Midstate Economic Indicators
Volume 11 No. 2 Summer 2001
Includes data from 1st quarter 2001

More Alive than Not

by Max Melnikov, BERC Research Associate

Mark Twain reportedly once replied to an erroneous newspaper article: "The rumors of my death have been greatly exaggerated." If the U.S. economy could talk, it would probably say something similar.

Despite numerous negative numbers and pessimistic reports, the U.S. economy is alive, and there is still no reason to believe we are falling into a recession. Admittedly, the U.S. Leading Index dipped 0.8 percent during the first quarter of 2001, and the midstate index followed its "big brother" with a decline of 0.5 percent (Table 3). Slowdown is obvious in many sectors of the economy, but the rate of descent is moderate.

One of the most current economic indicators, the number of initial claims for unemployment compensation, created the biggest splash in the first quarter by jumping almost 50 percent for the midstate area from the previous quarter to 53,566—the biggest increase since the first quarter of 1994. Claims reached this record level even without any help from Dell Computer Corporation, which denied rumors by announcing on February 15 that most of its 1,700 eliminated jobs were in Central Texas. The jobless data are attracting increasing attention as economists look to the numbers for clues to the broader employment picture amid a softer U.S. economy. Tennessee unemployment rates rose synchronously (Table 2), and our model predicts further deterioration, but less than national levels, in the near future. The U.S. labor market remains weak in the second quarter of 2001, but the unemployment rate is lower than many experts anticipated.

Sectorally, retailing, services, construction, and wholesaling were the major contributors to the 0.5 percent rise in total employment (Table 1) in the Nashville metropolitan area. The biggest losers were the four manufacturing sectors, together cutting about 1,700 jobs.

Wages in Nashville-area manufacturing rose 0.8 percent in the first quarter, in line with national trends. A serious jump in bankruptcy case filings is evident, adding more than 29 percent to the previous quarter's number. In fact, hidden unemployment and related bankruptcies may gain momentum as increasing numbers of discouraged workers lose hope of finding jobs.

The first quarter saw another decline in midstate auto production. However, the increases in midstate sales of locally produced Nissans and Saturns, the first bright spot in a year, may be largely attributable to the success of new models in recent months. Another bright spot was housing; however, seasonal adjustment may account for the surprising rise in the number of

continued on back

Slowdown is obvious in many sectors of the economy, but the rate of descent is moderate.

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

Sector	Nashville MSA 2001Q1	Nashville MSA Change	Nashville MSA % Change*	USA % Change*
Total	703,247	3,225	0.5%	1.1%
Construction and Mining	36,806	437	1.2%	1.3%
Manufacturing: Transportation Equipment	13,936	-491	-3.4%	0.1%
Manufacturing: Other Durable Goods	43,559	-440	-1.0%	-0.1%
Manufacturing: Printing and Publishing	12,253	-251	-2.0%	-0.7%
Manufacturing: Other Nondurable Goods	23,262	-427	-1.8%	0.5%
Finance, Insurance, and Real Estate (FIRE)	42,086	-43	-0.1%	0.4%
Transportation, Communications, and Utilities	35,045	244	0.7%	1.9%
Wholesale: Total	39,098	578	1.5%	2.2%
Retail: Eating and Drinking	47,341	283	0.6%	1.2%
Retail: Food	15,039	410	2.8%	0.8%
Retail: General	21,137	415	2.0%	0.0%
Retail: Other	57,056	1,877	3.4%	2.4%
Services: Education	16,137	33	0.2%	1.0%
Services: Health	56,482	5	0.0%	2.0%
Services: Hotel	9,941	30	0.3%	0.5%
Services: Other	141,376	844	0.6%	3.5%
Government: Total	92,701	-279	-0.3%	-0.3%

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

Table 2: Forecast Unemployment and Job Growth

	Actual				Forecast	
	00Q2	00Q3	00Q4	01Q1	01Q2	01Q3
Unemployment Rate						
Middle Tennessee	3.1%	3.1%	3.3%	3.5%	3.6%	3.6%
East Tennessee	3.7%	3.7%	3.8%	4.1%	4.0%	4.0%
West Tennessee	3.8%	3.9%	4.1%	4.2%	4.3%	4.3%
Tennessee	3.5%	3.5%	3.7%	3.8%	3.9%	4.0%
Job Growth: One Quarter SAAR						
Nashville MSA	1.4%	1.5%	0.9%	0.7%	0.8%	0.8%
Chattanooga MSA	-0.2%	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%
Tennessee	1.2%	1.2%	1.0%	0.8%	1.0%	0.8%

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

Banking in Tennessee

by Albert E. DePrince, Jr., BERC Director, and Thomas H. Strickland, MTSU Finance Professor

The last restrictions on interstate branching fell by July 1997, raising the specter of heightened concentration as banks found it easier to merge.

