191,084	1,191,044	0.0%	1.0%
Midstate Unemployed	Midstate	53,130	54,500	50,236	50,453	57,002	13.0%	7.3%
Midstate Unemployment Rate	Midstate	4.5%	4.6%	4.2%	4.2%	4.8%		
Nashville MSA Nonfarm Employment	Nashville MSA*	753,771	756,810	758,797	764,159	764,913	0.1%	1.5%
Average Manufacturing Week Hours Worked	Nashville MSA	40.2	40.1	40.1	40.0	39.2	-2.0%	-2.4%
Initial Claims Unemployment Compensation	Midstate	40,597	41,884	38,068	38,148	40,514	6.2%	-0.2%
Housing Construction								
New Residential Permits	Nashville MSA							
Single-Family		3,302	3,123	3,040	2,635	2,006	-23.9%	-39.3%
Multi-Family		306	414	283	566	1,128	99.2%	268.6%
Total		3,608	3,537	3,324	3,202	3,134	-2.1%	-13.1%
Value of New Residential Units (million $)	Nashville MSA							
Single-Family		544.3	536.7	538.4	487.8	387.9	-20.5%	-28.7%
Multi-Family		16.4	33.8	25.1	58.8	93.2	58.4%	469.5%
Total		560.6	570.5	563.5	546.6	481.1	-12.0%	-14.2%
Tourism								
Total Air Passengers, Nashville International Airport	Davidson Co.	2,564,053	2,433,865	2,446,100	2,497,691	2,498,225	0.0%	-2.6%
Taxable Sales (estimates, million $)								
Nashville MSA	Nashville MSA	7,303	7,511	7,461	7,471	7,507	0.5%	2.8%
In-State Sales Only		6,230	6,398	6,321	6,313	6,348	0.5%	1.9%
Midstate	Midstate	9,906	10,165	10,138	10,106	10,136	0.3%	2.3%
In-State Sales Only		8,447	8,662	8,587	8,544	8,566	0.3%	1.4%

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.

Housing

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during the fourth quarter (Table 2). Only the Indianapolis metropolitan area grew more slowly in the fourth quarter.

Weaker demand for labor pushed the midstate unemployment rate up to 4.8 percent in the fourth quarter, up sharply from 4.2 percent. Job layoffs caused a sharp drop in total employment, down 0.7 percent or 7,000 jobs. Prior to the fourth quarter, total employment had not experienced a decline since 2005. The current pattern of a flat quarter (2007.3) followed by a sharply negative quarter (2007.4) closely repeats the pattern leading to the recession of 2001 (Figure 1). If the 2001 pattern repeats, the next three quarters will show job losses with the largest declines occurring in the present quarter (2008.1).

Each year the Tennessee Department of Labor and the U.S. Bureau of Labor Statistics release revised payroll employment figures. As part of this process, the previously released monthly employment data is benchmarked, or adjusted, to reflect a complete count of employers. This is needed because the monthly figures are determined from a sample of employers, not a complete count. And during the year, the monthly sample can deviate from the complete count of employers. The benchmark revisions show downward revisions for payroll employment in 2006 and upward revisions for 2007. Figure 2 compares total payroll employment for the Nashville MSA before and after the benchmark revisions. The net result is that over-the-year employment growth for the Nashville area is larger than initially reported. Prior to the revision, fourth-quarter employment was just 0.6 percent higher than last year; after the revision, fourth-quarter employment shows a 1.5 percent gain over the year, an increase of 11,100 jobs compared with just 4,800 new jobs before the revision.

Permits issued for single-family home construction plunged in the fourth quarter, down 23.9 percent from the third quarter after seasonal adjustments and 39 percent lower over the year (Figure 3). A preview of permits for the first quarter of 2008 shows the rate of decline accelerating, with January down 50 percent over the year and February 45 percent lower.

Table 2. Nonfarm Employment: Quarterly Growth, Selected Metropolitan Areas

Metropolitan Area	06Q4–07Q1	07Q1–07Q2	07Q2–07Q3	07Q3–07Q4
Atlanta–Sandy Springs–Marietta, GA	0.65%	0.06%	0.65%	0.21%
Birmingham–Hoover, AL	0.57%	-0.03%	-0.11%	0.17%
Charlotte–Gastonia–Concord, NC–SC	1.32%	0.86%	0.40%	0.26%
Indianapolis, IN	0.25%	0.58%	0.38%	0.02%
Louisville, KY–IN	0.95%	0.93%	0.01%	0.19%
Memphis, TN–MS–AR	-0.04%	0.36%	0.05%	0.48%
Nashville–Davidson–Murfreesboro, TN	0.40%	0.28%	0.69%	0.10%

Seasonally adjusted. *Source:* Bureau of Labor Statistics, CES series

Table 3. Nashville-Davidson-Murfreesboro MSA Nonfarm Employment (thousands)

