

## Recession with Signs of Recovery

F. Kathleen Vinlove, BEREC Associate Director

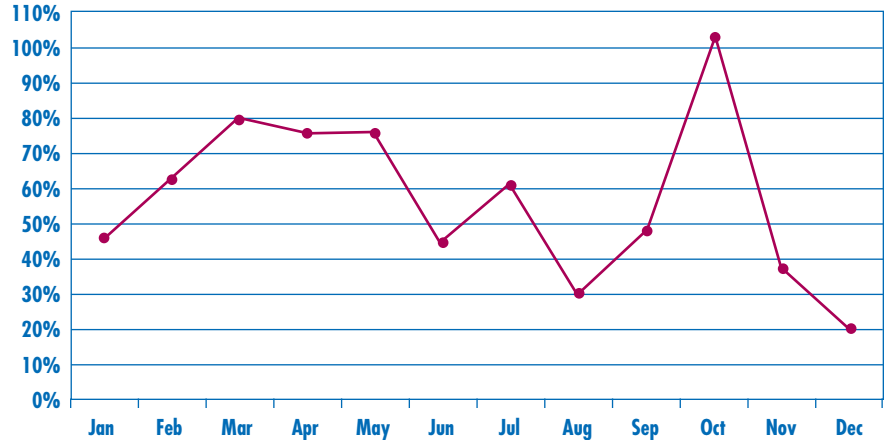
The “r” word finally became more than supposition in November, when fears of recession were confirmed by the National Bureau of Economic Research’s announcement that a U.S. economic slowdown began in March 2001. The latest assessment also begins with an “r”: many analysts believe that a recovery will occur by mid-2002 or earlier, with record-low interest rates, an absence of inflation, and a rebound in consumer confidence combining to stimulate the sagging national and local economies.

A look backward at the 2001 fourth-quarter data confirms what most feared for the short term after September 11. Initial unemployment claims in the Nashville area jumped by 102.5 percent in October from that month’s level in 2000, as shown in Figure 1. Since then, however, initial claims have fallen just as dramatically to 20.5 percent in December, the lowest percentage increase of the year. This may be a sign that the local slowdown bottomed out in the fourth quarter.

Year-end unemployment data appear to confirm this. The Nashville MSA preliminary December unemployment rate of 3.2 percent decreased from 3.4 percent in November, while the state rate increased from 4.8 to five percent. Figure 2 shows the unemployment rate pattern for the year; local area unemployment peaks in November.

Middle Tennessee bankruptcies surged upward in October, and business and personal filings for Chapter 11 crested dramatically at 140 percent in November (Figure 3). Total filings climbed by 24 percent for the year due to the recession, high consumer debt, and proposed reforms that may make filing more difficult in the future. Chapter 7 filings increased by 29 percent for the year, versus 19 percent for Chapter 13, as credit-card holders and other individuals have foregone repayment plans.

Figure 1. Percent Change in Initial Unemployment Claims, Nashville Area, 2000-01



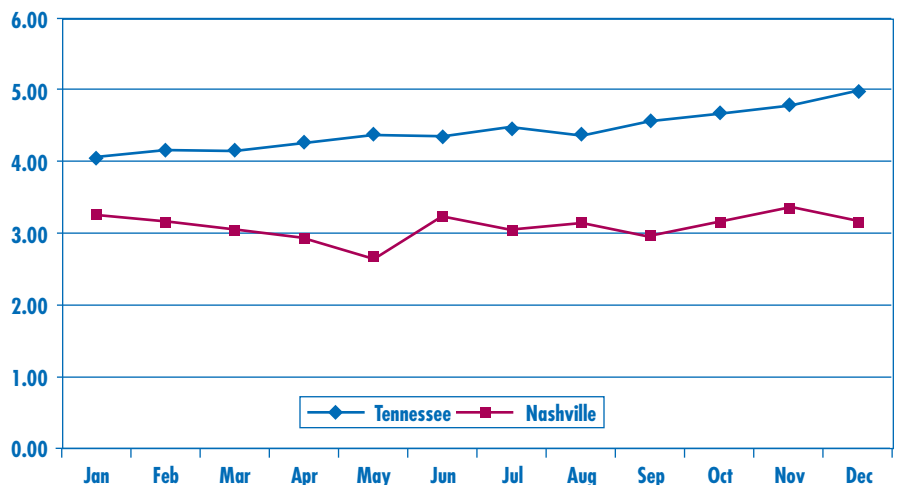
Data Source: Tennessee Department of Labor and Workforce Development, for reporting areas in Davidson, Montgomery, Dickson, Robertson, Sumner, Wilson, Williamson, Rutherford, and Maury counties

