

Can This Continue Forever?

by E. Anthon Eff

All around us are the products of the past ten years of record economic growth: long lines of muscular automobiles; newly built homes, neighborhoods, and workplaces; stores bursting with a dazzling array of goods. Can this continue forever? Maybe not, but judging from the figures, middle Tennessee will continue to have it this good for at least another six to nine months.

Labor market tightness continues to characterize the midstate economy in the first quarter of 1999. The 41-county region's unemployment rate stands at 3.8 percent, a slight increase over the previous quarter but still strikingly low (Table 1). The number of employed persons now tops one million; in the past year, about 35,000 additional persons have found employment in middle Tennessee. Very few of these additional workers were drawn from the meager ranks of the unemployed—instead, they represent recent migrants to the region, young people entering the workforce, or retirees and homemakers enticed into jobs by the offer of flexible schedules.

Tight labor markets should trigger higher wages, as employers bid against each other to fill job vacancies. One of the paradoxes of the current economy is that wages in fact have not risen much. Average earnings per resident midstate worker stand at about \$34,500 per year, a figure essentially unchanged in real terms since early 1998 (Table 1).

One reason for relatively weak wage growth is that new jobs have failed to cluster in high-wage sectors. This pattern of job growth is somewhat surprising, since most current thinking on the effects of globalization holds that Tennessee should lose jobs in low-wage sectors such as apparel, while gaining them in higher-wage sectors such as industrial-equipment manufacturing. In fact, the midstate did lose apparel jobs, but it also gained many other relatively low-wage jobs in sectors such as restaurants and hotels.¹

Perhaps the most important reason for stagnant wage growth during the past year lies in the troubles of the midstate auto assembly plants: both were committed to relatively small and economical cars, slow sellers in the current booming economy with its low gasoline prices. Both plants have mapped out their comeback strategy, based on cracking into the hot sport-utility vehicle (SUV) market. Nissan's Xterra is already roaming midstate highways, while Saturn's new small SUV is in the works.

Figure 1. Cars and Light Trucks Produced: U.S. vs. Middle Tennessee

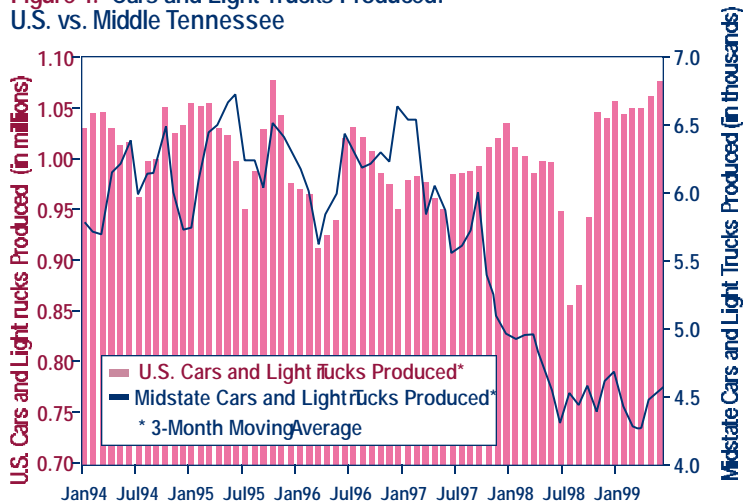


Figure 1 shows that the slump in auto production has halted, but recovery to the levels of 1996 still lies in the future. One promising sign, however, is that transportation-equipment-manufacturing employment rose sharply in the first quarter (Table 3).

Tourism-related businesses have also had anemic growth during the past year. Little changed in the first quarter: hotel and restaurant employment rose slightly (Table 3), accompanied by a decline in Davidson County hotel revenue (Table 1). Air passenger traffic, however, posted a respectable increase.

Centralization of Job Creation

For every 100 new jobs created between 1997 and 1998 in middle Tennessee, about 45

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The pattern of job creation is one of centralization: new jobs tend to appear in the Nashville MSA, and, within the MSA, in Davidson County.

