

Midstate Economic Indicators

Volume 10 No. 3 Fall 2000
Includes data from 2nd quarter 2000

Not Too Hot, Not Too Cold

by Max Melnikov, BERC research associate

The Tennessee economy continued to move forward in tandem with the national economy in the second quarter: the U.S. leading index advanced 1.2 percent (Table 3), the midstate economic index 1.1 percent. However, a slower growth pace is increasingly evident, and our projections show an even further slowing in some sectors in the months ahead. Even so, the main tune has not changed: steady sustainable growth in the quarters ahead. There is no hint of a U.S. recession on the horizon.

The unemployment rate, one of the most closely followed components of our index, again hit a record low (3.1 percent) in the mid-state. In a related area, the number of employed persons jumped 1.3 percent, translating into 13,829 new midstate jobs. Retail trades and other services were the big winners, accounting for more than 70 percent of new jobs, possibly due in large part to the opening of Opry Mills. Health services, construction, transportation, communication, and utilities were also major contributors to the employment gain. Big losers in midstate employment were transportation equipment manufacturing, printing and publishing, and the wholesale sector. Effects of the employment boom were felt in initial unemployment claims; they fell by 5 percent, which may help to keep fiscal pressure off other social programs. Nashville area employment was particularly strong (Table 1).

An interesting story is the big increase in the number of airline passengers. Midstate residents responded immediately to improvements in parking and access resulting from the June completion of construction at Nashville International Airport. Record-high revenues in the hotel industry followed.

However, effects of summer fare increases and United's disrupted schedules remain to be seen.

Automobile and truck production was a bright spot, rebounding from the doldrums of the previous quarter. A good part of the credit goes to the success of Nissan's Xterra, which

Table 1: Change in Employment 2000Q1 to 2000Q2 (Eight-County Nashville MSA)

Sector	Nashville MSA 2000Q2	Nashville MSA Change	Nashville MSA % Change*	USA % Change*
Total	682,757	10,119	1.5%	1.5%
Construction and Mining	34,267	942	2.8%	2.7%
Manufacturing: Transportation Equipment	14,674	-457	-3.0%	-0.2%
Manufacturing: Other Durable Goods	43,845	218	0.5%	0.0%
Manufacturing: Printing and Publishing	13,005	-382	-2.9%	-0.5%
Manufacturing: Other Nondurable Goods	24,429	-184	-0.7%	0.3%
Finance, Insurance, and Real Estate (FIRE)	42,365	-136	-0.3%	1.4%
Transportation, Communications, and Utilities	34,085	623	1.9%	3.0%
Wholesale: Total	37,800	-520	-1.4%	2.7%
Retail: Eating and Drinking	45,637	503	1.1%	-0.1%
Retail: Food	14,020	124	0.9%	0.4%
Retail: General	19,691	657	3.5%	-0.2%
Retail: Other	50,868	3,647	7.7%	3.8%
Services: Education	15,724	198	1.3%	1.5%
Services: Health	55,845	955	1.7%	1.9%
Services: Hotel	10,212	-89	-0.9%	0.9%
Services: Other	135,454	3,407	2.6%	3.5%
Government: Total	92,179	614	0.7%	0.9%

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

quickly overpowered competition in its class.

Vehicle activity seemed impervious to the rise in interest rates over the last year, but the same cannot be said for the housing sector. The number of building permits in the midstate plunged 16.2 percent from the first quarter, and evidence of a housing slowdown continues to build. Statewide, single-family building permits posted a sizable year-over-year drop for both June and July. While not alarming from a macroeconomic perspective (the slowdown

continued inside

The main tune has not changed: steady sustainable growth.

There is no hint of a U.S. recession on the horizon.

Table 2: Forecast Unemployment and Job Growth

	Actual			Forecast		
	99Q2	99Q3	99Q4	00Q2	00Q3	00Q4
Unemployment Rate						
Middle Tennessee	3.1%	3.2%	3.2%	3.1%	3.2%	3.2%
East Tennessee	3.5%	3.6%	3.7%	3.7%	3.8%	3.7%
West Tennessee	3.7%	3.9%	3.9%	3.8%	4.0%	4.0%
Tennessee	3.4%	3.5%	3.5%	3.5%	3.6%	3.6%
Job Growth: One Quarter SAAR						
Nashville MSA	1.3%	1.4%	1.4%	1.4%	1.5%	1.6%
Chattanooga MSA	-0.4%	-0.4%	-0.3%	-0.2%	-0.3%	-0.2%
Tennessee	0.9%	1.0%	1.1%	1.2%	1.2%	1.2%

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

Not

continued from front

Retail spending associated with home construction will slow, resulting in lower sales tax collections.

symbolizes the slower growth pace sought by the Federal Reserve and has contributed to recent gains in the bond market), spillover effects will be noticed locally. Retail spending associated with housing construction will slow, and home construction spending is an important component of the state's sales tax collections; hence, the specter of fiscal stress may intensify.

