

## Nashville MSA turns in first quarter of job losses since 1991

by E. Anthon Eff

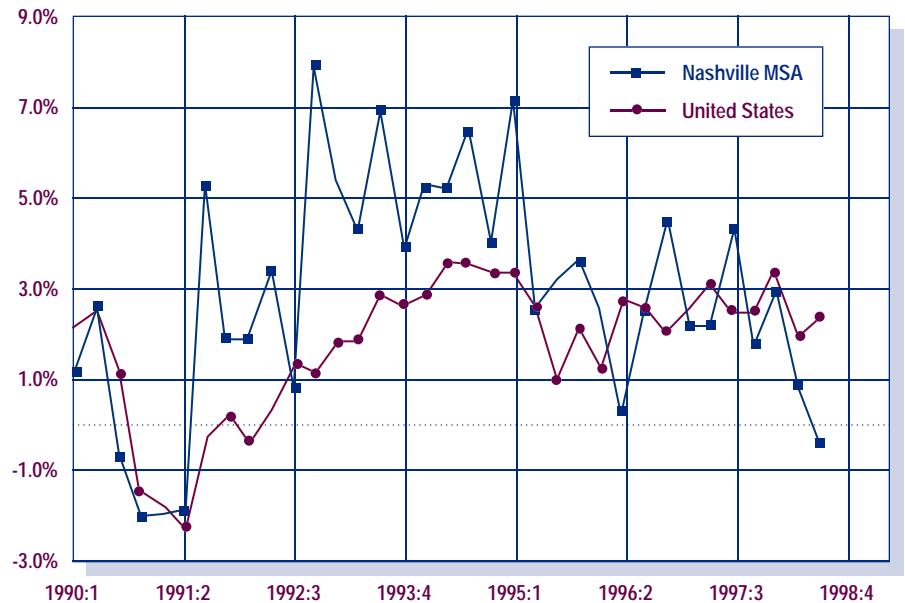
The tone of recent economic forecasts has oscillated between the dire and the sanguine. Small wonder—with markets seesawing, investors stampeding, consumer confidence plummeting and just as abruptly rebounding, it is difficult to make sense of the shifting economic landscape.

The third quarter was trying for Middle Tennessee, with the Nashville MSA turning in its first quarter of job losses since 1991 (Figure 1). However, most signs suggest that the next few quarters should show significant gains: the midstate leading index shows unusual strength (Figure 2), and employment forecasts for the Nashville and Chattanooga MSAs (Table 2) indicate a fairly strong rebound.

Automobile manufacturing continues to account for much of the weakness in midstate employment growth. Weak sales by Saturn and Nissan have stifled output in the region's broad auto components industry and chopped overtime pay at the two assemblers. As a result, one of the region's growth engines has throttled back—auto workers are spending less, and vendor firms have laid off employees. Nevertheless, recent figures show that the worst may be over: production (adjusted for seasonal changes) bottomed out in the second quarter, rising in the third (Table 1).

Business travel and tourism figures also remain weak. Nashville hotel revenue declined again in the third quarter, accompanied by a small decline in air passengers. Davidson county, with about 80 percent of midstate hotel employment, represents the bulk of the region's tourism industry. The tourism slump can be primarily attributed to the closing of Opryland,

Figure 1: Job Growth Rates (One Quarter Seasonally Adjusted Annual Rate): Nashville MSA and U.S. (Establishment Survey)

