

FOURTH QUARTER 2006

STRONG IN SPITE OF HOUSING

by David A. Penn

The Nashville economy shrugged off the effects of slower housing construction during the fourth quarter. Indeed, the pace of nonfarm employment growth improved, even though housing construction continued to weaken (Table 1 and Figure 1). The relatively strong job performance can be attributed to three factors. First, of every 10 new jobs created in the fourth quarter, four are in professional and business services, two are in educational and health services,

and two more are in accommodation (lodging) and food services (Table 2). So the vast majority (80 percent) of the new jobs had to do with business services, education, healthcare, travel, and eating out. Second, manufacturing employment in the Nashville MSA has stabilized, averaging about 84,400 workers over the previous two years. Stability in this large industry is important, because job losses in manufacturing are the norm, not the exception. For example, the rest of the state (excluding the Nashville MSA) has experienced a 2.5 percent decline in manufacturing employment over the year, a loss of 8,500 jobs. Finally, employment growth in the construction sector remains positive, up 2.8 percent from the previous year, despite the slowdown in housing construction. It may be the case that

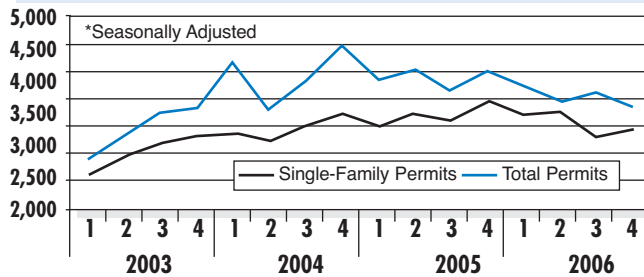
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Table 1. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	Geographical Area	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	% Change 06Q3-06Q4	% Change 05Q4-06Q4
Nashville MSA Leading Index	Nashville MSA*	114.1	113.1	114.0	113.8	114.1	0.2%	0.0%
Nashville MSA Coincident Index	Nashville MSA	118.0	118.8	119.5	120.0	121.1	0.9%	2.6%
LABOR FORCE AND EMPLOYMENT								
Midstate Total Employment	Midstate**	1,086,146	1,089,449	1,104,271	1,116,358	1,131,444	1.4%	4.2%
Midstate Labor Force	Midstate	1,143,386	1,147,507	1,164,767	1,176,016	1,182,290	0.5%	3.4%
Midstate Unemployed	Midstate	57,785	57,220	60,341	59,991	51,179	-14.7%	-11.4%
Midstate Unemployment Rate	Midstate	5.1%	5.0%	5.2%	5.1%	4.3%		
Nashville MSA Nonfarm Employment	Nashville MSA	741.9	746.7	750.3	754.3	759.3	0.7%	2.4%
Average Hours Worked per Week in Manufacturing	Nashville MSA	39.6	39.2	39.6	40.0	39.6	-0.9%	0.1%
Countries with Increased Employment (percent)	Midstate	46.3%	80.5%	85.4%	78.0%	85.4%		
Countries with Increased Unemployment (percent)	Midstate	61.0%	26.8%	75.6%	41.5%	0.0%		
Countries with Increased Labor Force (percent)	Midstate	56.1%	68.3%	82.9%	73.2%	56.1%		
Initial Claims for Unemployment Compensation	Midstate	36,710	34,510	38,706	43,466	40,481	-6.9%	10.3%
HOUSING CONSTRUCTION								
New Residential Permits	Nashville MSA							
Single-Family		3,698	3,512	3,508	3,161	3,265	3.3%	-11.7%
Total		4,152	3,898	3,696	3,826	3,617	-5.5%	-12.9%
Value of New Residential Units (million \$)	Nashville MSA							
Single-Family		595.1	561.0	593.9	520.7	534.1	2.6%	-10.2%
Total		627.3	581.9	610.5	578.9	561.9	-2.9%	-10.4%
TOURISM								
Hotel Tax Revenue (million \$)	Davidson Co.	5.65	5.92	5.89	5.96	6.56	9.9%	16.1%
Total Air Passengers, Nashville International Airport	Davidson Co.	2,256,335	2,352,920	2,301,050	2,444,583	2,597,197	6.2%	15.1%
TAXABLE SALES (estimates, million \$)								
Nashville MSA	Nashville MSA	6,891	6,972	7,189	7,176	7,297	1.7%	5.9%
In-State Sales Only		5,856	5,926	6,124	6,087	6,225	2.3%	6.3%
Midstate	Midstate	9,344	9,480	9,725	9,731	9,892	1.6%	5.9%
In-State Sales Only		7,942	8,055	8,300	8,241	8,435	2.4%	6.2%

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. Building Permits Issued for Housing, Nashville MSA*



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commercial building and highway construction are taking up the slack resulting from slower housing construction.