Looking ahead, our model predicts a very slight increase in Tennessee's unemployment rate (Table 2), but the midstate will continue to register the state's lowest unemployment rate.

National interest rate trends and Federal Reserve policy will heavily influence the remainder of 2000. Already some relief is in sight. Long-term Treasury bond yields are beneath year-ago levels; this should soon feed through to mortgage rates and help end the slide in home construction. Equity prices are again on the move, which will temper any consumer retrenchment. These developments reflect the view that the Federal Reserve has raised short-term interest rates enough to slow the economy. Inflation remains high compared with long-term interest rates; this probably rules out further declines in long-term interest rates and eliminates chances for near-term gains in the housing sector both nationally and locally. ■

Banking Activity in Middle Tennessee

by Albert E. DePrince, Jr., BERC director, and Thomas H. Strickland, MTSU finance professor

Two major legislative initiatives impacted banking activities in recent years. The first, the Interstate Banking and Branch Efficiency Act (1994), allowed full interstate branching by July 1997, accelerating an already fast pace of bank mergers with implications for branch consolidations. The second, the Financial Modernization Act (1999), streamlined the cross-industry mergers of banks and nonbank financial firms (such as securities and insurance firms), expanding the potential scope of financial services that may be offered through bank offices; the competitive forces unleashed by the act may also have a spillover effect on the number of banking offices as well as the price of the various financial services offered through those offices. Effects are probably only in their infancy.

This article, the first of a series which should help to clarify the effects of these two laws on local banking structure, provides the economic and demographic underpinnings of the number of banking offices in local Tennessee

Table 3. Data Bank for Middle Tennessee

Series (adjusted for seasonality and inflation)	Geographical Area	99Q2	00Q1	00Q2	00Q1-00Q2
COMPOSITE INDICES					
Midstate Leading Index	Midstate (41 Counties)	103.86	108.93	110.18	1.1%
U.S. Leading Index	U.S.	111.40	114.23	115.65	1.2%
EMPLOYMENT					
Midstate Number of Employed Persons	Midstate (41 Counties)	1,032,533	1,036,455	1,050,284	1.3%
Midstate Unemployment Rate	Midstate (41 Counties)	3.7%	3.2%	3.1%	-3.1%
Percent of Sectors with Employment Increase for Month	Nashville MSA (8 Counties)	59%	50%	65%	30.0%
Percent of Counties with Employment Increase for Month	Midstate (41 Counties)	80%	44%	53%	20.5%
Average Hours Worked per Week in Manufacturing	Nashville MSA (8 Counties)	39.84	40.48	40.50	0.0%
Average Pay per Hour in Manufacturing	Nashville MSA (8 Counties)	13.24	13.67	13.78	0.8%
INITIAL CLAIMS AND BANKRUPTCY					
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	32,385	23,565	22,436	-5.0%
Bankruptcy Case Filings	Midstate (41 Counties)	2,738	2,788	2,939	5.1%
REAL ESTATE					
Occupancy Index	Davidson County	98.00%	97.77%	97.84%	0.1%
New Residential Units (permits)	Midstate (41 Counties)	4,076	4,363	3,658	-16.2%
Value of New Residential Units (million \$)	Midstate (41 Counties)	425.3	400.9	358.7	-10.5%
AUTOMOBILE PRODUCTION					
Autos Assembled in U.S.	U.S.	3,263,887	3,010,698	2,860,163	-5.0%
Autos Assembled in Midstate	Midstate (41 Counties)	152,068	159,708	163,116	2.1%
Units Sold: Autos Assembled in Midstate	U.S.	139,595	131,810	144,195	9.4%
TOURISM					
Hotel Revenue	Davidson County	92,719,257	98,587,665	104,959,576	6.1%
Air Passengers	Davidson County	2,112,264	2,033,252	2,304,149	11.8%
INCOME, EARNINGS, AND RETAIL SALES					
Retail Sales (million \$ per quarter) *	Midstate (41 Counties)	—	—	—	—
Total Personal Income (annual billion \$)	Midstate (41 Counties)	48.0	53.2	53.6 (est.)	0.7%
Earnings per Resident Worker (annual)	Midstate (41 Counties)	33,923	36,757	36,985 (est.)	0.6%

Notes: Seasonal adjustment with X11-ARIMA; not annualized; dollars converted to '00Q2 prices with GDP implicit consumption deflator. * Insufficient data.