As Figure 4 illustrates, growth in total nonagricultural employment in the Nashville area slowed to a virtual standstill in November, and preliminary figures for December show that it dissipated by a tenth of a percentage point in that month. Manufacturing was the largest contributor to this decline, but growth also declined in two sectors directly affected by the tragedy: finance, insurance, and real estate

**Data appear to confirm that the local slowdown may have bottomed out in the fourth quarter.**

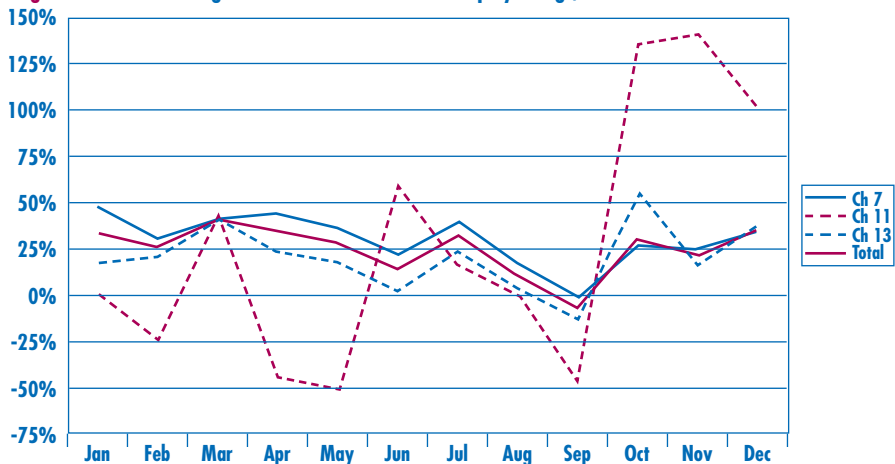
continued on inside

Figure 2. Unemployment Rates for Tennessee and Nashville MSA, 2001



Data Source: Tennessee Department of Labor and Workforce Development, preliminary January 2002 estimates (seasonally adjusted for state, not seasonally adjusted for MSA)

**Figure 3. Percent Change in Middle Tennessee Bankruptcy Filings, 2000-01**



Data source: U.S. Bankruptcy Court, Middle Tennessee District

## Recession

continued from front

**Declines in local employment growth have held steady or decreased in four of the durable goods categories.**

employment fell to -0.95 percent growth in December, and employment in the hotel and lodging industry dropped off radically in November to -0.92 percent before ending with no growth in December.

Providing approximately 15 percent of Nashville MSA employment, the manufacturing sector's downturn no doubt has hurt the local economy. Employment in that sector decreased by -2.4 percent in the fourth quarter of 2001. Negative growth in durable goods manufacturing can be attributed largely to declines in industrial machinery and fabricated metal products. Industrial machinery experienced the largest change in employment, turning from 1.05 percent growth in September to -5 percent growth in December, a reflection of decreased business investment in capital equipment.

On a more optimistic note, U.S. factory orders are up 1.2 percent, and declines in local employment growth have held steady or decreased in four of the durable goods categories. One such category is the transportation equipment manufacturing

industry. Although negative, its growth recovered somewhat from -4.20 percent in September and October to approximately -2.86 in November and December. The recent surge in auto sales created by financing incentives probably is not sustainable through 2002, but the longer-run prospects for the industry in the midstate look promising as Nissan announced that, beginning in 2003, its Maxima production will create 2,000 new jobs in its Smyrna plant.

In nondurable goods manufacturing, which experienced a 2.7 percent decline in employment growth for the fourth quarter, the apparel and other textile products industry continues a decline that began in the mid-1990s as foreign competition has cut into the domestic market. A related industry, leather and leather products, experienced the largest nondurables decline, bottoming out with a 16.67 percent loss of employment in November.

