

Midstate Economic Indicators

Volume 9 No. 4 Winter 1999
Includes data from 3rd quarter 1999

by Ransom Gustafson

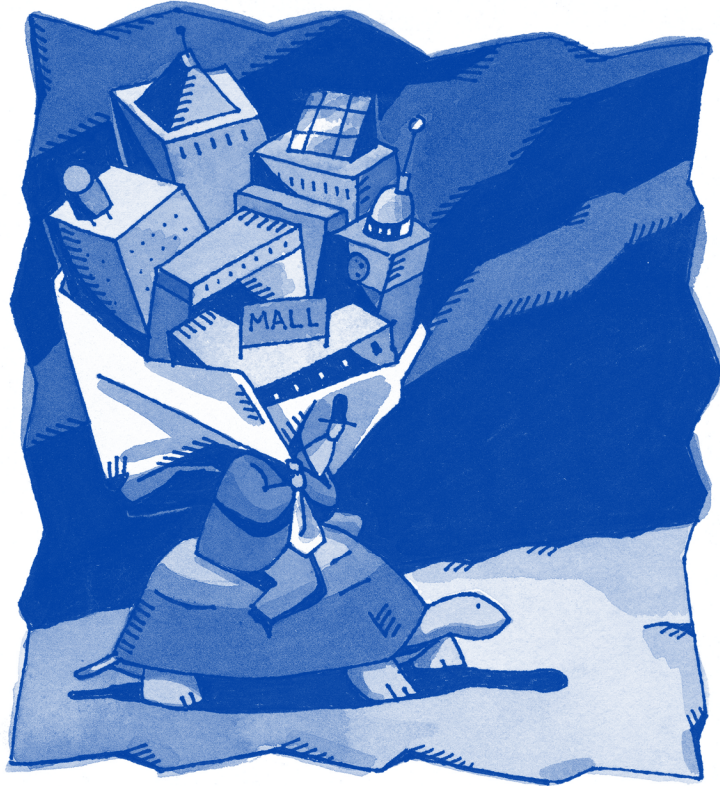
Is the Growth Pace About to Moderate?

The third quarter of 1999 produced a mixed bag of indicators for the middle Tennessee economy. Overall, the midstate leading index is up over 1 percent. Positive indicators include the unemployment rate at its lowest point in decades, fewer initial claims for unemployment insurance, steady auto/truck production, and very healthy retail sales.

Dig a bit deeper, however, and some troubling developments appear. Total employment in the Nashville MSA is virtually unchanged from the second quarter. However, some relatively large gains occurred in, predictably, the wholesale and retail sectors and, surprisingly, the state and local government sectors. Building permits issued for residential housing dropped precipitously, adding to the weakness evident in the second quarter. Additionally, job growth was somewhat muted, and hotel revenues continued their decline. Finally, sales of midstate-produced vehicles are down.

Consumer spending has been a major contributor to the current strong growth spurt, both nationally and in the midstate region. Consumer spending (adjusted for inflation) leaped 4.6 percent in the third quarter and 5.4 percent during the first three quarters of the year. Undoubtedly, some of the strength can be traced to Y2K precautions. Businesses and consumers alike stepped up spending over the last few months in anticipation of January 1, 2000. Computer upgrades, expansion of business inventories, even a few extra canned goods in the cupboard have interacted to continue expansion through the end of 1999.

But possibly more important, it appears that consumers probably financed the strong spending growth through a combination of unsustainable balance sheet adjustments: (1) increased debt, (2) "profit-taking" in equity investments, and (3) profit-taking in housing refinancing. This "profit-taking," sometimes known as the "wealth effect," differs in process



and elasticity between the housing and equity markets, but the net result is very similar—consumers are spending their gains.

National surveys reveal a trend among repeat home buyers who finance new purchases with minimal down payments, electing to take the surplus equity built up in their old homes to spend on other items. The Federal Home Loan Mortgage Corporation reported that two-thirds of refinancing homeowners traded their old mortgage for a larger one in the third quarter.

