

Expectations for the Nashville Area

Independence Trust, Franklin Tennessee
October 18, 2010

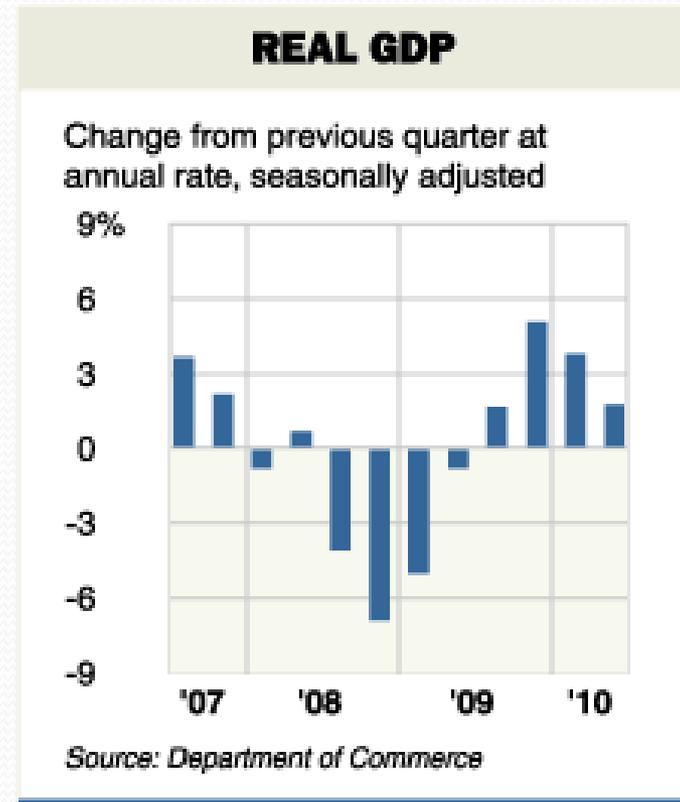
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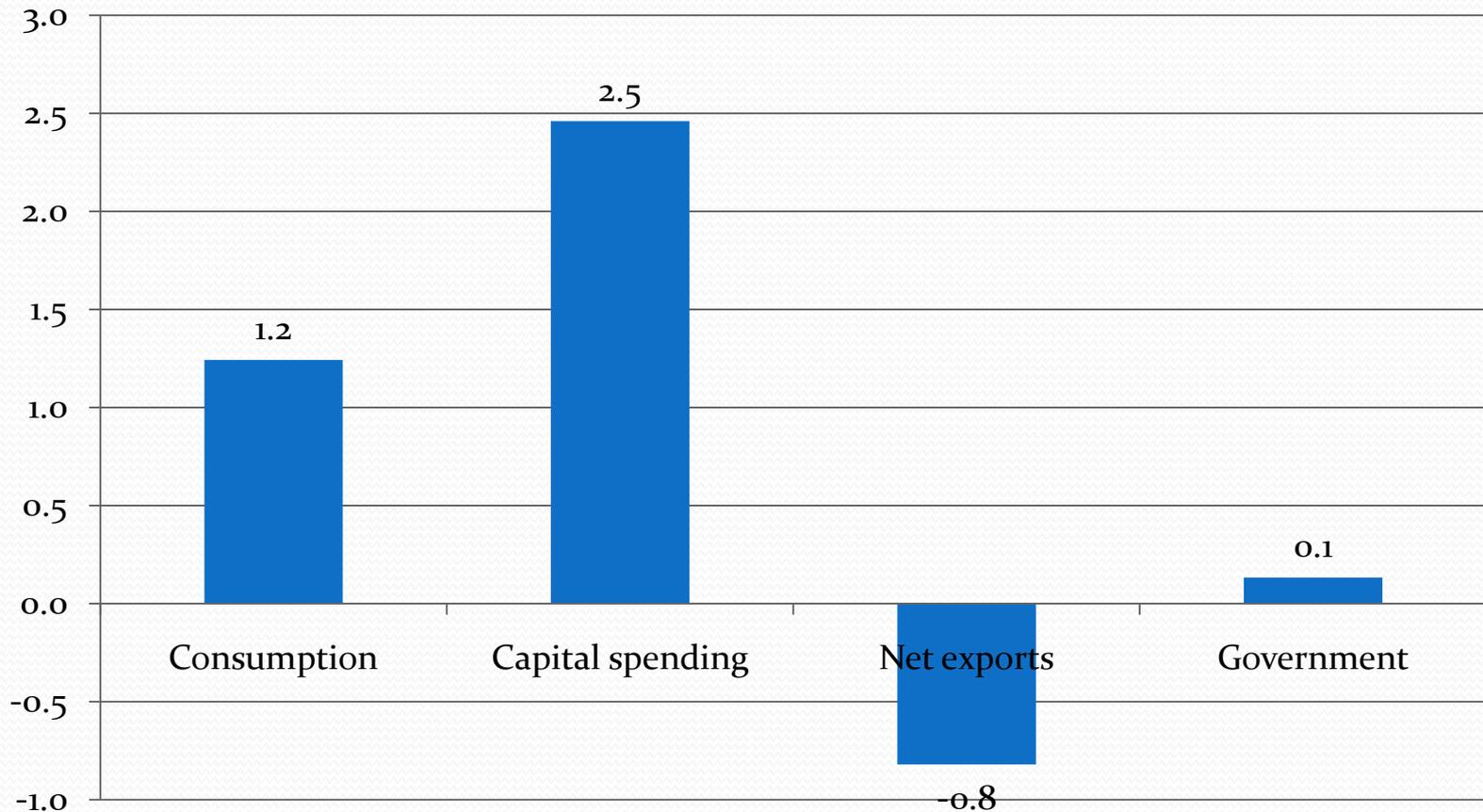
www.mtsu.edu/BERC

National conditions

- End of recession marked at June 2009 by the NBER.
 - Real GDP growing past four quarters, but at a slowing rate.
 - 2nd QTR growth of 1.7% not enough to have much impact on the unemployment rate.



