

Midstate Economic Indicators

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Includes data from 2nd quarter 2001

Supply Shocks, Confidence, and the State of the Economy

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Recent events will likely overshadow the economic forces at work in the region's economy. Hence, the predictive power of our Midstate Leading Index has been disrupted. For the second quarter, it posted a decline of 0.7 percent. This is less than the dip of 1.1 percent for the nation, suggesting that through early summer, the economic slowdown in the midstate area would be less severe than the slowdown nationally. With the September 11 tragedy, we should be far less sanguine about the future. Nonetheless, it is useful to recap the region's economic condition prior to offering suggestions as to the tragedy's consequences.

The Midstate Economy

Even before the national disaster, uncertainty and mixed signals characterized the middle Tennessee region's economy from April to June. Unemployment continued to inch upward: in the second quarter, the unemployment rate for the region increased from 3.5 percent to 3.9 percent, while the unemployment rate for the state increased from 3.8 percent to 4.1 percent (Table 2). In the Nashville metropolitan area, unemployment can be attributed largely to declines in durable and nondurable goods manufacturing, sectors commonly affected during slowdowns when consumers spend less on big-ticket items and businesses lower capital spending.

Sales in the automotive industry likely will continue to fall as a result of national events. The local services sector also has suffered negative short-run impacts as business travelers and tourists cancelled trips and conventions were cancelled or postponed. Profits will likely decline in the finance, insurance, and real estate sector, which suffered a 0.1 percent decline in employment in the second quarter.

Table 1: Change in Employment 2000Q4 to 2001Q1 (Eight-County Nashville MSA)

Sector	Nashville MSA 2001Q2	Nashville MSA Change From Q1	Nashville MSA % Change From Q1	USA % Change* From Q1
Total	706,143	2,888	0.4%	1.0%
Construction and Mining	37,152	346	0.9%	1.3%
Manufacturing: Transportation Equipment	13,599	-337	-2.5%	1.1%
Manufacturing: Other Durable Goods	43,129	-430	-1.0%	-0.1%
Manufacturing: Printing and Publishing	12,013	-240	-2.0%	-1.0%
Manufacturing: Other Nondurable Goods	23,222	-40	-0.2%	0.7%
Finance, Insurance, and Real Estate (FIRE)	41,899	-187	-0.4%	0.1%
Transportation, Communications, and Utilities	35,220	175	0.5%	1.4%
Wholesale: Total	39,692	594	1.5%	1.8%
Retail: Eating and Drinking	47,930	589	1.2%	2.0%
Retail: Food	15,613	574	3.7%	0.9%
Retail: General	21,607	470	2.2%	0.8%
Retail: Other	58,384	1,328	2.3%	2.0%
Services: Education	16,003	-134	-0.8%	0.9%
Services: Health	56,364	-118	-0.2%	2.1%
Services: Hotel	9,830	-111	-1.1%	0.3%
Services: Other	142,025	649	0.5%	3.1%
Government: Total	92,460	-241	-0.3%	-1.3%

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

Whether spending will continue to fall depends largely on consumers' reactions to the recent catastrophic events. During the summer, consumer confidence in the local and national economies declined slightly, according to the Consumer Confidence Index compiled by MTSU's Office of Consumer Research (Table 4). The index fell in June to 299.3 after increasing slightly in the spring from 312.3 to 326.6. The decline reflects a decrease in confidence in both the current outlook and future expectations

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Table 2: Forecast Unemployment and Job Growth

	Actual				Forecast	
	00Q3	00Q4	01Q1	01Q2	01Q3	01Q4
Unemployment Rate						
Middle Tennessee	3.1%	3.3%	3.5%	3.9%	3.8%	4.1%
East Tennessee	3.7%	3.8%	4.1%	4.2%	4.3%	4.5%
West Tennessee	3.9%	4.1%	4.2%	4.4%	4.5%	4.7%
Tennessee	3.5%	3.7%	3.8%	4.1%	4.2%	4.4%
Job Growth: One Quarter SAAR						
Nashville MSA	1.5%	0.9%	0.7%	0.6%	0.7%	0.5%
Chattanooga MSA	-0.2%	-0.2%	-0.2%	-0.2%	-0.3%	-0.4%
Tennessee	1.2%	1.0%	0.8%	0.6%	0.7%	0.5%

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

About the Consumer Confidence Index

The Consumer Confidence Index represents the sum of the Present Situation, Future Expectations, and Purchasing Indexes. It is derived from an MTSU Office of Consumer Research survey in which telephone interviews are given to 253 randomly selected adults from Davidson, Rutherford, and Williamson counties. There is 95 percent confidence that the survey error is ± 6.2 percent. For more information, contact the office's director, Dr. Timothy Graeff, 898-5124.