Seasonally adjusted

Sector	2006Q3	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4	% Change 07Q3-07Q4	% Change 06Q4-07Q4
Total Nonfarm	753.9	753.8	756.8	758.8	764.2	764.9	0.1%	1.5%
Total Private	654.8	654.1	658.0	661.1	664.5	665.2	0.1%	1.7%
Natural Resources, Mining, and Construction	39.2	39.7	41.1	41.4	42.2	42.9	1.8%	8.2%
Manufacturing	84.3	83.3	81.6	79.8	78.9	77.8	-1.5%	-6.6%
Durable Goods	58.3	57.8	56.1	54.7	54.0	52.9	-1.9%	-8.4%
Nondurable Goods	26.0	25.6	25.4	25.2	25.0	24.9	-0.3%	-2.7%
Wholesale Trade	36.6	36.0	36.3	36.6	36.9	37.2	0.8%	3.1%
Retail Trade	86.3	86.0	87.3	87.3	87.7	87.9	0.2%	2.2%
Transportation and Utilities	31.0	30.7	30.9	30.7	30.4	30.1	-1.0%	-1.8%
Information	19.1	19.1	19.0	19.2	19.5	19.6	0.4%	2.9%
Financial Activities	45.7	45.7	46.0	46.5	46.7	46.6	-0.2%	1.9%
Finance and Insurance	34.8	34.7	35.0	35.4	35.6	35.4	-0.3%	2.0%
Real Estate and Rental and Leasing	10.9	10.9	11.0	11.1	11.1	11.1	-0.2%	1.6%
Professional and Business Services	99.9	99.5	99.9	101.1	102.3	100.6	-1.7%	1.2%
Professional, Scientific, and Technical Services	36.3	36.4	36.7	37.2	37.6	37.2	-1.0%	2.2%
Management of Companies and Enterprises	8.0	8.6	9.0	9.2	9.0	9.0	-0.1%	3.8%
Admin., Support, Waste Management, Remediation Services	55.6	54.5	54.2	54.7	55.8	54.5	-2.3%	0.1%
Educational and Health Services	104.6	105.5	106.3	107.1	108.9	110.5	1.5%	4.7%
Educational Services	22.9	23.3	23.3	23.8	24.2	24.6	1.6%	5.4%
Health Care and Social Assistance	81.6	82.1	82.9	83.3	84.7	85.9	1.4%	4.6%
Leisure and Hospitality	78.2	78.4	79.7	80.9	80.8	81.6	0.9%	4.0%
Arts, Entertainment, and Recreation	9.9	9.6	9.7	10.0	9.8	9.8	-0.4%	1.1%
Accommodation and Food Services	68.2	68.8	70.0	70.8	71.0	71.9	1.3%	4.4%
Accommodation	12.3	12.8	12.8	12.9	12.5	12.9	3.3%	0.8%
Food Services and Drinking Places	55.9	56.1	57.2	57.9	58.5	59.1	0.9%	5.3%
Other Services	30.3	30.2	30.1	30.4	30.4	30.4	-0.1%	0.6%
Government	99.2	99.4	99.0	97.6	99.7	99.5	-0.2%	0.1%

Figure 1. Nashville MSA Total Employment*

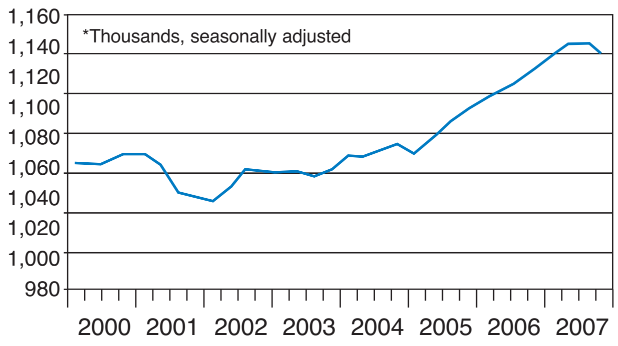
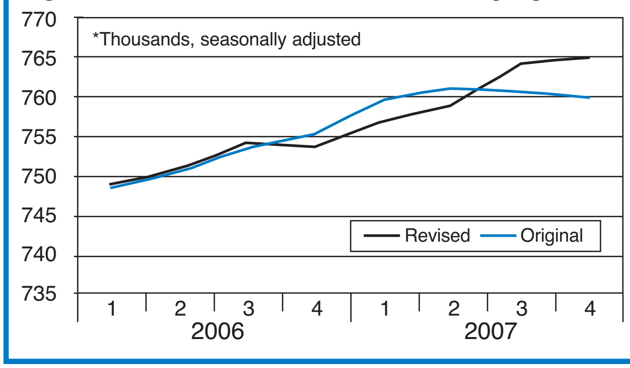


Figure 2. Nashville MSA Nonfarm Employment*



Total building permits, which include multi-family as well as single-family structures, did not drop nearly as much as single-family permits (Table 1). The number of multi-unit permits issued during the fourth quarter was twice that in the third quarter and nearly five times higher than six months ago. It has been reported that apartment rents are climbing in the Nashville area, attracting investors for new multi-family construction.