In the equity markets, many consumers have liquidity constraints in that retirement accounts prohibit taking gains out of the market. No such restraints apply to non-sheltered equity ownership, and Federal Reserve Chairman Alan Greenspan has raised this concern on a regular basis. Whether or not consumers are actually taking money out of the equity market is immaterial if the wealth effect of gains in stock portfolios or retirement accounts creates a level of confidence that encourages the assumption of more debt. Nationally, consumer credit as a proportion of

Consumer spending has been a major contributor to economic growth, but consumers financed their spending via unsustainable means.

continued inside

Table 1: Change in Employment 1999Q2 to 1999Q3 (Eight-County Nashville MSA)

Sector	Nashville MSA 1999Q3	Nashville MSA Change	Nashville MSA % Change*	USA % Change*
Total	656,475	184	0.1%	2.2%
Construction and Mining	33,280	-98	-1.2%	3.8%
Manufacturing: Transportation Equipment	15,381	-83	-2.1%	-3.0%
Manufacturing: Other Durable	41,305	-102	-0.2%	-0.5%
Manufacturing: Printing and Publishing	13,727	-82	-2.3%	-1.0%
Manufacturing: Other Nondurable	24,648	167	0.7%	-0.8%
Finance, Insurance, and Real Estate	42,124	-187	-1.8%	2.5%
Transportation, Communications, and Utilities	32,554	144	1.8%	2.8%
Wholesale: Total	39,444	214	2.2%	2.6%
Retail: Eating and Drinking	44,335	5	0.0%	-1.8%
Retail: Food	13,685	-2	-0.1%	1.0%
Retail: General	18,534	242	5.4%	5.0%
Retail: Other	45,228	295	2.7%	5.7%
Services: Education	15,100	189	5.2%	5.2%
Services: Health	53,398	-118	-0.9%	1.7%
Services: Hotel	10,446	64	2.5%	1.6%
Services: Other	129,029	-196	-0.6%	4.9%
Government: Total	84,368	391	1.9%	2.4%

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

Wholesale, retail, and government sectors posted the largest employment gains for the third quarter.

Growth to Moderate?

continued from front

personal income is near historically high levels (Figure 1).

The fast-paced *growth* in consumer spending may soon slow if for no other reason than that the opportunities for continued balance sheet adjustments may be close to exhaustion. The slowdown could be more severe, if, in fact, we see a slowdown in housing markets and an attempt to pay off debt. Concurrently, Y2K preparations will no longer be a consideration.

The monetary policymakers at the Federal Open Market Committee would welcome the movement of spending growth into better alignment with income growth. However, there are indications of a shaky foundation to consumer spending beyond unsustainable balance sheet adjustments. Namely, the relationship of bankruptcies to initial claims (Figure 2) is flashing a warning sign for the midstate area. While both indicators have improved in recent months, it is somewhat alarming to see a relatively high number of bankruptcies when initial claims, and unemployment in general, are at such low levels. Personal bankruptcies are frequently the result of unemployment or underemployment. High personal bankruptcy rates in an otherwise healthy business climate point toward the dangers of mismanaged household debt. ■

