

## FIRST QUARTER 2006

### SLOWER ACTIVITY

by David A. Penn

A review of the economic indicators in Table 1 reveals that economic activity slowed in the first quarter of 2006. This conclusion may seem odd in light of the relatively strong over-the-year growth rates: Nashville MSA nonfarm employment posted a solid over-the-year 2.8 percent gain, taxable sales for the Nashville MSA are up 7.6 percent, and single-family housing construction is up 2.6 percent. The problem with these over-the-year comparisons is that first quarter 2005 may be a particularly low point of comparison. In fact, of the five quarters of data presented in Table 1, first quarter 2005 is the weakest quarter for total employment, labor force, and housing construction. Thus, when we compare first quarter 2006 with a particularly weak earlier quarter, the growth rates may be misleading.

More evidence on this is apparent when we review growth quarter to quarter. Nonfarm employment rose 2.8 percent over the year but just 0.5 percent from the fourth quarter. A 0.5 percent quarterly gain is equivalent to a 2.0 percent annualized growth rate, considerably smaller than the 2.8 percent over-the-year gain. Similarly, Nashville MSA taxable sales are up 7.6 percent over the year but just 1.1 percent from last quarter, a much smaller 4.1 percent annualized growth rate. Taxable sales for the midstate counties show a similar pattern: strong growth year to year but much weaker growth from the previous quarter. Finally, single-family housing construction for the midstate rose a modest 2.6 percent over the year but fell 9.5 percent from the fourth quarter.

While employment, construction, and taxable sales grew more slowly during the first quarter, initial unemployment claims and the tourism indicators are bright spots. Initial claims, a reliable predictor of future unemployment, fell greatly in the first quarter, down 8.7 percent

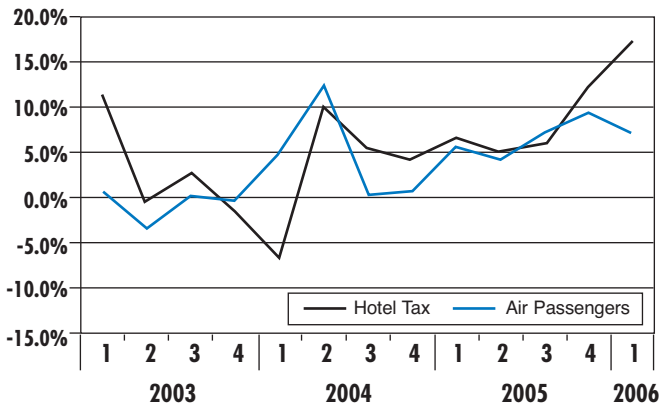
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Table 1. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	Geographical Area	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	% Change 05Q4-06Q1	% Change 05Q1-06Q1
Nashville MSA Leading Index	Nashville MSA*	118.2	119.5	119.8	120.2	119.7	-0.4%	1.3%
Nashville MSA Coincident Index	Nashville MSA	115.4	116.3	117.0	118.1	118.7	0.5%	2.9%
<b>LABOR FORCE AND EMPLOYMENT</b>								
Midstate Total Employment	Midstate**	1,067,379	1,075,237	1,083,199	1,088,163	1,088,572	0.0%	2.0%
Midstate Labor Force	Midstate	1,124,828	1,135,200	1,139,744	1,146,858	1,144,446	-0.2%	1.7%
Midstate Unemployed	Midstate	57,449	59,964	53,545	58,695	55,874	-4.8%	-2.7%
Midstate Unemployment Rate	Midstate	5.1%	5.3%	5.0%	5.1%	4.9%	-4.6%	-4.4%
Nashville MSA Nonfarm Employment	Nashville MSA	726,017	732,001	735,996	742,658	746,469	0.5%	2.8%
Average Hours Worked per Week in Manufacturing	Nashville MSA	39.4	39.6	39.9	39.7	39.1	-1.5%	-0.7%
Initial Claims for Unemployment Compensation	Midstate	40,887	40,328	42,995	36,886	33,677	-8.7%	-17.6%
<b>HOUSING CONSTRUCTION</b>								
New Residential Permits	Midstate							
Single-Family		4,460	4,748	4,522	5,057	4,575	-9.5%	2.6%
Total		5,418	5,682	5,423	5,674	5,057	-10.9%	-6.7%
Value of New Residential Units (million \$)	Midstate							
Single-Family		620.7	712.0	668.0	743.3	670.4	-9.8%	8.0%
Total		684.0	758.8	726.0	770.7	704.5	-8.6%	3.0%
<b>TOURISM</b>								
Hotel Tax Revenue (million \$)	Davidson Co.	5.04	5.34	5.31	5.64	5.94	5.3%	17.8%
Total Air Passengers, Nashville International Airport	Davidson Co.	2,176,547	2,233,548	2,208,910	2,257,273	2,352,283	4.2%	8.1%
<b>TAXABLE SALES (estimates)</b>								
Nashville MSA (million \$)	Nashville MSA	6,485	6,568	6,756	6,906	6,980	1.1%	7.6%
In-State Sales Only		5,517	5,612	5,743	5,867	5,922	0.9%	7.4%
Midstate (million \$)	Midstate	8,835	8,973	9,172	9,352	9,486	1.4%	7.4%
In-State Sales Only		7,511	7,666	7,800	7,950	8,041	1.1%	7.1%