Contributions to GDP growth previous four quarters

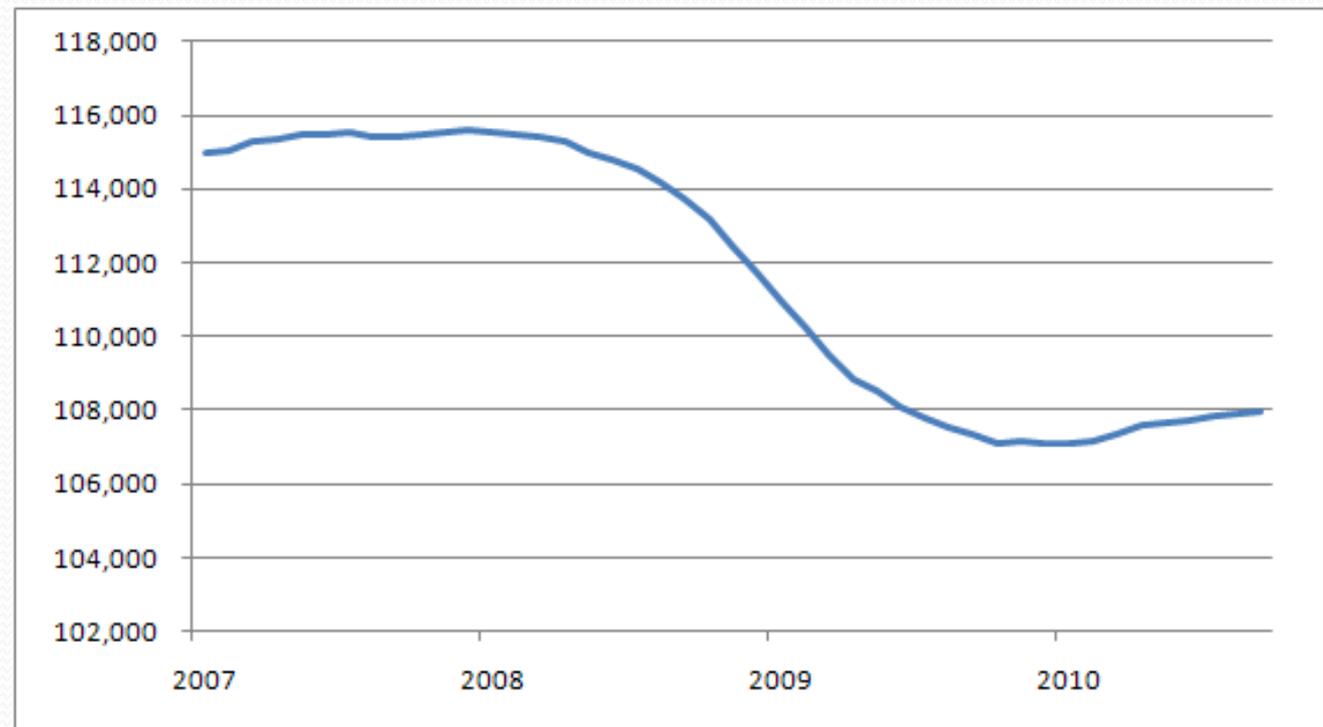


National conditions

- Employment growth very slow.
- Unemployment rate will decline only slowly.
- Savings rate high, up to 5.8%, up from 3% before the recession
 - Savings is income not spent
 - Debt reduction
 - Income set aside
 - More savings > less spending for a given level of income.

US private employment (thousands)

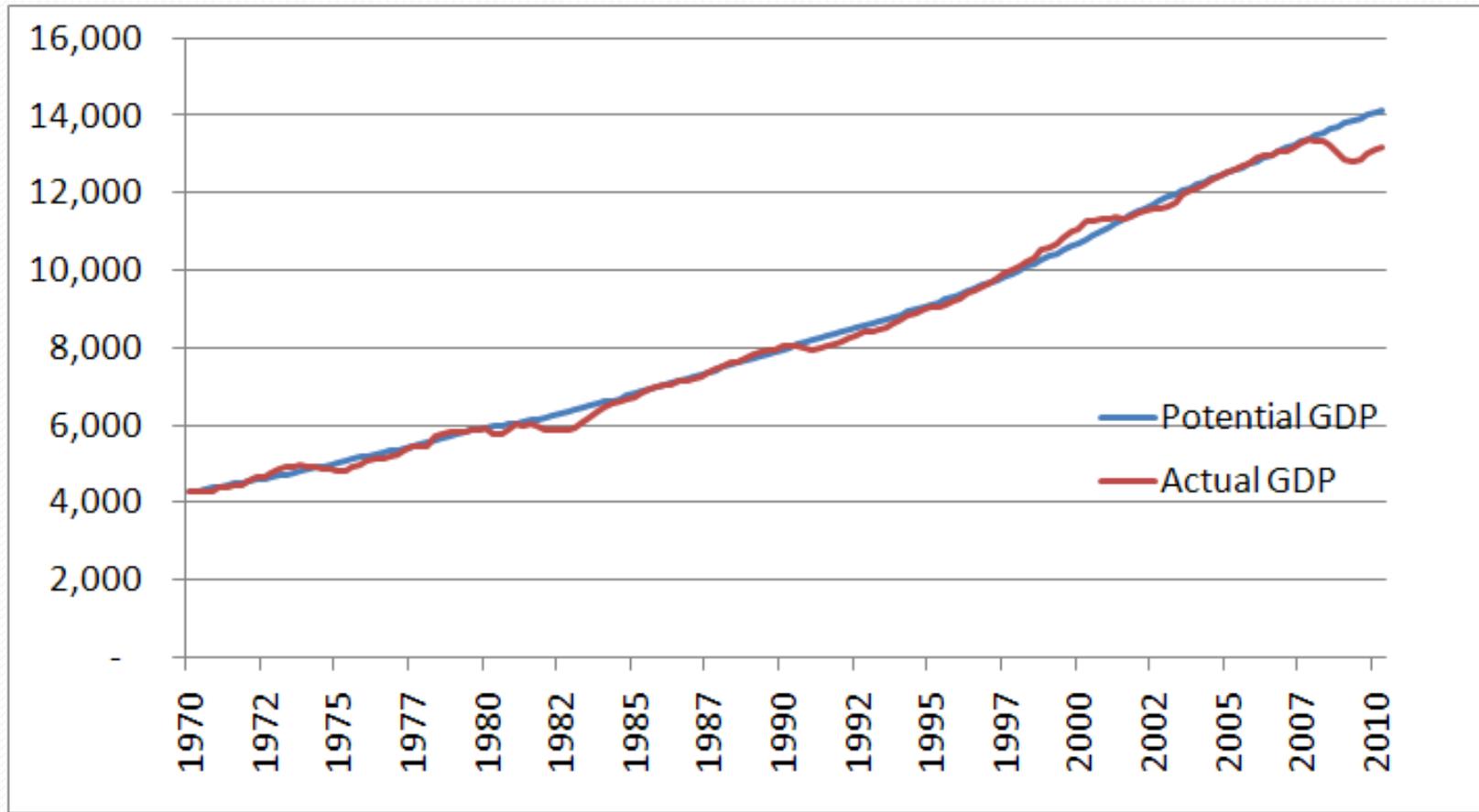
- Private sector is hiring, but very slowly.
- Employment growth just 0.8% Jan-Sept.



