

4th Quarter Mixed

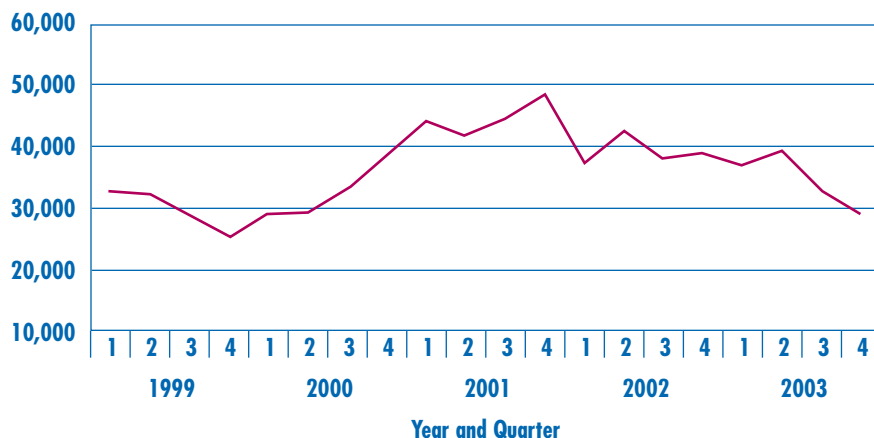
David A. Penn, BEREC director

Fourth quarter economic indicators for midstate Tennessee are very much a mixed bag. Housing construction, for example, offers both negative and positive news. According to the U.S. Census Bureau, the number of permits issued for single-family structures fell a seasonally adjusted 23.9 percent in the fourth quarter, signaling a cooling-off period for the recently hot housing construction sector. Although the number of units is down, the total value of single-family permits rose by nearly 10.3 percent on a seasonally adjusted basis.

Home construction data provided by MarketGraphics of Brentwood provide a somewhat different picture. The MarketGraphics data show much less housing construction activity in the first half of 2003 and the last quarter of 2002 compared with Census Bureau figures, but the two show about the same amount of construction activity for the second half of 2003. The consequence is that home construction shows a strong year-to-year gain in the fourth quarter compared with a decline when we use the Census Bureau figures. Both series show lower construction activity from the third quarter to the fourth quarter with the Census Bureau data falling much more than the Market-Graphics figures.

The midstate labor market weakened substantially during the fourth quarter. Unemployment rose by nearly 5,500, a 10.4 percent increase, and the unemployment rate increased to 5.2 percent. Most of the increase in unemployment occurred in the Nashville MSA with all eight counties experiencing increases. Softer labor market conditions were relatively widespread, with two-thirds of the 41 counties experiencing increased unemployment and just 46 percent reporting employment gains.

Figure 1. Initial Unemployment Insurance Claims, Midstate Counties, Seasonally Adjusted



The midstate labor market may well improve in the near future since initial claims for unemployment insurance dropped sharply in the fourth quarter. A leading indicator of labor market tightness, initial claims have been on the decline in recent quarters. In fact, initial claims are at their lowest level since the second quarter of 2000 (Figure 1).

Broad-based employment gains needed for sustained job growth are not yet evident in the midstate economy. Just 46 percent of the midstate counties gained jobs during the fourth quarter, down from 64 percent in the third quarter. And of the 12 major employing sectors in the Nashville MSA, just seven produced employment gains with the other five showing job losses.

Seasonally adjusted nonfarm employment for the Nashville MSA increased slightly in the fourth quarter, up a very modest 0.13 percent following a 0.54 percent third-quarter gain. Progress in the labor market has definitely slowed.

The service-providing sector was the weak spot for employment growth. Indeed, nearly eight of 10 net new jobs created in the fourth quarter occurred in the goods-producing sectors consisting of natural resources and mining, construction, and manufacturing, even though goods