A variety of forces buffeted local banking markets during the 1990s. Legislative developments were probably the most visible, and two stand out. The first, the Interstate Banking and Branch Efficiency Act of 1994 (IBBEA), allowed full interstate branching by July 1997 and accelerated an already fast pace of bank mergers with implications for branch consolidations. The second, the Financial Modernization Act of 1999 (FMA), streamlined cross-industry mergers of banks and nonbank financial firms (such as securities firms and insurance firms) and expanded the potential variety of financial services offered by financial institutions. Effects of the act are probably still in their infancy.

Additionally, the late 1990s was a period of strong cost controls, coupled with efforts to channel more business through each branch. Cost-control effects were reflected in closings, relocations, upsizing or downsizing, and the outright sale of branches.

The merger boom stemming from the IBBEA had the potential to increase concentration in local banking markets. The focus on cost control had the potential to reduce the number of banking offices in local markets. This report assesses the impact of these developments on local banking markets in Tennessee during the 1990s; the county is used as the local banking market.

Specifically, this report investigates shifts in concentration, branches, and deposits from 1990 through 2000. Branch and deposit data include commercial banks, thrifts, and credit unions. Banking offices include main and branch offices of each institution in the local market. Data are obtained from various branch databases available through the FDIC, OTS, and NCUA. Data are annual as of June 30 of each year; the latest available are from June 2000.

Banking Concentration

With passage of the IBBEA, the last restrictions on interstate branching fell by July 1997, raising the specter of heightened concentration as banks found it easier to merge. Indeed, merger effects were dramatic. Nationwide, there were 12,345 commercial banks in 1990; in 2000, this fell to 8,315, a drop of 33 percent. For Tennessee, the decline was not as severe; there were 253 banks in 1990 and 197 in 2000, a drop of 22 percent.

To assess effects of bank consolidation on concentration in Tennessee, the Herfindahl Hirschman Index (HHI[1]), a conventional measure of concentration, was calculated for each of the state's counties for 1990 and 2000.

Table 3. Data Bank for Middle Tennessee

Series (adjusted for seasonality and inflation)	Geographical Area	00Q1	00Q4	01Q1	00Q4-01Q1
COMPOSITE INDICES					
Midstate Leading Index	Midstate (41 Counties)	108.93	109.87	109.29	-0.5%
U.S. Leading Index	U.S.	114.23	113.91	112.97	-0.8%
EMPLOYMENT					
Midstate Number of Employed Persons	Midstate (41 Counties)	1,036,455	1,058,350	1,055,328	-0.3%
Midstate Unemployment Rate	Midstate (41 Counties)	3.2%	3.3%	3.5%	6.1%
Percent of Sectors with Employment Increase for Month	Nashville MSA (8 Counties)	50%	65%	65%	0.0%
Percent of Counties with Employment Increase for Month	Midstate (41 Counties)	44%	11%	14%	27.3%
Average Hours Worked per Week in Manufacturing	Nashville MSA (8 Counties)	40.48	40.88	40.85	-0.1%
Average Pay per Hour in Manufacturing	Nashville MSA (8 Counties)	13.67	13.80	13.91	0.8%
INITIAL CLAIMS AND BANKRUPTCY					
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	23,565	35,900	53,566	49.2%
Bankruptcy Case Filings	Midstate (41 Counties)	2,788	2,903	3,753	29.3%
REAL ESTATE					
Occupancy Index	Davidson County	97.77%	97.49%	98.38%	0.9%
New Residential Units (permits)	Midstate (41 Counties)	4,363	3,504	4,028	15.0%
Value of New Residential Units (million $)	Midstate (41 Counties)	400.9	345.7	441.0	27.6%
AUTOMOBILE PRODUCTION					
Autos Assembled in U.S.	U.S.	3,010,698	3,113,037	2,982,603	-4.2%
Autos Assembled in Midstate	Midstate (41 Counties)	159,708	172,733	151,448	-12.3%
Units Sold: Autos Assembled in Midstate	U.S.	131,810	135,924	145,290	6.9%
TOURISM					
Hotel Revenue	Davidson County	98,587,665	106,469,871	104,899,522	-1.5%
Air Passengers	Davidson County	2,033,252	2,225,004	2,052,590	-7.7%
INCOME, EARNINGS, AND RETAIL SALES					
Retail Sales (million $ per quarter) *	Midstate (41 Counties)	—	—	—	—
Total Personal Income (annual billion $)	Midstate (41 Counties)	53.2	53.9	54.4 (est.)	0.9%
Earnings per Resident Worker (annual)	Midstate (41 Counties)	36,757	37,259	37,737 (est.)	1.3%