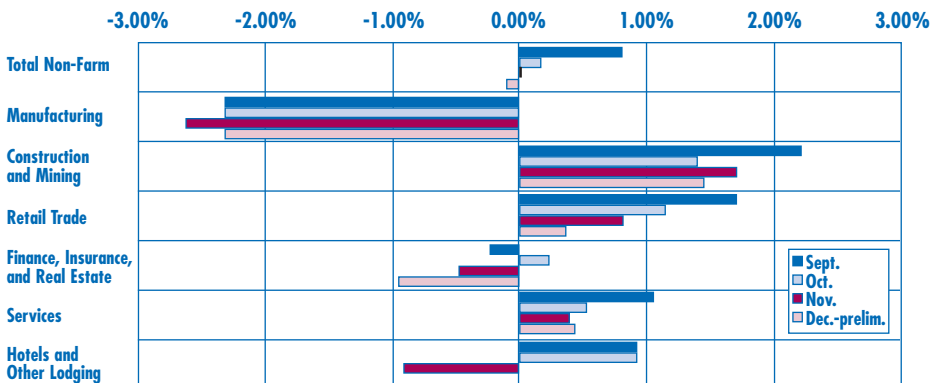
While residential home sales experienced unprecedented growth in 2002 due to lower mortgage interest rates, growth in overall employment in the construction sector slowed to a preliminary 1.45 percent in December, as declines in nonresidential building construction counterbalanced continued growth in single-family home construction.

A key element in the recovery process is consumer spending and retail spending held steady nationally in December. Area retail trade employment growth remained positive in the fourth quarter but fell from a 1.71 percent growth rate in September to 0.37 percent in December. Growth in general merchandise employment was halved during the tragic September events, slowing precipitously to 1.59 percent in September, hovering with no growth in October and November, and ending with -0.46 percent growth in December. Employment in food stores also failed to increase in the latter months of the year.

Following September 11, consumer confidence in the middle Tennessee region actually strengthened for two months before weakening in recent weeks. As Table 1 shows, the Consumer Confidence Index compiled by MTSU's Office of Consumer Research increased in November to 368 and then fell to 328.2 in February. The initial rise reflected optimism about a short-term rebound of the economy in 2002 and positive perceptions about purchasing large-ticket items, but this willingness to spend has waned as the lowering of the Purchasing Index shows.

Consumer perceptions of current local business conditions have remained less optimistic. The Present Situation Index's decline to 46.8 in February reflects an awareness of increasing unemployment and mass layoffs resulting from the current recession. Most survey respondents identified jobs in middle Tennessee as "found with effort." A majority also believes that area

**Figure 4. Percent Change in Nonagricultural Employment, Nashville MSA, 2000-01**



Data Source: Tennessee Department of Labor and Workforce Development, preliminary December estimates

continued on back

# Rutherford County in 2002

## Looking Beyond Turbulence<sup>1</sup>

Albert E. DePrince, Jr., BERC Director

Memories of 2001 will remain vivid for many years to come. As the year began, the Federal Reserve responded to incipient signs of weakness with a large cut in its target interest rate. The spring saw the national economy slip into its first recession 10 years to the month after the last recession ended. As economic weakness became more apparent, the Federal Reserve implemented an unparalleled succession of rate cuts, so that as 2001 ended the Federal Reserve's target rate was the lowest in 40 years. Manufacturing was hard hit as exports to a world mired in economic weakness plunged. Effects in manufacturing rippled through the rest of the economy, ratcheting up the nation's unemployment rate. And of course, the economic effect of the attack on the United States by its enemies may never be fully known.

Through all this turbulence, Rutherford County's fortunes have been buoyed by its strong economic position. Rutherford is the fifth largest county in the state, following the four urban counties, and its work force topped 100,000 as the year ended. Over the past five years its annual employment growth rate averaged 3.8 percent, well ahead of the state's 1.6 percent.

Housing rebounded in the county during 2001, as lower mortgage rates improved the real estate market's tone compared with the previous year. Its single-family building permits posted a record pace of close to 3,000 units, surpassing its 1996 record by 11 percent. There has also been a healthy pace of multi-family housing activity, which has accounted for about 20 percent of the county's total building permits over the past five years. This assures, in turn, housing availability for a population with broad demographic characteristics.

Much of the county's strength can be attributed to its strategic location. Major state highways crisscross the county; it is bisected by an interstate highway (I-24); and to increase the accessibility to this vital route, plans call for three new interchanges. Rutherford also has easy access to a second interstate highway (I-40), and it has five interchanges on an ever-lengthening beltway (SR-840). The opening of its latest segment gives Rutherford County easy access to yet another interstate highway (I-65).

The county's school system has responded to the county's surging population; a new high school opened in the fall of 2000. The fall of 2001 saw the opening of one middle school,

three elementary schools, and two adult education centers. The county also established two magnet schools in the past two years. A new high school and middle school are scheduled to open in the fall of 2002; another high school and middle school will open in the fall of 2003. As part of the state's ongoing commitment to educational improvement, all ninth grade students entering high school in the fall of 2001 are now required to pass the three Gateway Tests in Algebra I, Biology I, and English II in order to receive a diploma. Tennessee Commissioner of Education Fay Taylor recently recognized Rutherford County for having excellent results in fall 2001 Gateway Tests.

