Mid-State
Economic Indicators
Volume 8 No.1 Spring 1998
Includes data from 4th quarter 1997

One problem with having things too good is that it's hard to be optimistic about the future; things can easily be worse, or they may stay the same, but it's unreasonable to expect things to improve. That's pretty much the situation in Middle Tennessee today. We've had unprecedented growth in the 1990s, growth which used every available worker and then drew in thousands more from outside the region, growth which began to choke on itself as new workers could no longer be found for new jobs. Labor market tightness is created by a booming economy and works to cool that economy down.

During the fourth quarter of 1997 the number of employed persons in Middle Tennessee grew by 0.3% (Figure 1, Table 1); at this rate, the 41-county region should pass the one million mark right around the beginning of January 1999. Signs of labor market tightness continued, as the unemployment rate inched down, and the hourly wage and hours worked in manufacturing crept up. The number of layoffs (counted as initial claims for unemployment compensation) also fell, a sign that companies are trying to hang onto the workers they have. Employment gains between the fourth quarters of 1996 and 1997 (Table 2) were strongest in the finance and insurance sectors and in local government (primarily public school teachers). Sectors related to tourism and business travel (restaurants, bars, and hotels) also added a large number of jobs, a sign of vitality seconded by increases in hotel revenues and in the numbers of passengers at Nashville International Airport (Table 1). Most of the visitor-related growth is focused in Davidson County. The greatest weakness was in manufacturing, which shed nearly 2,000 positions over the year, with major reductions in sectors as disparate as furniture and apparel.

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Overall, despite continued labor market tightness, the data point to a future we can still be optimistic about: the Mid-State leading index rose 0.6% (Figure 1), a sign that the first two quarters in 1998 should be relatively healthy. n

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Figure 1. Mid-State Leading Index and Number of Employed Persons (Seasonally Adjusted)

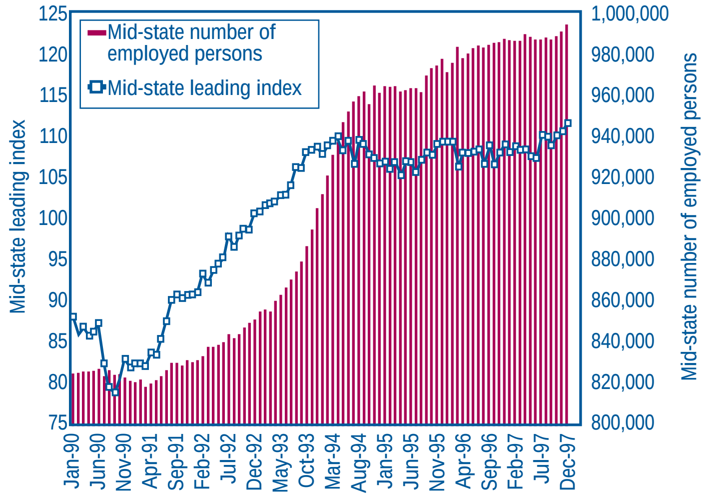

Table 2: Change in employment 1996Q4 to 1997Q4 (eight-county Nashville MSA)

Sector	Nashville 1997Q4	Nashville Change	Nashville % Change	USA % Change
Total	622,073	7,893	1.3%	2.3%
Construction & Mining	31,159	746	2.5%	3.3%
Manufacturing: Transportation Equipment	15,269	158	1.0%	3.3%
Manufacturing: Other Durable	39,512	-1,137	-2.9%	1.5%
Manufacturing: Printing and Publishing	14,380	166	1.2%	0.6%
Manufacturing: Other Nondurable	25,370	-1,106	-4.4%	-1.1%
Finance, Insurance, Real Estate	38,038	1,255	3.4%	2.3%
Transportation, Communications, Utilities	32,113	707	2.3%	3.5%
Wholesale: Total	37,120	526	1.4%	2.7%
Retail: Eating and Drinking	42,452	848	2.0%	1.5%
Retail: Food	13,045	-147	-1.1%	1.8%
Retail: General	16,246	-44	-0.3%	2.5%
Retail: Other	42,122	971	2.4%	2.9%
Services: Education	13,942	100	0.7%	4.0%
Services: Health	51,345	118	0.2%	2.3%
Services: Hotel	11,509	493	4.5%	2.2%
Services: Other	118,568	2,953	2.6%	4.2%
Government: Total	79,883	1,287	1.6%	1.1%