Table 4: Consumer Confidence Index

	June 2001	March 2001	February 2001
Consumer Confidence Index	299.3	326.6	312.3
Present Situation Index¹	114.4	132.9	141.2
Future Expectations Index²	79.2	83.5	60.7
Purchasing Index³	105.7	110.2	110.4

Source: MTSU Office of Consumer Research

¹ Based on four questions regarding the current outlook of national and local business conditions, the availability of jobs in Middle Tennessee, and survey participants' financial situation

² Based on four questions regarding future expectations for national and local business conditions, the availability of jobs in Middle Tennessee, and survey participants' financial situation

³ Based on three questions regarding the current outlook for purchasing major household items, houses, and automobiles

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for the health of the national and midstate economies, as well as a decline in purchases of major household items, houses, and automobiles.

Responding to the question of whether business conditions in middle Tennessee are currently good, bad, or somewhere in between, 55.2 percent of those surveyed for the confi-

dence index rated conditions as good compared with 58 percent in March, while the percent rating the local economy as bad rose from 4.4 percent to 7.3 percent.

Nonetheless, not all regional indicators are discouraging. The midstate unemployment rate remains the lowest of all Tennessee regions, and Williamson County's 2.1 percent unemployment in June was the state's lowest. Cheatham and Dickson also experienced low rates, with 2.7 and 3.1 percent, respectively. One indicator of economic health is increasing activity in the housing market. In that arena, the local area has so far remained sound. After seasonal adjustment, new residential unit permits increased by 17.1 percent over the quarter, while the value of new residential units increased by 4.5 percent. Employment increased in the Nashville area construction industry 0.9 percent from the first quarter, a sign that the region's engine may not have stalled completely.

Economic After-Shocks

To date in the third quarter, statewide employment is exhibiting a rebound, albeit a weak one. Coupled with the ongoing strength in housing and the Federal Reserve's succession of interest rate cuts, one could have concluded that the worst of the slowdown was over. Now, most forecasters are reassessing this view. While precise numerical conclusions have yet

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Table 3. Data Bank for Middle Tennessee

Series (adjusted for seasonality and inflation)	Geographical Area	00Q2	01Q1	01Q2	01Q1-01Q2
COMPOSITE INDICES					
Midstate Leading Index	Midstate (41 Counties)	110.18	109.29	108.57	-0.7%
U.S. Leading Index	U.S.	115.65	112.97	111.78	-1.1%
EMPLOYMENT					
Midstate Number of Employed Persons	Midstate (41 Counties)	1,050,284	1,055,328	1,058,734	0.3%
Midstate Unemployment Rate	Midstate (41 Counties)	3.1%	3.5%	3.9%	11.4%
Percent of Sectors with Employment Increase for Month	Nashville MSA (8 Counties)	65%	65%	57%	-12.3%
Percent of Counties with Employment Increase for Month	Midstate (41 Counties)	53%	14%	14%	0.0%
Average Hours Worked per Week in Manufacturing	Nashville MSA (8 Counties)	40.50	40.85	40.80	-0.1%
Average Pay per Hour in Manufacturing	Nashville MSA (8 Counties)	13.78	13.91	14.02	0.8%
INITIAL CLAIMS AND BANKRUPTCY					
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	22,436	53,566	34,413	-35.8%
Bankruptcy Case Filings	Midstate (41 Counties)	2,939	3,753	3,669	-2.2%
REAL ESTATE					
Occupancy Index	Davidson County	97.84%	98.38%	98.02%	-0.4%
New Residential Units (permits)	Midstate (41 Counties)	3,658	4,028	4,715	17.1%
Value of New Residential Units (million \$)	Midstate (41 Counties)	358.7	441.0	460.9	4.5%
AUTOMOBILE PRODUCTION					
Autos Assembled in U.S.	U.S.	2,860,163	2,982,603	3,206,347	7.5%
Autos Assembled in Midstate	Midstate (41 Counties)	163,116	151,448	171,981	13.6%
Units Sold: Autos Assembled in Midstate	U.S.	144,195	145,290	158,420	9.0%
TOURISM					
Hotel Revenue	Davidson County	104,959,576	104,899,522	105,284,019	0.4%
Air Passengers	Davidson County	2,304,149	2,052,590	2,192,637	6.8%
INCOME, EARNINGS, AND RETAIL SALES					
Retail Sales (million \$ per quarter) *	Midstate (41 Counties)	—	—	—	—
Total Personal Income (annual billion \$)	Midstate (41 Counties)	53.6	54.4	54.8 (est.)	0.7%
Earnings per Resident Worker (annual)	Midstate (41 Counties)	36,985	37,737	38,205 (est.)	1.2%

Notes: Seasonal adjustment with X11-ARIMA; not annualized; dollars converted to 2001Q2 prices with GDP implicit consumption deflator. * Insufficient data.

