

Expectations for the Nashville Area Economy

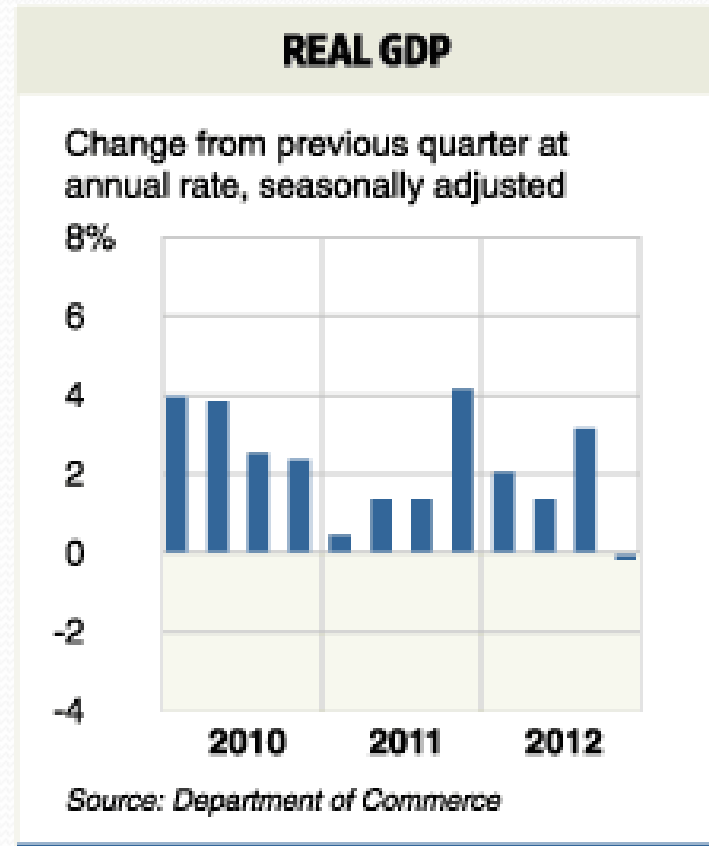
Nashville Risk Management Association

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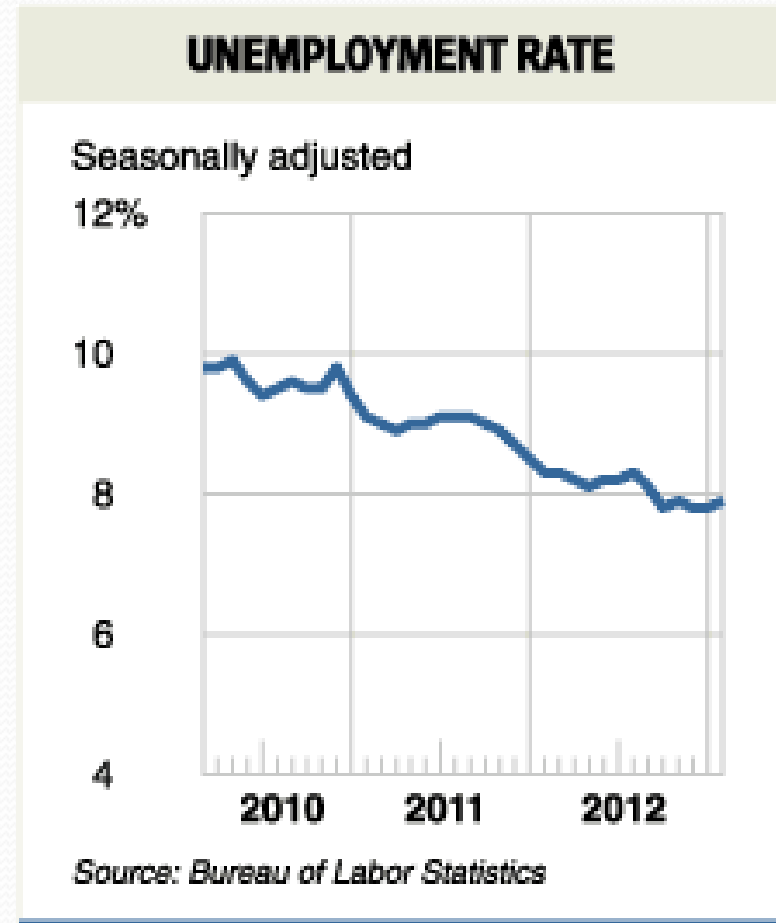
National conditions

- Real GDP shrank in the 4th quarter.
- Cuts in defense spending are the culprit.
- Though output declined, total spending increased.