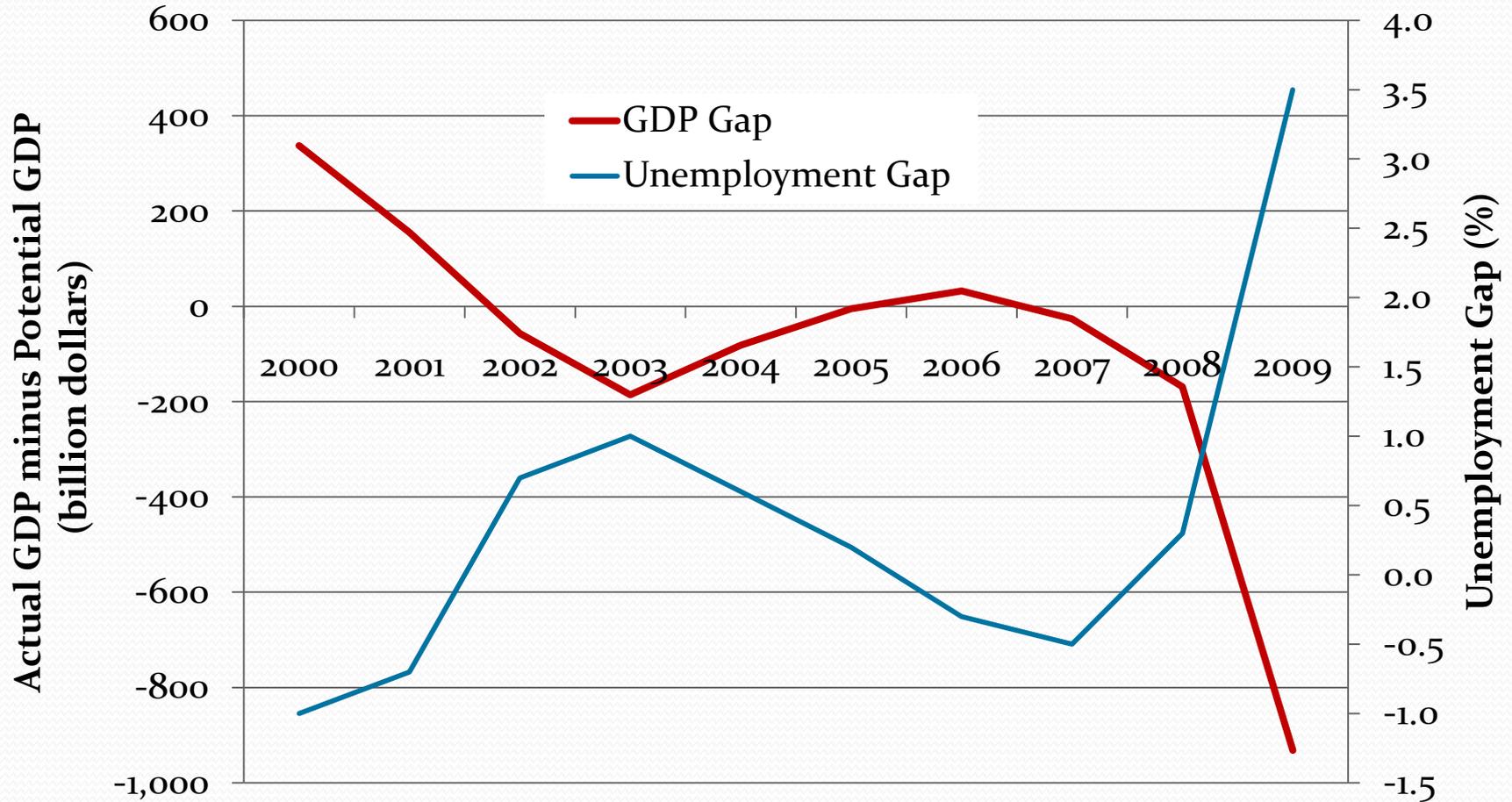
National conditions

- Gap between actual GDP and potential GDP is large:
 - 0.4% 2007 (-\$48 billion gap)
 - 6.5% 2010 (-\$921 billion gap)
- Inflation
 - 2.9% 2007
 - 0.6% 2010
- Most economists believe the GDP gap has strong influence on the inflation rate.
- Potential GDP growth: growth in hours worked + productivity growth.

GDP gap last 40 years



GDP gap and rising unemployment



Data: Congressional Budget Office

National conditions

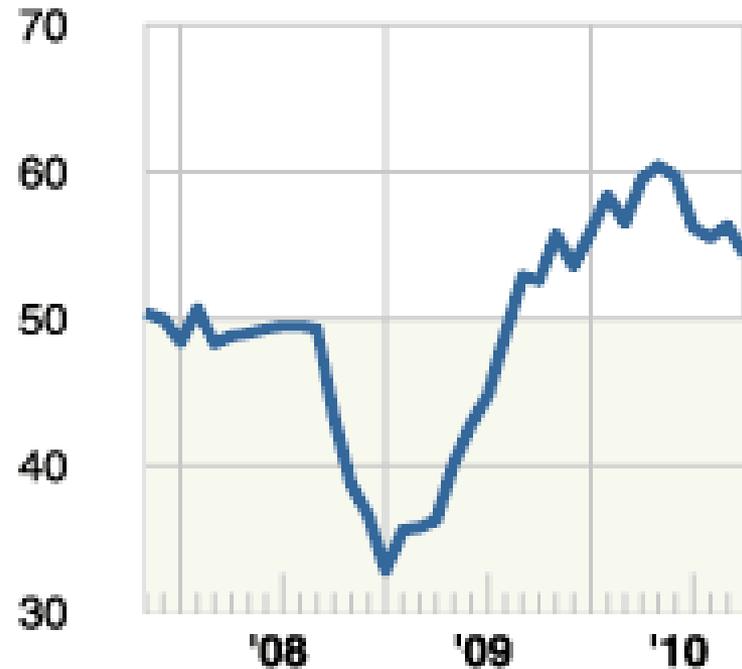
- Manufacturing expanding
 - 13th month of expansion.
 - Manufacturing employment up 130,000 Jan-Sept (+1%).
 - Rate of expansion has diminished.
 - Jobs returning will not be like the jobs lost.
 - Employers much more choosy.
 - Desire workers with more skills.