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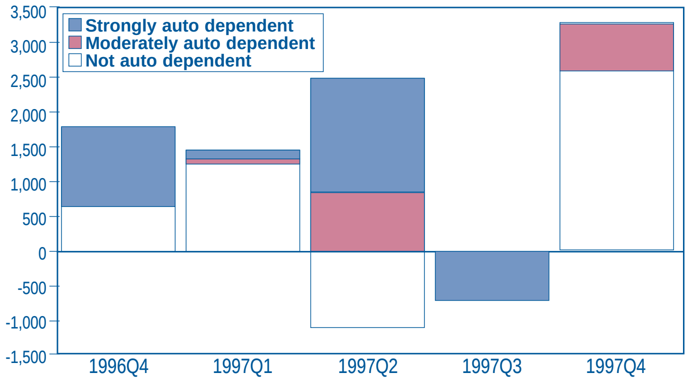
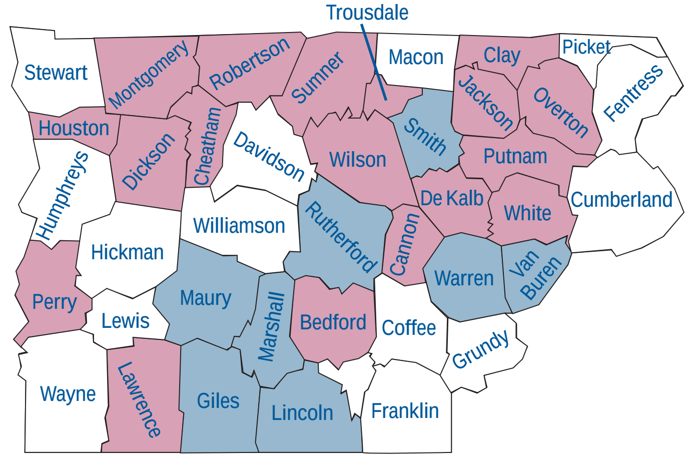
Figure 2. Mid-State quarterly change in number of employed persons (seasonally adjusted)





Automobiles and Light Trucks

What's happened to the Mid-State's once-invincible auto industry? In recent weeks a flood of news stories have exposed flagging sales, production slowdowns, and worker discontent at Saturn. Motorists have noticed an unusually large inventory of Nissan automobiles at Starwood. Are we on the verge of an auto recession?

Probably not, though Saturn and Nissan are facing some difficult times. Both companies have experienced declining U.S. sales for the models produced in Middle Tennessee. Saturn's seasonally adjusted quarterly sales figures have fallen below 60,000 vehicles, a level not seen since late 1993. Nissan's sales have also dropped to 1993 levels: hovering around 90,000 Mid-State-produced cars and light trucks per quarter.

So far, no workers have been laid off at the two assembly plants. However, overtime at Saturn has dropped, and vendor plants have almost certainly trimmed payrolls in response to diminished orders. The initial effects of reduced payrolls will be felt most strongly in those counties with a large share of employment in factories supplying the auto industry (see Map). For Middle Tennessee as a whole, about 7% of all workers are in auto-related manufacturing; in the key counties of Rutherford and Maury, the figures are about 16% and 29%, respectively. During the last half of 1997, the strongly auto-dependent counties showed the weakest employment growth (see Chart attached to Map).