Compared with 52 metropolitan areas that are at least as large, Nashville's fourth-quarter job growth ranked eighth, up from 15th in the third quarter. Nashville's fourth-quarter ranking is behind Oklahoma City but slightly ahead of Orlando. The Houston MSA experienced the most growth in the fourth quarter, increasing by 1.1 percent from the third quarter, followed by Austin-Round Rock and San Antonio.

Among seven peer MSAs in the multistate region, Nashville was the top performer during the fourth quarter, easily outdistancing Atlanta and Memphis (Table 3). Nashville's job growth was also the most consistent over the previous four quarters, while the other regional MSAs showed substantial volatility.

As for other indicators, the midstate unemployment rate dropped to 4.3 percent, down from 5.1 percent in the third

Table 3. Quarterly Growth of Nonfarm Employment for Selected Metropolitan Areas (seasonally adjusted)

Metropolitan Area	05Q4-06Q1	06Q1-06Q2	06Q2-06Q3	06Q3-06Q4
Atlanta-Sandy Springs-Marietta, GA	0.9%	0.5%	0.3%	0.5%
Birmingham-Hoover, AL	0.7%	0.1%	0.2%	0.2%
Charlotte-Gastonia-Concord, NC-SC	1.1%	0.0%	0.8%	-0.2%
Indianapolis, IN	0.8%	-0.4%	0.1%	0.3%
Louisville, KY-IN	0.5%	0.1%	0.2%	-0.5%
Memphis, TN-MS-AR	0.5%	0.0%	0.1%	0.4%
Nashville-Davidson-Murfreesboro, TN	0.6%	0.5%	0.5%	0.7%

Source: Bureau of Labor Statistics, CES series

quarter. Remarkably, none of the 42 counties in the midstate area experienced an increase in the number of people unemployed (after adjusting for seasonal fluctuations). Further evidence of the strength of the labor market is shown by the drop in initial claims for unemployment insurance, down 6.9 percent from the previous quarter, likely signaling more declines in the unemployment rate in future quarters.

Total housing construction activity fell, but single-family construction rose by 3.3 percent from the third quarter. Over the year, housing construction has declined by 10 percent or more (Table 1).

Economic activity slowed in the Chattanooga MSA, with nonfarm employment falling from the third quarter and taxable sales unchanged (Table 4). Single-family housing construction rose, but total housing construction (including multifamily) posted a 14.7 percent decline. The Clarksville MSA showed relatively strong growth in the fourth quarter, with sizable gains in taxable sales and single-family construction. Nonfarm employment jumped 2.1 percent from the third quarter, and unemployment dipped to 5.2 percent.

Table 2. Nashville-Davidson-Murfreesboro MSA Nonfarm Employment (seasonally adjusted in thousands)