Manufacturing

- Still expanding, but not as fast.
- New orders, production are slowing.
- Employment growth slowing.

PURCHASING MANAGERS' INDEX

Reading above 50 indicates expansion in manufacturing activity



Source: Institute for Supply Mgmt.

Going Forward

- **Households, employers in a vicious cycle:**
 - Households won't spend more until job market improves.
 - Employers won't hire more until sales improve.
- **Will we miss the stimulus?**
 - Ends this summer.
 - Unless spending from households, capital investment, or exports step up, the economy will weaken when the stimulus goes away.

Going Forward

- **Deflation much bigger worry than inflation.**
 - Consequences of deflation:
 - Consumers put off purchases, expecting prices to fall further.
 - Borrowers must work harder to make loan payments.
 - Monetary policy becomes powerless.
 - Lending and spending spiral lower and lower as unemployment rises.
 - Japan's lost decade.

Nashville MSA

- Job creation mixed:
 - Household survey: growing
 - Employer survey: declining
- Unemployment rate improving.
- Housing construction down again, near recession low.
- Home prices declining more slowly.
- Consumers beginning to spend again.
- Some sectors are expanding.

Job growth (nonfarm yty August)

- Nashville: -0.5%
- Memphis: -1.9%
- Chattanooga: +1.3%
- Knoxville: +0.6%
- Tennessee: +0.4%
- United States: +0.2%

Job growth by sector for Nashville (state)

- Education and health services: +2.1% (+1.7%)
- Professional and business services: +3.3 (+4.5)
- Trade, transportation, utilities: -1.0 (-0.3)
- Manufacturing: -4.1 (+1.0)
- Construction: -5.1 (-4.2)
- Total nonfarm: -0.5 (+0.4)

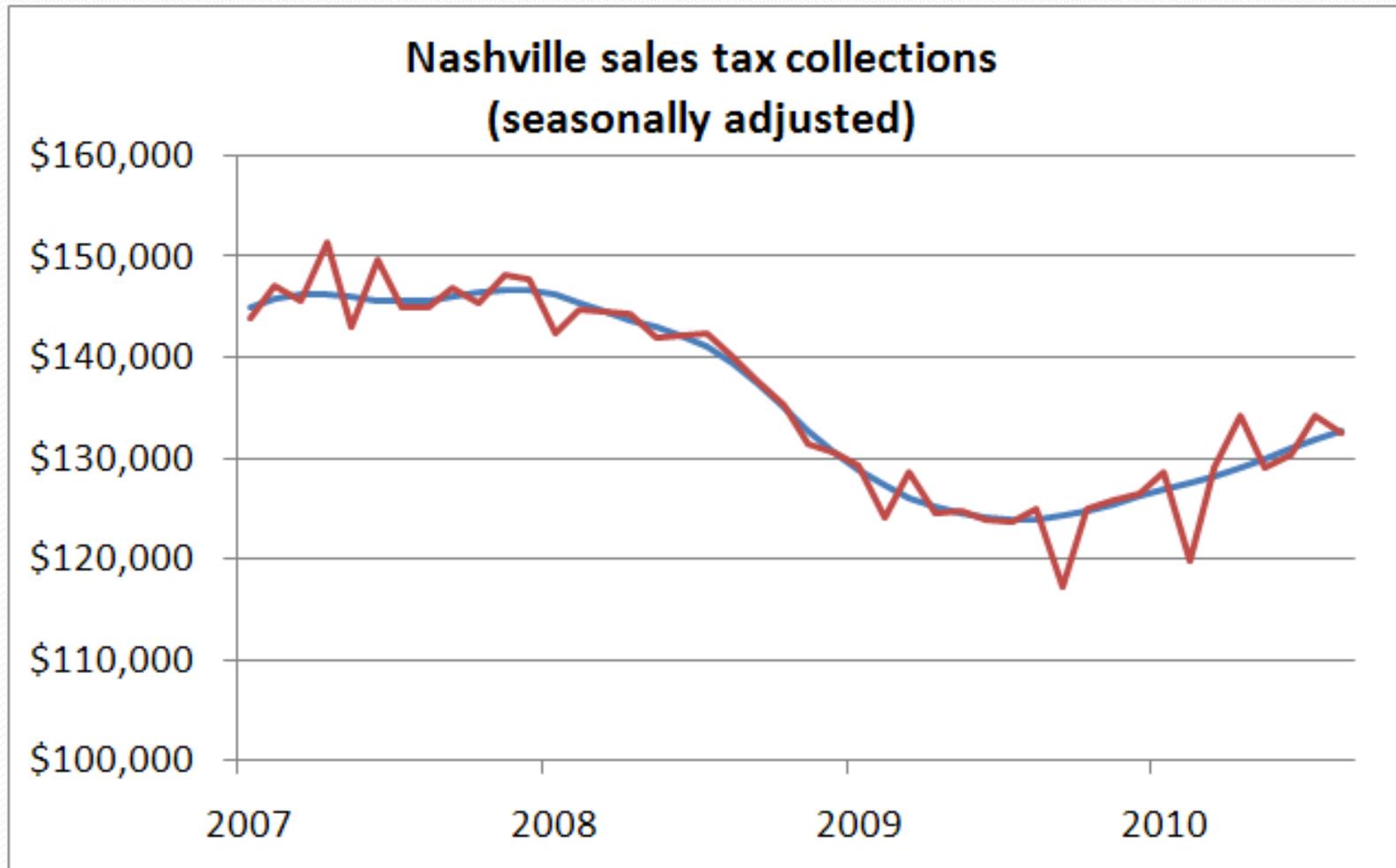
Loss of payroll jobs (peak-current)