Notes: Seasonal adjustment with X11-ARIMA; not annualized; dollars converted to 2001Q1 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

The notion that bank consolidation leads to increased concentration is intuitively appealing, but examination of this assertion produced mixed results for Tennessee. For example, the average HHI for the 95 counties fell from 3,374 to 3,211. The HHI increased in 39 counties but fell or remained constant in 56. Extreme movements were also mixed. Of the 39 counties posting increases, 10 (roughly 25 percent) showed increases of 20 percent or more in their respective concentration ratios (HHIs). Of the 56 counties that fell or remained unchanged, 15 (roughly 25 percent) posted declines of 20 percent or more.

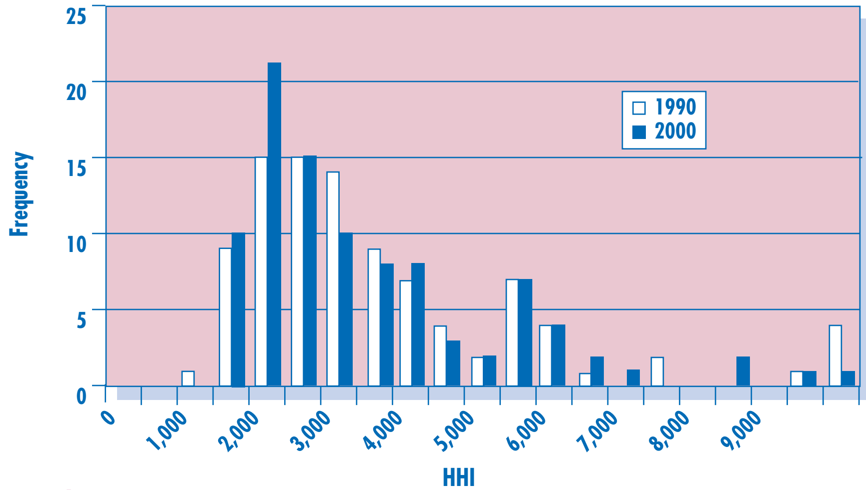
Figure 1 reports the distribution of HHIs for 1990 and 2000, suggesting a slight inverse relationship between the size of a county's HHI and the direction of change during the 1990s. In particular, increases in HHIs during the 1990s seem more prevalent among counties with lower HHIs in 1990. This is plausible, since counties with lower HHIs provide the opportunity for mergers, not likely to be present in counties with higher HHIs. Counties with increased HHIs include some very large metropolitan counties and some small, poor counties. Also, declines in HHIs seem more prevalent among counties with high HHIs. This is plausible, since counties with high concentration ratios present entry opportunities to outside institutions.

What accounts for the seemingly mild effect of bank mergers on concentration rates? Most likely, economic growth brought with it *de novo* entry. For example, two of the state's fastest growing counties, Rutherford and Williamson, experienced slight declines in their HHIs. Their strong growth presented the prospect of business opportunities, providing the incentive for outside institutions to move into the area and establish new banks; both happened locally during the 1990s.

The high degree of concentration at the county level is interesting when compared with the threshold value used by the Justice Department and the Federal Reserve in assessing anticompetitive effects of mergers. Both use an HHI of 1,800 as the point at which anticompetitive concerns must be considered. In 2000, 76 of the state's counties had HHIs in excess of 1,800, little changed from 77 counties in 1990. These high concentrations would obviously limit within-county consolidation, particularly in the state's smaller counties.