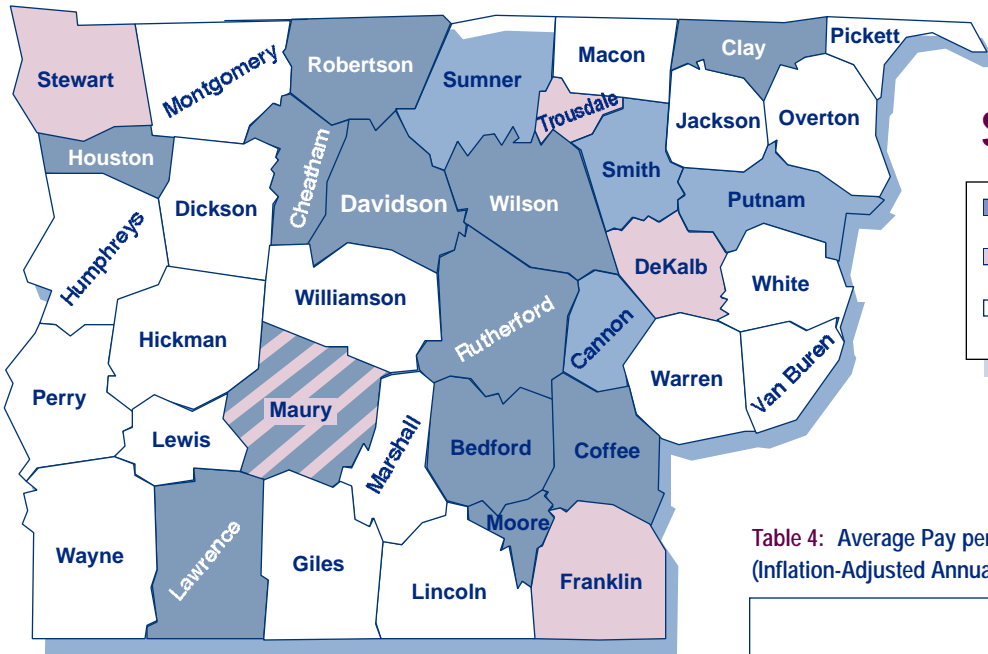


Automobile manufacturing continues to account for much of the weakness in midstate employment growth; tourism figures also remain weak.

but other factors also play a role. These include a general malaise in country music, and the strength of the dollar, which has allowed many U.S. residents who might otherwise have vacationed in Nashville to choose overseas travel. However, the picture is not uniformly gloomy: job growth continues in restaurants and bars, and Southwest Airlines seems intent on expanding its presence at the Nashville airport.

Construction employment increased sharply in the third quarter. About one-third of midstate construction jobs are in residential

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## Sources of Wage Growth

- Employment shifts toward lower-paying sectors
- Average wages decline in existing sectors
- Both wage and employment shifts contributing to higher average income

**Table 2: Forecast Unemployment and Job Growth**

	Actual			Forecast		
	'97Q4	'98Q1	'98Q2	'98Q3	'98Q4	'99Q1
<b>Unemployment Rate</b>						
Middle Tennessee	5.0%	4.4%	4.2%	3.7%	3.5%	3.7%
East Tennessee	5.4%	5.0%	4.7%	4.1%	4.3%	4.4%
West Tennessee	5.6%	4.9%	5.1%	4.6%	4.7%	4.8%
Tennessee	5.3%	4.8%	4.6%	4.1%	4.1%	4.2%
<b>Job Growth: One Quarter SAAR</b>						
Nashville MSA	1.7%	3.0%	0.8%	-0.5%	1.3%	4.1%
Chattanooga MSA	0.6%	2.3%	-0.4%	-0.3%	1.8%	3.4%
Tennessee	0.9%	3.0%	0.2%	0.4%	1.5%	4.7%
<b>Job Growth: Four Quarter SAAR</b>						
Nashville MSA	2.6%	2.8%	2.4%	1.2%	1.1%	1.4%
Chattanooga MSA	-0.1%	0.7%	0.3%	0.5%	0.8%	1.1%
Tennessee	2.2%	2.5%	1.9%	1.1%	1.3%	1.7%