- Nashville: -7.3% (-55,000)
- Memphis: -9.0% (-57,000)
- Chattanooga: -8.3% (-20,000)
- Knoxville: -4.4% (-14,000)
- Tennessee: -7.1% (-199,000)
- United States: -5.5% (-7,655,000)

Unemployment rates

	<u>Current</u>	<u>Year Ago</u>
Chattanooga MSA	8.7	9.7
Knoxville MSA	7.7	9.2
Memphis MSA	9.5	10.4
Nashville MSA	8.7	9.6
Tennessee	9.6	10.9

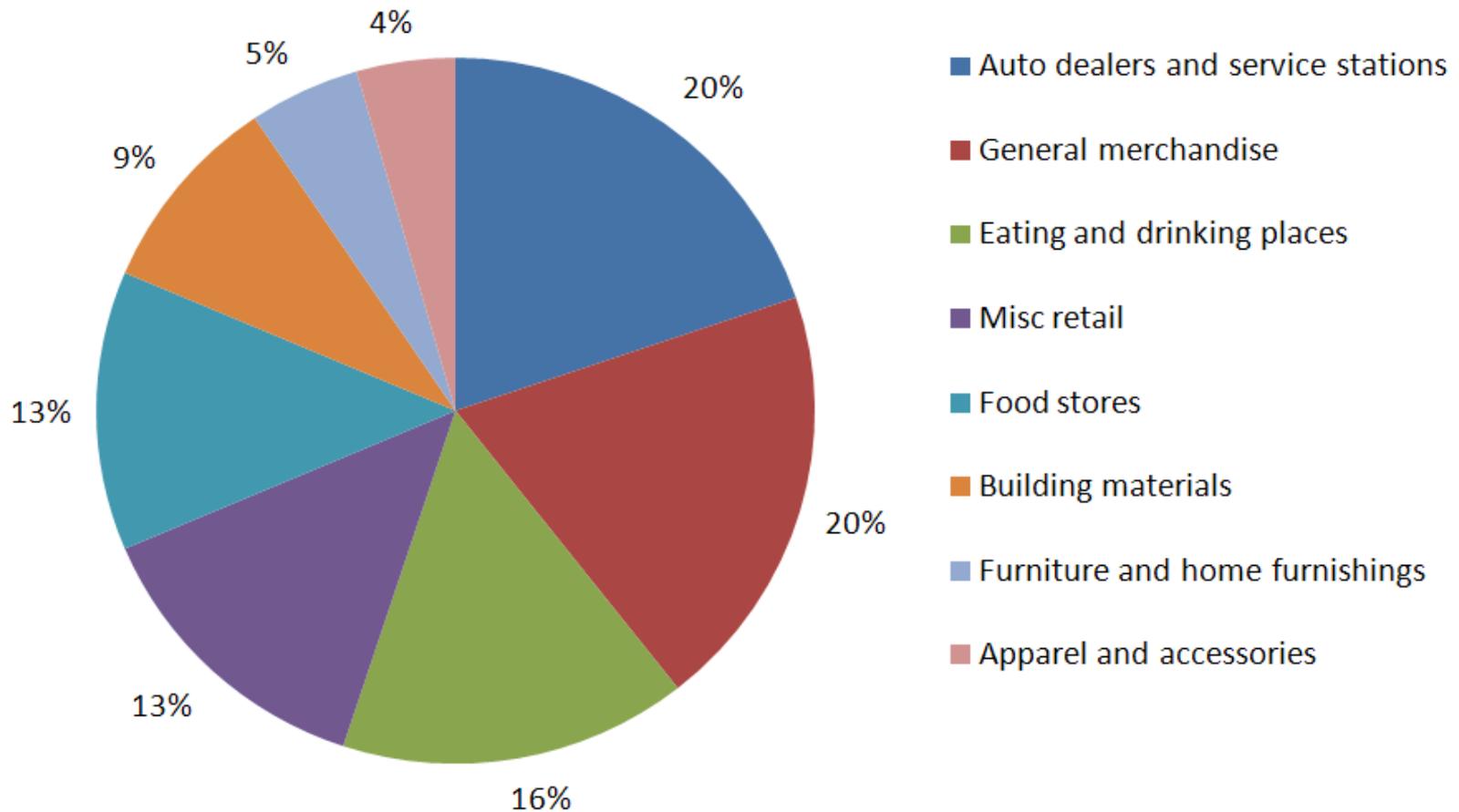