Table 2. Data Bank for Middle Tennessee

Series (adjusted for seasonality and inflation)	Geographical Area	'98Q3	'99Q2	'99Q3	'99Q2-'99Q3
COMPOSITE INDICES					
Midstate Leading Index	Midstate (41 Counties)	101.86	103.86	105.02	1.1%
U.S. Leading Index	U.S.	104.57	111.40	113.92	2.3%
EMPLOYMENT					
Midstate Number of Employed Persons	Midstate (41 Counties)	1,012,299	1,032,533	1,035,794	0.3%
Midstate Unemployment Rate	Midstate (41 Counties)	3.8%	3.7%	3.2%	-13.7%
Percent of Sectors with Employment Increase for Month	Nashville MSA(8 Counties)	59%	59%	37%	-37.3%
Percent of Counties with Employment Increase for Month	Midstate (41 Counties)	95%	80%	63%	-21.3%
Average Hours Worked per Week in Manufacturing	Nashville MSA(8 Counties)	39.93	39.84	40.19	0.9%
Average Pay per Hour in Manufacturing	Nashville MSA(8 Counties)	12.93	13.24	13.34	0.8%
INITIALCLAIMS AND BANKRUPTCY					
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	34,982	32,385	28,323	-12.5%
Bankruptcy Case Filings	Midstate (41 Counties)	3,024	2,738	2,691	-1.7%
REALESTATE					
Occupancy Index	Davidson County	98.09%	98.00%	98.01%	0.0%
New Residential Units (permits)	Midstate (41 Counties)	4,255	4,076	3,550	-12.9%
Value of New Residential Units (million \$)	Midstate (41 Counties)	414.5	425.3	381.5	-10.3%
AUTOMOBILE PRODUCTION					
Autos Assembled in U.S.	U.S.	2,831,075	3,263,887	3,301,173	1.1%
Autos Assembled in Midstate	Midstate (41 Counties)	141,273	152,068	152,215	0.1%
Units Sold: Autos Assembled in Midstate	U.S.	144,482	139,595	130,588	-6.5%
TOURISM					
Hotel Revenue	Davidson County	91,518,962	92,719,257	89,058,741	-3.9%
Air Passengers	Davidson County	2,000,077	2,112,264	2,146,250	1.6%
INCOME, EARNINGS, AND RETAILSALLES					
Retail Sales (million \$ per quarter)	Midstate (41 Counties)	5,340	5,425	5,526 (est.)	1.9%
Total Personal Income (annual billion \$)	Midstate (41 Counties)	47.1	48.0	48.4 (est.)	0.8%
Earnings per Resident Worker (annual)	Midstate (41 Counties)	33,251	33,923	34,162 (est.)	0.7%

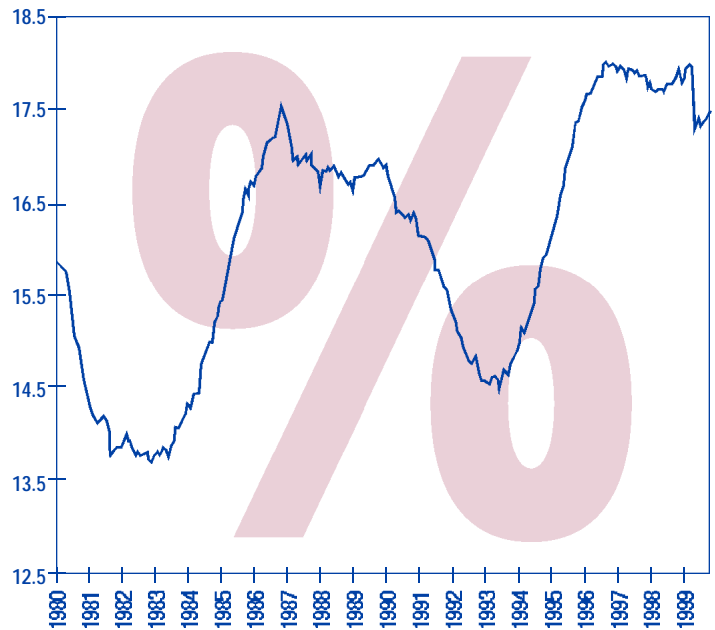
Notes: Seasonal adjustment with X11-ARIMA; not annualized; dollars converted to '99Q3 prices with GDP implicit consumption deflator
Sources: U.S. Department of Labor, Bureau of Labor Statistics; Tennessee Department of Employment Security; Nashville Electrical Service; U.S. Bureau of the Census; *Automotive Weekly*; Metropolitan Nashville Government; Nashville Airport Authority; Tennessee Department of Revenue; U.S. Bureau of Economic Analysis

