

Good News Is Hard to Find

David Penn, BERC director

Another month passes, and the midstate Tennessee economy still muddles along. The search for local economic growth continues. Although some indicators improved from the second quarter, others are back to their levels of a year ago. The unemployment rate, average hours worked in manufacturing, permits issued for new residential construction, help-wanted index, hotel revenue, and midstate leading index all retreated back to their third-quarter 2001 levels.

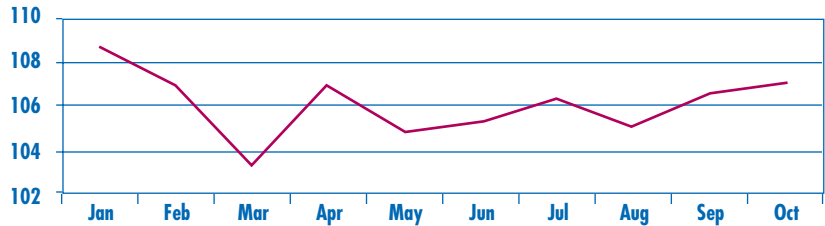
U.S. payroll employment shows zero net improvement this year with job declines in manufacturing nearly evenly matched with job increases in services-producing industries. In decline since early 2001, manufacturing employment continues to fall at a steady clip with no end in sight. Interestingly, manufacturing output has increased even as the sector continued to shed thousands of jobs. Productivity gains during 2002 helped manufacturers remain competitive in world markets but have resulted in poor hiring conditions for labor.

The U.S. unemployment rate is on the rise again, reaching 6.0 percent for November. Seasonal hiring in retail trade for November was weaker than usual, consistent with retailers' recent announcements of disappointing Christmas sales.

In defense of muddling along, the midstate economy did show an increase in employment from last year, albeit a very modest one. By contrast, nearly six in 10 metropolitan areas in the United States reported job losses from last year. In very large metropolitan areas with 750,000 jobs or more, the pain was more severe: 29 of 38 metropolitan areas lost jobs. Some job losses were very large: Atlanta lost 61,800 jobs from 2001, while Chicago lost 56,800 and New York 43,400.

Not that there is any significant bad news about the midstate economy; it is just that good news is hard to find. A bit of good news can be found in the labor market, where the midstate

BERC Midstate Leading Index, 2002



unemployment rate continues to fall. The most recent unemployment rate of 4.2 percent in October is down considerably from the 2002 peak of 5.2 percent reached in March.

The construction sector also offers some good news: the number of new residential permits for construction rose 3.1 percent from the second quarter as did the value of residential construction. Payroll employment in construction and mining continues to improve, increasing 1.1 percent from the second quarter.

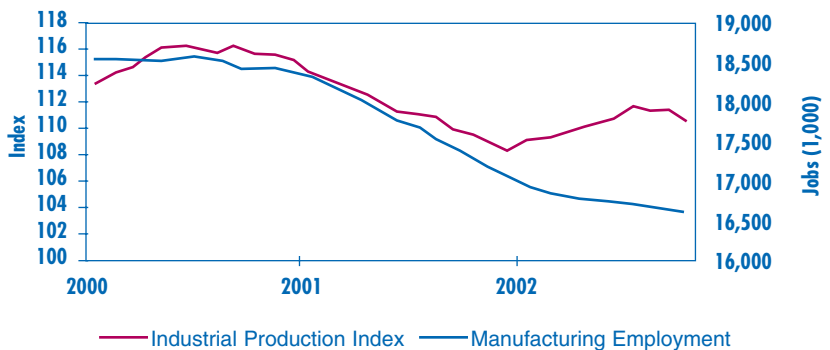
Initial claims for unemployment insurance improved markedly from the second quarter, down 13.2 percent, but increased somewhat from September to October. Future declines in the unemployment rate will depend on the behavior of initial claims in the coming weeks.

Total employment in the 41 midstate counties is flat, up just 0.1 percent since the second quarter. Payroll employment in the Nashville MSA increased but by just 1,000 jobs with gains in government, construction and mining, and services accounting for most of the increase. Retail trade employment is flat, while significant percentage declines occurred in wholesale trade and finance, insurance, and real estate.

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A bit of good news can be found in the labor market, where the midstate unemployment rate continues to fall.