Notes: Seasonal adjustment with X11. \*Nashville MSA includes 13 counties. \*\*Midstate is a 41-county area. 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.

**Figure 1. Year-to-Year Growth Rates for Hotel Tax Revenues and Nashville International Airport Air Passengers**

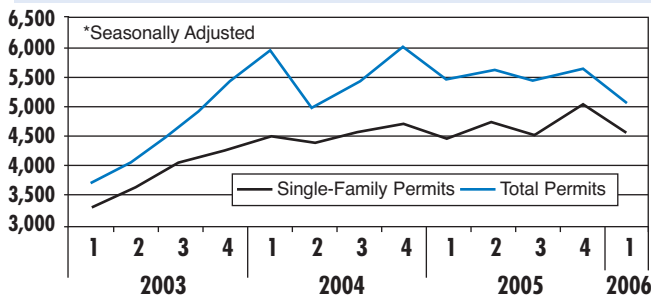


**Table 2. Nashville-Davidson-Murfreesboro MSA Nonfarm Employment First Quarter 2005 and 2006 (thousands)**

Sector	2005	2006	Change	% Change
<b>Total Nonfarm</b>	<b>726.1</b>	<b>746.5</b>	<b>20.4</b>	<b>2.8%</b>
<b>Total Private</b>	<b>630.4</b>	<b>649.0</b>	<b>18.7</b>	<b>3.0%</b>
Natural Resources, Mining, and Construction	34.8	36.7	1.9	5.4%
<b>Manufacturing</b>	<b>84.3</b>	<b>84.9</b>	<b>0.6</b>	<b>0.7%</b>
Durable Goods	57.9	57.8	-0.1	-0.2%
Computer and Electronic Products	4.6	4.7	0.1	3.0%
Electrical Equip., Appliances, Components	7.7	7.6	-0.1	-1.4%
Transportation Equipment	19.6	19.7	0.1	0.5%
Nondurable Goods	26.4	27.0	0.7	2.6%
Wholesale Trade	35.9	37.0	1.1	3.0%
Retail Trade	84.2	87.5	3.3	3.9%
Transportation and Utilities	28.3	28.1	-0.2	-0.7%
Information	19.8	20.1	0.3	1.7%
Financial Activities	44.9	45.9	1.0	2.3%
Professional and Business Services	94.9	98.8	3.9	4.1%
<b>Educational and Health Services</b>	<b>99.9</b>	<b>103.4</b>	<b>3.5</b>	<b>3.5%</b>
Educational Services	21.6	22.5	0.8	3.9%
Health Care and Social Assistance	78.2	80.8	2.6	3.4%
Leisure and Hospitality	74.1	77.3	3.2	4.3%
Arts, Entertainment, and Recreation	9.0	9.3	0.3	3.7%
Accommodation and Food Services	65.0	67.8	2.8	4.4%
Other Services	29.5	29.7	0.2	0.6%
<b>Government</b>	<b>95.7</b>	<b>97.5</b>	<b>1.8</b>	<b>1.9%</b>
State Government	27.9	28.9	1.0	3.5%
Local Government	56.3	57.1	0.8	1.5%

Source: Bureau of Labor Statistics

**Figure 2. Building Permits Issued for Housing, Nashville MSA\***



## FIRST QUARTER

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from the previous quarter. Over the year, initial claims have declined by about 7,000 with nearly half this decline occurring in first quarter 2006.

The tourism indicators, hotel tax revenue and airline passengers at Nashville International Airport, are both very strong in the first quarter. Hotel tax revenue rose 5.3 percent from last quarter, and passenger volume is up 4.2 percent. Both indicators also show very strong over-the-year increases (Figure 1).

Payroll employment increased significantly in a number of Nashville MSA sectors during the first quarter, showing over-the-year employment gains of 3.5 percent or more. These sectors include retail trade (3.9 percent), natural resources, mining, and construction (5.4 percent), professional and business services (4.1 percent), educational and health services (3.5 percent), and leisure and hospitality (4.3 percent), shown in Table 2. These gains, combined with steady manufacturing employment and smaller increases in almost all other sectors, caused nonfarm employment to increase by 20,400 jobs over the year. Compared with peer MSAs in the region, Nashville's nonfarm growth rate was exceeded only by Atlanta's 3.0 percent increase (Table 3).