Sources: U.S. Department of Labor, Bureau of Labor Statistics; Tennessee Department of Labor and Workforce Development; 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

Small-Lot Values

In Counties Surrounding Davidson

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A *USA Today* study recently announced that of the nation's 271 metropolitan areas, Nashville has the worst sprawl. Most growth occurring in the Nashville MSA is not in Davidson County, but in outlying counties.

Tennessee's overall population has increased by 17 percent during the past decade. People go where the jobs are, and middle Tennessee has had the strongest economy in the state. Census 2000 numbers show Williamson and Rutherford counties led the state's 95 counties in population growth, with increases of more than 50 percent during the 1990s. The other four counties bordering Davidson County — Cheatham, Robertson, Sumner, and Wilson — have experienced population growth between 26.3 percent and 32.3 percent, among the top 12 growth rates in the state. By contrast, Davidson County's population grew only 11.6 percent in the 1990s.

This study addresses the impact of midstate population growth and urban sprawl on land prices outside the city limits. In their zeal to develop rural land for residential and commercial uses, cities seem to be putting little priority on preserving open spaces. Local real estate agents are swamped with requests for small acreage tracts "out in the country" by those fleeing city taxes, high city land prices, congestion, and, in some cases, city schools.

Data on actual sales prices of five- to 20-acre plots in the six counties bordering Davidson County between 1995 and 2000 were extracted from a KAL Software data set (<http://www.tnrealestate.com>). A random sample was taken of rural parcels sold during the 1990s, representing 2,211 property sales in Rutherford, Williamson, Cheatham, Robertson, Sumner, and Wilson counties. Only "qualified sales" (what appraisal professionals considered true market value sales) were considered. Properties of 20 acres or less were subdivided into "small lots" (five-10 acres) and "large lots" (11-20 acres). Sales prices that appeared either extremely high or low for a given year and county were dropped.

Results

Figures 1-6 provide the average sales price per acre of small and large lots sold in the six counties from 1995 to 2000. It can be generalized that small lots normally sell at higher prices per acre and prices of both small and large lots have increased over time.

The data suggest Williamson County acreage has been more expensive, and the gap between values of small lots in that county and the other five has widened substantially during the past five years. In 1995, the combined average price for lots in the other five counties was \$3,970 for small and \$2,459 for large. Williamson County's average price was \$7,417 for small lots and \$6,601 for large lots. Williamson County small lot prices were 87 percent above the five-county price average and 168 percent above the large lot average. In 2000, Williamson County small lots were 143 percent above the five-county average, versus 159 percent for large lots.

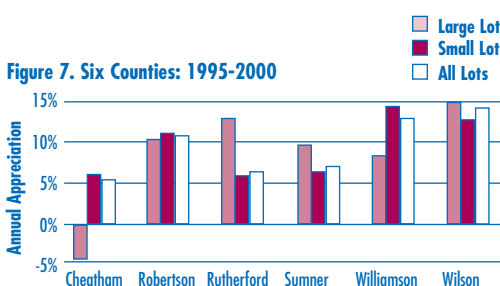
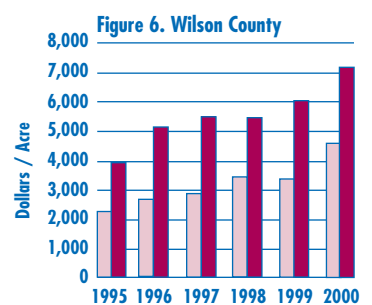
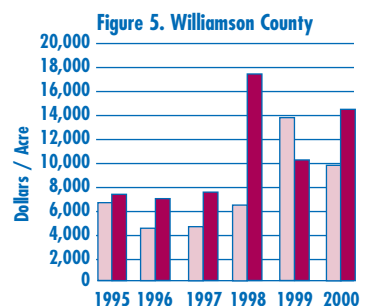
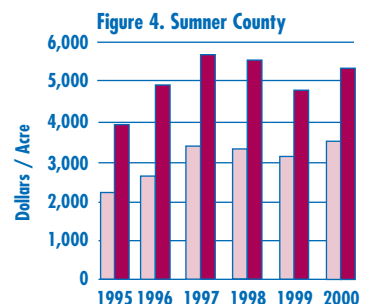
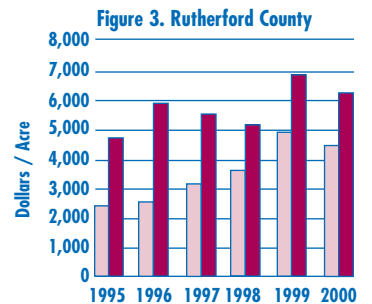
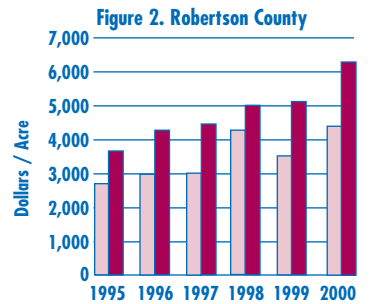
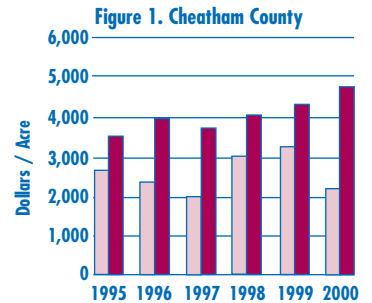
Figure 7 shows the average annual price appreciation in five-20 acre tracts since 1995. Wilson and Williamson counties had the most rapid rates of appreciation. Over the five years, large lots appreciated at an average annual rate of 15 percent in Wilson County, while small lot values increased by 14.5 percent annually in Williamson County. Rutherford County showed robust growth in larger lots (13.1 percent) but relatively slow growth (6.0 percent) in small lot prices. Robertson County turned in a balanced 10-11 percent growth in both small and large lot prices. Sumner and Cheatham registered smaller growth rates, with Cheatham large lot prices actually dropping in 2000. The sample size for Cheatham large lots in 2000 was only four sales, perhaps not a useful result. Over the past six years, Cheatham County has substantially changed its impact fee structure, perhaps causing more rural lot price volatility.