U.S. Manufacturing Employment and Index of Industrial Production, Seasonally Adjusted



Economic Indicators for Middle Tennessee*

Series (seasonally adjusted)	Geographical Area	2001Q3	2001Q4	2002Q1	2002Q2	2002Q3	Percentage Change 2002Q2-2002Q3
Midstate Leading Index	Midstate (41 Counties)	105.1	105.0	106.2	105.6	105.9	0.3%
EMPLOYMENT							
Midstate Number of Employed Persons	Midstate (41 Counties)	1,033,849	1,035,645	1,052,154	1,058,266	1,059,518	0.1%
Midstate Unemployment Rate	Midstate (41 Counties)	4.2	4.6	5.1	4.7	4.3	-7.2%
Average Hours Worked per Week in Manufacturing	Nashville MSA (8 Counties)	39.7	38.4	39.2	38.8	39.1	0.7%
Average Pay per Hour in Manufacturing	Nashville MSA (8 Counties)	\$14.48	\$14.54	\$15.06	\$14.92	\$14.65	-1.8%
Helped Wanted Index	Nashville MSA (8 Counties)	77.8	71.6	71.5	70.6	76.4	8.1%
INITIAL CLAIMS FOR BANKRUPTCY							
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	44,412	48,282	36,828	43,959	38,137	-13.2%
Bankruptcy Case Filings	Midstate (41 Counties)	3,378	3,932	3,841	3,672	3,919	6.7%
HOUSING CONSTRUCTION							
New Residential Units (permits)	Midstate (41 Counties)	3,892	3,253	3,860	3,780	3,896	3.1%
Value of New Residential Units (million \$)	Midstate (41 Counties)	412.0	374.1	423.2	438.5	451.9	3.1%
AUTOMOBILE PRODUCTION							
Autos Assembled in Midstate	Midstate (41 Counties)	143,126	158,583	188,263	199,897	187,810	-6.0%
Units Sold: Autos Assembled in Midstate	United States	129,100	178,293	156,250	160,771	146,422	-8.9%
TOURISM							
Hotel Revenue (million \$)	Davidson County	4.50	4.61	4.61	4.72	4.57	-3.3%
Total Air Passengers, Nashville International Airport	Davidson County	2,059,828	1,947,162	1,966,571	1,995,958	2,042,687	2.3%

Notes: Seasonal adjustment with X11-ARIMA.

Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Bureau of the Census; U.S. Bureau of Economic Analysis; Tennessee Department of Labor and Workforce Development; Davidson County Clerk's office; Metropolitan Nashville Airport Authority; Nashville Electric Service; *Automotive Weekly*; *economagic.com*; U.S. Bankruptcy Court, Middle Tennessee District; BellSouth

* October monthly data available at <http://www.mtsu.edu/~berc/msei/pdfs/meiwin03.pdf>

The Middle Tennessee Consumer Confidence Index rebounded

sharply in November, rising to 286 from 227 in October

(www.mtsu.edu/~mgmtmkt.CMRC.htm).

Nashville MSA Quarterly Payroll Employment (thousands, seasonally adjusted)

Sector	2002Q2	2002Q3	% Change
Total	686.6	687.6	0.1%
Construction and Mining	33.0	33.4	1.1%
Manufacturing	90.8	90.6	-0.2%
Durable Goods		55.8	-0.1%
Nondurable Goods	34.9	34.7	-0.6%
Finance, Insurance, and Real Estate (FIRE)	41.9	41.6	-0.8%
Transportation, Communications, and Utilities	39.2	39.0	-0.4%
Wholesale Trade	38.4	38.1	-0.8%
Retail Trade	128.2	128.4	0.1%
Services	227.6	228.0	0.2%
Government	87.2	88.4	1.4%

Nashville MSA Monthly Payroll Employment (thousands, seasonally adjusted)