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Table 1. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	Geographical Area	2002Q3	2002Q4	2003Q1	2003Q2	2003Q3	2003Q4 03Q3-Q4	% Change 03Q3-Q4	% Change 02Q4-03Q4
EMPLOYMENT									
Midstate Number of Employed Persons	Midstate*	1,072,689	1,071,204	1,061,376	1,061,747	1,063,023	1,060,275	-0.3%	-1.0%
Midstate Labor Force	Midstate	1,124,247	1,123,295	1,111,490	1,115,576	1,115,928	1,118,667	0.2%	-0.4%
Midstate Unemployed	Midstate	51,559	52,091	50,113	53,829	52,905	58,392	10.4%	12.1%
Midstate Unemployment Rate	Midstate	4.6%	4.6%	4.5%	4.8%	4.7%	5.2%	10.1%	12.6%
Average Hours Worked per Week in Manufacturing	Nashville MSA**	39.5	39.7	38.2	39.1	39.0	39.3	0.7%	-1.1%
Counties with Increased Employment (percent)	Midstate	53.7%	56.1%	53.7%	36.6%	63.4%	46.3%	-26.9%	-17.4%
Counties with Increased Unemployment (percent)	Midstate	29.3%	48.8%	31.7%	87.8%	46.3%	68.3%	47.4%	40.0%
Initial Claims for Unemployment Compensation	Midstate	37,824	38,671	36,814	39,080	32,613	28,686	-12.0%	-25.8%
BANKRUPTCY									
Bankruptcy Case Filings	Midstate	4,027	4,058	4,221	4,210	4,006	4,032	0.6%	-0.7%
HOUSING CONSTRUCTION									
Census Bureau									
New Residential Units (permits)	Midstate								
Single-Family		3,561	3,647	3,301	3,603	4,167	2,776	-33.4%	-23.9%
Total		3,890	4,123	3,712	4,013	4,895	3,511	-28.3%	-14.8%
Value of New Residential Units (million \$)	Midstate								
Single-Family		442	461	422	451	543	599	10.3%	29.9%
Total		465	487	449	472	595	638	7.2%	31.1%
MarketGraphics: Single-Family Residential Units	6 NMSA Counties***	2,811	2,915	2,581	2,855	3,493	3,388	-3.0%	16.2%
TOURISM									
Hotel Tax Revenue (million \$)	Davidson County	4,615,467	4,817,567	5,106,513	4,688,214	4,800,457	4,731,850	-1.4%	-1.8%
Total Air Passengers, Nashville International Airport	Davidson County	2,043,920	2,030,461	1,987,726	1,930,885	2,024,269	2,004,463	-1.0%	-1.3%
TAXABLE SALES (estimates)									
Nashville MSA (million \$)	Nashville MSA	5,419	5,482	5,479	5,599	5,836	5,828	-0.1%	6.3%
Midstate (million \$)	Midstate	7,595	7,643	7,632	7,819	8,106	8,105	0.0%	6.0%

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 of Brentwood, Tennessee

Note: A new and improved Midstate Leading Index will return in our next issue of *Midstate Economic Indicators*.

Table 2. Fourth Quarter Employment Changes

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

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production accounts for only 16 percent of employment.

The number of jobs in the goods-producing sector, including natural resources and mining, construction, and manufacturing, increased 0.6 percent in the fourth quarter, the same as the third-quarter increase. Construction employment increased by 200, and employment in the natural resources and mining sector was stable.

Job gains in the manufacturing sector were modest but relatively broad-based. Employment in durable goods manufacturing rose 0.6 percent with computer and electronic manufacturing up 200 jobs and the equipment, appliance, and component manufacturing sector up 100 jobs. Employment in transportation equipment manufacturing was steady at 17,100.

Job growth in the service-providing sectors slowed to a standstill in the fourth quarter after a small third-quarter gain. Particularly weak are transportation and utilities, down 2.0 percent from the previous quarter, and wholesale trade, down 1.8 percent. Retail trade and financial activities also showed losses. Employment losses were offset by job gains in five service-

providing sectors: professional and business services, educational and health services, leisure and hospitality, other services, and government.

A statistical phenomenon that has re-emerged is the divergence of the two most important measures of county level employment: payroll employment and total employment, both products of the U.S. Bureau of Labor Statistics (BLS). County level payroll employment consists of tabulations of state unemployment insurance tax reports from employers. A part of the Quarterly Census of Employment and Wages (QCEW), county level payroll employment is a virtual census of all non-farm employers including most government employers and about 47 percent of all workers in agricultural industries.

Total employment, on the other hand, is a product of the Local Area Unemployment Statistics (LAUS) program within the BLS. Conceptually, total employment includes self-employed and payroll workers, farm and nonfarm. County level total employment estimates incorporate information from a number of sources including the QCEW payroll employment data.

The two employment time series have advantages and disadvantages. The QCEW data offer detailed industry employment by

county but are not as timely as the LAUS data. The most recent QCEW employment data at the county level is for June 2003, for example, compared with December 2003 for the LAUS employment data.