Table 3: Change in Employment 1998Q4 to 1999Q1 (Eight-County Nashville MSA)

Sector	Nashville MSA 1999Q1	Nashville MSA Change	Nashville MSA % Change*	USA % Change*
Total	656,176	3,928	2.4%	2.5%
Construction and Mining	33,360	428	5.3%	9.7%
Manufacturing: Transportation Equipment	15,460	756	22.2%	-1.6%
Manufacturing: Other Durable	41,445	-248	-0.6%	-0.9%
Manufacturing: Printing and Publishing	13,802	-148	-4.2%	-1.7%
Manufacturing: Other Nondurable	24,505	-389	-1.6%	-0.3%
Finance, Insurance, and Real Estate	42,309	-21	-0.2%	3.8%
Transportation, Communications, and Utilities	32,403	133	1.7%	3.1%
Wholesale: Total	39,173	258	2.7%	1.8%
Retail: Eating and Drinking	44,377	210	1.9%	3.1%
Retail: Food	13,667	23	0.7%	-0.3%
Retail: General	18,290	-73	-1.6%	4.3%
Retail: Other	44,905	592	5.5%	2.3%
Services: Education	15,091	231	6.4%	2.7%
Services: Health	53,563	154	1.2%	0.5%
Services: Hotel	10,411	18	0.7%	-0.8%
Services: Other	129,380	1,810	5.8%	5.8%
Government: Total	83,970	-215	-1.0%	2.0%

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

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were located in Davidson County, about 35 in the remaining seven counties of the Nashville MSA, about five each in Montgomery and Maury counties, and 10 spread throughout the remaining 31 rural counties. The pattern of job creation is one of centralization: new jobs tend

Table 4: Ratio of Job Increase to Population Increase

Area	One Year: 1997-98	Three Years: 1995-98
Entire 41-County Midstate	0.99	0.68
Davidson County	55.28	8.30
Cheatham County	0.03	0.04
Dickson County	0.60	0.95
Maury County	0.87	0.67
Montgomery County	0.68	0.38
Robertson County	0.64	0.41
Rutherford County	0.58	0.50
Sumner County	0.14	0.40
Williamson County	0.75	0.63
Wilson County	0.91	0.40
Remaining 31 Rural Midstate Counties	0.35	0.18

Sources: U.S. Bureau of Census; Tennessee Department of Employment Security

to appear in the Nashville MSA, and, within the MSA, in Davidson County.

Centralization occurs because a central location is best for many of the sectors experiencing recent job growth, especially transportation and wholesaling, retail, health services, financial services, and business services. Manufacturing, on the other hand, prefers a peripheral location, with relatively cheap land, fewer pollution restrictions, and willing labor. However, manufacturing employment has made up a relatively small chunk of recent job growth.

Table 1. Data Bank for Middle Tennessee

Series (adjusted for seasonality and inflation)	Geographical Area	'98Q1	'98Q4	'99Q1	'98Q4-'99Q1
COMPOSITE INDICES					
Midstate Leading Index	Midstate (41 Counties)	101.04	103.12	103.65	0.5%
U.S. Leading Index	U.S.	102.13	107.40	111.97	4.3%
EMPLOYMENT					
Midstate Number of Employed Persons	Midstate (41 Counties)	990,404	1,012,197	1,025,982	1.4%
Midstate Unemployment Rate	Midstate (41 Counties)	4.3%	3.7%	3.8%	3.6%
Percent of Sectors with Employment Increase for Month	Nashville MSA(8 Counties)	52%	26%	22%	-15.4%
Percent of Counties with Employment Increase for Month	Midstate (41 Counties)	73%	56%	59%	5.4%
Average Hours Worked per Week in Manufacturing	Nashville MSA(8 Counties)	41.60	40.27	38.81	-3.6%
Average Pay per Hour in Manufacturing	Nashville MSA(8 Counties)	13.10	12.92	13.06	1.1%
INITIAL CLAIMS AND BANKRUPTCY					
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	34,324	32,553	32,863	1.0%
Bankruptcy Case Filings	Midstate (41 Counties)	3,263	2,772	2,793	0.8%
REALESTATE					
Occupancy Index	Davidson County	98.30%	98.10%	98.17%	0.1%
New Residential Units (permits)	Midstate (41 Counties)	4,398	4,368	4,409	0.9%
Value of New Residential Units (million \$)	Midstate (41 Counties)	365.7	365.6	409.7	12.1%
AUTOMOBILE PRODUCTION					
Autos Assembled in U.S.	U.S.	2,962,045	3,166,548	3,149,448	-0.5%
Autos Assembled in Midstate	Midstate (41 Counties)	149,956	141,972	129,924	-8.5%
Units Sold:Autos Assembled in Midstate	U.S.	136,621	145,758	133,676	-8.3%
TOURISM					
Hotel Revenue	Davidson County	99,888,935	103,380,767	100,630,998	-2.7%
Air Passengers	Davidson County	1,993,979	2,029,231	2,084,157	2.7%
INCOME, EARNINGS AND RETAIL SALES					
Retail Sales (million \$ per quarter)	Midstate (41 Counties)	5,198	5,305	5,405 (est.)	1.9%
Total Personal Income (annual billion \$)	Midstate (41 Counties)	48.2	49.6	49.8(est.)	0.4%
Earnings per Resident Worker (annual)	Midstate (41 Counties)	34,616	34,726	34,565(est.)	-0.5%