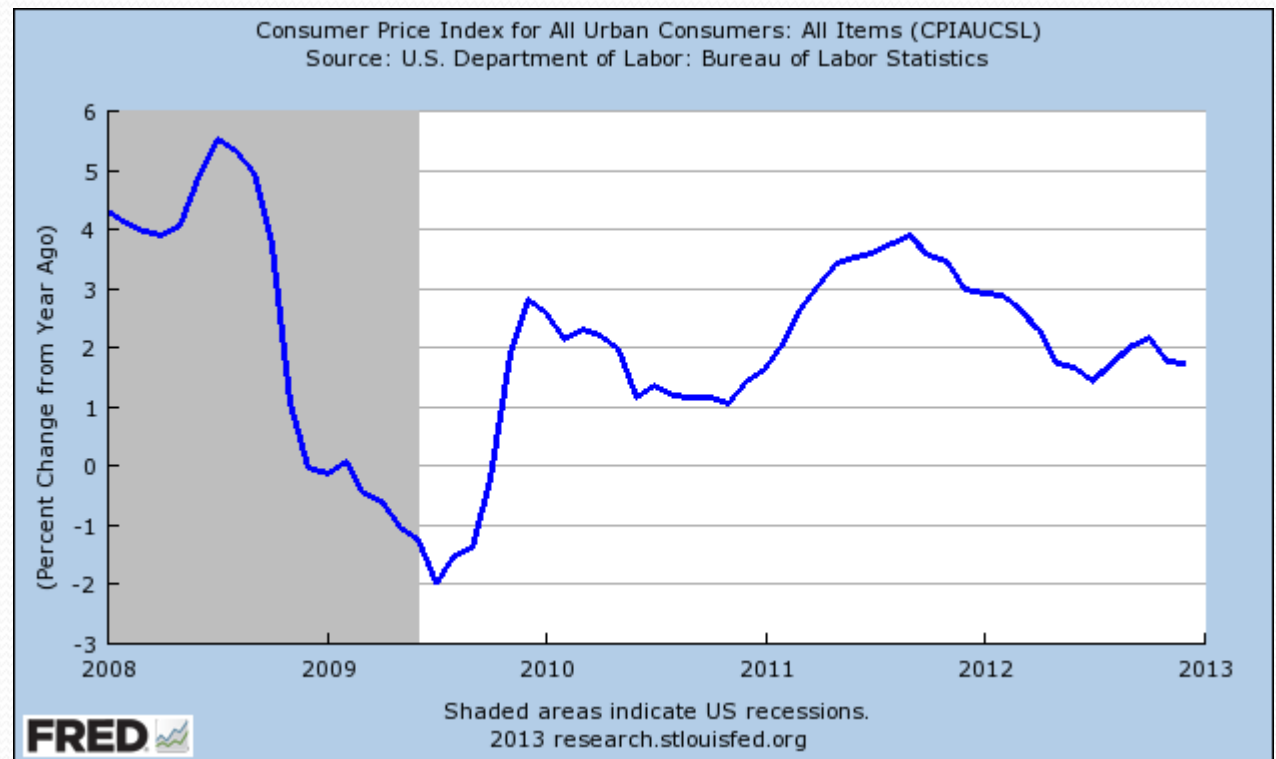
National unemployment rate

- 7.9% in Jan 2013
- Drifted lower in 2012, but little changed since last fall



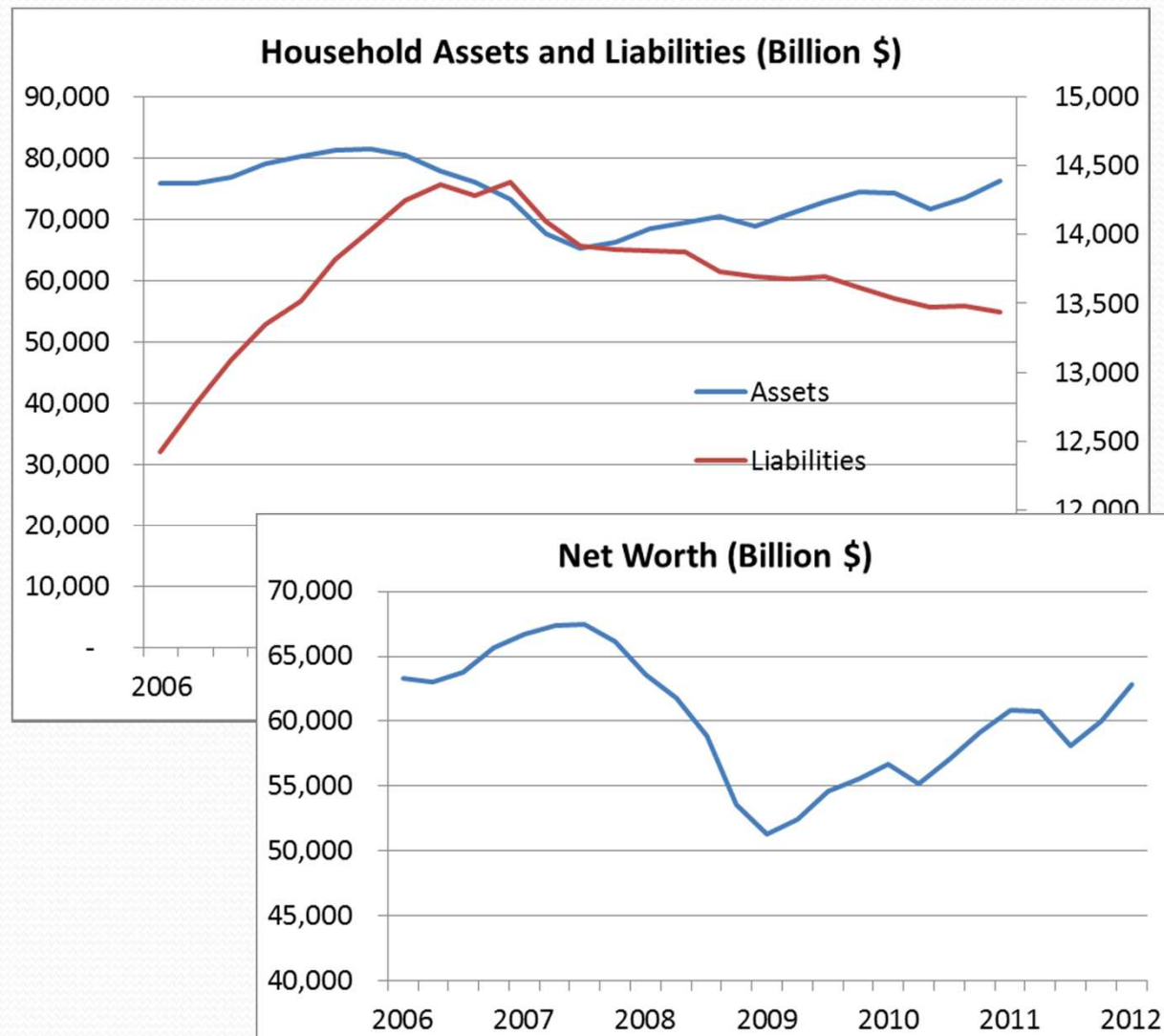
Inflation (CPI)

- 1.7% for December.
- Ups and downs almost entirely driven by gasoline price fluctuations.
- Little evidence of sustained inflation.



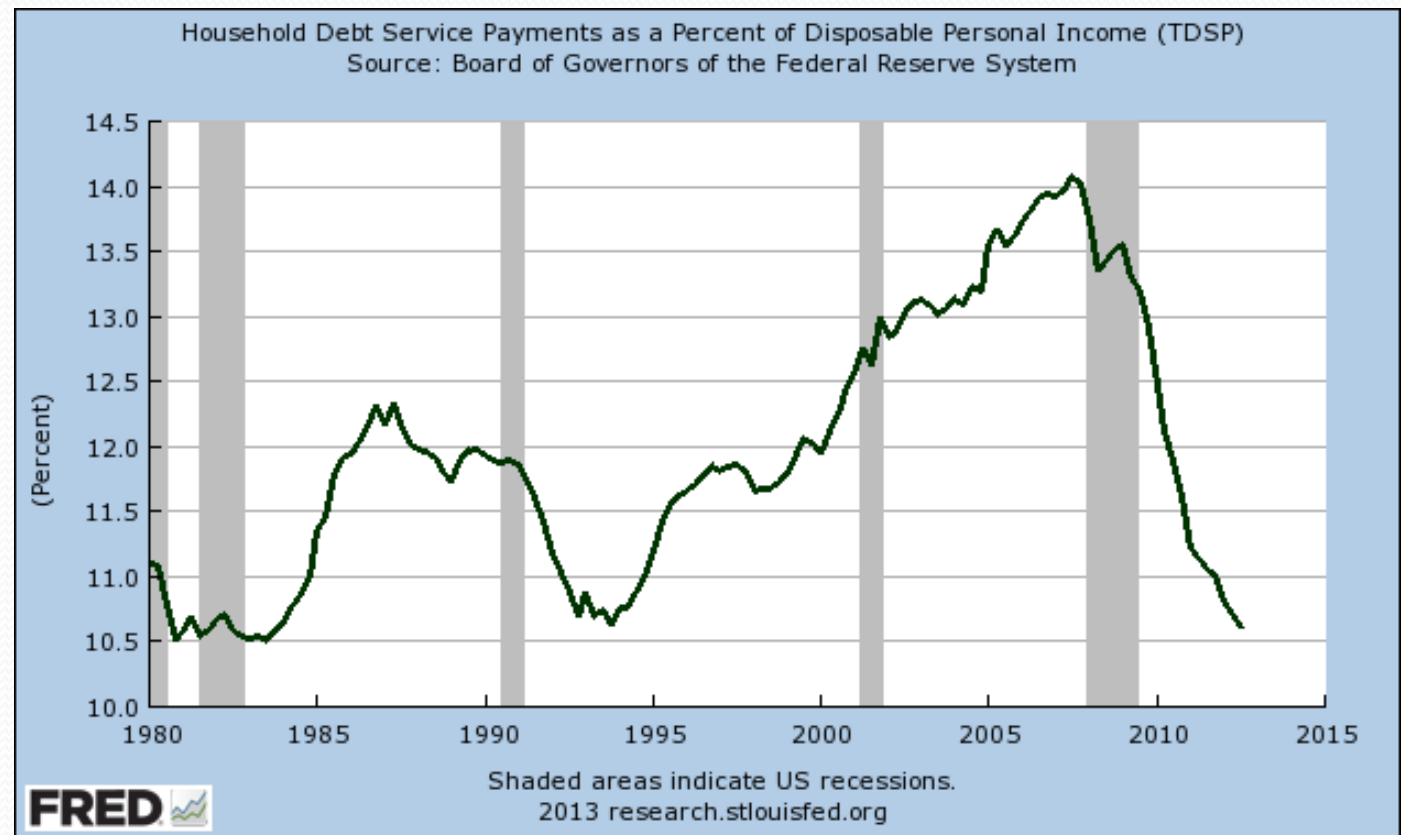
Balance Sheet Recession

Net worth continues to repair, but still well short of 2007 peak.