An annoying feature of the two measures of employment is that they can move in opposite directions, typically for a short time. For example, from the first half of 2002 to the first half of 2003, midstate total employment fell by 0.2 percent but payroll employment increased by 1.6 percent (Table 3). Of the 41 counties in the midstate area, 19 counties showed an increase in one employment measure but a decline in the other. In Rutherford, Williamson, and Wilson counties, among others, payroll employment is up 3 percent or more, yet total employment shows a decline.

National employment data also show a divergence between these two series, but at the national level total employment has outpaced payroll employment, especially since the beginning of the recession in 2001. The gap between the series continues to puzzle both White House and Federal Reserve economists.¹ White House economist Gregory Mankiw prefers the total employment series while Federal Reserve Board economists give the edge to nonfarm employment. The behavior of the two employment series will likely converge as more economic indicators move into posi-

Table 3. Midstate Employment Growth, First Half 2002 to First Half 2003

County	Total Employment	Payroll Employment	County	Total Employment	Payroll Employment
Bedford	0.2%	5.7%	Marshall	-14.8%	-14.6%
Cannon	2.4%	1.1%	Maury	-2.4%	-1.4%
Cheatham	-0.2%	-1.3%	Montgomery	0.6%	2.8%
Clay	0.1%	8.3%	Moore	2.3%	-3.6%
Coffee	2.3%	1.1%	Overton	1.3%	-1.1%
Cumberland	2.8%	7.4%	Perry	2.2%	0.5%
Davidson	-0.2%	0.9%	Pickett	1.3%	2.4%
DeKalb	4.4%	13.0%	Putnam	1.3%	1.0%
Dickson	-0.2%	1.8%	Robertson	-0.2%	8.3%
Fentress	4.3%	1.2%	Rutherford	-0.2%	3.6%
Franklin	2.3%	0.7%	Smith	-5.4%	5.6%
Giles	-1.9%	-7.5%	Stewart	-0.2%	-2.4%
Grundy	-0.3%	-1.3%	Sumner	-0.2%	0.8%
Hickman	0.4%	1.2%	Trousdale	5.3%	10.7%
Houston	3.0%	-0.3%	Van Buren	0.8%	-4.3%
Humphreys	-4.0%	4.1%	Warren	0.8%	3.0%
Jackson	1.3%	-0.3%	Wayne	-3.1%	-1.6%
Lawrence	-1.7%	1.9%	White	-4.4%	-2.1%
Lewis	-3.4%	4.9%	Williamson	-0.2%	4.4%
Lincoln	-0.4%	3.0%	Wilson	-0.2%	4.9%
Macon	-1.0%	0.0%	Midstate Total	-0.2%	1.6%

tive territory and the job market improves.

Growth of taxable sales cooled substantially in the fourth quarter: sales in the midstate counties were up just 1.0 percent from the third quarter while sales in the Nashville MSA gained 1.4 percent. But since the sales

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Table 4. Nashville MSA Quarterly Payroll Employment (thousands, seasonally adjusted)