Sector	2002				% Change Sept.-Oct.
	July	August	September	October	
Total Non-farm	687.7	687.8	687.2	686.5	-0.1%
Construction and Mining	33.2	33.5	33.6	33.7	0.4%
Manufacturing	90.8	90.8	90.2	89.6	-0.6%
Durable Goods	55.8	56.0	55.7	55.2	-0.9%
Nondurable Goods	34.8	34.7	34.5	34.5	-0.1%
Finance, Insurance, and Real Estate (FIRE)	41.6	41.5	41.7	42.0	0.7%
Transportation, Communications, and Utilities	39.2	39.2	38.6	38.0	-1.7%
Wholesale Trade	38.2	38.2	38.0	38.0	-0.1%
Retail Trade	128.2	128.4	128.4	128.4	0.0%
Services	227.6	228.1	228.3	228.7	0.2%
Government	89.2	88.0	88.1	87.9	-0.2%

Good News continued from front

Indicators for future economic activity in the midstate area remain mildly positive. The BERC Midstate Leading Index continues to improve but very modestly, up by just 0.4 percent in October.

Consumer confidence perked up during the past few weeks in middle Tennessee. The Middle Tennessee Consumer Confidence Index, compiled by MTSU professor Tim Graeff, rebounded sharply in November, rising to 286 from 227 in October. Rising consumer confidence may signal a robust Christmas for local retailers.

Prospects for significant employment growth in the midstate area depend to a large degree on the recovery of the manufacturing sector. Midstate manufacturers need solid increases in demand from out-of-state markets in order to increase output and hire more workers. Thus, recovery of the Tennessee manufacturing sector depends on recovery of the U.S. economy.

As for the national economic outlook, forecasters associated with the National Association of Business Economists (NABE) expect moderate growth with real gross domestic product rising by 3.3 percent (fourth quarter 2002 to fourth quarter 2003), fueled by resurging plant and equipment spending. In addition, NABE forecasters expect U.S. payroll employment to rebound in 2003, increasing by 2.1 percent compared with an expected decline of 0.8 percent in 2002. If such growth of the U.S. economy can be achieved, the midstate economy will certainly benefit. ■

An Analysis of Midstate Residential Condominiums

Douglas Timmons, associate professor of finance; Thomas H. Strickland, professor of finance, MTSU

The condominium concept does not derive from English common law. Rather, it dates back more than 2,000 years to Roman law. The popularity of the condominium form of ownership is a recent phenomenon in the United States. Before 1960 no state had enacted condominium legislation; today, however, statutes authorizing condominium ownership have been passed by every state and the District of Columbia.

Condominium means common ownership and control as distinguished from sole ownership and control. In a condominium project, each unit (e.g., apartment) is individually owned, and the common elements of the building (e.g., lobby, corridors, exterior walls) are commonly owned, with each unit owner having a pro rata share of the common area. An individual is responsible for the cost of operating and maintaining the individual unit. The common areas are the responsibility of a homeowner's association of which each unit owner is a member. The unit owner is obligated to pay a maintenance fee, typically on a monthly basis, to the association. On occasion, the unit owner may also be charged a special assessment for unusual costs not adequately covered by a reserve fund. Failure to pay maintenance fees or special assessments can lead to liens being placed on the individual unit, attachment, and foreclosure.

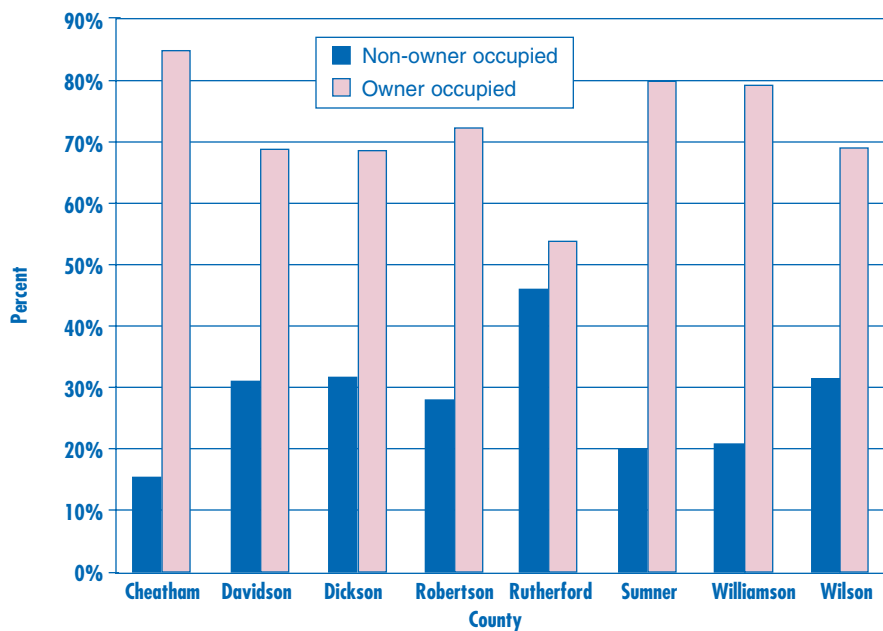
Each owner of a unit may sell or mortgage the unit. Property taxes are levied on each unit, rather than the entire project. The unit owners constitute an owners' association and elect a board of directors, responsible for the day-to-day running of the project. Although by far most condominium projects are residential, the concept has also been extended to commercial, industrial, and recreational projects.