Table 3: Forecast Unemployment and Job Growth

	Actual				Forecast	
	'98Q4	'99Q1	'99Q2	'99Q3	'99Q4	'00Q1
Unemployment Rate						
Middle Tennessee	3.7%	3.7%	3.7%	3.1%	3.5%	3.6%
East Tennessee	4.3%	4.3%	4.2%	3.6%	4.0%	4.0%
West Tennessee	4.8%	4.4%	4.3%	3.6%	2.9%	4.0%
Tennessee	4.3%	4.1%	4.0%	3.4%	3.1%	3.6%
Job Growth: One Quarter SAAR						
Nashville MSA	1.2%	2.4%	0.1%	1.2%	1.8%	1.8%
Chattanooga MSA	0.2%	0.1%	-1.3%	-0.4%	-0.6%	1.1%
Tennessee	0.3%	1.4%	0.3%	1.5%	1.2%	1.6%
Job Growth: Four Quarter SAAR						
Nashville MSA	2.5%	2.0%	1.6%	1.2%	1.4%	1.8%
Chattanooga MSA	0.0%	0.4%	-0.1%	-0.4%	-0.5%	0.6%
Tennessee	1.9%	1.7%	1.4%	0.9%	1.1%	1.8%

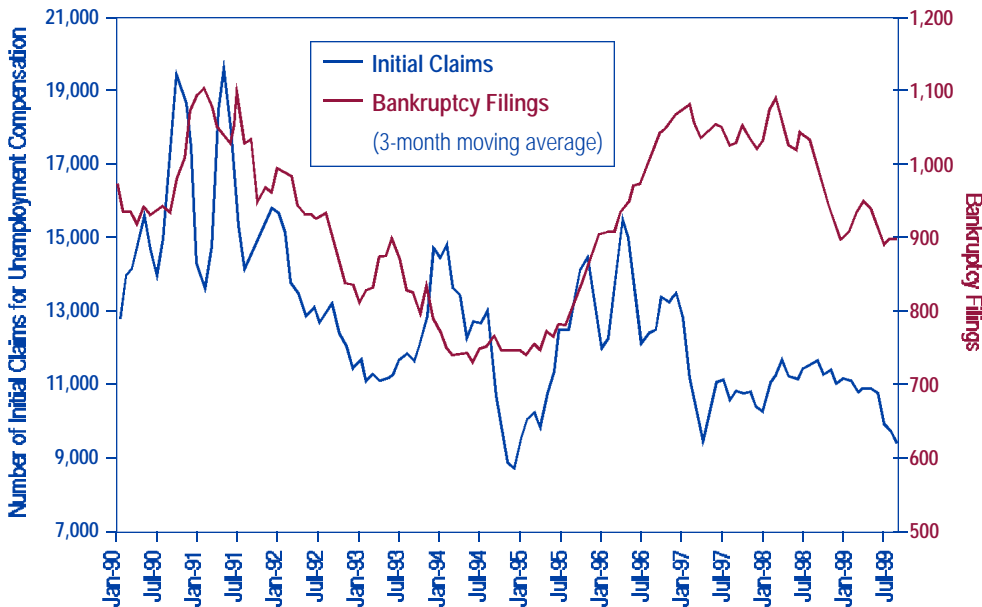
Sources: Bureau of Labor Statistics; MTSU
SAAR=Seasonally Adjusted Annual Rate

Figure 1: Consumer Credit Outstanding as Percent of Annual Income



Note: Seasonally Adjusted; Source: The Conference Board

Figure 2: Midstate Initial Claims and Bankruptcy Filings



The relationship of bankruptcies to initial claims is flashing a warning sign for the midstate area.

Midstate Economic Indicators is published quarterly by the Business and Economic Research Center in the College of Business at Middle Tennessee State University. MEI is available free by mail or on-line at: <http://www.mtsu.edu/~berc>

Director, BERC: Albert E. DePrince, Jr.
Research Associate: Ransom Gustafson
Dean, College of Business: E. James Burton
Publications Editor/Designer, College of Business: Sally Ham Govan
Graduate Research Assistant: George Darko
BERC phone: 615-898-2610

MTSU AA065-1299

A Tennessee Board of Regents Institution
MTSU is an equal opportunity, non-racially identifiable educational institution that does not discriminate against individuals with disabilities.