Consumers are spending more



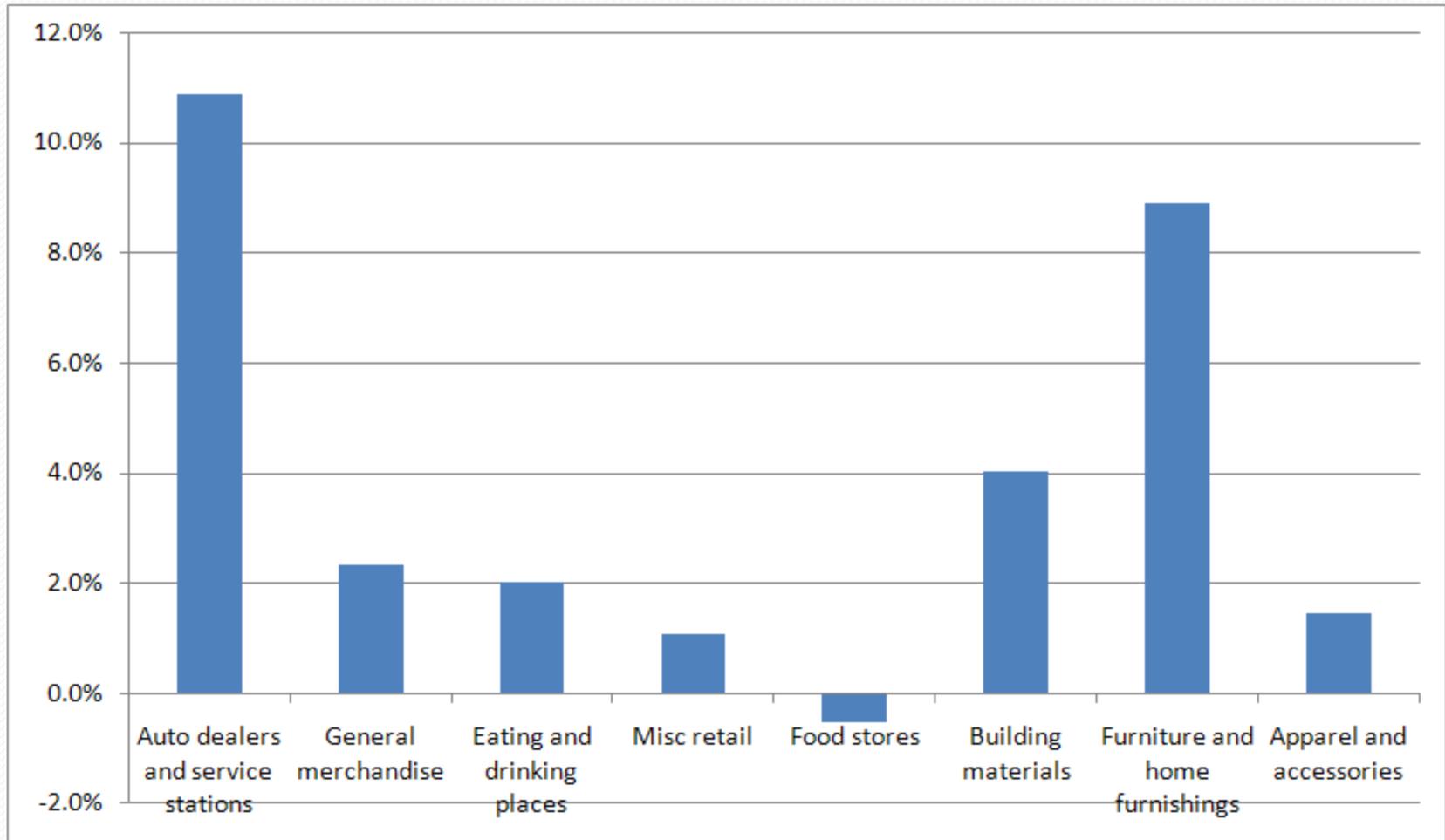
Consumer spending growing

- Sales tax collections for August (yty)
 - Nashville: +6.0%
 - Memphis: +4.9%
 - Chattanooga: +4.7%
 - Knoxville: +2.4%
 - Tennessee: +3.3%

Retail sales tax collections by category



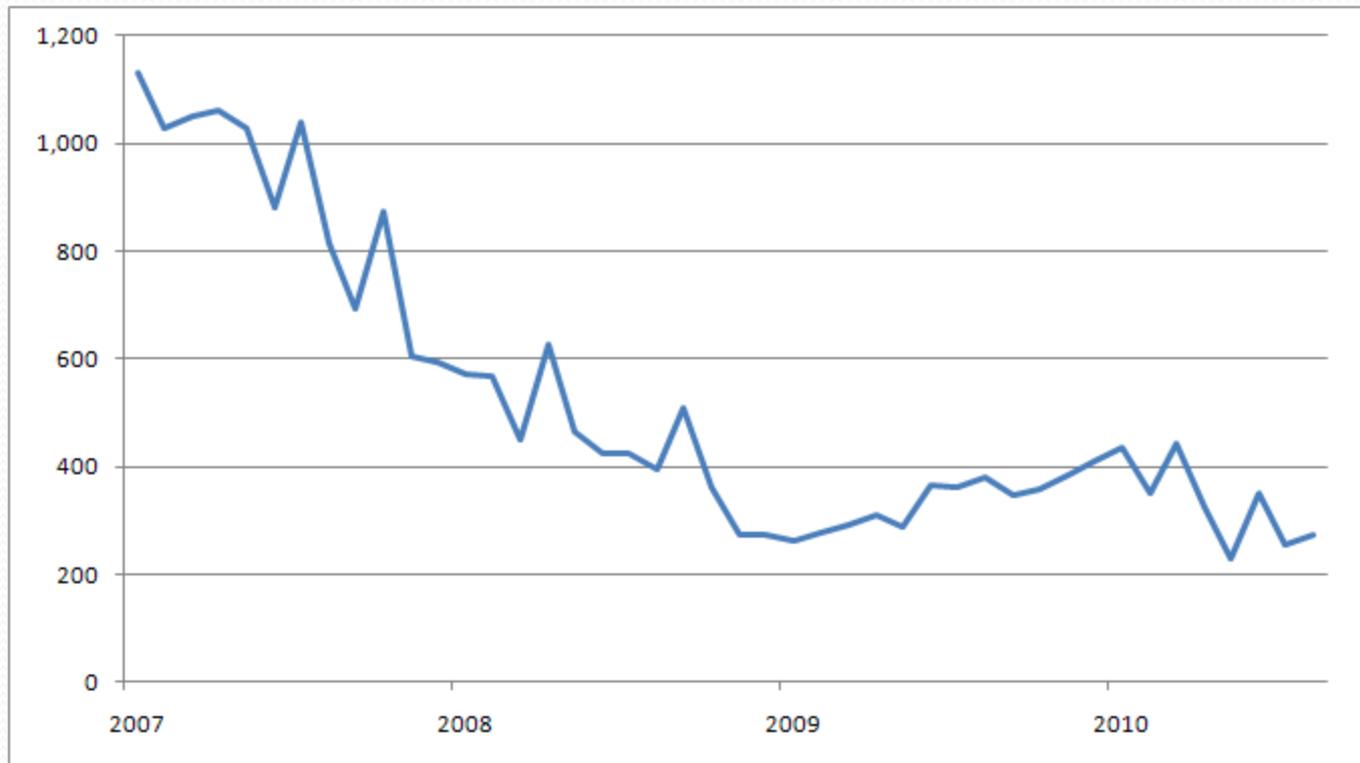
Sales tax collections growth (Statewide, yty Jun-Aug)



