Midstate Economic Indicators

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Second Quarter Less Positive Than First

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Second-quarter indicators are less positive following a very positive first quarter. Nonfarm employment and taxable sales are sluggish, and claims for unemployment insurance have stopped their decline. Weakened economic indicators caused the Midstate Leading Index to fall slightly from the first quarter, although it is still 5.5 percent higher than one year ago (Table 2 inside). On the positive side, construction activity is strong compared with a year ago, and tourism indicators have rebounded.

Following a gangbuster first quarter in the midstate, housing construction cooled during the second quarter. According to Census Bureau figures, permits for single-family structures fell to 4,382 during the second quarter from 4,415 in the first quarter, a seasonally adjusted decline of 0.8 percent (Figure 1). While the pace of construction declined, we could hardly characterize the second quarter performance as weak, since permits were 20 percent higher than in 2003 and values for single-family permits were 29 percent greater than one year ago. A more accurate interpretation is that the second quarter cooled somewhat from an unsustainably rapid pace of growth in the first quarter.

Home construction data provided by MarketGraphics of Brentwood provide a similar picture. The MarketGraphics data show a 4.0 percent decline from the first quarter, adjusted for seasonal fluctuations, with the level of activity in the second quarter still a robust 11.7 percent higher than a year ago.

The midstate labor market produced mixed signals during the second quarter. The unemployment rate fell to 4.4 percent, total employment gained just 0.1 percent, and the labor force fell a bit. Initial claims for unemployment insurance (UI) ticked up to 28,400, a gain of 0.3 percent. UI claims have changed little since the fourth quarter of 2003, although they still are 25 percent lower than a year ago. Steady UI claims data suggest that future improvements in the unemployment rate may be modest.

Finally, a number of counties in the midstate experienced weakening labor markets, with 31 percent showing higher unemployment rates compared with the first quarter, and just 61 percent reporting employment gains.

Of the 12 major employing sectors for the Nashville MSA, employment gains and employment losses were evenly split: five sectors gained jobs, and five sectors lost jobs (Table 1). Two sectors (construction and mining; wholesale trade) experienced no change in employment.

Seasonally adjusted nonfarm employment for the Nashville MSA declined somewhat in the second quarter, falling by a very modest 0.3 percent. Most of the jobs lost were in local gov-

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Figure 1. Number and Value of Single-Family Construction Permits, Midstate Counties