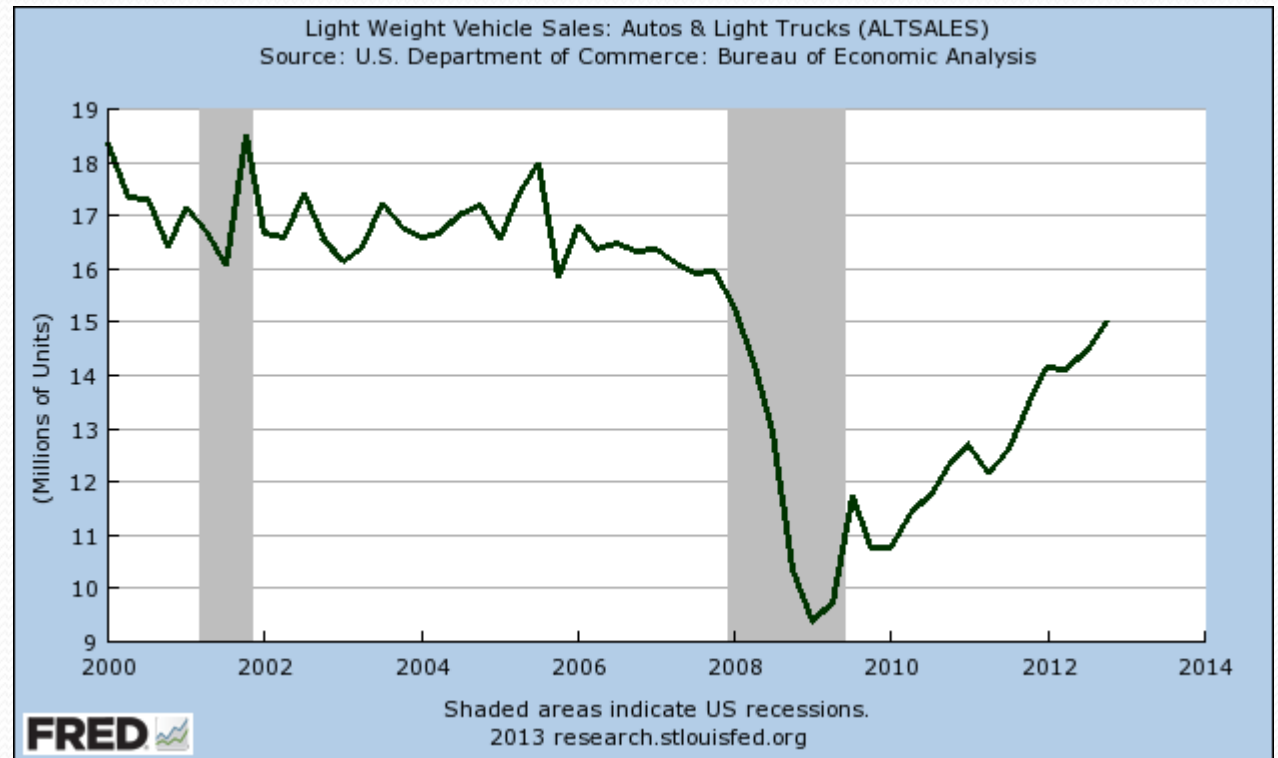
Household debt service

- 10.6% of disposable income 2012.3, lowest since 1983.
- Could reach 30-year low.



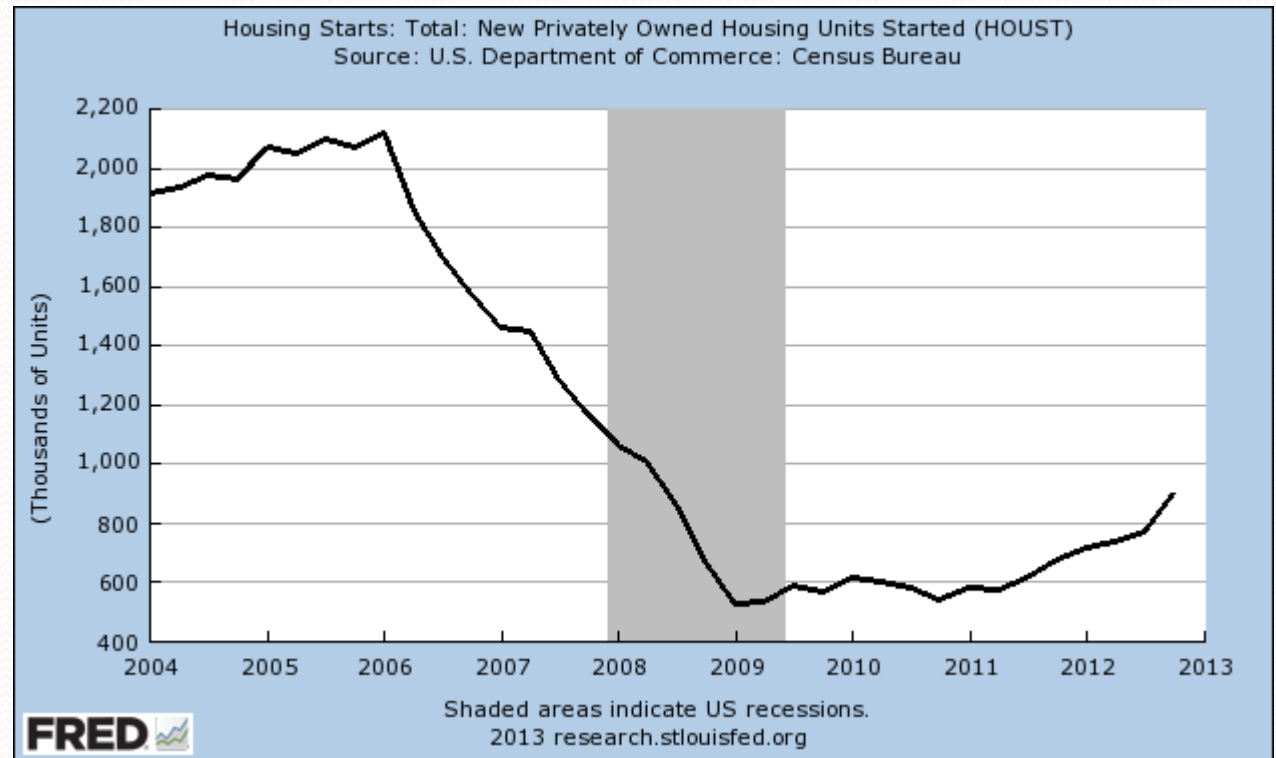
Auto sales

- Sales are climbing, hitting 15 million late last year.
- Sales averaged 16.6 million per month (annual rate) before recession.