In the broader real estate market, the number of closings, or sales, of homes is in rapid decline, similar to the decline in single-family permits (Figure 4). However, the rate of decline may be leveling off, and the inventory of homes on the market has been relatively steady during the past five months. This means that the sharp drop in home sales is being matched by an equally large decline in the

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Figure 3. Building Permits Issued for Housing, Nashville MSA

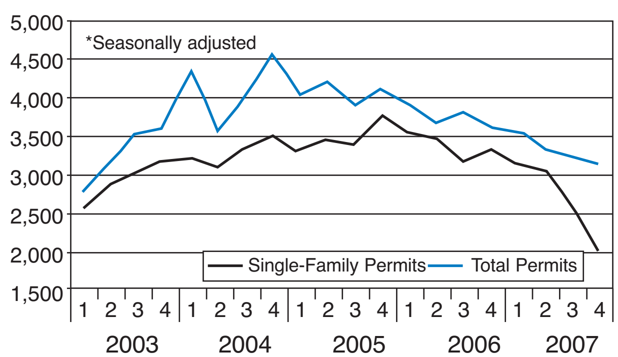

Figure 4. Nashville Residential Inventory/ Closings

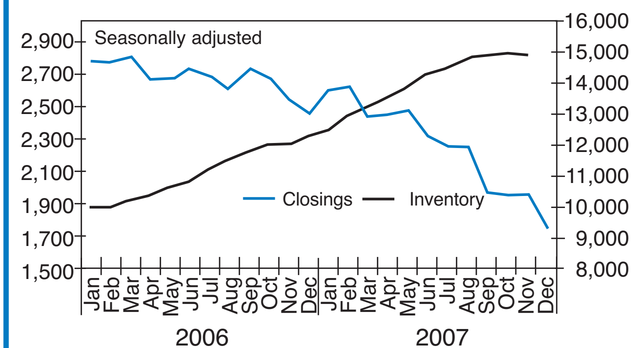

Table 4. Economic Indicators for Chattanooga MSA and Clarksville MSA

Series (seasonally adjusted)	2006Q2	2006Q3	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4	% Change 07Q3-07Q4	% Change 06Q4-07Q4
Chattanooga MSA									
Nonfarm Employment (thousand)	245.3	246.8	247.5	247.4	247.3	247.9	248.0	0.1%	0.2%
Unemployment Rate	4.6	4.4	4.1	4.1	3.8	3.8	4.4	16.0%	6.8%
Taxable Sales (million $)	1,614.7	1,647.9	1,650.6	1,665.6	1,675.4	1,685.7	1,722.1	2.2%	4.3%
Permit-Authorized Housing Construction									
Total	229.0	243.6	209.9	187.4	192.0	158.7	136.1	-14.3%	-35.2%
Single-Family	216.5	190.8	208.0	170.4	172.5	137.8	111.0	-19.5%	-46.6%
Clarksville MSA									
Nonfarm Employment (thousand)	83.5	84.4	85.1	85.5	85.0	85.1	85.4	0.4%	0.4%
Unemployment Rate	5.9	5.4	5.0	5.4	4.9	5.1	5.4	7.0%	8.3%
Taxable Sales (million $)	546.0	564.5	623.9	568.8	599.8	587.8	606.5	3.2%	-2.8%
Permit-Authorized Housing Construction									
Total	203.1	385.3	262.7	238.0	173.6	122.3	131.2	7.2%	-50.1%
Single-Family	158.1	178.1	191.6	145.8	135.6	92.7	93.8	1.2%	-51.0%

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Business and Economic Research Center
P.O. Box 102
Middle Tennessee State University
Murfreesboro, TN 37132
615-898-2610

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Housing

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supply of homes offered for sale. This approximate balance of supply and demand should help to stabilize home prices; indeed, the median price of homes is a modest 3 percent higher than last year for the fourth quarter. With mortgage rates still very low by historical standards and employment growth still apparent although weaker, only the buyers are missing.

Taxable sales continued to grow in the Nashville MSA, but the rate of growth slowed to just 0.5 percent from the previous quarter. Sales growth dropped off more for the larger 41-county midstate area, just 0.3 percent in the fourth quarter. New figures for January 2008 show evidence of further slowing: the first quarter of the year will probably reveal little change in sales from the fourth quarter, with one or two months showing a decline over the year.

Higher fuel prices cut household and business spending for travel. The number of passengers departing and arriving at Nashville International Airport, for example, is unchanged from the previous quarter and down 2.6 percent from a year ago.

The Chattanooga and Clarksville metropolitan areas also show signs of lower economic activity, particularly regarding housing construction. Nonfarm employment rose in the fourth quarter, but the increase in Chattanooga from the previous quarter was minimal: just 100 jobs (Table 4). Clarksville fared better, showing a 0.4 percent rise. The unemployment rate is on the rise in both metro areas, but the increase in unemployment is from a very low level. The unemployment rate is higher but not high: viewing the trend, the current rates are about where they were six quarters ago.

Housing construction is altogether a different story. The number of permits issued for new home construction plunged in the fourth quarter compared with a year earlier, falling 35.2 percent in Chattanooga and 50.1 percent in Clarksville. ■

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

Director: David A. Penn
Associate Director: Murat Arik
Dean: E. James Burton
Editor/Designer: Sally Govan
kkulp@mtsu.edu
615-898-2610
www.mtsu.edu/~berc