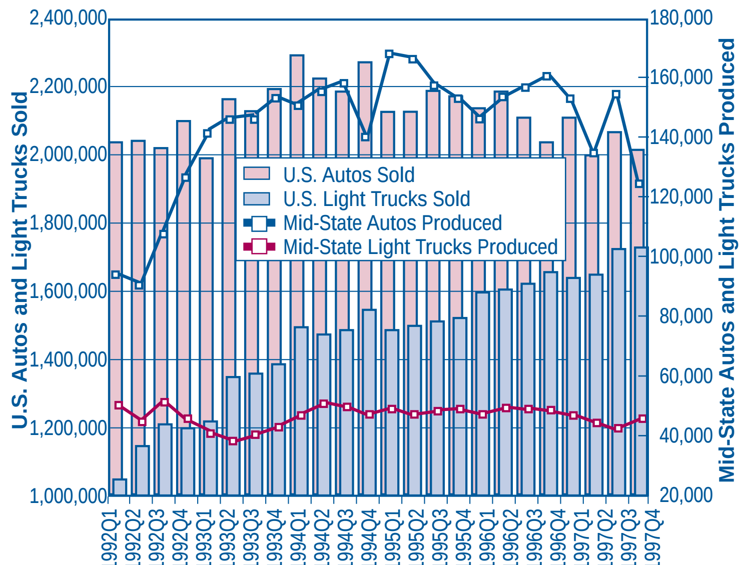
Product mix is everything for an auto plant. Regardless of overall conditions in the national economy, an auto plant will prosper if the models it produces are in demand. During the national recession of 1990-1991, Nissan and Saturn produced reliable, inexpensive, fuel-efficient automobiles, much sought after by cautious consumers. Today, however, consumers are not interested in fuel-efficient, inexpensive automobiles: they want light trucks, especially sports utility vehicles. (Figure 3). One light truck is produced locally: Nissan's Frontier. However, virtually all of the growth in Mid-State motor vehicle production since 1991 has been in cars; the level of light truck production has experienced almost no change.

Nissan has plans to change its product mix. The company will shift all production of the Sentra to its Mexico plant, where the cars are already being produced. In 1997, Sentras made up about 22% of the Smyrna plant's output, nearly 90,000 cars. The freed-up space in Smyrna will be used for a sports utility vehicle.

Over the next few years, barring a recession or dramatic rise in gasoline prices, demand for small cars should stay low.

Saturn is a different story. The production line produces only small cars. The company plans to manufacture a medium-sized car in Delaware, apparently finding it too difficult to introduce a separate line for larger cars or small trucks in Spring Hill. This is not good news for Middle Tennessee. Over the next few years, barring a recession or dramatic rise in gasoline prices, demand for small cars should stay low. Further, the dollar is gaining strength, so that cars produced in Japan, and especially Korea, are much cheaper for U.S. consumers. Stiffened competition from East Asian small car producers will only make the going tougher for Saturn. (Dr. Steve Livingston discusses the effect on Tennessee of the East Asia crisis in the latest issue of Global Commerce, available on-line at http://www.mtsu.edu/~berc.) n

Figure 3. Autos and Light Trucks: U.S. Sales and Mid-State Production (Seasonally Adjusted, Quarterly)



Real Estate

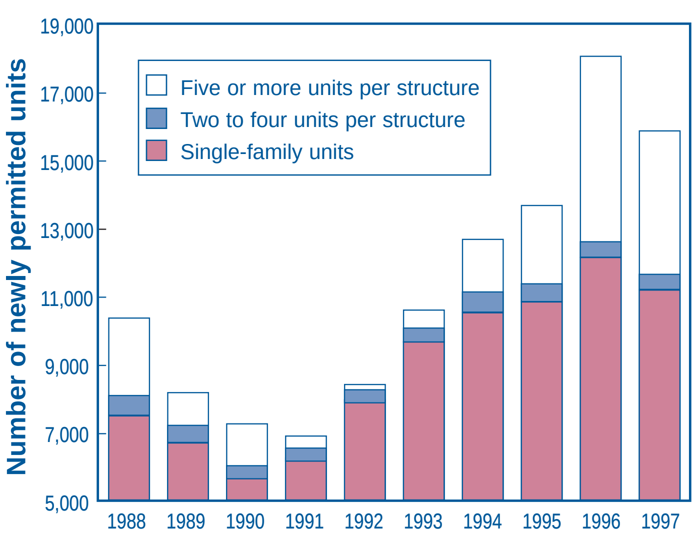
The big year for Nashville-area residential construction was 1996 (Figure 4). In 1997, the number of newly permitted residential units fell for both single-family and multifamily structures. The number of new units in multifamily structures dropped from 5,816 in 1996 to 4,694 in 1997; new single-family homes fell from 12,255 to 11,247.