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

markets. Subsequent reports will deal with deposit levels and shifts in bank concentration in the state's local markets. The report uses the county as the relevant geographic measure of local market, though that approach is admittedly arbitrary and often criticized.

Overview of Deposits and Banking Offices

Statewide, deposits at banking institutions (commercial banks, savings institutions, and credit unions) totaled \$74.897 billion in June 1999, the latest data available. Of this amount, the 41 midstate counties accounted for 36.0% or \$26.996 billion. Among these, Davidson (\$10.593 billion) was the largest, followed by Williamson (\$1.767 billion) and Rutherford (\$1.503 billion).

There were 2,114 banking offices (commercial banks, savings institutions, and credit unions) across the state in June 1999; 736 (34.8%) were located in the midstate, with the highest concentrations in Davidson (193), Williamson (51), and Rutherford (49) counties.

Branch Offices and Demographics

Earlier studies show that the number of banking offices (branches plus head offices of banks, thrifts, and credit unions) within Tennessee counties was closely related to the counties' population. That model was replicated here with the latest branch and population data, and the earlier results were confirmed.¹ The analysis showed that, other things equal, there is one banking office per 2,849 people on average.

As with the earlier model, the results can be used to identify counties that may be considered "overbanked" (too many offices) or underbanked (too few) relative to their population. Here, three counties (all outside the midstate) were identified as serious "outliers." Hamilton County may be overbanked given its population: 136 banking offices existed in June 1999, but the model expected only 104. Sevier County appeared overbanked as well; however, its 41 banking offices, compared with the model's estimate of 22, most likely reflect the high tourist trade in that county. Finally, Shelby County could be considered underbanked; its 273 branches fall short of the 304 expected based on its population. In contrast to Sevier, explanations for the disparity in Hamilton and Shelby counties are elusive.

Locally, Rutherford County could be considered mildly underbanked: its 49 banking offices are one standard error less than the expected number of 56. The gap is not alarming, but it does suggest that the banking community has a different attitude toward Rutherford County than toward its neighbor, Williamson, whose 51 branches are far more than would be expected (39) for its population.

Banking offices presumably reflect business opportunities; if so, this should account for the seeming branch-office disparity between Williamson and Rutherford counties. Economic

data from the Bureau of Economic Analysis support this idea. In 1998, per capita income was \$36,508 for Williamson County (the state's highest) versus \$25,212 for Rutherford County. A similar picture emerges with per capita dividends and interest. For Williamson, the total of per capita dividends and interest was again the state's highest at \$5,814, compared with only \$3,097 for Rutherford.² Inclusion of both per capita income and dividends in the explanatory function narrowed the branch disparity between Williamson and Rutherford. In contrast, inclusion of these income effects did nothing to affect the gaps between actual and expected branch numbers for Hamilton, Sevier, and Shelby counties.

Growth and Branch Offices

Next, the relationship between population growth and number of branches per county was examined. Here, the change in branch count between 1995 and 1999 was compared with population changes between 1994 and 1998 for all 95 counties. The results showed that, over this span, each gain of 1,754 persons would be associated with one additional branch. This incremental population-to-branch ratio is less than the average population-to-branch rate reported in the previous section, suggesting that branches grew faster than population across the state. As a result, the population-to-branch ratio fell over this span. This was confirmed by applying the county bank office model to 1995 branch office data; at that time, every 2,967 persons would be associated with one branch.

This outcome is surprising. The late 1990s was a period of strong cost controls, coupled with efforts to channel more business through each branch. Many of our readers witnessed the effects of that competitive pressure through branch closings, branch relocations, and upsizing or downsizing of existing branches.

The competitive pressure is inter-industry as well as among banking institutions. To visualize the scope of the competitive pressure, it is useful to note that from 1995 to 1999, deposits

continued on back

The number of banking offices within a county is closely related to the county's population. Our analysis showed an average of one bank for every 2,849 people.

Subscription List Update

If you have not told us that you would like to continue to receive *Midstate Economic Indicators*, please email kkulp@mtsu.edu or call 615-898-2610.