Study Conclusions

The six counties surrounding Davidson County are experiencing rapid population growth, and their combined population now exceeds that of Nashville and Davidson County. As the population has grown, so too has the desire for land outside metropolitan areas. Urban sprawl is a fact of life in middle Tennessee.

The price per acre of smaller tracts of rural land has greatly increased during the past five years. Land prices in Williamson County are higher than in the other counties, and the appreciation of land in Williamson and Wilson counties has generally been greater than in the other four counties.

Prices paid for rural land do not necessarily reflect the prices of properties that have been or will be used exclusively for single-family homes. Undoubtedly some parcels sold were purchased for commercial or residential developers. Even so, small tract purchasers who hope to build a home in the country are finding higher land prices. ■



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It is likely that the country is in store for significant economic damage in addition to the physical and emotional damage of the strikes.

Announcement

The Business and Economic Research Center (BERC) has a new associate director, Dr. F. Kathleen Vinlove, who will be responsible for regional products.

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to be drawn, it is probably safe to conclude that economic and financial repercussions from the terrorist strikes will reverberate for some time.

The closing of malls across the nation will have a serious impact on retail sales. The brief cessation of air travel seriously disrupted business flows. The loss of physical infrastructure (communications, systems, computers, and databases) is staggering, and even with backup sites, financial flows will likely be less efficient. The loss of personnel may in many cases be more serious than infrastructure losses.

Little time was lost in shoring up the world financial system. The Federal Reserve quickly assured financial markets that, as lender of last resort, an adequate supply of liquidity would be provided to financial markets. OPEC has moved to assure that crude oil supplies will be sufficient to keep prices from spiraling upward. The day after the disaster, central banks around the world injected \$120 billion in liquidity to the global financial system. The following day, U.S. and the European Central Banks worked out a swap arrangement to provide the European Central Banks with \$50 billion, and at this writing, the Federal Reserve has cut its

target for the federal funds rate from 3.5 percent to three percent, and more cuts are expected.

Despite these precautions, participants still scrambled for safe assets, particularly U.S. Treasury securities. As the week of the disaster ended, the yield on the two-year Treasury note fell to a 43-year low, and some expect it to drop beneath three percent. When Treasury yields fell, swap spreads, a popular measure of the risk in corporate bonds, ballooned. As investors flee to safer instruments, subsequent weakness in the equity market may reinforce the recognition of the tremendous wealth loss over the last 18 months, which could further dampen consumer spending. Increased costs of businesses in the tragedy's aftermath are also a possibility. The most obvious sources are a spike in oil prices, notwithstanding OPEC's offer to support current prices, and costs of disruptions stemming from greater aviation security.

The speed and magnitude of central bank responses will likely thwart an economic meltdown. At the same time, however, it is likely that the country is in store for significant economic damage in addition to the physical and emotional damage of the strikes. At best, it will now take longer to repair the fragile state of consumer confidence; at worst, ensuing uncertainty could lead to a downward spiral in confidence with attendant consequences for spending. ■