The decline in multifamily units was strongest in Rutherford County (Table 3), where the number of newly permitted units fell 1,260. Large numbers of college students have long made for a strong rental market in Murfreesboro, which attracted a large amount of investment in 1996. Since then, bankers and developers have proceeded more cautiously, in order to avoid the specter of overbuilding. Metro-Nashville added more multifamily units in 1997 than the rest of the 10-county region combined. Other strong areas were Franklin (actually the high-end apartments around Cool Springs), Clarksville, and Maury County.

About 18% of all new single-family homes in the 10 core counties are built in Metro-Nashville, with little change from 1996 to 1997 (Table 4). Wilson and Dickson Counties also stayed relatively unchanged. Rutherford adds more homes than any other county, but the numbers fell from 2,641 in 1996 to 2,194 in 1997. The largest declines were seen in Murfreesboro and Smyrna. Growth also slowed substantially in Montgomery and Robertson Counties, with smaller declines in Williamson and Maury; Cheatham and Sumner Counties showed fairly strong growth.

The decline in residential construction is neither a surprise nor a tragedy — not a surprise, since the force fueling home construction was the immigration of new residents attracted by the region's strong economy, and as the economy elsewhere in the U.S. began to improve, workers found less reason to pull up stakes and move to Middle Tennessee; and not a tragedy, since the level of activity is still very strong: 1997 is the second-biggest year in the 10 years from 1988 to 1997. As long as interest rates remain low, the region will continue to share in the general national boom in home construction. n

Figure 4. Newly permitted units in the 10 core counties of Middle Tennessee



As long as interest rates remain low, the region will continue to share in the general national boom in home construction.

Table 3: Multifamily Units Permitted in 1996 and 1997

Permit-Issuing Place	Multifamily Units 1996	1997	change
Cheatham-Ashland City	7	7	0
Cheatham-Kingston Springs	0	34	34
Cheatham-Pegram	0	10	10
Cheatham-Other	4	2	-2
Davidson-Goodlettsville	266	0	-266
Davidson-Nashville	2,086	2,855	769
Dickson	18	29	11
Maury	50	264	214
Montgomery-Clarksville	366	338	-28
Montgomery-Other	12	2	-10
Robertson-Greenbriar	28	15	-13
Robertson-Springfield	15	17	2
Robertson-White House	4	0	-4
Robertson-Other	3	2	-1
Rutherford-LaVergne	13	0	-13
Rutherford-Murfreesboro	1,073	246	-827
Rutherford-Smyrna	438	20	-418
Rutherford-Other	2	0	-2
Sumner-Gallatin	6	10	4
Sumner-Hendersonville	85	4	-81
Sumner-Portland	8	12	4
Sumner-Other	35	45	10
Williamson-Franklin	602	589	-13
Williamson-Other	200	0	-200
Wilson-Lebanon	170	160	-10
Wilson-Mt. Juliet	145	0	-145
Wilson-Other	180	33	-147
10-County Total	5,816	4,694	-1,122

Table 4: Single-Family Units Permitted in 1996 and 1997

Permit-Issuing Place	Single-Family Units 1996	1997	change
Cheatham-Ashland City	19	14	-5
Cheatham-Kingston Springs	48	73	25
Cheatham-Pegram	48	31	-17
Cheatham-Other	356	389	33
Davidson-Belle meade	3	9	6
Davidson-Forest Hills	14	15	1
Davidson-Goodlettsville	86	61	-25
Davidson-Nashville	2,062	2,076	14
Davidson-Oak Hills	10	7	-3
Davidson-Other	5	14	9
Dickson	285	288	3
Maury	807	759	-48
Montgomery-Clarksville	908	756	-152
Montgomery-Other	510	389	-121
Robertson-Greenbriar	158	114	-44
Robertson-Springfield	115	112	-3
Robertson-White House	190	200	10
Robertson-Other	432	189	-243
Rutherford-LaVergne	369	340	-29
Rutherford-Murfreesboro	897	642	-255
Rutherford-Smyrna	327	219	-108
Rutherford-Other	1,048	993	-55
Sumner-Gallatin	120	134	14
Sumner-Hendersonville	460	439	-21
Sumner-Portland	91	202	111
Sumner-Other	381	369	-12
Williamson-Brentwood	281	186	-95
Williamson-Franklin	648	713	65
Williamson-Other	670	605	-67
Wilson-Lebanon	132	144	12
Wilson-Mt. Juliet	166	149	-17
Wilson-Other	552	553	1
10-County Total	12,255	11,247	-1,008