Sector	2002Q2	2002Q3	2002Q4	2003Q1	2003Q2	2003Q3	Preliminary 2003Q4	Percent Change 02Q4-03Q4	03Q3-Q4
Total Nonfarm	671.8	675.9	673.9	674.2	672.8	675.1	676.1	0.3%	0.2%
Goods-Producing	111.1	110.6	109.9	108.8	107.5	108.0	108.7	-1.1%	0.6%
Service-Providing	560.5	565.6	564.0	565.6	565.0	567.4	567.4	0.6%	0.0%
Natural Resources and Mining	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.0%	-0.9%
Construction	30.7	31.0	31.3	31.0	30.3	30.6	30.8	-1.5%	0.7%
Manufacturing	80.0	79.2	78.1	77.4	76.8	77.1	77.4	-0.9%	0.5%
Durable Goods	54.1	54.2	53.3	52.6	52.0	52.5	52.8	-1.1%	0.6%
Computer and Electronic Product Manufacturing	5.9	5.7	5.4	5.2	5.3	5.2	5.4	0.9%	3.5%
Equipment, Appliance, and Component Manufacturing	6.1	6.1	6.0	5.9	5.8	5.5	5.6	-6.6%	1.2%
Transportation Equipment Manufacturing	16.5	17.0	17.0	17.0	16.9	17.1	17.1	1.0%	0.4%
Nondurable Goods	26.0	25.0	24.7	24.8	24.8	24.6	24.6	-0.5%	-0.1%
Wholesale Trade	32.7	32.4	31.9	31.3	31.2	30.9	30.3	-5.1%	-1.8%
Retail Trade	75.6	75.2	74.5	73.9	73.9	73.9	73.4	-1.5%	-0.6%
Transportation and Utilities	25.2	24.8	24.2	24.2	24.0	23.8	23.3	-3.9%	-2.0%
Information	21.8	22.2	22.1	21.8	21.7	22.0	22.0	-0.4%	0.0%
Financial Activities	43.2	43.3	43.0	42.9	42.8	42.4	42.3	-1.7%	-0.3%
Professional and Business Services	89.8	92.8	93.0	94.4	94.2	94.5	95.1	2.3%	0.7%
Educational and Health Services	87.4	88.7	89.2	90.3	91.1	91.9	92.5	3.7%	0.6%
Educational Services	18.3	18.6	18.6	18.9	19.1	19.5	19.5	5.0%	0.1%
Health Care and Social Assistance	69.2	70.1	70.4	71.5	72.0	72.4	72.8	3.4%	0.5%
Leisure and Hospitality	68.1	68.5	68.7	69.3	69.0	69.2	69.4	1.0%	0.3%
Accommodation and Food Services	59.7	60.2	59.9	59.6	59.6	59.9	60.3	0.7%	0.7%
Accommodation	12.7	12.4	12.4	12.3	12.1	12.3	12.3	-0.7%	0.5%
Food Services and Drinking Places	47.0	47.2	47.4	47.4	47.5	47.8	47.8	0.8%	0.0%
Other Services	29.0	29.4	29.2	29.4	29.5	29.8	29.9	2.2%	0.3%
Government	87.5	88.4	88.4	88.1	87.6	89.1	89.5	1.3%	0.5%
Federal Government	11.0	11.0	11.2	11.2	11.1	11.2	11.4	2.4%	1.8%
State Government	27.1	27.0	27.2	27.0	27.2	27.4	27.6	1.7%	1.0%
Local Government	49.6	50.4	50.0	49.8	49.4	50.6	50.4	0.8%	-0.3%

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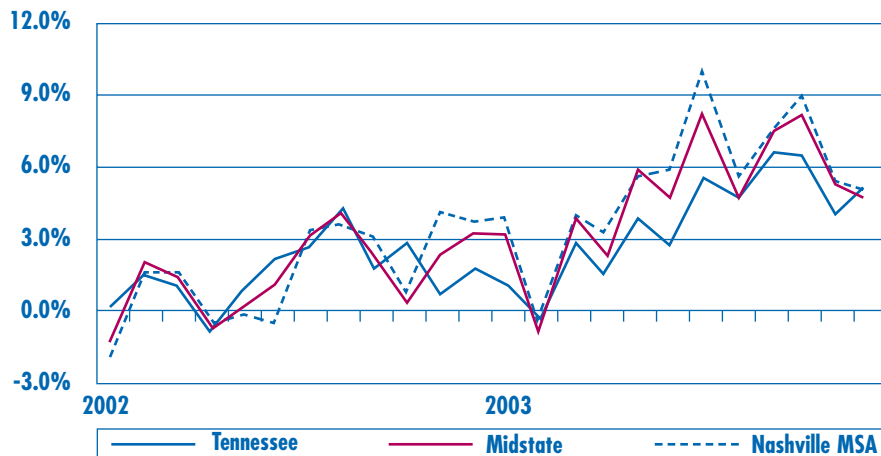
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gains for the third quarter were very strong, maintaining the rapid third-quarter growth rate probably wasn't a realistic expectation. Indeed, compared with the same period last year, midstate taxable sales are up 6.9 percent and taxable sales for the Nashville MSA are 7.2 percent higher (Figure 2).

Figure 2. Year-to-Year Percent Change in Taxable Sales



Source: Tennessee Department of Revenue and MTSU

As for the national economic scene, industrial output and capacity utilization improved during the fourth quarter. The Purchasing Managers Index (PMI) released by the Institute for Supply Management was very strong, increasing by 12 percent from the third quarter. The PMI takes into account new orders for manufactured goods, current production, and employment in the manufacturing sector. According to the *Wall Street Journal Online*, manufacturing production capacity is expected to increase 1.8 percent this year, much better than the 1.0 percent gain for 2003. Most of the increase in capacity is expected in high-technology industries.

Employment growth for the national economy continues to disappoint with payroll employment up just 0.14 percent from the third quarter, seasonally adjusted. Cost-cutting pressures and improved productivity, while useful in the long-run, have the short-run effect of reducing the rate of growth of employment. ■

¹“Economic View: Two Tales of American Jobs,” by Edmund L. Andrews, *New York Times*, February 22, 2004.