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MIDSTATE ECONOMIC INDICATORS Q109

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

Is the Worst Over?

One is tempted to put the first quarter economic data aside and think about what a recovery will be like. But since this is a quarterly report, we really can't escape at least a brief overview of the dreadful economic news earlier this year.

By just about any measure, the first quarter was probably one of the worst for the Nashville and midstate areas in several decades. Dreadful is the word that comes to mind, and often, for in the first quarter we witnessed a very rapid decline in economic activity as the severe recession plowed through just about every corner of the Nashville and midstate economy.

The first quarter brought economic indicators replete with negativity. For example, unemployment grew 30 percent, initial claims for unemployment insurance climbed 25 percent, and housing construction permits plunged 47 percent, and all that just from the previous quarter (Table 1)—dreadful indeed.

The downturn has penetrated the far reaches of the midstate economy. In fact, of all the major industries

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by David A. Penn

Table 1. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	% Change 08Q4-09Q1	% Change 08Q1-09Q1
Labor Force and Employment							
Midstate							
Total Employment	1,134,585	1,134,259	1,125,610	1,112,275	1,085,743	-2.4%	-4.3%
Labor Force	1,198,477	1,205,105	1,202,166	1,195,272	1,195,516	0.0%	-0.2%
Unemployed	63,892	70,846	76,556	82,996	109,773	32.3%	71.8%
Unemployment Rate	5.3%	5.9%	6.4%	6.9%	9.2%		
Nashville MSA							
Total Employment	757,719	758,271	751,733	744,132	729,393	-2.0%	-3.7%
Labor Force	795,161	800,132	798,067	793,819	794,325	0.1%	-0.1%
Unemployed	37,442	41,861	46,334	49,686	64,933	30.7%	73.4%
Unemployment Rate	4.7%	5.2%	5.8%	6.3%	8.2%		
Nonfarm employment	766,200	763,800	755,900	749,400	740,700	-1.2%	-3.3%
Tennessee Unemployment Compensation, Weekly Average							
Initial Claims	6,034	6,979	7,919	10,941	13,699	25.2%	127.0%
Continued Claims	42,861	47,545	53,334	68,358	97,569	42.7%	127.6%
Nashville MSA Housing Construction							
New Residential Permits							
Single-Family	1,555	1,552	1,328	895	817	-8.7%	-47.4%
Multi-Family	285	219	359	990	165	-83.3%	-42.0%
Total	1,840	1,772	1,687	1,885	983	-47.9%	-46.6%
Value of New Residential Units (million $)							
Single-Family	282.4	287.9	245.7	165.2	155.6	-5.8%	-44.9%
Multi-Family	27.2	18.1	19.5	74.0	14.3	-80.7%	-47.5%
Total	309.6	305.9	265.2	239.2	169.9	-29.0%	-45.1%
Davidson County Tourism							
Total Air Passengers, Nashville International Airport	2,424,168	2,387,255	2,308,030	2,269,291	2,106,013	-7.2%	-13.1%
Taxable Sales (estimates, million $)							
Nashville MSA	7,448	7,379	7,167	6,802	6,613	-2.8%	-11.2%
Midstate	10,081	10,021	9.750	9,299	9,104	-2.1%	-9.7%

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.

Worst Over?

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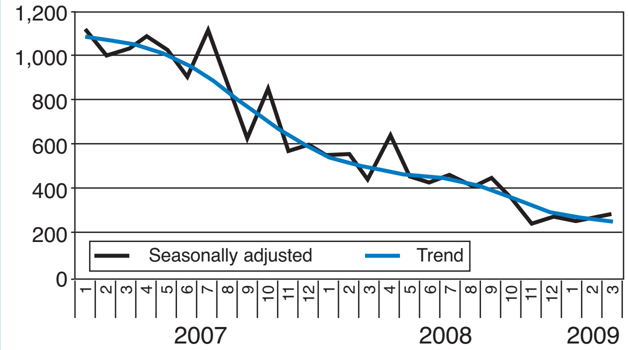
in the Nashville MSA, only two produced modest job gains: educational and health services and management of enterprises. All other industries lost jobs in the first quarter (Table 2). Over-the-year job losses have been particularly large in the goods-producing industries including manufacturing (-11.1 percent) and natural resources, mining, and construction (-11.3 percent). Manufacturing job losses are most severe in durable goods production, particularly transportation equipment (autos, trucks, and auto parts).

Consumers cut spending in a big way, as shown by very large declines in taxable sales over the year (Table 1). Households are spending less for several reasons: (1) they are saving more of their incomes as a precaution against deteriorating economic conditions, (2) they are unable to maintain previous levels of spending because credit is not nearly as available as in the past, and (3) they simply have less income to spend when one or more family members become unemployed.

Figure 1. Single-Family Home Permits Issued Monthly, Nashville MSA



Thankfully, the first quarter is history. While the labor market is likely to bring bad news for months to come, we see signs of improvement for two important indicators. First, single-family home construction appears to have leveled off during the first quarter. As shown in Figure 1, single-family home construction hit bottom in November at 252 permits, climbing marginally to 287 permits in March. Although the smoothed trend for permits is still declining, the rate of decline has slowed considerably. Given the current pattern, the