This study will focus on residential condominium projects in the Nashville MSA. Information about the number, size, price, and occupancy of condominium units is analyzed. Data were extracted from a KAL Software data set (www.tnrealestate.com).

Results

In the eight counties included in this study (Davidson, Rutherford, Cheatham, Dickson, Sumner, Wilson, Robertson, and Williamson) there are a total of 22,504 residential condominiums used in the analysis,

Figure 1. Occupancy



representing an approximate ratio of one condo to every 14 detached single family houses. In Davidson County, the ratio is closer to one condo for every seven houses. Of the total condominiums in this study, 17,000 are located in Davidson County. Williamson and Rutherford Counties follow with 2,266 and 1,757 condo units, respectively. Dickson County had the fewest condos, only 86 units.

Not all residential condominium units are occupied by their owners. In fact, only about 69 percent of all units in this study were owner-occupied. In Sumner and Cheatham County, 80 percent or more of the units are owner-occupied. In contrast, Rutherford County has a high portion of condos that are non-owner

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In the middle Tennessee area, there is approximately one condo for every 14 detached single family houses.

Figure 2. Average Unit Size by County

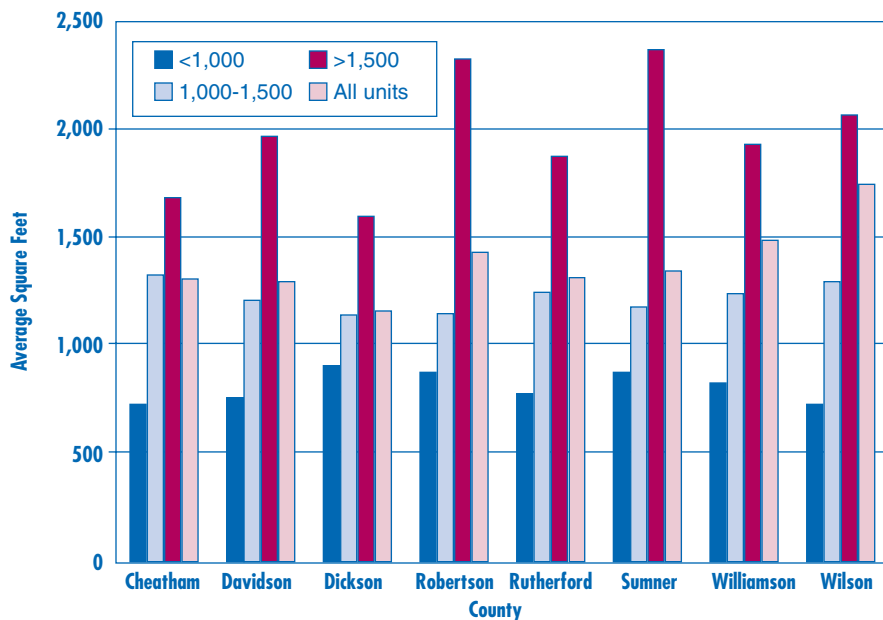


Table 4. October 2002 Update: Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	Geographical Area	July	August	September	October	Percentage Change September -October
Midstate Leading Index	Midstate (41 Counties)	106.1	105.1	106.4	106.8	0.4%
EMPLOYMENT						
Midstate Number of Employed Persons	Midstate (41 Counties)	1,059,095	1,058,544	1,060,916	1,062,644	0.2%
Midstate Unemployment Rate	Midstate (41 Counties)	4.5%	4.2%	4.4%	4.2	-3.5%
Average Hours Worked per Week in Manufacturing	Nashville MSA (8 Counties)	38.9	39.5	39.5	39.3	1.2%
Average Pay per Hour in Manufacturing	Nashville MSA (8 Counties)	\$14.48	\$14.71	\$14.76	\$15.04	1.9%
Initial Claims for Unemployment Compensation	Midstate (41 Counties)	12,620	11,136	14,382	14,620	1.7%
HOUSING CONSTRUCTION						
New Residential Units (permits)	Midstate (41 Counties)	1,342	1,254	1,300	1,420	9.3%
Value of New Residential Units (million \$)	Midstate (41 Counties)	153	145	154	163	6.2%