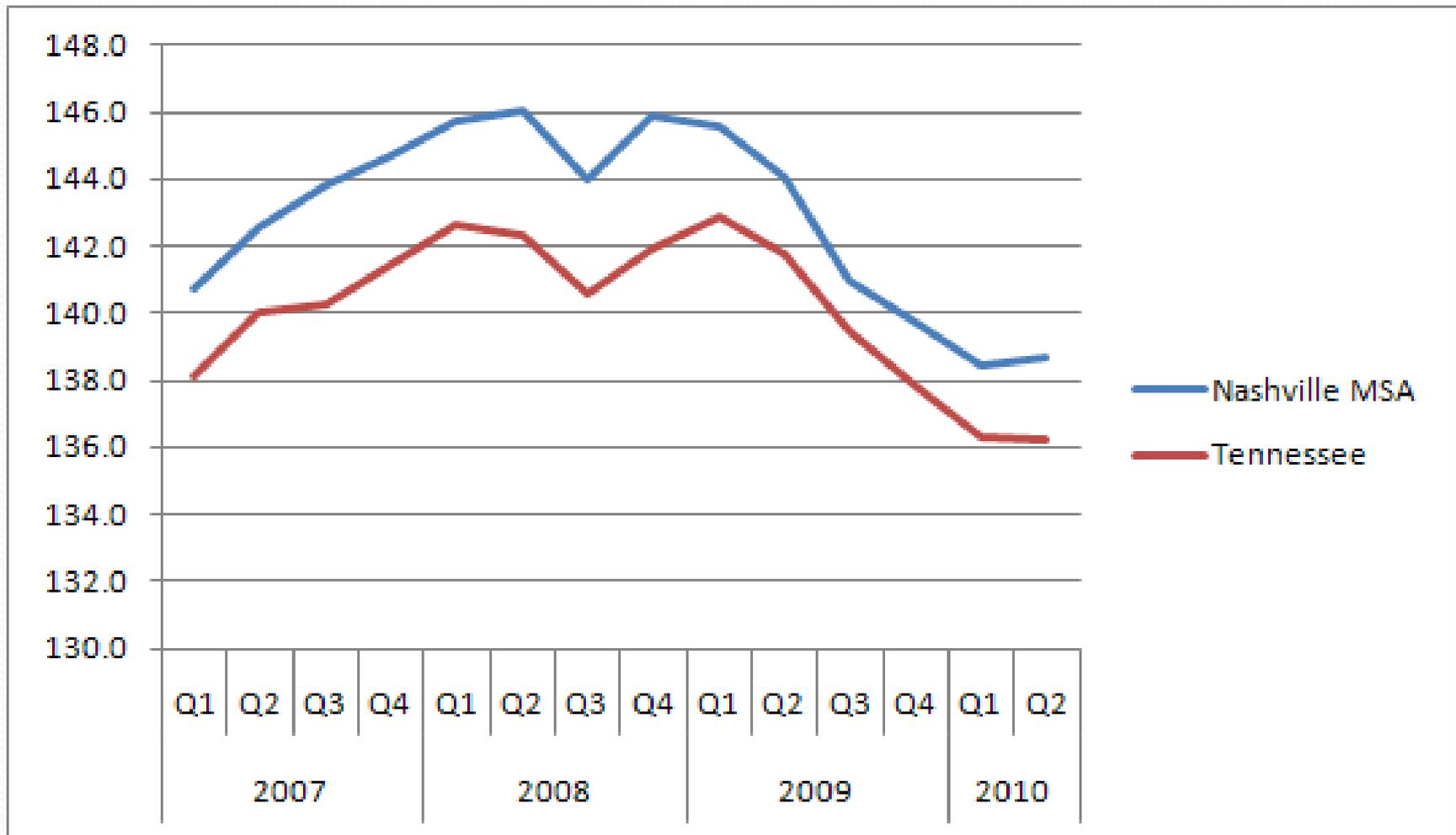
Nashville housing market

- Home buyer's tax credit stimulated activity through most of 2009.
- Final expiration in spring 2010 caused housing construction to plummet.
- Now at back down to lowest level of the recession.
- Home prices are closer to stability, but still down over the year.

Nashville single family permits



Nashville home prices (2000=100, HPI from FHFA.gov)