Sector	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	% Change 06Q3-06Q4	% Change 05Q4-06Q4
Total Nonfarm	736.0	741.9	746.7	750.3	754.3	759.3	0.7%	2.4%
Total Private	639.7	644.6	649.3	652.6	656.3	660.7	0.7%	2.5%
Natural Resources, Mining, and Construction	35.9	36.2	36.7	37.0	37.0	37.2	0.5%	2.8%
Manufacturing	84.3	84.5	84.9	84.4	84.4	84.4	0.0%	-0.1%
Durable Goods	57.5	57.6	57.8	57.7	57.5	57.5	-0.1%	-0.3%
Computer and Electronic Products	4.6	4.7	4.7	4.7	4.6	4.6	-0.3%	-2.8%
Electrical Equipment, Appliances, and Components	7.3	7.4	7.5	7.4	7.2	7.3	1.9%	-1.3%
Transportation Equipment	19.3	19.5	19.7	19.7	19.4	19.5	0.5%	0.1%
Nondurable Goods	26.8	26.9	27.0	26.7	26.9	27.0	0.6%	0.4%
Wholesale Trade	36.2	36.3	36.9	37.0	37.1	37.1	0.2%	2.4%
Retail Trade	86.2	86.9	87.5	88.6	89.4	89.7	0.3%	3.2%
Transportation and Utilities	28.3	28.4	28.2	28.0	28.1	28.1	-0.2%	-1.0%
Information	19.8	19.9	20.1	20.1	20.3	20.3	-0.1%	2.1%
Financial Activities	45.5	45.7	45.9	46.2	46.5	46.5	0.0%	1.7%
Professional and Business Services	96.3	98.3	98.8	99.5	100.3	102.4	2.1%	4.1%
Educational and Health Services	102.0	102.7	103.4	104.2	104.7	105.6	0.9%	2.8%
Educational Services	22.2	22.5	22.5	22.7	22.9	23.4	2.1%	4.0%
Health Care and Social Assistance	79.8	80.3	80.9	81.5	81.8	82.3	0.6%	2.5%
Leisure and Hospitality	75.3	75.9	77.2	77.6	78.6	79.6	1.3%	4.8%
Arts, Entertainment, and Recreation	9.5	9.5	9.4	9.6	9.9	9.9	0.1%	5.0%
Accommodation and Food Services	65.8	66.4	67.8	68.0	68.7	69.6	1.4%	4.8%
Other Services	30.0	29.8	29.8	29.7	29.8	29.7	-0.4%	-0.5%
Government	96.4	97.0	97.5	97.7	98.1	98.4	0.3%	1.4%

Table 5. Characteristics of Workers Affected by Minimum Wage Increase

	Number of Workers 16 and Over (thousands)		Percent of Workers Paid Hourly Rates			
	Total Workers on Payrolls	Workers Paid Hourly Rates	At or Below \$5.15/ Hour	At or Below \$7.25/ Hour	At or Below \$5.15/ Hour	At or Below \$7.25/ Hour
U.S.	128,237.2	76,513.6	1,692.5	10,583.4	2.2%	13.8%
Tennessee	2,549.6	1,615.7	48.5	242.4	3.0%	15.0%
Nashville MSA	697.5	414.3	11.2	54.3	2.7%	13.1%

Source: Compiled from the Current Population Survey; 2006 data for the U.S. and Tennessee; 2005–2006 data for Nashville MSA

As for the outlook, the combination of strong payroll employment growth and inflation-adjusted taxable sales generated a large increase in the coincident index, a gain of 0.9 percent from the third quarter. By contrast, the leading index remained flat, showing little change from the previous quarter. The leading index consists of three components: the inflation-adjusted value of building permits, unemployment insurance claims, and average weekly hours worked in manufacturing. In the fourth quarter, falling unemployment insurance claims and rising hours worked were positive contributors to the index, while falling real housing construction values subtracted from the leading index.¹

Impact of the Proposed Minimum Wage Increase in Tennessee

Congress is likely to approve, and the president sign, the first increase in the federal minimum wage since 1997.² Currently at \$5.15 per hour for most workers, the new minimum wage is slated to rise to \$7.25 per hour over a two-year period. Many believe an increase in the minimum wage is long overdue; measured in terms of buying power, the paycheck earned by a minimum wage worker has declined 20 percent since 1997.

Using household-level data from the Current Population Survey for 2004–2006, this section describes characteristics of the Tennessee workers affected by the minimum wage hike, namely, those who are paid hourly and earn less than \$7.25 per hour.

The minimum wage applies to only those workers paid by the hour; currently in Tennessee, hourly workers constitute 63.4 percent of all wage and salary workers.² Among hourly workers for Tennessee in 2006, 3 percent earned \$5.15 or less, 12 percent earned between \$5.15 and \$7.25, and 85 percent earned more than \$7.25. Clearly, most of the workers affected by the minimum wage increase in Tennessee are those who currently earn more than \$5.15 but less than \$7.25 per hour. In all, 15 percent of hourly workers in the state, or 242,400 workers, would be directly affected by the minimum wage increase (Table 5).

A larger share of workers in Tennessee will be affected by the increase than in the U.S., where 13.8 percent of hourly workers earn \$7.25 per hour or less. Nashville MSA figures from 2005 and 2006 show that 13.1 percent of hourly workers, or about 54,300, would be affected.