BERC what's new publications staff resources studies databases about us

BUSINESS AND ECONOMIC RESEARCH CENTER

DATABASES

U.S. and International Interest Rate Databases

This page provide access to U.S. and international interest rates. Click on the underlined terms for access. At this time, the data are provided in .xls workbooks. Comments may be sent to deprince@frank.mtsu.edu

[Tennessee International Trade Databases](#)

[U.S. Economic Databases](#)

[U.S. and International Interest Rate Databases](#)

[Tennessee Databases](#)

[Local Area Databases](#)

[U.S. Interest Rates](#) (updated 12/13/99) Monthly data on Federal Funds, Commercial Paper, Finance Paper, Bankers Acceptances, CDs, Eurodollars, Prime Rate, Discount Rate, T-Bill Auctions, T-Bill Secondary Mkt, Treasury Constant Maturity Yields, Corporate Bonds, State and Local Bonds, Selected Mortgage Rates, Cots of Funds Indexes (COFI), Consumer Loan Rates.

[Long-Term International Interest Rates](#) (updated 12/11/99) Weekly data on long-term (10-year) bellwether government bond yields for Canada, France, Germany, Italy, Japan, Switzerland, Holland, U.K., U.S. and a weighted yield

[Foreign Exchange Rates](#) (updated 12/11/99) Major currencies index, Euro, Canadian \$, Mexican Peso

email.berc | [mtsu.home](http://www.mtsu.edu)

Check out our new Web site design at <http://www.mtsu.edu/~berc> and databases at <http://www.mtsu.edu/~berc/databases.html>



Business and Economic Research Center

Middle Tennessee State University
P.O. Box 102
Murfreesboro, TN 37132
615-898-2610

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

Change Service Requested

Instead of a top-down approach to planning, where state government dictates, Public Chapter 1101 provides for involvement by local leaders and concerned citizens.

Plots and Plans

Public Chapter 1101 and the Growth of Our Communities

Public Chapter 1101 was enacted by the Tennessee legislature in May 1998 to address planning issues across the state. Annexations have been a problem: some occurred against the will of residents, while other willing communities have been left standing at the altar. Flexibility and local involvement were the rallying cries of supporters of the bill.

Instead of a top-down approach to planning, where the state government dictates all planning undertaken by counties and municipalities, Public Chapter 1101 provides for involvement by local leaders and concerned citizens. "Smart Growth" is the phrase most often connected with this legislation and similar policies across the country. Heading off lawsuits between cities, between cities and counties, or between cities and rural landowners is a major concern for any state, and Public Chapter 1101 is a bold step in that direction.

Every county was to have a plan ready to present to its constituents by January 1, 2000. Within 120 days, the plan must be approved by referendum. A final approved growth plan must be submitted to the Local Government Planning Advisory Committee of the Tennessee Department of Economic and Community Development by July 1, 2001. Failure to meet the deadline has severe consequences. A majority of state funds, including Tennessee Housing Development Authority block grants, Community Development block grants, and Tennessee Industrial Infrastructure Program grants, along with federal highway grants and tourism development grants, will be withheld

pending approval of a final plan.

The basic requirements of Public Chapter 1101 are:

- Using 20-year growth projections, designate Urban Growth Boundaries—those areas within or contiguous to cities where high-density growth is expected
- Establish ground rules for annexation—what areas can be annexed and how
- Agree on the provision of services to areas within the growth boundaries
- Agree on the sharing of tax revenue between cities and counties
- Establish where and under what circumstances a city may incorporate.

Planners must balance the aesthetic with the practical. For example, they need to identify areas notable for their historical significance or scenic beauty for exclusion from development. At the other extreme, they need to know whether the landfill or the sewer system has the capacity to keep up with growth.

Coordinating committees consider a tremendous array of information when forming growth boundaries. Soil quality must be sufficient for septic systems. Water pressure must be high enough to provide fire protection on hilltops. If sewers are in the picture, then drainage basins must be taken into account. Future commuting patterns are dependent on the transportation infrastructure. Rutherford County officials consider Christiana to be a key suburb of Murfreesboro because of the railway right-of-way between the two communities.

For each of these and many other services, the coordinating committee looks at which community can provide the service most efficiently. No one community can be better than another on every count, so a compromise deal is struck, and a line is drawn on the map. ■

The author gratefully acknowledges the contributions of Dr. Albert E. DePrince, Jr.