

# M I D S T A T E

## ECONOMIC INDICATORS

# Q409

Business and Economic Research Center | Jennings A. Jones College of Business | Middle Tennessee State University

## Nashville Area

**T**he midstate economy struggled again during the fourth quarter, with single-family home construction and sales tax collections the only significant sources of improvement.

Total employment plunged during the quarter, with both the midstate and Nashville MSA showing job losses of more than 5% over the year.

Nonfarm employment provides a more positive picture, declining 3.6% over the year but posting a small increase from the previous quarter (Table 2). Some specific sectors, such as trade, professional and scientific services, and educational services, also show gains from the third quarter. In manufacturing, durable goods lost jobs, but nondurable goods increased employment slightly. In all, the rate of decline has slowed, and some sectors are showing small gains.

The unemployment rate, steady at 10.2% for the midstate and 9.3% for the Nashville MSA, has shown little change

for the third consecutive quarter. This news is not as positive as it seems because the lower unemployment rate reflects the reality that thousands of Tennesseans have stopped searching for work, as evidenced by the substantial decline in the labor force. To illustrate, total employment in the midstate declined 64,000 over the year, but unemployment rose just 34,000; the difference, 30,000 workers, represent those who have dropped out of the labor force. The flat unemployment rate masks the degree of labor market stress. If all those who lost jobs during the past year had remained in the labor force, the unemployment rate would have increased to 12.3% for the midstate and 11.3% for the Nashville MSA. In addition, many more thousands of Tennesseans are working part-time instead of full-time or are employed in jobs that underutilize their experience and skills. These are the underemployed, as documented in a recent BEREC study on south central Tennessee.

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by David A. Penn

**Table 1. Economic Indicators for Middle Tennessee**

Series (seasonally adjusted)	Geographical Area	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	% Change 09Q3-09Q4	% Change 08Q4-09Q4
<b>Labor Force and Employment</b>								
Midstate Total Employment	Midstate**	1,111,741	1,086,504	1,072,468	1,059,477	1,046,869	-1.2%	-5.8%
Midstate Labor Force	Midstate	1,195,796	1,196,314	1,191,011	1,181,229	1,165,355	-1.3%	-2.5%
Midstate Unemployed	Midstate	84,055	109,809	121,543	121,752	118,486	-2.7%	41.0%
Midstate Unemployment Rate	Midstate	7.0%	9.2%	10.2%	10.3%	10.2%		
Nashville MSA Total Employment	Nashville MSA*	743,878	729,599	719,017	708,139	704,015	-0.6%	-5.4%
Nashville MSA Labor Force	Nashville MSA*	794,236	794,783	792,377	782,792	776,326	-0.8%	-2.3%
Nashville MSA Unemployed	Nashville MSA*	50,357	65,184	73,360	74,653	72,311	-3.1%	43.6%
Nashville MSA Unemployment Rate	Nashville MSA*	6.3%	8.2%	9.3%	9.5%	9.3%		
Nashville MSA Nonfarm Employment	Nashville MSA*	748,700	740,800	733,400	723,300	721,600	-0.2%	-3.6%
Initial Claims Unemployment Compensation	TN, weekly avg	11,386	14,067	12,761	11,098	9,526	-14.2%	-16.3%
<b>Housing Construction</b>								
New Residential Permits	Nashville MSA							
Single-Family		913	839	963	1,080	1,150	6.5%	25.9%
Multi-Family		1,162	108	82	84	359	330.3%	-69.1%
Total		2,075	948	1,044	1,163	1,509	29.8%	-27.3%
Value of New Residential Units (million \$)	Nashville MSA							
Single-Family		168.4	164.2	183.5	190.7	217.0	13.8%	28.9%
Multi-Family		79.6	9.9	5.8	5.1	16.4	218.6%	-79.4%
Total		248.0	174.1	189.3	195.8	233.4	19.2%	-5.9%
<b>Tourism</b>								
Total Air Passengers, Nashville Int'l Airport	Davidson Co.	2,267,628	2,123,311	2,214,699	2,288,235	2,298,838	0.5%	1.4%
<b>Taxable Sales (estimates, million \$)</b>								
Nashville MSA	Nashville MSA	6,785	6,628	6,388	6,346	6,593	3.9%	-2.8%
Midstate	Midstate	9,285	9,120	8,834	8,852	9,070	2.5%	-2.3%

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.

# Nashville Area

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Reducing the unemployment rate to the level that existed before the recession will require many months of sustained employment growth; this will undoubtedly be the most challenging task for the nascent economic recovery. In order to bring down the unemployment rate to the *status quo ante*, two things must occur. First, the economy must generate enough new jobs to recover those lost during the past two years. Second, the economy must generate enough jobs to absorb new entrants to the labor force, including immigrants from other counties and states, new high school graduates, and new college graduates. Thus, we need employment growth to bring down the unemployment rate—and more employment growth to keep it there.

One of the few positive outcomes of the fourth quarter is the continued growth of single-family home construction (Table 1, Figure 1). Permits issued for construction hit bottom in the first quarter and have increased in subsequent quarters. Activity in the fourth quarter is 25.9% higher over the year but remains much lower than pre-recession levels.

Construction of multi-family units, including apartments and town houses, has not fared as well. Multi-family construction is 27.3% lower over the year but experienced a very large spurt of activity during the fourth quarter. Multi-family housing is experiencing credit availability problems more severe than for single-family housing.