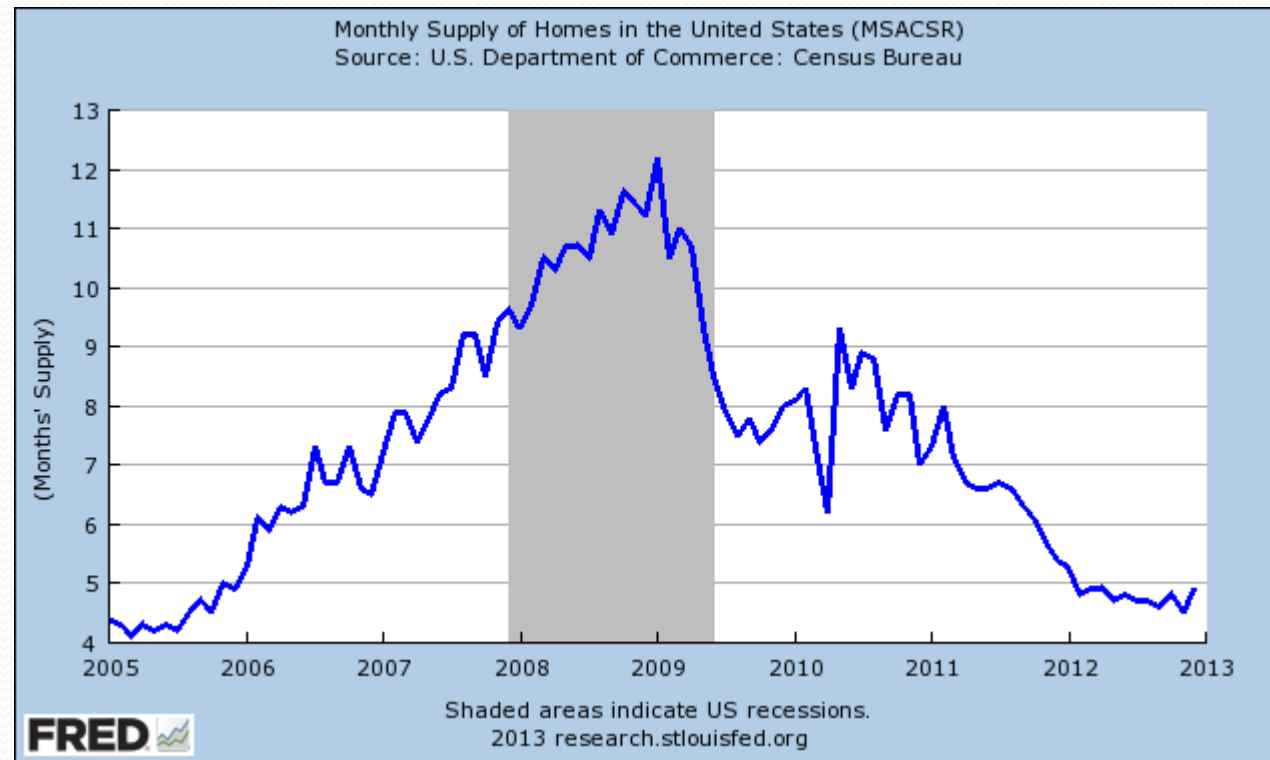
Housing construction

- Housing starts are accelerating.

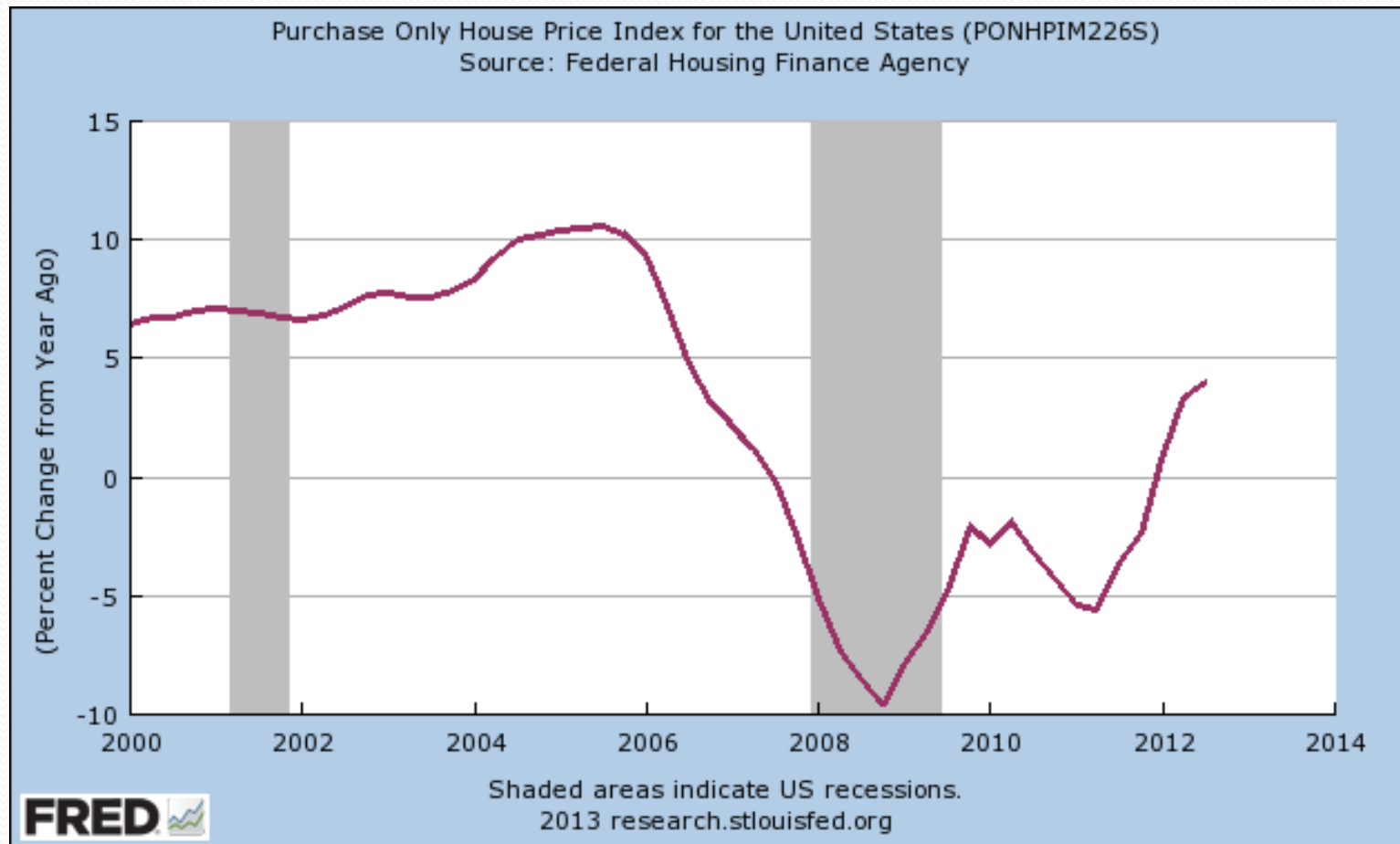


Monthly supply of new homes

- Only 5 months supply on-hand.
- Explains rising housing construction.