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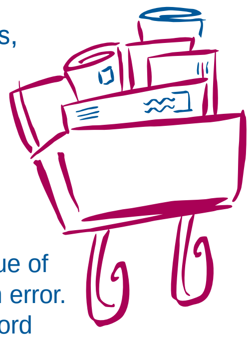
If you have any questions, comments, or suggestions, please let us know!



Feedback

Matt Ward of Murfreesboro writes and wonders whether the Winter 1997 issue of *Mid-State Economic Indicators* has an error. Average 1996 household income for Rutherford County was only $20,912, well below that of other counties.

Matt, these data come from the IRS, which assures us there is no mistake. We can offer two explanations: many Rutherford County households consist of students, who have low incomes; and there may have been one or more very wealthy Rutherford County residents who reported large losses in 1996, which would have pulled down the county average.

John W. Logan of Nashville suggests a number of topics for future editions. Among these are: commuting patterns, the effects of low taxes in attracting businesses, and the role of universities in fomenting economic growth. John, thanks for these suggestions; we are already pulling together data for a discussion of commuting and public transit.

Table 1.

Series (adjusted for seasonality and inflation)	Geographical Area	96Q4	97Q3	97Q4	97Q3-97Q4
COMPOSITE INDICES					
Mid-State Leading Index	Mid-State (41 Counties)	100.00	101.79	102.44	0.6%
U.S. Leading Index	United States	100.00	101.36	101.75	0.4%
EMPLOYMENT					
Mid-State Number of Employed Persons	Mid-State (41 Counties)	984,044	986,548	989,186	0.3%
Mid-State Unemployment Rate	Mid-State (41 Counties)	5.0%	4.8%	4.6%	-5.0%
Percent of Sectors with Employment Increase for Month	Nashville MSA (8 counties)	44%	56%	41%	-26.8%
Percent of Counties with Employment Increase for Month	Mid-State (41 Counties)	41%	66%	44%	-33.3%
Average Hours Worked per Week in Manufacturing	Nashville MSA (8 Counties)	40.49	41.27	41.69	1.0%
Average Pay per Hour in Manufacturing	Nashville MSA (8 Counties)	12.37	12.74	12.85	0.9%
INITIAL CLAIMS AND BANKRUPTCY					
Initial Claims for Unemployment Compensation	Mid-State (41 Counties)	39,298	32,622	30,096	-7.7%
Bankruptcy Case Filings	Mid-State (41 Counties)	3,183	3,118	3,036	-2.6%
REAL ESTATE					
Occupancy Index	Mid-State (41 Counties)	97.97%	98.56%	98.48%	-0.1%
New Residential Units (permits)	Mid-State (41 Counties)	4,483	4,362	3,906	-10.4%
Value of New Residential Units (million $)	Mid-State (41 Counties)	434.5	391.9	360.4	-8.0%
AUTOMOBILE PRODUCTION					
Autos Assembled in United States	United States	2,897,398	3,012,960	3,164,690	5.0%
Autos Assembled in Mid-State	Mid-State (41 Counties)	203,328	182,636	155,166	-15.0%
Units Sold: Autos Assembled in Mid-State	United States	195,535	178,269	178,475	0.1%
TOURISM					
Hotel Revenue	Davidson County	93,994,916	95,889,603	101,361,792	5.7%
Air Passengers	Davidson County	1,753,949	1,935,495	1,961,940	1.4%
INCOME, EARNINGS, AND RETAIL SALES					**96Q4-97Q3**
Retail Sales (millions of $ per quarter)	Mid-State (41 Counties)	4,422	4,621		4.5%
Total Personal Income (annual billion $)	Mid-State (41 Counties)	45.0	46.7		3.7%