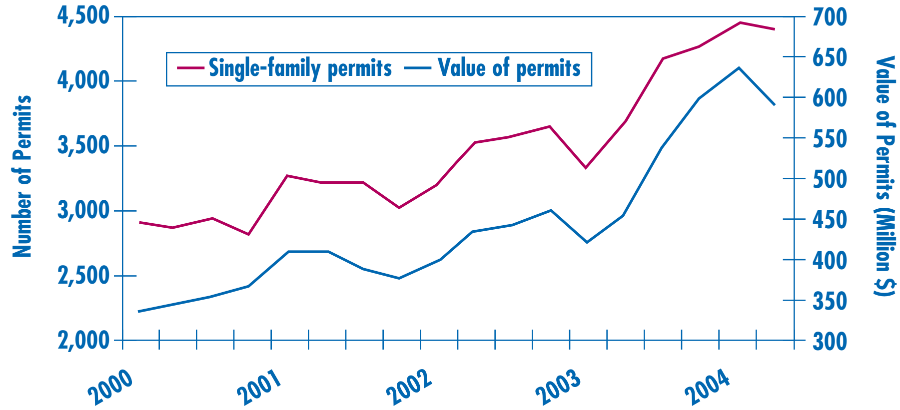

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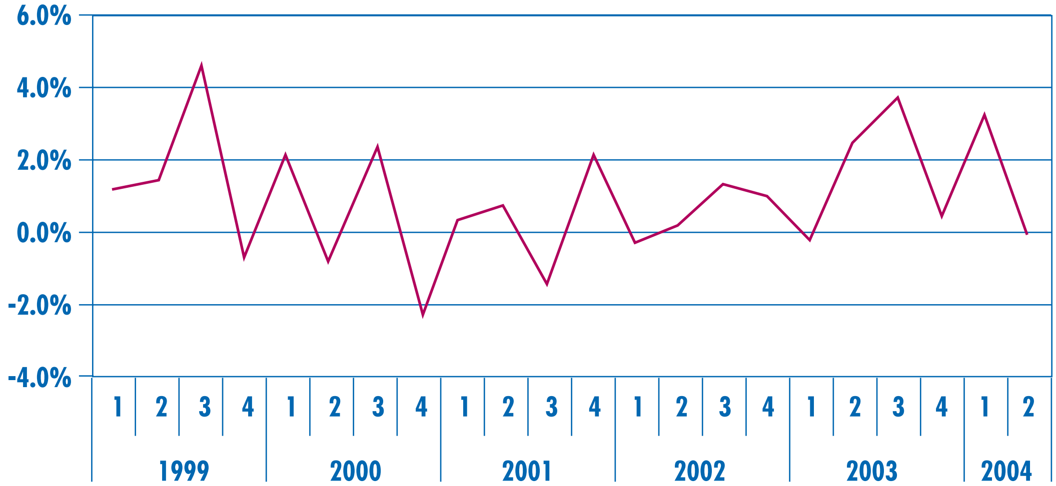
Table 1. Second-Quarter Employment Changes

Gains
Manufacturing
Retail Trade
Transportation and Utilities
Financial Activities
Educational and Health Services
Losses
Information
Professional and Business Services
Leisure and Hospitality
Other Services
Government
No change
Construction and Mining
Wholesale Trade

Interestingly, employment in the private service-providing industries was the weak spot…. By contrast, manufacturing added 300 jobs, all in the durable goods manufacturing sector.

Figure 2. Quarter-to-Quarter Percent Change of Seasonally Adjusted Taxable Sales, Midstate Counties



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ernment; these job losses could possibly be related to hiring and letting go temporary employees for the primary election during the first quarter. Total job change for private-sector employers was 400, a drop of 0.1 percent from the first quarter.

Interestingly, employment in the private service-providing industries was the weak spot. Professional and business services employment fell 1.0 percent, both information and leisure and hospitality fell 0.1 percent, and other services employment is off 0.3 percent. By contrast, manufacturing added 300 jobs, all in the durable goods manufacturing sector.

After adjusting for typical seasonal changes, taxable sales show little improvement from the first quarter, with midstate sales down slightly by 0.1 percent and Nashville MSA taxable sales up a very modest 0.3 percent. Much like housing construction activity, sales activity moderated significantly from first to second quarters but still is 7.2 percent above year-ago levels.

The quarterly path of sales growth can eas-

Table 2. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	Geographical Area	2003Q1	2003Q2	2003Q3	2003Q4	2004Q1	2004Q2	% Change 04Q1-04Q2	% Change 03Q2-04Q2
Midstate Leading Index	Midstate*	106.1	106.2	107.9	108.6	112.3	112.0	-0.2%	5.5%
EMPLOYMENT									
Midstate Total Employment	Midstate	1,058,710	1,054,702	1,055,304	1,057,375	1,075,555	1,076,596	0.1%	2.1%
Midstate Labor Force	Midstate	1,115,595	1,115,693	1,117,216	1,119,475	1,126,931	1,125,643	-0.1%	0.9%
Midstate Unemployed	Midstate	56,885	60,992	61,913	62,100	51,376	49,047	-4.5%	-19.6%
Midstate Unemployment Rate	Midstate	5.1%	5.5%	5.5%	5.5%	4.6%	4.4%	-4.4%	-20.3%
Average Hours Worked per Week in Manufacturing	Nashville MSA**	38.3	38.8	39.1	39.7	39.7	39.7	-0.1%	2.2%
Counties with Increased Employment (percent)	Midstate	43.9%	24.4%	63.4%	68.3%	80.5%	61.0%	—	—
Counties with Increased Unemployment (percent)	Midstate	73.2%	87.8%	58.5%	46.3%	2.4%	31.7%	—	—
INITIAL CLAIMS AND BANKRUPTCY									
Initial Claims for Unemployment Compensation	Midstate	37,300	38,244	32,878	28,248	28,370	28,459	0.3%	-25.6%
Bankruptcy Case Filings	Midstate	4,206	4,219	4,030	4,016	3,838	—	—	—
HOUSING CONSTRUCTION									
New Residential Permits	Midstate								
Single-Family		3,289	3,648	4,149	4,263	4,415	4,382	-0.8%	20.1%
Total		3,726	4,063	4,820	5,258	5,853	4,914	-16.0%	20.9%
Value of New Residential Units (million $)	Midstate								
Single-Family		421.2	456.1	539.4	597.5	635.9	587.2	-7.7%	28.8%
Total		443.2	480.8	590.1	639.5	665.7	625.9	-6.0%	30.2%
MarketGraphics: Single-Family Construction	6 NMSA Counties***	2,710	2,959	3,283	3,275	3,442	3,305	-4.0%	11.7%
TOURISM									
Hotel Tax Revenue (million $)	Davidson County	5.07	4.69	4.76	4.70	4.74	5.11	7.8%	9.0%
Total Air Passengers, Nashville International Airport	Davidson County	1,992,327	1,944,060	2,032,810	2,005,566	2,049,727	2,192,953	7.0%	12.8%
TAXABLE SALES (estimates)									
Nashville MSA (million $)	Nashville MSA	5,471	5,601	5,831	5,836	5,987	6,002	0.3%	7.2%
Midstate (million $)	Midstate	7,630	7,809	8,096	8,119	8,381	8,374	-0.1%	7.2%