Notes: Seasonal adjustment with X11-ARIMA; dollars converted to '99Q1 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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The strongest appreciation of home prices was in the rural outlying counties.

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of equivalent homes in each of the 41 middle Tennessee counties. In this issue, we present a view of how housing costs changed between 1996 and 1997 (the latest year for which data are available).

Table 5 reports the number of single-family residences sold in market transactions in various sub-regions of middle Tennessee in 1997, as well as the average price. The sub-regions are identified on the map.

Table 5's third column presents the percent changes in average home price between 1996 and 1997; these range from a low of -9.5 percent in northwestern Davidson County to a high of 9.2 percent in portions of Rutherford County. Average home prices change for two reasons: first, because the average quality³ may be significantly different in the two years; second, because homes of the same quality may sell for different prices in the two years. This second effect is a "pure" price change and is termed "housing inflation" in the table.

Use of statistical techniques to separate changes in quality from housing inflation produces the figures in the fourth and fifth columns of Table 5. For owners of existing homes, the housing inflation column is of great interest: it tells how much the average home appreciated in value between 1996 and 1997. Overall U.S. inflation during this period was just under two percent—thus, in any area with housing inflation in excess of two percent, home prices more than matched general inflation.

The strongest appreciation of home prices was in the rural outlying counties, shown as the third ring on the map. Within the Nashville MSA, housing inflation was strongest in northern Williamson County and along the Davidson-Wilson county line. Homes appreciated the least in northern and

northwestern Davidson County and in Sumner County.

Quality differences in houses sold in the two years are important only when focusing on new homes. An area in which new homes are of lower quality than the new homes of previous years may be in danger of decline and may see an eventual drop in the values of existing homes. Then again, such a decline may be only a statistical aberration, counteracted in a subsequent year by a quality increase. Rutherford, Wilson, Cheatham, and Robertson counties all experienced quality declines, as did northwestern and southeastern Davidson County.

Williamson County and southwestern Davidson County, both already heavily specialized in high-income homes, moved toward higher quality houses. A similar movement was seen in Sumner County, as well as in the areas outside the Nashville MSA, with the exception of the southeastern part of middle Tennessee.

These changes reflect the outward dispersal of population from Davidson County. Rural counties have begun to attract residents who commute to work in the Nashville MSA; their new homes represent, in most cases, higher-quality housing stock than existing homes. Within the MSA, the highest-income households are increasingly segregating themselves in the residential enclaves of Williamson County and southwestern Davidson County. ■

¹ This phenomenon was discussed in the Volume 8, Number 1 (winter 1998) issue of *MEI* (<http://www.mtsu.edu/~berc/mseiissues.html>).

² See Volume 8, Number 2 (summer 1998) and Volume 9, Number 1 (spring 1999) issues of *MEI* (<http://www.mtsu.edu/~berc/mseiissues.html>).

³ Housing quality is determined using such housing attributes as square footage; composition and condition of the structure; condition of heating, air-conditioning, and plumbing; and road and sewer access.

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