Table 4. Branch, Deposit, Demographic, and Income Data

	Total Branches	Total Deposits (in thousand \$)	Population	Personal Income (in thousand \$)	Dividends and Interest (in thousand \$)
1999 Statewide	2,114	\$74,896,538	5,432,679	\$132,756,477	\$20,597,536
40 Midstate Counties	736	26,995,793	1,985,419	50,362,115	7,661,150
Davidson County	193	10,592,989	533,258	17,505,506	2,985,864
Rutherford County	49	1,502,507	166,086	4,187,286	494,908
Williamson County	51	1,766,644	117,685	4,296,477	647,766
1995 Statewide	1,939	61,134,291	5,163,016	106,855,209	16,158,434
40 Midstate Counties	681	22,633,692	1,839,274	39,626,843	5,883,789
Davidson County	188	8,780,595	526,856	14,122,148	2,457,599
Rutherford County	44	1,186,912	140,679	2,979,538	338,989
Williamson County	41	1,798,937	97,707	2,971,055	480,252

Sources: Sheshunoff Information Services; Bureau of Economic Analysis

Notes: Branch and deposit data as of June 30 in the indicated year. Population, personal income, and dividend and interest income are reported for 1998 and 1994, respectively.

Midstate Economic Indicators is published quarterly by the Business and Economic Research Center, College of Business, Middle Tennessee State University. MEI is available free by mail or online at: <http://www.mtsu.edu/~berc>.

Director, BERC:
Albert E. DePrince, Jr.
Research Associate:
Maxim Melnikov
Dean, College of Business:
E. James Burton
Publications Editor/Designer,
College of Business:
Sally Ham Govan
Graduate Research Assistant:
George Darko
Phone: 615-898-2610
mailto: kkulp@mtsu.edu



AA063-0900
A Tennessee Board of Regents
Institution

MTSU is an equal opportunity, non-racially identifiable educational institution that does not discriminate against individuals with disabilities.



Business and Economic Research Center

Middle Tennessee State University
P.O. Box 102
Murfreesboro, TN 37132
615-898-2610

Non-Profit
Organization
U.S. POSTAGE
PAID
Permit No. 169
Murfreesboro, TN

**Increasing rivalry
between banks and their
nonbank cousins is
compounding the
intensified competition
among banking
institutions.**

Banking *continued from inside*

per branch advanced 12.4 percent, while per capita income climbed 18.1 percent. The gap reflects the consequences of mounting competition from nonbank financial institutions that offer bank-type products; the ongoing proliferation of investment vehicles beyond bank deposits, a development underway for much of the last two decades; and the rising financial sophistication of the population. Thus, increasing rivalry between banks and their nonbank cousins is compounding the intensified competition among banking institutions.

Competition should push banks to economize on branch locations and emphasize branch efficiency, so that the population-to-branch ratio should rise, not fall. The macro data do not provide an explanation for this seeming anomaly, but efforts to build market presence through small branches in supermarkets and other retail outlets may account for the branch growth.

Statewide, three counties saw big increases in branches compared with expected increases. The largest outlier was Shelby: its addition of 22 branches was over twice the expected pace (10.5) given its population growth. This may reflect a response to the business opportunities posed by its underbanked position noted above. The next largest surprise was Knox County,

with an observed gain of 21 branches against an expected gain of 10.8, followed by Sevier County, which saw 11 new branch offices versus an expected 3.7. Tourism probably stands behind the fast branch growth in Sevier; Knox's proximity to Sevier may have contributed to its faster than expected branch growth.

Large growth shortfalls were noted in two big counties. Davidson saw a growth of only two versus eight expected branches. At home, Rutherford's population increase produced an expected growth of 14 branches compared with an actual addition of four. In contrast, branch growth in Williamson (11) to the west was in line with the growth derived from its population growth (10.8). The disparate response to population growth led to the widened branch differential between the two counties in 1999, which reflects in turn their respective patterns in per capita income and per capita dividends. ■

¹ The model is an annual cross-sectional model that sets the number of branches in each county in the sample for a given year as a linear function of its respective population in the preceding year: the number of branches is assumed to react to known, not anticipated, population changes. This seemingly intuitively appealing approach was admittedly driven by data availability. Population data are available through 1998, deposit data through 1999. County branch and deposit data are from call report data for banks, thrifts, and credit unions through Sheshunoff Information Services. County level income and population are annual data available through 1998 from the Bureau of Economic Analysis.

² Statewide per capita income was \$24,437; per capita dividends were \$3,791.