Notes: Seasonal adjustment with X11. * Midstate is a 41-county area. ** Nashville MSA includes 8 counties. *** NMSA is Nashville MSA.
Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Bureau of the Census; Davidson County Clerk's office; Metropolitan Nashville Airport Authority; U.S. Bankruptcy Court, Middle Tennessee District; MarketGraphics, Brentwood, Tennessee

ily vary plus or minus four percentage points, as shown in Figure 2. The volatility of sales growth means that poor quarters will be mixed in with good growth quarters. For example, sales growth has trended generally positive since the second quarter of 2002, even though the period included three quarters of zero growth (2003 first quarter, 2003 fourth quarter, and 2004 second quarter). One disappointing quarter does not signal the beginning of a new economic slowdown.

It may be helpful to examine the components of retail sales. Available data from the Tennessee Department of Revenue pertain to state totals; substate figures are not available. According to the statewide figures, auto dealers and service stations make up the largest portion of retail sales subject to sales tax, about 22.3 percent of the total for the second quarter of 2002 (Figure 3). Next in importance are general merchandise (18.4 percent), eating and drinking places (13.6 percent), and food stores (13.0 percent).

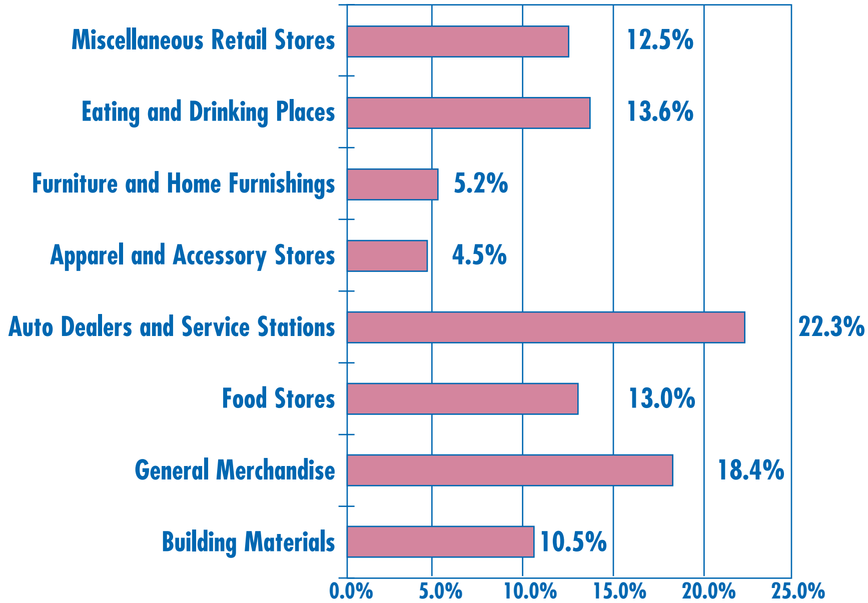
Total retail sales for the state rose a modest 3.7 percent from the second quarter of 2003 (Figure 4). Some retailing sectors such as furniture and home furnishings and building materials showed robust growth of 10 percent or more; some of this increase is likely due to price increases for building materials, however. Eating and drinking places, general merchandise, and apparel and accessory stores increased between five and six percent.