Sources: Bureau of Labor Statistics; MTSU  
SAAR=Seasonally Adjusted Annual Rate

**Table 4: Average Pay per Job in Midstate Counties: '94Q1 to '98Q1 (Inflation-Adjusted Annual Rate)**

County	% Change in Pay per Job: '94Q1-'98Q1				
	% Change in # Jobs: '94Q1-'98Q1	Average Pay per Job: '94Q1	Total % Change	Portion Due to Change in Pay	Portion Due to Shift of Jobs Among Sectors
Bedford	21%	21,951	2.4%	4.8%	-2.3%
Cannon	-2%	16,357	13.9%	8.8%	5.1%
Cheatham	17%	22,420	-0.1%	0.0%	-0.1%
Clay	-41%	16,251	16.7%	17.7%	-1.0%
Coffee	2%	23,222	1.6%	2.5%	-1.0%
Cumberland	24%	18,640	11.1%	11.4%	-0.2%
Davidson	13%	27,854	10.9%	12.2%	-1.3%
Dekalb	-4%	18,857	6.2%	-0.8%	7.1%
Dickson	35%	20,707	10.5%	5.4%	5.0%
Fentress	-4%	14,701	13.0%	10.4%	2.6%
Franklin	24%	19,135	4.6%	-1.7%	6.3%
Giles	9%	22,188	10.2%	9.2%	1.0%
Grundy	11%	14,087	11.1%	13.4%	-2.3%
Hickman	1%	18,446	11.6%	11.3%	0.3%
Houston	-6%	17,785	3.6%	18.2%	-14.6%
Humphreys	1%	26,641	9.1%	5.9%	3.3%
Jackson	13%	17,238	10.9%	5.4%	5.5%
Lawrence	1%	20,315	1.0%	3.2%	-2.1%
Lewis	-18%	18,633	10.5%	7.2%	3.3%
Lincoln	-4%	18,665	11.1%	5.7%	5.4%
Macon	-13%	18,703	2.9%	2.1%	0.8%
Marshall	8%	22,120	7.1%	4.0%	3.1%
Maury	12%	35,932	-8.6%	-4.6%	-4.0%
Montgomery	22%	19,539	8.6%	6.2%	2.4%
Moore	4%	23,969	1.0%	10.1%	-9.1%
Overton	12%	16,759	17.1%	5.9%	11.2%
Perry	22%	18,856	8.8%	7.2%	1.6%
Pickett	-9%	13,834	15.1%	5.2%	9.9%
Putnam	7%	19,373	12.4%	10.0%	2.4%
Robertson	18%	19,737	10.6%	13.6%	-2.9%
Rutherford	24%	28,904	-4.6%	1.5%	-6.1%
Smith	11%	19,823	18.9%	9.2%	9.7%
Stewart	-31%	25,165	4.2%	-7.8%	12.0%
Sumner	10%	22,462	10.8%	10.0%	0.8%
Trousdale	-28%	16,217	18.5%	-1.6%	20.1%
VanBuren	-12%	19,637	24.2%	16.5%	7.6%
Warren	11%	21,093	21.1%	9.6%	11.6%
Wayne	-7%	15,225	11.3%	1.2%	10.1%
White	3%	18,212	17.3%	13.7%	3.6%
Williamson	43%	26,040	16.4%	11.5%	4.9%
Wilson	13%	21,204	22.5%	23.9%	-1.4%
Overall Midstate	14%	25,281	9.0%	9.1%	0.0%

Sources: Tennessee Department of Employment Security; MTSU

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construction. Low mortgage rates keep home construction at a fairly high level, though slippage in the number of newly issued building permits suggests some cooling in future months. This is consistent with what appear to be slackening home sales, especially in Davidson County.

## Retail

With much of the global economy in disarray, U.S. consumers are playing a key role in keeping demand high, both for domestic and foreign products. This has set business pundits scratching their heads; how much demand can one expect from these consumers? Are they constrained by debt and income from further increases in spending?

At the midstate level, retail sales figures provide the best data on consumption. Figure 3 shows that inflation-adjusted retail sales per person have consistently increased since 1992; periods of greatest growth have been characterized by substantial increases in the share of income spent on retail. The fact that retail's share of income currently lies well below historic highs suggests that there is little reason to be concerned about debt and income constraints on retail sales growth.

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**Table 3: Change in Employment 1998Q2 to 1998Q3 (Eight-County Nashville MSA)**

Sector	Nashville MSA 1998Q3	Nashville MSA Change	Nashville MSA % Change*	USA % Change*
Total	636,553	-754	-0.5%	2.4%
Construction and Mining	33,723	782	9.8%	3.5%
Manufacturing: Transportation Equipment	14,976	-992	-22.6%	-14.6%
Manufacturing: Other Durable	41,072	-542	-1.3%	-0.5%
Manufacturing: Printing and Publishing	14,226	43	1.2%	1.7%
Manufacturing: Other Nondurable	25,175	-483	-1.9%	-0.8%
Finance, Insurance, and Real Estate	39,552	74	0.7%	4.4%
Transportation, Communications, and Utilities	31,644	70	0.9%	2.1%
Wholesale: Total	37,912	99	1.1%	2.0%
Retail: Eating and Drinking	42,956	430	4.1%	5.4%
Retail: Food	13,801	330	10.2%	1.2%
Retail: General	18,712	81	1.7%	2.4%
Retail: Other	42,787	352	3.4%	4.2%
Services: Education	14,666	-112	-3.0%	2.3%
Services: Health	52,688	-9	-0.1%	1.4%
Services: Hotel	10,514	-185	-6.7%	3.7%
Services: Other	120,237	-243	-0.8%	6.1%
Government: Total	82,818	-126	-0.6%	1.4%

**Sources:** U.S. Bureau of Labor Statistics; MTSU  
\*Seasonally adjusted annual rate

The fact that retail's share of income currently lies well below historic highs suggests that there is little reason to be concerned about debt and income constraints on retail sales growth.