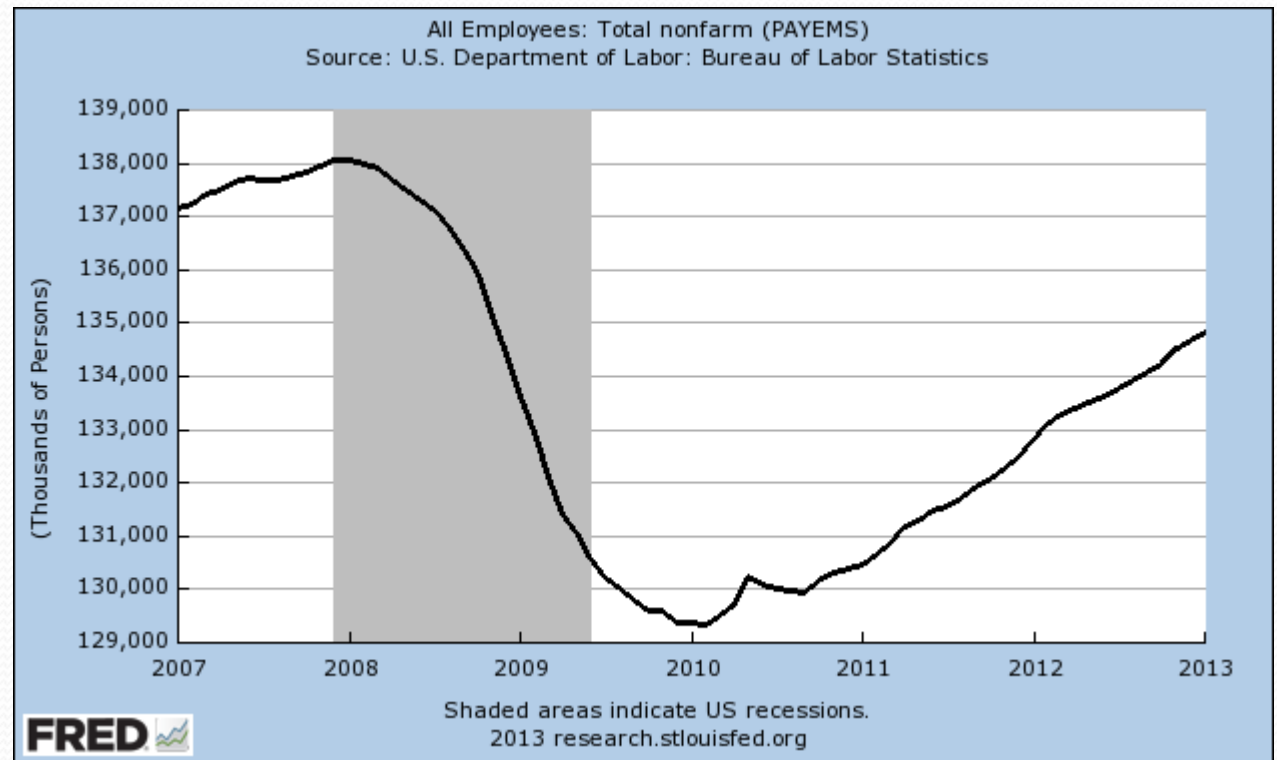


Home Prices



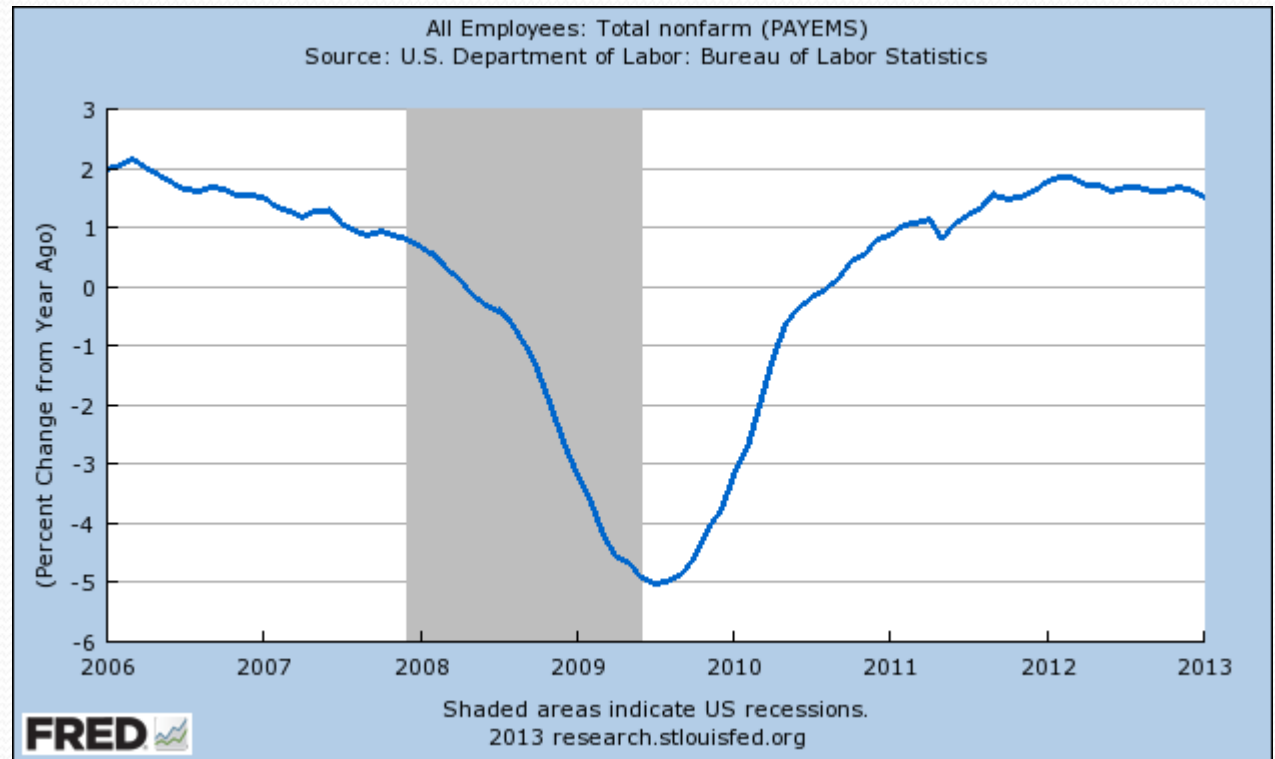
US employment

- Employers are hiring, but more slowly.



US employment

- Employment growth rate is not accelerating.





Job Openings and Unemployed

- 3.3 unemployed per job opening at present
- Down from 6.5 during the recession
- But much higher than 1.8 before the recession

Manufacturing

- PMI Improved in January following a lackluster second half of 2012.

PURCHASING MANAGERS' INDEX

Reading above 50 indicates expansion in manufacturing activity



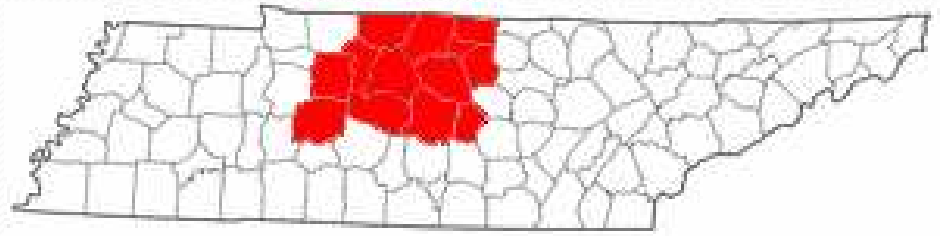
Source: Institute for Supply Mgmt.



What does the U.S. economy need?

- Confidence
 - Public and business confidence
- Demand
 - #1 constraint on business hiring: lack of demand for goods and services.
 - New tax credits and subsidies for hiring do not substitute for demand growth.

Nashville MSA



- Job creation slowing
- Unemployment rate lower over the year
- Housing construction improving significantly
- Home price growth edges into positive territory
- Consumer spending still strong
- Most sectors are adding jobs

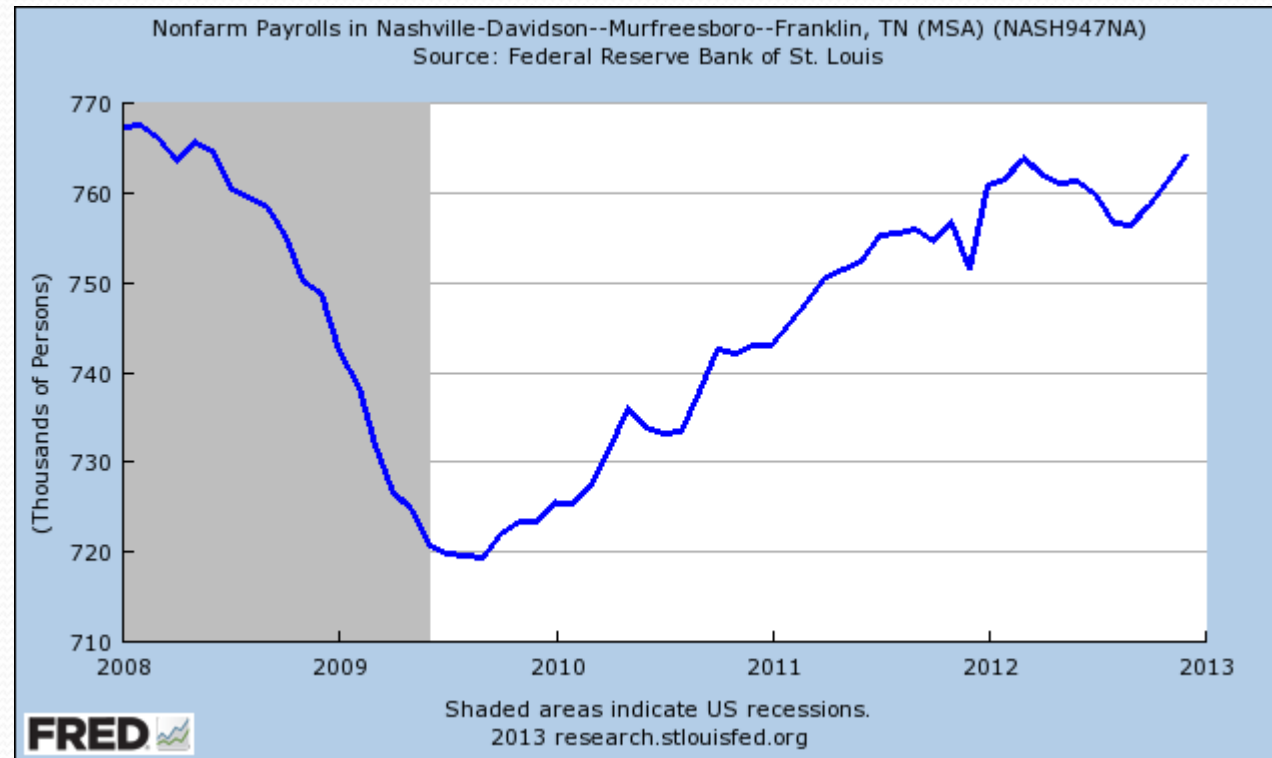
Nashville MSA at a Glance (December 2012)