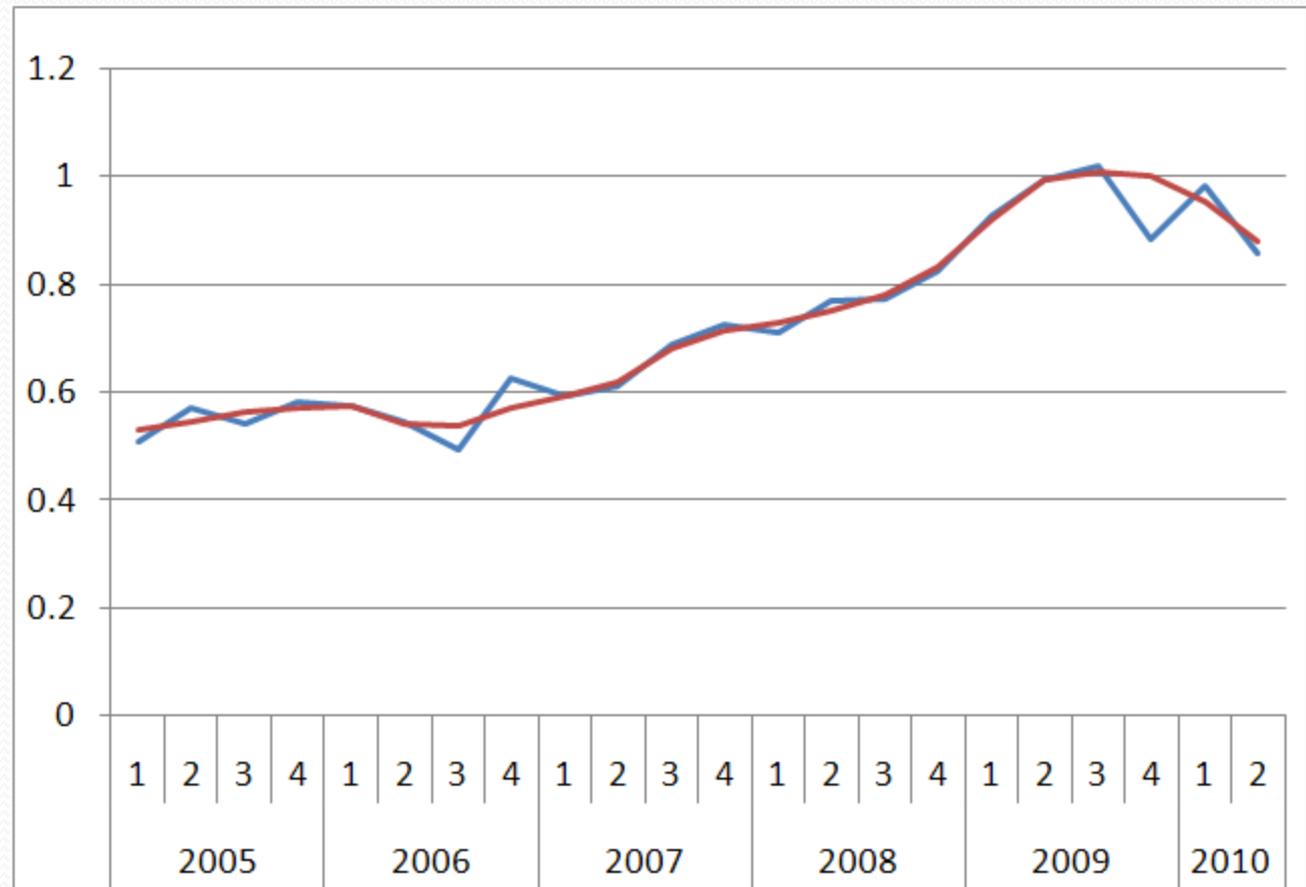


Nashville home prices

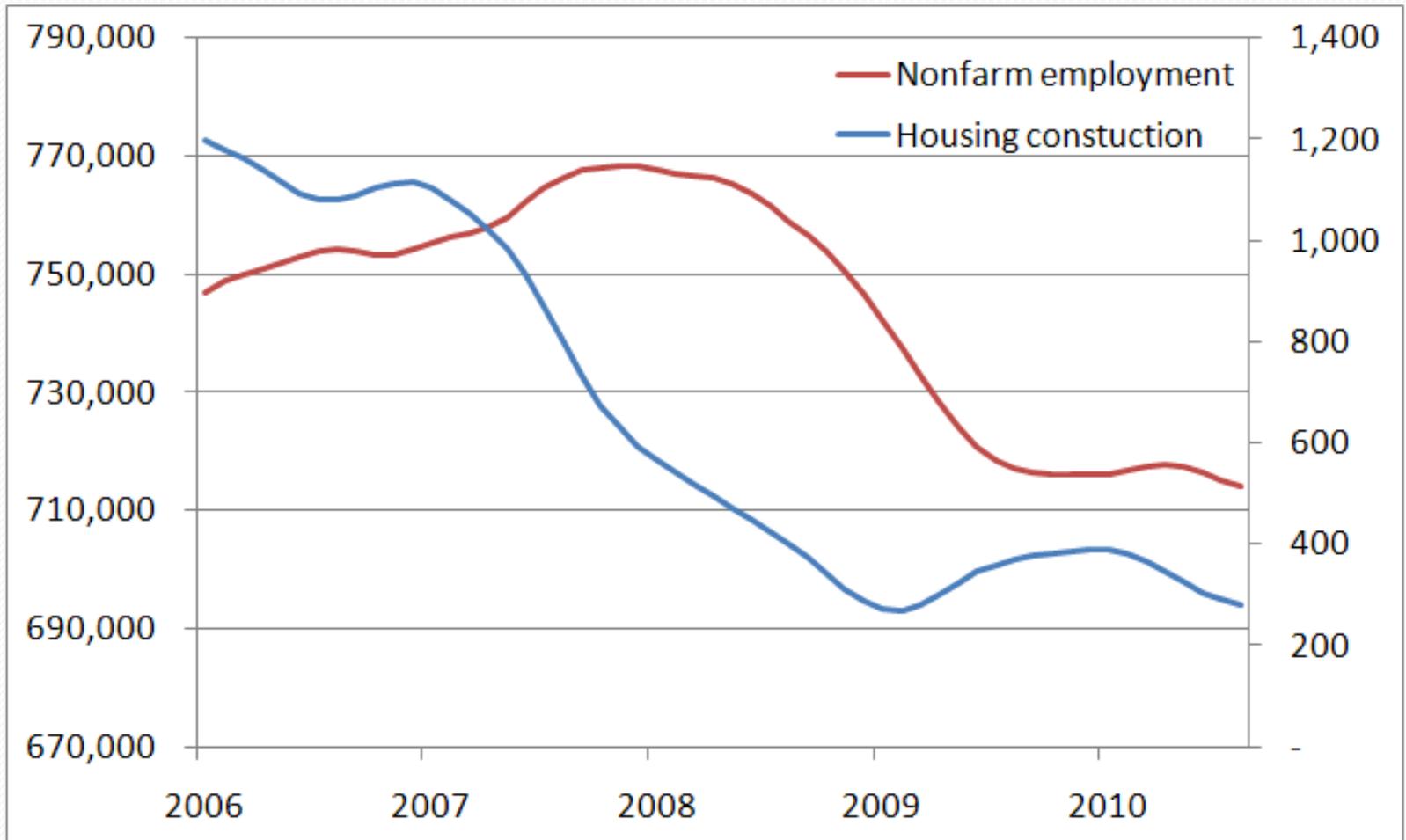
- Housing Price Index (HPI), produced by the Federal Housing Finance Agency (www.fhfa.gov).
- Repeat-sales index for sales and re-financings of the same properties.
- Single-family home mortgages that have been purchased or securitized by Fannie Mae or Freddie Mac.

Tennessee new foreclosures

- New foreclosures may have peaked.
- TN: 0.85%
- US: 1.20%
- Peak may be temporary.
- Source: MBAA



Housing construction leads employment



Tennessee Housing Market Report

- Produced by the Business and Economic Research Center for the Tennessee Housing Development Agency.
- Quarterly report summarizing housing construction and sales trends.
- Available online:
<http://frank.mtsu.edu/~berc/housingbrief.html>

Going Forward 12 Months

- Nashville economy (BERC)
 - Job growth 1.5% over the year (may be too aggressive).
 - Unemployment rate 7.9% (8.7% now).
 - Housing construction growth questionable.
 - Home prices flat (improvement).
- Presumes moderate US job growth.

Summary

- The patient has stabilized, but condition is guarded.
- Due to severity of trauma, a long period of recovery will be needed.
- Should guard against removing support systems too soon.

Recovery

- Full recovery of lost jobs will require 4-5 years of moderate growth.
- Jobs must replace lost jobs AND provide employment for growing labor force.
- Unemployment rate will be slow to improve.

Business and Economic Research Center

- Current and recent research contracts
 - TACIR economic recovery website
 - <http://frank.mtsu.edu/~berc/tacir/tacir.html>
 - Estimating medical care costs for southern and eastern Indian tribes
 - Cost-benefit analysis of new port at Cates Landing (received funding)
 - Quarterly report on Tennessee housing market (THDA)