**Table 1. Data Bank for Middle Tennessee**

Series (adjusted for seasonality and inflation)	Geographical Area	'97Q3	'98Q2	'98Q3	'98Q2-'98Q3
<b>COMPOSITE INDICES</b>					
Midstate Leading Index	Midstate (41 Counties)	100.01	100.64	101.33	0.7%
U.S. Leading Index	U.S.	99.98	105.99	107.54	1.5%
<b>EMPLOYMENT</b>					
Midstate Number of Employed Persons	Midstate (41 Counties)	964,149	1,011,751	1,013,366	0.2%
Midstate Unemployment Rate	Midstate (41 Counties)	5.1%	4.0%	3.6%	-8.8%
Percent of Sectors with Employment Increase for Month	Nashville MSA(8 Counties)	74%	37%	59%	59.5%
Percent of Counties with Employment Increase for Month	Midstate (41 Counties)	58%	78%	49%	-37.2%
Average Hours Worked per Week in Manufacturing	Nashville MSA(8 Counties)	41.68	41.31	40.37	-2.3%
Average Pay per Hour in Manufacturing	Nashville MSA(8 Counties)	12.96	12.86	12.95	0.7%
<b>INITIAL CLAIMS AND BANKRUPTCY</b>					
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	31,913	34,207	34,248	0.1%
Bankruptcy Case Filings	Midstate (41 Counties)	3,110	3,076	3,046	-1.0%
<b>REALESTATE</b>					
Occupancy Index	Davidson County	98.56%	98.11%	98.09%	0.0%
New Residential Units (permits)	Midstate (41 Counties)	4,319	4,206	4,183	-0.6%
Value of New Residential Units (million \$)	Midstate (41 Counties)	390.6	383.9	342.1	-10.9%
<b>AUTOMOBILE PRODUCTION</b>					
Autos Assembled in U.S.	U.S.	3,010,326	2,833,740	2,870,161	1.3%
Autos Assembled in Midstate	Midstate (41 Counties)	177,186	129,702	135,828	4.7%
Units Sold: Autos Assembled in Midstate	U.S.	152,388	148,587	144,469	-2.8%
<b>TOURISM</b>					
Hotel Revenue	Davidson County	96,928,697	91,139,092	87,413,226	-4.1%
Air Passengers	Davidson County	1,924,553	1,991,430	1,988,847	-0.1%
<b>INCOME, EARNINGS, AND RETAIL SALES</b>					
Retail Sales (million \$ per quarter)	Midstate (41 Counties)	5,064	5,208	5,267 (est)	1.1%
Total Personal Income (annual billion \$)	Midstate (41 Counties)	47.2	48.3	48.5 (est)	0.5%
Earnings per Resident Worker (annual)	Midstate (41 Counties)	34,610	33,839	33,599 (est)	-0.7%

**Notes:** Seasonal adjustment with X11-ARIMA; dollars converted to '98Q3 prices with GDP implicit consumption deflator.

**Sources:** U.S. Department of Labor, Bureau of Labor Statistics; Tennessee Department of Employment Security; Nashville Electrical Service; U.S. Bureau of the Census; *Automotive Weekly*; Metropolitan Nashville Government; Nashville Airport Authority; Tennessee Department of Revenue; U.S. Bureau of Economic Analysis