Indicators	Year Ago	This Month	Year to Year % Change
Total Nonfarm Employment (thousand)	751.0	763.8	1.7
Labor Force (thousand)	840.2	844.4	0.5
Unemployed (thousand)	60.7	54.3	-10.5
Unemployment Rate (percent)	7.2	6.4	-0.8 pts
State Sales Tax Collections (million \$)	140.9	153.3	8.7
Single Family Unit Housing Permits	438	456	4.1
Total Housing Permits	514	835	62.5

Seasonally adjusted

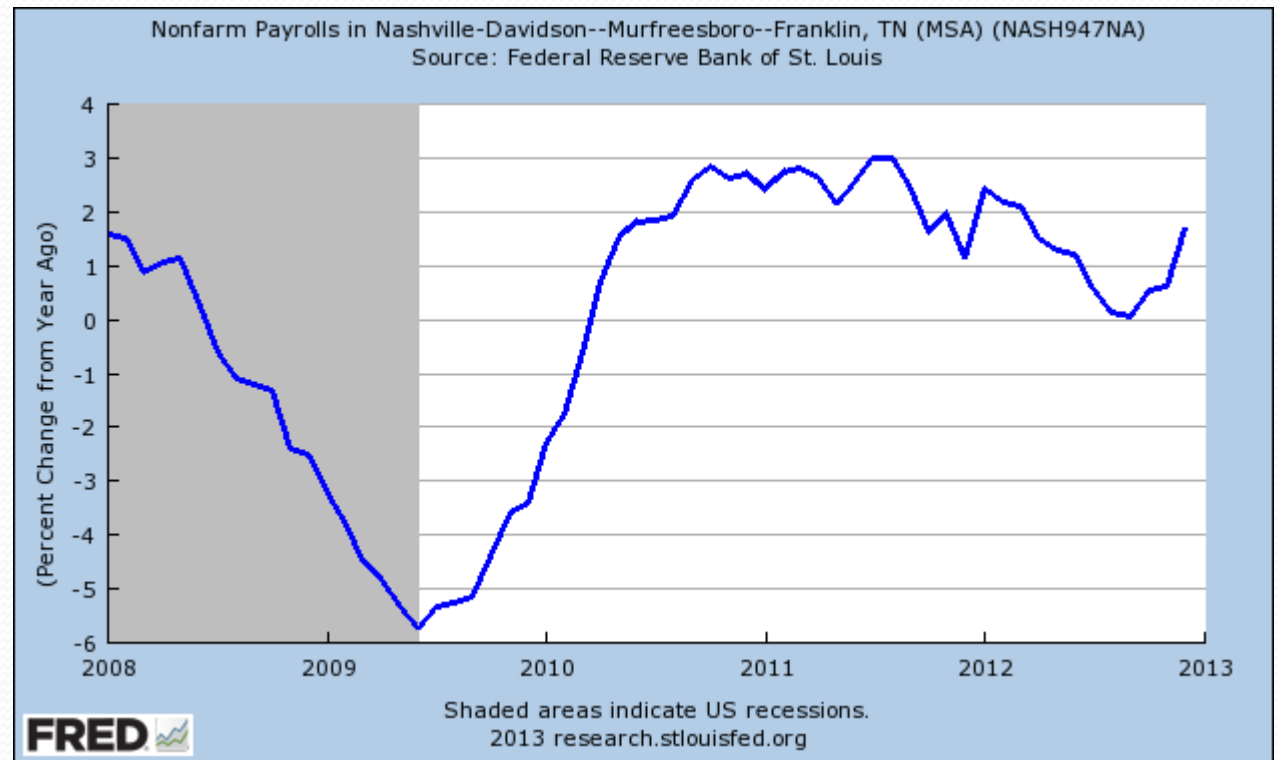
Nonfarm employment Nashville MSA

- Payroll employment doing better



Nonfarm employment Nashville MSA

- Growth rate perking up.



Nashville's Job Growth Ranking

Metropolitan Area	Employment Growth	Ranking
San Jose-Sunnyvale-Santa Clara, CA	4.1%	1
Oklahoma City, OK	3.5%	2
Median MSA	1.2%	27
Nashville-Davidson--Murfreesboro--Franklin, TN	1.0%	35
Memphis, TN-MS-AR	0.1%	47

Over the year 4th quarter rate of growth. Includes 53 MSAs with employment of 500,000 or more.

Nashville MSA Job Growth by Industry

Industry	2011	2012		
	Dec	Apr	Aug	Dec
Total Nonfarm	1.1	1.6	0.1	1.7
Mining, Logging, and Construction	6.4	-0.3	-4.1	1.5
Manufacturing	2.6	2.7	2.3	3.0
Durable Goods	4.5	4.9	4.0	5.0
Non-Durable Goods	-0.9	-1.4	-0.9	-0.9
Wholesale Trade	1.1	-2.5	-3.6	-1.9
Retail Trade	-0.8	2.5	1.4	4.5
Transportation and Utilities	-1.6	-2.0	0.7	2.3
Information	-2.6	0.0	-1.1	0.5
Financial Activities	-0.9	1.5	-2.9	-3.2
Professional and Business Services	7.3	6.8	2.2	6.8
Education and Health Services	-0.1	-0.7	0.4	1.3
Leisure and Hospitality	1.3	3.7	0.4	0.0
Other Services	7.5	5.1	5.1	1.2
Government	-3.8	-1.7	-2.5	-1.6

Over the year percent change

Nashville's Private Sector Job Growth Ranking

Metropolitan Area	Employment Growth	Ranking
Austin-Round Rock-San Marcos, TX	4.2%	1
Nashville-Davidson--Murfreesboro--Franklin, TN	1.5%	27
Median MSA	1.5%	
Memphis, TN-MS-AR	0.2%	50

Over the year 4th quarter rate of growth. Includes 53 MSAs with employment of 500,000 or more.