Building permits issued for new housing fell nearly 10 percent in the first quarter from the previous quarter. While the decline is large, it is likely the case that the fourth quarter was unusually high by comparison; a review of the trend of single-family home construction shows that the 4,500 first quarter single-family permits are not out of line with the recent trend, excluding the fourth quarter. In fact, since the first quarter of 2004, single-family permits have fluctuated around 4,500 units, plus or minus 200 units, with fourth quarter 2005 being the exception (Figure 2).

With this issue of *Midstate Economic Indicators*, we begin coverage of two additional urban areas in Tennessee, the **Clarksville Metropolitan Statistical Area (MSA)**—Montgomery County and Stewart County in Tennessee and Christian County and Trigg County in Kentucky—and the **Chattanooga MSA**—Hamilton County, Marion County, and Sequatchie County in Tennessee and Dade County and Walker County in Georgia. Compared with the Nashville MSA, nonfarm employment in the Chattanooga MSA is about one-third as large, while Clarksville MSA employment is about one-eighth as large.

The three metropolitan areas differ in industrial structure. More than one in five workers in Clarksville are employed by various levels of government, a much higher proportion than in Chattanooga or Nashville, and manufacturing is more important in Clarksville and Chattanooga than in Nashville. The transportation and financial sectors are relatively larger in Chattanooga, while Nashville enjoys the largest share of employment in health and educational services and professional and business services (Figure 3).

Table 4 presents a summary of indicators for Clarksville and Chattanooga. Both MSAs show solid pay-

**Table 3. Nonfarm Employment for Selected Metropolitan Areas, First Quarter (in thousands)**

Area	2004	2005	% Change
Atlanta-Sandy Springs-Marietta, GA	2,290.1	2,358.0	3.0%
Nashville-Davidson-Murfreesboro, TN	719.1	739.2	2.8%
Charlotte-Gastonia-Concord, NC-SC	779.6	800.1	2.6%
Memphis, TN-MS-AR	614.6	626.9	2.0%
Birmingham-Hoover, AL	511.8	520.9	1.8%
Louisville, KY-IN	594.6	602.3	1.3%
Indianapolis, IN	868.8	878.1	1.1%

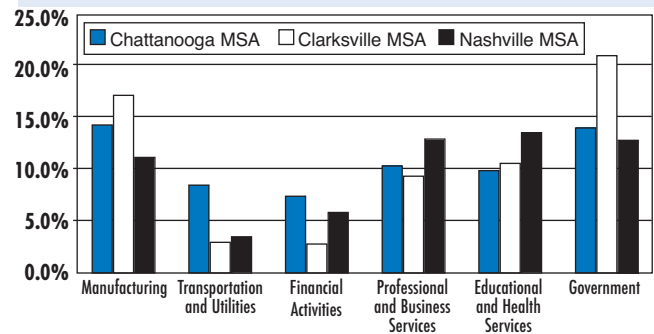
Source: Bureau of Labor Statistics, CES series

roll employment growth in the first quarter, increasing 0.7 percent (Clarksville) and 0.5 percent (Chattanooga) from the fourth quarter. Taxable sales are up modestly over the year in Chattanooga, a 4.3 percent gain, while Clarksville experienced a 2.5 percent drop over the year. Single-family home construction cooled considerably for Chattanooga, up just 1.4 percent from the first quarter of 2005. Housing construction dropped sharply in Clarksville, down 22.8 percent over the year.

Turning now to economic news, a recent report shows that income per capita in the Nashville-Davidson-Murfreesboro MSA ranks near the top among the 99 MSAs in the Southeastern states, according to recent figures from the Bureau of Economic Analysis, U.S. Department of Commerce. The latest figures for 2004 show Nashville households received \$48.7 billion in personal income, up 6.4 percent from 2003. This comes to \$34,904 per person for Nashville compared with the U.S. metropolitan average of \$33,050. Nashville's income per capita ranks higher than that of Atlanta, Charlotte, Raleigh, Birmingham, Jacksonville, Louisville, and Memphis. In fact, only three MSAs in the Southeast, all in Florida, enjoy higher per capita incomes than does Nashville. If one could adjust the figures to take into account Nashville's lower cost of living, particularly for housing, the difference between Nashville and the Florida MSAs would narrow considerably.