The following are highlights compiled for Tennessee using CPS data. Workers earning no more than \$7.25 per hour³

- are young, with 52 percent 24 years or younger and the median age 24 years;⁵
- tend to be female (57.1 percent);
- tend to be White (79.4 percent are white, and 16.6 percent are black);
- are twice as likely to have less than a high school diploma compared with hourly workers earning more than \$7.25;
- tend to be part-time, with just 32 percent working 40 hours per week or more;⁶
- tend to be employed in one of two occupational categories, Service Occupations (42.5 percent) and Sales Occupations (22.5 percent);
- are employed mostly in the Leisure and Hospitality industry (34.9 percent) or the Wholesale and Retail Trade industry (22.2 percent); and
- are more than twice as likely to be in families that earn \$20,000 or less.

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Table 4. Economic Indicators for Chattanooga MSA and Clarksville MSA

Series (seasonally adjusted)	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	% Change 06Q3-06Q4	% Change 05Q4-06Q4
CHATTANOOGA MSA									
Nonfarm Employment (thousand)	240.8	241.2	241.4	243.1	243.9	244.1	243.6	-0.2%	0.9%
Unemployment Rate	4.9	4.7	4.7	4.5	4.6	4.5	4.1	-8.4%	-11.1%
Taxable Sales (million \$)	1,533.6	1,580.1	1,564.2	1,612.2	1,620.5	1,642.5	1,641.7	0.0%	5.0%
Permit-Authorized Housing Construction									
Total	721	820	750	746	692	747	637	-14.7%	-15.0%
Single-Family	648	718	734	715	638	584	616	5.5%	-16.0%
CLARKSVILLE MSA									
Nonfarm Employment (thousand)	82.0	82.8	83.5	83.9	82.8	82.6	84.3	2.1%	1.0%
Unemployment Rate	6.0	5.7	6.3	5.7	6.1	5.7	5.2	-9.6%	-18.3%
Taxable Sales (million \$)	521.5	544.7	535.4	515.3	542.0	569.0	591.2	3.9%	10.4%
Permit-Authorized Housing Construction									
Total	759	866	444	467	616	1,198	791	-34.0%	78.2%
Single-Family	511	482	374	388	474	536	592	10.4%	58.2%

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Family incomes vary considerably. Nearly one-third (34.4 percent) have incomes less than \$20,000; for these families, a hike in the minimum wage rate would produce a substantial boost in annual income. For example, workers at the current minimum wage working 30 hours per week would experience an increase of \$3,150 in annual pay before taxes,⁷ a pay boost of at least 15 percent, assuming the workers retain their jobs after the increase.

Occupations affected by the minimum wage hike are predictable. In terms of the number of affected workers, the top five occupations tracked by the Bureau of Labor Statistics are cashiers, waiters and waitresses, cooks, salespersons, and janitors; four in 10 of all affected workers are employed in one of these five occupations. The top three industries affected are no surprise: restaurants, grocery stores, and department stores. Childcare centers are in the top five, and clothing stores and nursing homes are ranked in the top 10 industries. It is interesting to note the number of affected workers employed by education; according to estimates from the Current Population Survey, colleges and universities are the fourth largest employer of workers earning less than \$7.25 per hour, and elementary and secondary schools are the sixth largest employer.

To conclude, the proposed minimum wage rate hike would benefit 15 percent of hourly workers in Tennessee and significantly boost family incomes. These workers tend to be white and female with lower educational attainment and younger compared to other workers. ■

1. Figures 2 and 3, www.mtsu.edu/~berc/mei.html

2. As of this writing, H.R. 2, the Fair Minimum Wage Act of 2007, passed the Senate by a vote of 97-3. On September 1, 1997, the minimum wage was increased from \$4.75 to \$5.15.

3. A wage and salary worker is simply a worker on a payroll; self-employed workers are not included.

4. To increase the sample size required by the detailed tabulations, figures are averages over the sample from both 2005 and 2006.

5. Table 6, www.mtsu.edu/~berc/mei.html

6. Table 7, www.mtsu.edu/~berc/mei.html

7. 30 hours x 50 weeks x (\$7.25 - \$5.15) = \$3,150.

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