AUTOMOBILE PRODUCTION						
Autos Assembled in Midstate	Midstate (41 Counties)	75,450	61,434	50,926	49,223	-3.3%
Units Sold: Autos Assembled in Midstate	United States	50,827	49,918	45,677	48,608	6.4%

Notes: Seasonal adjustment with X11.

Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Bureau of the Census; U.S. Bureau of Economic Analysis; Tennessee Department of Labor and Workforce Development; Davidson County Clerk's office; Metropolitan Nashville Airport Authority; Nashville Electric Service; *Automotive Weekly*; *economagic.com*; U.S. Bankruptcy Court, Middle Tennessee District; BellSouth

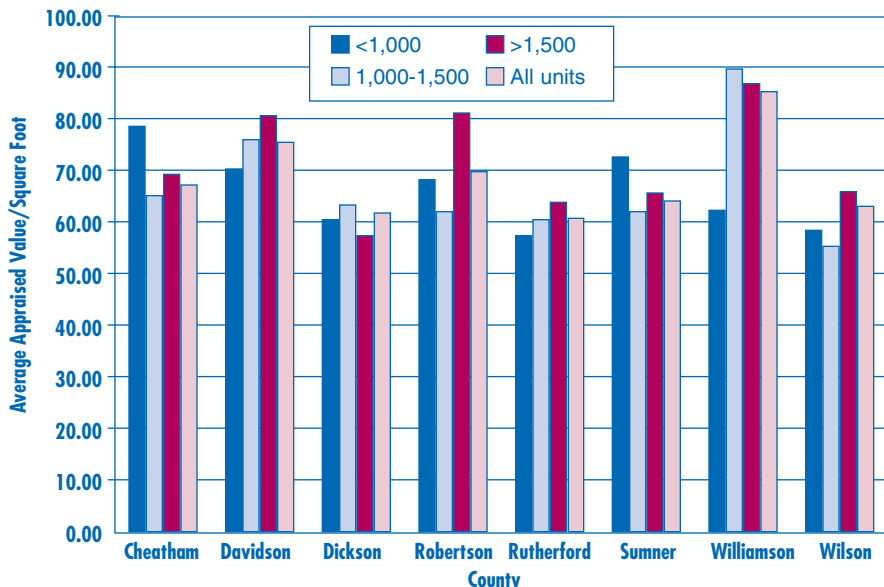
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Midstate Condos

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occupied—46 percent. Many condos in Rutherford County are located near MTSU, which might suggest they are often rented to students (Figure 1).

The average interior living space of all condos in this study is 1,320.38 square feet. The average size of units in all eight counties ranges from a low of 1,167 square feet in Dickson County to a high of 1,747 square feet in Wilson County. Units in Wilson County averaged 250 square feet more than condos in any other county. The study evaluated the size of condos by looking at the number of units that were less than 1,000 square feet, those 1,001-1,500 square feet, and those exceeding 1,500 square feet (Figure 2). In all counties except Wilson, the largest percentage of condos fell into the 1,001-1,500 square foot range.

Last, an analysis was conducted on the appraised values of condominium units. The average appraised value per square foot ranged from \$61 in Rutherford County to \$85.59 per square foot in Williamson County. The average appraised values for the average-sized condo ranged from a high of \$128,075 in Williamson County to a low of \$72,684 in Dickson County. There was no uniformity among counties regarding which unit-size category had the highest appraised value per square foot. In four counties, the largest units were appraised at the highest prices per square foot. In two counties, the smallest units had the highest appraisal per square foot, while the mid-sized units topped the appraised value per square foot in the remaining two counties (Figure 3). ■