As for other recent economic news, the U.S. Bureau of Economic Analysis reported that Tennessee personal

**Figure 3. Share of Nonfarm Employment by Major Sector for Chattanooga MSA, Clarksville MSA, and Nashville MSA**



income rose to \$191.9 billion in the first quarter, a 1.5 percent seasonally adjusted gain from the previous quarter, ranking the state 24th. By comparison, personal income rose 1.4 percent nationally, 0.8 percent in Georgia, 1.3 percent in Arkansas, 1.5 percent in Alabama, 1.3 percent in Kentucky, and 1.4 percent in Mississippi. About two-thirds of the increase in Tennessee income is due to higher earned incomes, with transfer payments accounting for the remaining one-third. The largest contributors to the growth of earned income in the first quarter are construction, retail trade, professional and business services, and healthcare and social assistance; these four sectors account for more than half the growth in earned income during the quarter.

On the national economic scene, GDP rose 5.3 percent in the first quarter, a very strong performance following a much weaker fourth quarter increase of 1.7 percent. Higher household spending for durable goods, stronger exports, higher business spending for computers and software, and higher federal government spending were the major contributors to GDP growth.

The Nashville MSA Coincident Index (CI) rose to 118.7 in the first quarter, up 0.5 percent from the fourth quarter and 2.9 percent from a year ago (Figure 4). Both components of the CI showed gains during the quarter, with nonfarm employment performing relatively well in January and March. The CI provides a composite measure of current

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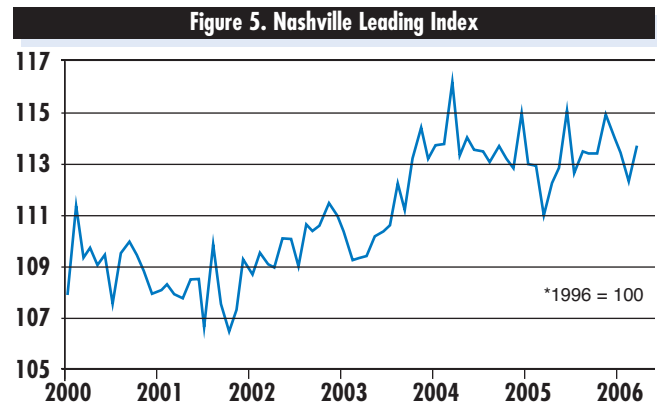
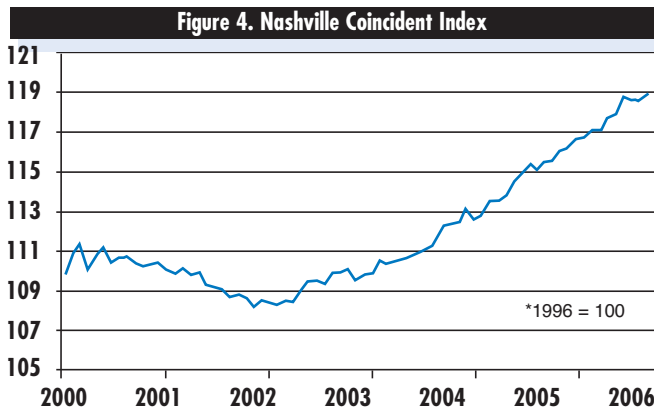
**Table 4. Economic Indicators for Chattanooga MSA and Clarksville MSA**

Series (seasonally adjusted)	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	% Change 05Q4-06Q1	% Change 05Q1-06Q1
<b>CHATTANOOGA MSA</b>								
Nonfarm Employment (thousands)	238.4	239.1	241.1	241.3	241.2	243.0	0.7%	1.6%
Unemployment Rate	4.6	5.0	4.9	4.7	4.6	4.5	-3.8%	-9.8%
Taxable Sales (million \$)	1,288.3	1,313.5	1,310.9	1,336.8	1,333.6	1,370.6	2.8%	4.3%
Permit-Authorized Housing Construction								
Total	774	729	716	810	761	747	-1.9%	2.6%
Single-Family	703	707	641	715	749	717	-4.3%	1.4%
<b>CLARKSVILLE MSA</b>								
Nonfarm Employment (thousands)	81.9	81.6	81.8	82.8	83.6	84.1	0.5%	3.0%
Unemployment Rate	5.2	5.8	6.0	5.6	6.3	5.7	-9.7%	-1.0%
Taxable Sales (million \$)	423.7	447.4	446.4	463.1	455.9	436.1	-4.3%	-2.5%
Permit-Authorized Housing Construction								
Total	523	566	757	920	422	466	10.5%	-17.7%
Single-Family	424	492	534	473	359	380	5.8%	-22.8%

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conditions for the Nashville MSA. The more volatile Leading Index (LI) is down from the fourth quarter, falling by 0.4 percent (Figure 5). Falling initial claims for unemployment insurance helped boost the LI, but falling manufacturing weekly hours pulled it down. Though the index performed poorly in February, March was relatively strong due to gains in all three components. ■

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