The only sector with a decline in sales is auto dealers and service stations, down 2.6 percent from a year earlier. Since this sector represents 22 percent of all retail sales, a decline will exert a significant impact on the total retail sales trend.

The national economy showed signs of cooling also, with payroll employment growth dipping substantially to just 32,000 jobs in July. High oil and gasoline prices receive a fair amount of the blame for the cooling of the national economy, although some also point to increased local taxes and the winding down of the impact of federal income tax cuts. In the long run, industries can adjust to higher energy prices by substituting lower-cost sources of energy for higher-cost sources and investing in energy-saving technologies. Indeed, the U.S. economy is much more energy efficient than in the 1970s, the period of the most severe oil price shocks and shortages. In 2002, the U.S. economy produced $103 of real output per million Btu of energy consumed, compared with $66 in 1980 and $56 in 1970 (Figure 5 on back).

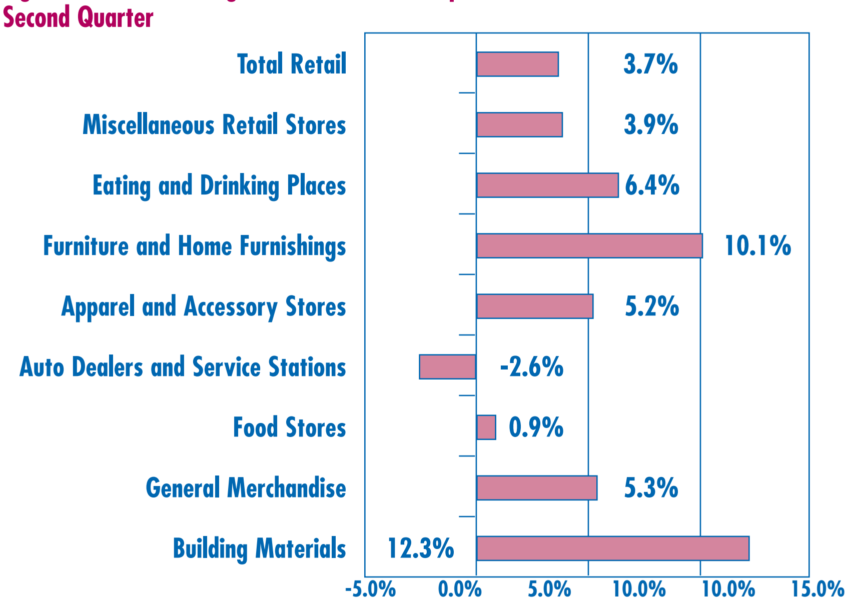
In the short run, however, options to cut back energy and fuel consumption are limited. Some industries, particularly the transportation sector, experience difficulty digesting rapid fuel price increases. Higher jet fuel prices are especially ill-timed for the airline industry, with several companies struggling to return to profitable operations after the events of September 2001.

Figure 3. Distribution of Sales by Retail Sector, Tennessee, Second Quarter 2004



Source: Tennessee Department of Revenue

Figure 4. Percent Change of Retail Sales Components, Statewide, 2003-2004 Second Quarter



On the national economic scene, advance estimates of national economic growth slowed considerably in the second quarter, with gross domestic product (GDP) up a modest 3.0 percent from the first quarter. By contrast, GDP increased 4.5 percent in the first quarter from the fourth quarter of 2003. A sharp deceleration in consumer spending was primarily to blame for the softening, with spending for durable goods down 2.5 percent. Disposable income adjusted for inflation rose just 2.9 percent compared with 3.2 percent in the first quarter, suggesting that the stimulating effect of the federal income tax cuts has diminished.

After strong performance in April and May, industrial production dipped in June. Preliminary July figures show a return to the pre-

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June growth trend. Capacity utilization is 77.1 percent and climbing; pricing pressures in the manufacturing sector typically don't set in until capacity utilization reaches about 80 percent.

Healthy nonfarm employment gains in April (+324,000) and May (+208,000) diminished greatly in June (+78,000) and nearly disappeared in July (+32,000). Sluggish nonfarm employment growth is a concern, but worries about a new sustained slowdown are not yet justified. ■

Figure 5. Dollars of Real Output per Million Btu Consumed, U.S., 1970-2002