Community banks in counties with high HHIs should not view themselves as immune to forays by larger banking institutions. High concentration ratios do not rule out acquisition of a local bank by a larger out-of-county bank, but only mean within-county mergers may be problematic. Thus, while county-level concentration ratios may not change going forward, statewide concentration ratios could rise as larger institutions extend their presence in non-metropolitan counties.

Figure 1: Distribution of the Herfindahl Hirschman Index for 1990 and 2000



Branches

Statewide, a net of 31 new branches were opened during the 12 months ending in June 2000. Separately, 31 counties added a net of 65 branches, and 17 counties closed a net of 34 branches. Locally, Rutherford County added four branches, while Williamson County added two. In last year's report, Rutherford was considered marginally underbanked, with fewer branches than its population suggested. This year, the gain in branches enabled the county to narrow the gap against its population, but it appears there is still opportunity to add branches.

Longer-term, population is the single most important variable determining the number of branches in a county. For 2000, there was an average of one branch for every 2,560 people statewide, compared to 2,425 people in 1990, indicating population increased more rapidly than branches during the 1990s. This outcome is consistent with the expected consequences of cost rationalization prevalent during the 1990s.

Separately, 53 counties reported increases in branches during the 1990s, adding a total of 233 branches; 24 counties reported a reduction, eliminating a total of 90 branches. The counties with an increase in branches would be those where business opportunities abounded; in these counties, growth opportunities may well have dominated cost rationalization. The 24 counties with a net cut in branches during the decade likely reflected the combined effects of cost rationalization and poor business opportunities.

An examination of changes in branches in each of the 95 counties between 1990 and 2000 confirms the link between population and branch growth. On average, each increase of 3,700 people is associated with one additional branch. Two discrepancies stand out. Locally, Davidson County lost 21 branches over the 10-year period. Based on its population growth, there should have been an increase of five branches. The 26-branch net swing is hard to explain, but possible reasons include (1) the response to business opportunities posed by

Population is the single most important variable determining the number of branches in a county.

continued on back

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

Director, BERC:
Albert E. DePrince, Jr.
Research Associate:
Max Melnikov
Dean, Jennings A. Jones 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

AA241-0401
A Tennessee Board of Regents Institution

Business and Economic Research Center
Middle Tennessee State University
P.O. Box 102
Murfreesboro, TN 37132
615-898-2610

Change Service Requested

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

Recent positive events have strengthened the hope of successfully averting a full-blown recession in the U.S. economy.

Banking

continued from inside

faster-growing counties surrounding Davidson County and (2) deposit footings. Deposits per branch rose by 34 percent for the 95 counties during the 10-year period, but only 26 percent in Davidson County. This shrinkage would suggest branch locations were scaled back due to a faster relative deposit growth outside the county or could reflect the consequences of cost rationalization measures by banks in Davidson County, intensified by the county's slower relative deposit growth per branch.

In contrast, Shelby County's 31-branch gain during the 1990s exceeded the expected gain of 15 branches implied by the county's population growth. Here, an obvious explanation exists. In last year's report, Shelby County was identified as underbanked. The big increase was most likely a response to opportunities posed by the shortage of branches. Even so, Shelby County is still considered underbanked (by about 19 branches) based on its population, but it was underbanked by 38 branches a decade ago.

Deposits per Branch

Per capita income is the principal factor accounting for deposits per branch in the state's 95 counties. However, the relationship has weakened between 1990 and 2000. Moreover, the change in deposits between 1990 and 2000 bore almost no relationship to the growth in per capita income during the decade. While this disassociation between branch footings and per capita income may seem perplexing, it is consistent with national trends in the 1990s in which historic links between income and deposits unraveled. ■

1. The HHI is the sum of the squared market shares for each institution in a given geographic market. If a market has only one banking institution, it would have an HHI of 10,000. If a market has 10 institutions of roughly equal size, its HHI would be around 100.

Alive

continued from front

building permits for residential units.

The Federal Reserve has slashed 2.5 percentage points from its target for the federal funds rate since the beginning of the year, one of the most aggressive rate reduction sprees in history; the U.S. Treasury has mailed its annual tax refund checks, and the tax cut refunds are due later this summer. These positive events have all strengthened the hope of successfully averting a full-blown recession in the U.S. economy. ■