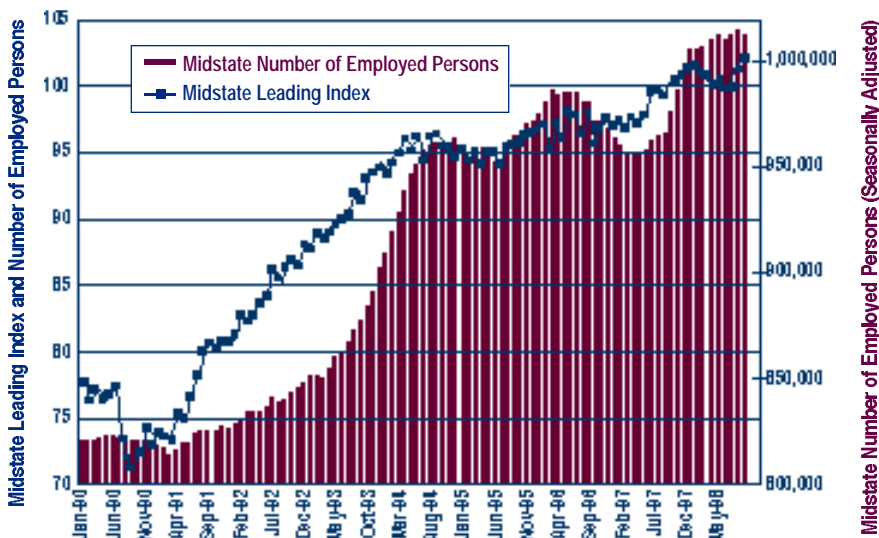
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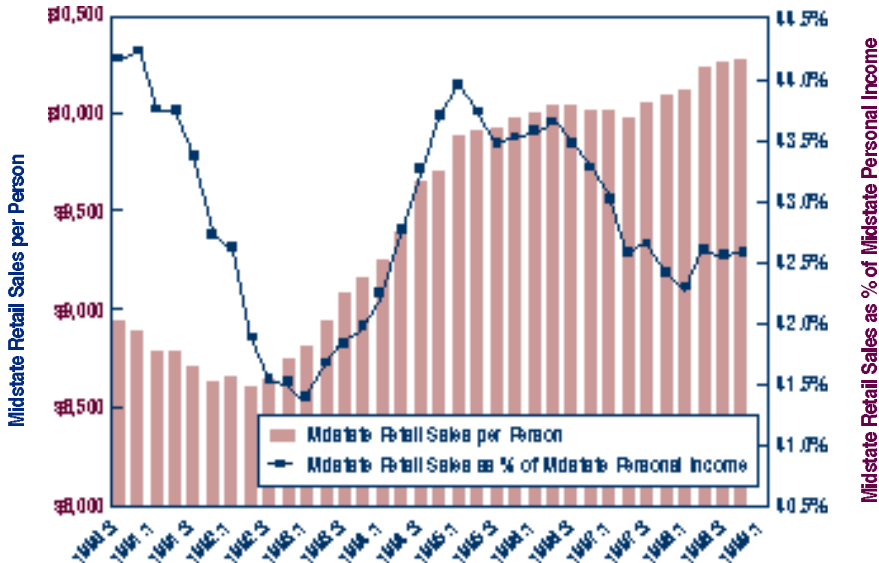
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**Figure 2: Midstate Leading Index and Number of Employed Persons**



**Figure 3: Midstate Retail Sales, Actual '90Q3-'98Q2, Forecast '98Q3-'98Q4**  
 (Seasonally Adjusted Annual Rate, 1998Q3 Dollars, 4 Period Moving Average)



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What about Christmas? We forecast higher retail sales than last year: a 2.2 percent inflation-adjusted increase over the fourth quarter of 1997.

**Earnings Growth**

Does the average worker earn more today than four years ago? One estimate of inflation-adjusted earnings per job shows a nine percent growth between the first quarter of 1994 and the first quarter of 1998 in Middle Tennessee (Table 4). Growth in real average earnings can come from two sources: a shift toward new, better-paying economic activities; or an increase in real wages in existing activities. The former is a result of structural changes (e.g., apparel jobs replaced by auto assembly jobs), and has been widely touted as a benefit of NAFTA; the latter is a result of labor market tightness, increased productivity, or a combination of the two.

Table 4 shows that shifts in the composition of employment have played an insignificant role for the midstate as a whole. However, in some individual counties, new jobs were disproportionately found in low-paying sectors: for Rutherford, Maury, and Cheatham, the employment shift toward low-paying sectors contributed to a decline in average pay. Part of the story appears to be the growth of ancillary, relatively low-paying jobs around the core of highly paid auto assembly work in Maury and Rutherford counties.

A few counties experienced a decline in real wages in existing activities: foremost among these was Maury. In general, though, it's clear that midstate average earnings growth owes much more to labor market tightness and productivity increases than it does to structural change. n