Nashville Job Growth by Industry

- Positives
 - More growing sectors than declining sectors
 - Manufacturing adding jobs very quickly
 - Big gains in professional services
 - Information shifted from negative to neutral
 - Retail jobs growing



Nashville Job Growth by Industry

- Negatives
 - Wholesale trade losing jobs
 - Financial sector employment losing again
 - Government job losses a large drag on employment growth since government is a large sector
 - Construction jobs sputtering

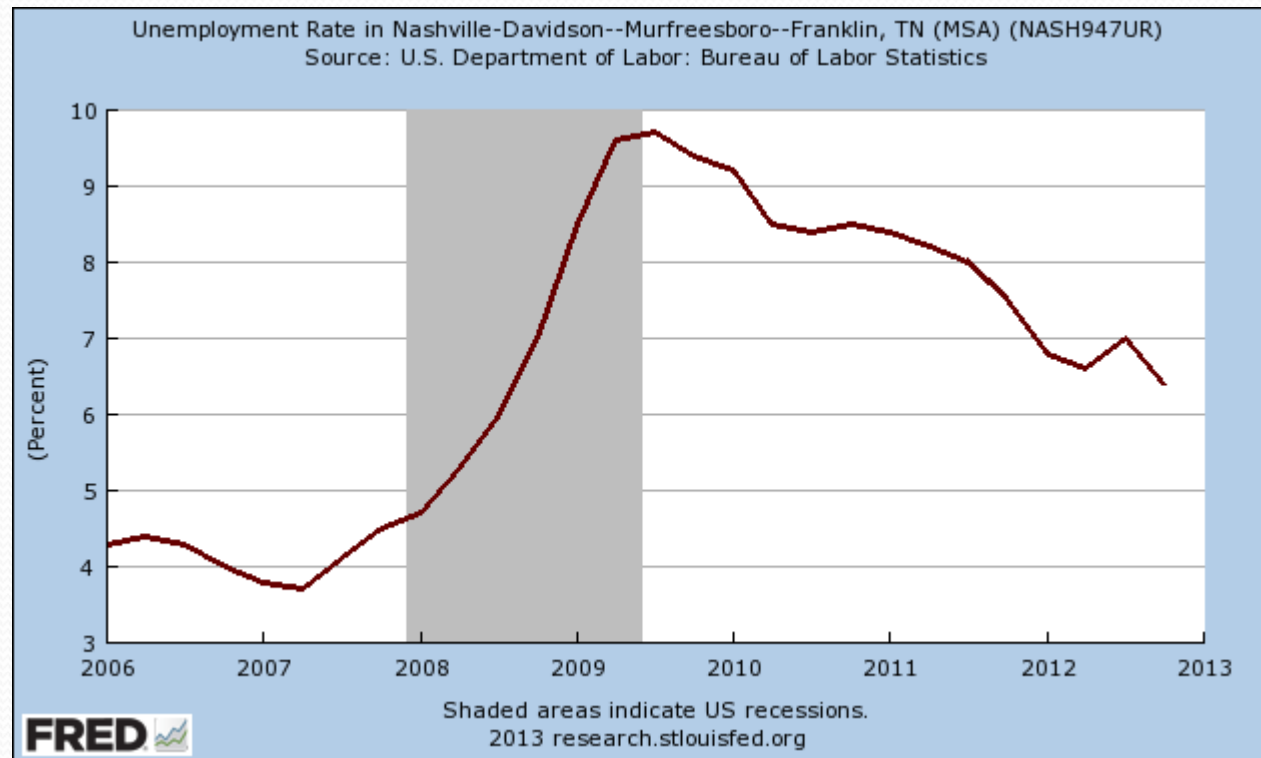


Unemployment rates (December)

	2011	2012
Chattanooga MSA	7.3%	7.2%
Knoxville MSA	6.3%	6.0%
Memphis MSA	8.9%	8.6%
Nashville MSA	6.8%	6.1%
Tennessee	8.5%	7.6%
United States	8.5%	7.8%

Nashville unemployment rate

- Steadily lower



Nashville unemployment rate

- Unemployment rate:
 - $\text{Unemployed} / \text{Employed} + \text{Unemployed} * 100$
- Labor force little changed during the year
- Employment has increased this year and unemployment has dropped.

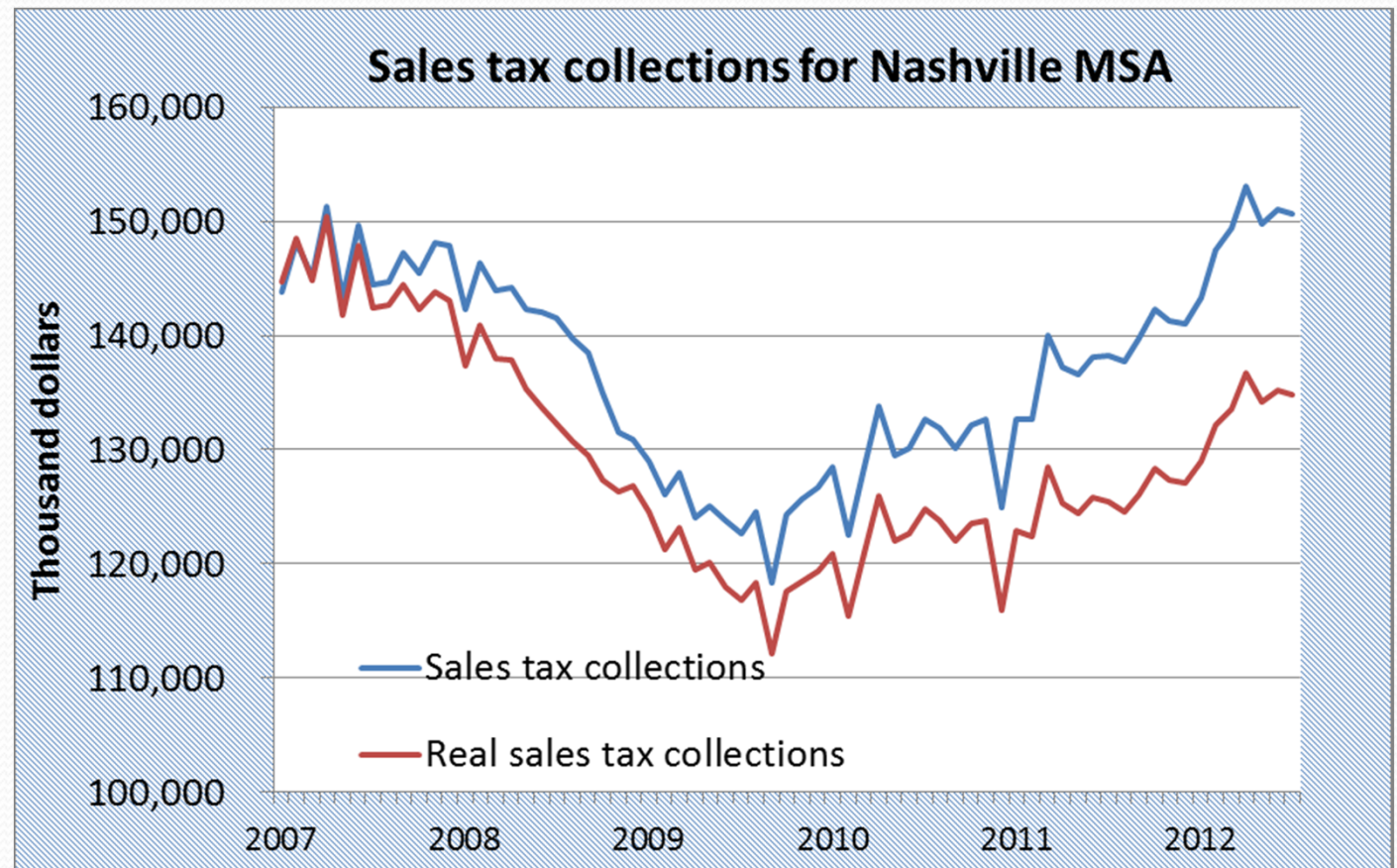


Consumer spending mostly strong

- Sales tax collections for December 2012 (yty)
 - Nashville: +8.7%
 - Memphis: +4.8
 - Chattanooga: +1.1
 - Knoxville: -1.0
 - Tennessee: +5.1