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

Sector	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	% Change 08Q4-09Q1	% Change 08Q1-09Q1
Total Nonfarm	766.1	763.8	755.9	749.4	740.7	-1.2%	-3.3%
Total Private	664.3	660.6	653.8	646.8	638.7	-1.3%	-3.9%
Goods Producing	117.6	115.4	112.7	108.9	104.5	-4.1%	-11.2%
Service Providing	648.6	648.4	643.2	640.4	636.2	-0.7%	-1.9%
Private Service Providing	546.7	545.0	541.2	537.8	534.2	-0.7%	2.3%
Natural Resources, Mining, & Construction	41.4	39.9	39.1	38.3	36.7	-4.3%	-11.3%
Manufacturing	76.4	75.4	73.6	70.6	67.9	-3.8%	-11.1%
Durable Goods	51.8	51.1	49.4	46.8	44.8	-4.3%	-13.5%
Nondurable Goods	24.6	24.3	24.1	23.8	23.1	-2.9%	-6.1%
Trade, Transportation, and Utilities	155.6	154.4	153.6	151.5	149.8	-1.1%	-3.8%
Wholesale Trade	37.4	37.1	37.1	36.8	36.7	-0.4%	-1.8%
Retail Trade	88.4	87.3	86.9	85.5	84.2	-1.6%	-4.8%
Transportation and Utilities	30.0	29.9	29.6	29.1	28.9	-0.7%	-3.4%
Information	21.1	21.2	21.2	21.2	20.9	-1.6%	-1.2%
Financial Activities	46.4	46.1	46.1	45.9	45.6	-0.7%	-1.6%
Finance and Insurance	35.8	35.6	35.5	35.3	35.2	-0.3%	-1.7%
Real Estate and Rental and Leasing	10.6	10.5	10.6	10.6	10.5	-1.4%	-1.6%
Professional and Business Services	101.8	101.9	99.3	97.3	96.5	-0.9%	-5.2%
Professional, Scientific, and Technical Services	38.0	38.5	38.2	37.8	37.2	-1.5%	-2.0%
Management of Companies and Enterprises	9.9	9.8	9.7	9.7	9.8	1.3%	-0.6%
Administrative & Support & Waste Management & Remediation Services	54.0	53.4	51.4	50.0	49.4	-1.3%	-8.5%
Educational and Health Services	110.2	110.9	111.1	111.9	112.6	0.7%	2.2%
Educational Services	18.6	18.6	18.6	18.9	19.1	1.1%	2.4%
Health Care and Social Assistance	91.5	92.3	92.5	93.0	93.5	0.5%	2.2%
Leisure and Hospitality	80.5	80.1	79.7	79.8	79.2	-0.8%	-1.6%
Arts, Entertainment, and Recreation	9.8	9.9	9.6	9.6	9.4	-1.5%	-4.1%
Accommodation and Food Services	70.7	70.1	70.1	70.3	69.8	-0.7%	-1.3%
Accommodation	12.1	12.2	11.9	12.0	11.8	-1.1%	-2.2%
Food Services and Drinking Places	58.6	57.9	58.1	58.4	57.9	-0.8%	-1.1%
Other Services	31.0	30.7	30.4	30.0	29.5	-1.6%	-4.8%
Government	101.9	103.0	102.3	102.6	101.9	-0.7%	0.1%

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longer-term trend should hit bottom during the second quarter.

Given the very large amount of inventory and continued downward pressure on housing prices, we do not expect a strong recovery for housing construction. Single-family construction will slide sideways for the next year or so, at best producing a modest increase.

Total housing construction (single-family plus multifamily) is a different story altogether. A large inventory plus losses on development loans will add to already large declines in multifamily permits.

Second, initial claims for unemployment insurance for Tennessee may have peaked. Initial claims count the number of first-time applications for unemployment insurance filed during a given week—thought to be a useful indicator of the future unemployment rate. In recent months, a rising level of initial claims has been strongly related to the accelerating increases in the unemployment rate. For example, initial claims rose 28 percent during the previous quarter, reasonably close to the 25 percent rise in the number of unemployed in the Nashville MSA.

Initial claims have leveled off during the past several weeks, but this does not mean that the unemployment rate will soon begin to decline—far from it, as initial claims remain at a very high level. It does mean, however, that some of the upward pressure on unemployment has diminished; the high level of initial claims will continue to push the unemployment rate higher but not nearly as quickly as in the first quarter.

Table 3 presents details for the Chattanooga and Clarksville metropolitan areas. Both metro areas experienced large increases in the unemployment rate, but nonfarm job loss was less in Chattanooga than in Clarksville. Also, taxable sales are performing better in Clarksville. Both metro areas experienced gains in housing construction permits from the previous quarter, with Clarksville showing a large over-the-year gain in single-family home construction. ■

Table 3. Economic Indicators for Chattanooga MSA and Clarksville MSA

Series (seasonally adjusted)	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	% Change 08Q4-09Q1	% Change 08Q1-09Q1
Chattanooga MSA							
Nonfarm Employment (thousands)	248.0	246.4	245.1	243.9	242.8	-0.4%	-2.1%
Unemployment Rate	4.8	5.3	6.0	6.6	8.2		
Taxable Sales (million $)	1,671.0	1,689.5	1,643.8	1,619.5	1,543.6	-4.7%	-7.6%
Permit-Authorized Housing Construction							
Total	372	348	294	202	215	6.6%	-42.2%
Single-Family	300	309	247	186	188	1.2%	-37.3%
Clarksville MSA							
Nonfarm Employment (thousands)	84.8	83.9	83.2	82.5	81.4	-1.3%	-4.0%
Unemployment Rate	5.8	6.6	7.3	7.7	9.4		
Taxable Sales (million $)	566.8	578.9	556.4	571.1	591.9	3.6%	4.4%
Permit-Authorized Housing Construction							
Total	477	224	391	278	397	42.8%	-16.9%
Single-Family	236	199	285	222	298	34.2%	26.2%

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