Although improvement is welcome, sustained housing growth is facing a number of issues going forward. First, the Federal Reserve has signaled that it will begin to unwind its position in the mortgage market. Over the past year, the Fed has purchased large amounts of mortgage-backed securities in order to provide a base level of demand for mortgages, putting downward pressure on mortgage rates. As the Fed eases up its purchases and begins selling its stock of mortgage securities, this will create upward pressure on mortgage rates. Second, the Federal Housing Administration has announced it will tighten its lending requirements in order to forestall anticipated future loan losses. This will mean that some classes of borrowers may no longer qualify for an FHA-backed loan. And third, the first-time home buyer tax credit is scheduled to expire at the end of April 2010. The net effect of these three upcoming events remains to be seen.

The second important indicator to show improvement is sales tax collections—up from the previous quarter in both the midstate and Nashville MSA although lower over the year (Table 1). Even with these gains, sales tax collections are 5% lower than estimated for the state government budget through seven months of the present fiscal year.

The Chattanooga and Clarksville metropolitan areas show similar improvement for single-family home construction and sales tax collections (Table 3): from the previous quarter, single-family home construction rose more than 10% in both MSAs, and sales tax collections are somewhat higher.

**Table 2. Nashville MSA Quarterly Nonfarm Employment (thousands, seasonally adjusted)**

Sector	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	% Change 09Q3-09Q4	% Change 08Q4-09Q4
Total Nonfarm	756.6	733.0	731.5	725.0	729.0	0.6%	-3.6%
Total Private	652.0	629.4	629.9	625.4	624.3	-0.2%	-4.3%
Goods Producing	109.3	103.1	101.1	99.6	96.2	-3.4%	-12.0%
Service Providing	647.3	629.9	630.5	625.4	632.8	1.2%	-2.2%
Private Service Providing	542.7	526.3	528.8	525.8	528.1	0.4%	-2.7%
Natural Resources, Mining, and Construction	38.3	35.6	35.3	35.1	33.0	-6.0%	-13.9%
Manufacturing	71.0	67.4	65.8	64.5	63.2	-2.1%	-11.0%
Durable Goods	47.0	44.5	43.2	42.2	40.7	-3.6%	-13.5%
Nondurable Goods	24.0	23.0	22.6	22.3	22.5	0.7%	-6.1%
Trade, Transportation, and Utilities	154.3	148.5	148.1	147.5	149.5	1.3%	-3.2%
Wholesale Trade	37.0	36.5	36.2	36.3	36.5	0.4%	-1.4%
Retail Trade	87.7	83.4	83.7	83.1	84.8	2.1%	-3.3%
Transportation and Utilities	29.6	28.5	28.2	28.1	28.2	0.2%	-4.8%
Information	21.2	20.8	20.6	20.3	20.3	0.0%	-4.6%
Financial Activities	46.0	45.3	45.5	45.3	45.2	-0.4%	-1.7%
Finance and Insurance	35.4	35.0	35.1	35.0	35.1	0.2%	-0.9%
Real Estate and Rental and Leasing	10.6	10.3	10.4	10.3	10.1	-2.3%	-4.4%
Professional and Business Services	99.7	93.8	93.7	92.9	93.2	0.4%	-6.5%
Professional, Scientific, and Technical Services	37.8	37.2	36.9	36.5	36.9	1.1%	-2.4%
Management of Companies and Enterprises	9.8	9.7	9.9	9.9	9.9	-0.3%	1.4%
Admin., Support, Waste Management, Remediation Services	52.1	46.9	46.9	46.4	46.4	0.0%	-11.0%
Educational and Health Services	111.9	111.9	112.1	111.4	112.5	1.0%	0.5%
Educational Services	19.0	18.8	18.6	18.3	18.9	3.1%	-0.5%
Health Care and Social Assistance	92.9	93.0	93.6	93.0	93.6	0.6%	0.8%
Leisure and Hospitality	79.6	76.6	79.2	79.2	77.9	-1.7%	-2.2%
Arts, Entertainment, and Recreation	9.2	8.4	10.0	10.3	9.1	-11.9%	-1.1%
Accommodation and Food Services	70.4	68.2	69.2	68.9	68.8	-0.2%	-2.4%
Accommodation	12.0	11.5	11.7	11.7	11.6	-0.3%	-3.3%
Food Services and Drinking Places	58.4	56.7	57.5	57.2	57.1	-0.2%	-2.2%
Other Services	29.9	29.4	29.6	29.2	29.6	1.3%	-1.0%
Government	104.6	103.6	101.6	99.6	104.7	5.2%	0.1%

**Table 3. Economic Indicators for Chattanooga MSA and Clarksville MSA**

Series (seasonally adjusted)	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	% Change 09Q3-09Q4	% Change 08Q4-09Q4
<b>Chattanooga MSA</b>							
Nonfarm Employment (thousand)	239.8	233.1	227.2	224.1	224.4	0.1%	-6.4%
Unemployment Rate	6.7	8.2	9.2	9.4	9.3		
Taxable Sales (million \$)	1,614.7	1,548.8	1,516.0	1,508.1	1,576.1	4.5%	-2.4%
Permit-Authorized Housing Construction							
Total	204.0	217.0	230.0	264	258.0	-2.2%	26.6%
Single-Family	193.0	193.0	207.0	243	275.0	13.0%	42.4%
<b>Clarksville MSA</b>							
Nonfarm Employment (thousand)	82.4	81.2	81.6	80.8	80.9	0.2%	-1.8%
Unemployment Rate	7.8	9.3	10.2	10.6	11.1		
Taxable Sales (million \$)	570.7	589.2	580.3	585.6	592.1	1.1%	3.8%
Permit-Authorized Housing Construction							
Total	267.0	397.0	289.0	368.0	370.0	0.6%	38.7%
Single-Family	214.0	299.0	245.0	332.0	366.0	10.4%	71.0%

Note: Taxable sales and permit-authorized housing construction are quarterly sums of activity.

**Figure 1. Nashville MSA Building Permits Issued for Single-Family Homes (monthly)**