On the higher education front, Rutherford County is home to Middle Tennessee State University, a comprehensive university with about 20,000 students and more than 760 faculty members. The university, divided into seven colleges with 36 departments, offers nine undergraduate degrees in many areas of concentration, 55 master's degrees, two education specialist degrees, and doctoral programs in five departments. MTSU's Business and Economic Research Center, which was responsible for this article, is well recognized in the region. The university's Chair of Excellence in Urban and Regional Planning (one of eight chairs of excellence) is at the forefront of work on "smart growth."

**Over the past five years, the county's annual employment growth rate averaged 3.8 percent, well ahead of the state's 1.6 percent.**

Looking ahead, employment growth this year is expected to be a bit slower than last year, due largely to the ripple effects of the U.S. recession and the global economic slowdown. Once the U.S. expansion takes hold, growth will rebound in Rutherford County and across the state. Looking beyond the current slowdown, employment growth should average 2.7 percent or more over the next five years.

While a bit slower than the past five years, this rate reflects slower statewide employment growth (1.0 percent), the product of a modest national economic recovery with its moderating effects on local economies. Even so, Rutherford County is expected to remain among the state's fastest growing counties, and effects of the expansion of the Nissan plant in 2003 for production of the Maxima could buoy the county's near-term employment growth. Faster national growth would, of course, have beneficial effects on the state and its counties, and Rutherford County is poised to capture its share of faster employment growth. ■

## Indicators Recalibrated

The Midstate Economic Indicators model has forecasted the local economy for more than 10 years. It is now being recalibrated to incorporate structural changes that have occurred historically and will reappear in future issues.

<sup>1</sup> This article will also be published this spring in *Rutherford County Resources and Site Guide*, Rutherford County (Tennessee) Chamber of Commerce, 2002 Edition.

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>

**BERC Director:**  
**Albert E. DePrince, Jr.**  
 Associate BERC Director,  
 Editor:  
**F. Kathleen Vinlove**  
 Jennings A. Jones  
 College of Business  
 Dean: **E. James Burton**  
 Publications Editor/Designer:  
**Sally Ham Govan**  
 Graduate Research Assistant:  
**George Darko**  
 Phone: 615-898-2610  
 e-mail: [kkulp@mtsu.edu](mailto:kkulp@mtsu.edu)



AA183-0202  
 A Tennessee Board of Regents  
 Institution

MTSU is an equal opportunity, non-racially identifiable educational institution that does not discriminate against individuals with disabilities.



## 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

**Following September 11,  
 consumer confidence in  
 middle Tennessee  
 actually strengthened for  
 two months before  
 weakening in recent  
 weeks.**

## Recession

continued from inside

business conditions are “in between” and that six months from now, conditions will be “about the same.”

Whether or not the local economy will rebound depends on sustained spending in markets such as housing and automobiles that are in danger of becoming saturated. But low energy prices and interest rates coupled with the impacts of the current tax cuts may provide enough stimulus to revive midstate employment in the first half of this year. ■

### About the Consumer Confidence Index

The Consumer Confidence Index represents the sum of the Present Situation, Future Expectations, and Purchasing Indexes. It is derived from an MTSU Office of Consumer Research survey in which telephone interviews are given to 471 randomly selected adults from Davidson, Rutherford, and Williamson counties. There is 95 percent confidence that the survey error is  $\pm 4.5$  percent. For more information, contact the office's director, Dr. Timothy Graeff, 898-5124.

**Table 1. Consumer Confidence Index**

	February 2002	November 2001	October 2001
<b>Consumer Confidence Index</b>	<b>328.2</b>	<b>368.0</b>	<b>314.5</b>
<b>Present Situation Index<sup>1</sup></b>	<b>46.8</b>	<b>55.8</b>	<b>73.7</b>
<b>Future Expectations Index<sup>2</sup></b>	<b>138.7</b>	<b>136.0</b>	<b>105.1</b>
<b>Purchasing Index<sup>3</sup></b>	<b>142.7</b>	<b>176.2</b>	<b>135.7</b>

Source: MTSU Office of Consumer Research

<sup>1</sup> Based on four questions regarding the current outlook of national and local business conditions, the availability of jobs in middle Tennessee, and survey participants' financial situation  
<sup>2</sup> Based on four questions regarding future expectations for national and local business conditions, the availability of jobs in middle Tennessee, and survey participants' financial situation  
<sup>3</sup> Based on three questions regarding the current outlook for purchasing major household items, houses, and automobiles