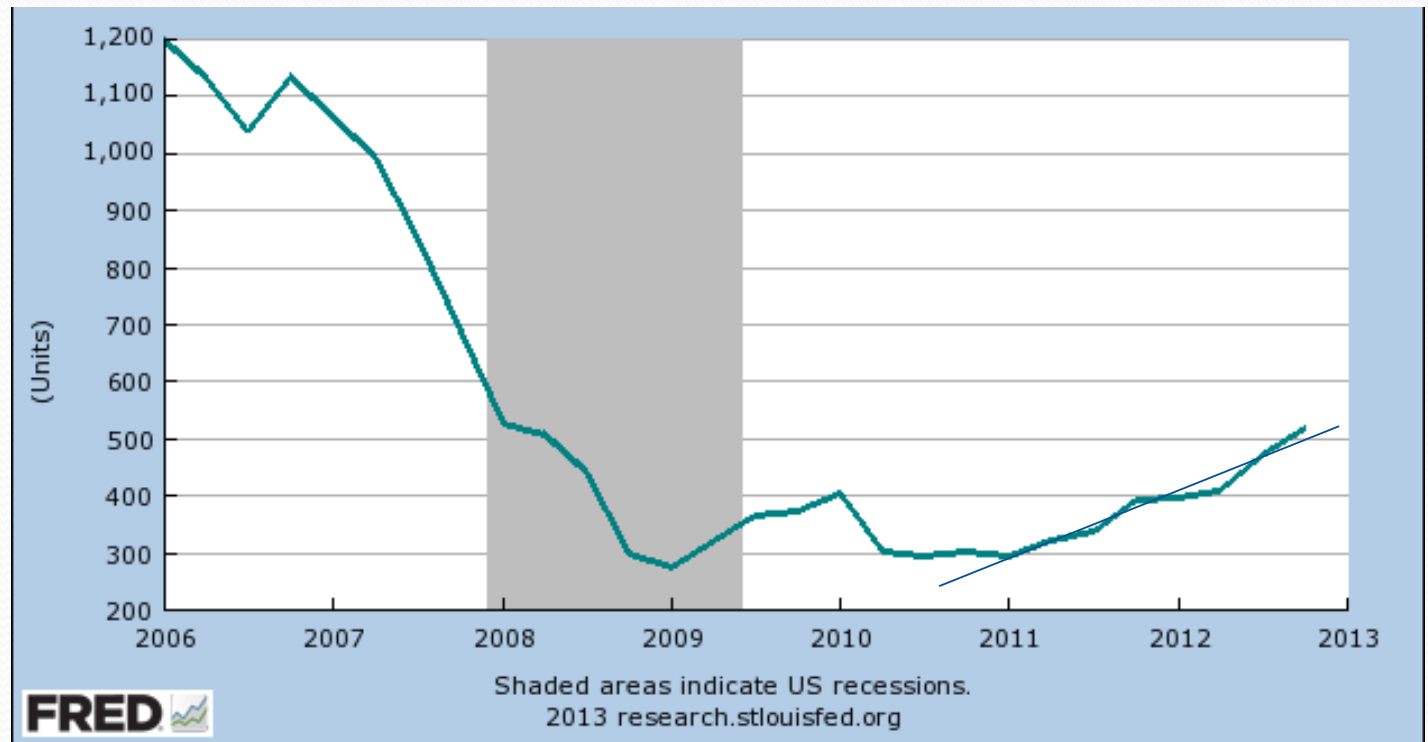
Spending trends

- Dollars of sales tax collections have reached previous peak.
- But still are 7% lower in purchasing power (after inflation).

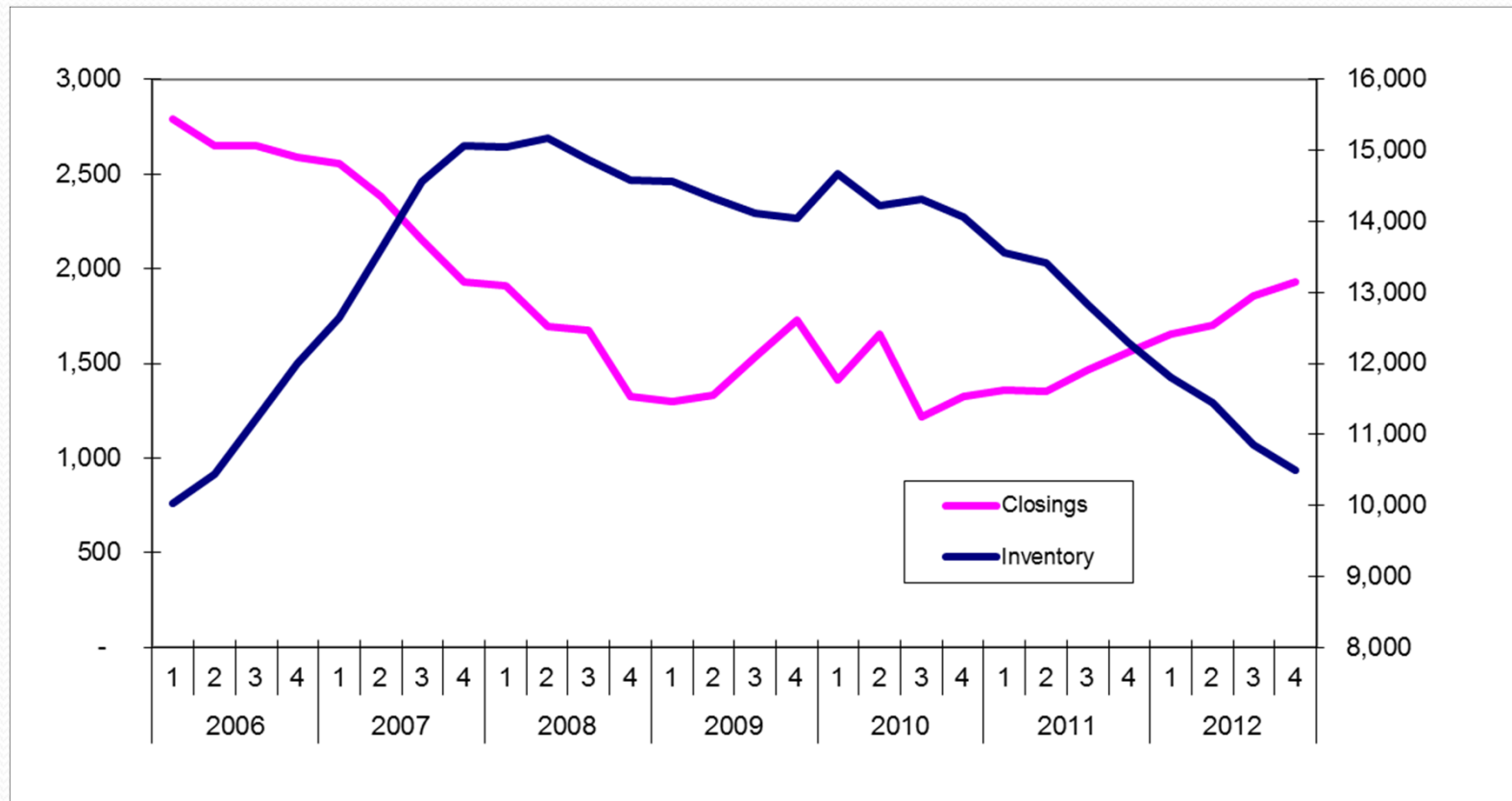


Nashville housing construction (building permits)

- Gently rising from very low levels.
- Multi-family construction strong during past 12 months.



Nashville Area Single Family Closings and Inventory





Nashville home prices

- 1.2% higher (all transactions index) over the year 3rd quarter 2012
- Housing Price Index (HPI), produced by the Federal Housing Finance Agency (www.fhfa.gov).
- Repeat-sales index for sales and re-financings of the same properties.
- Single-family home mortgages that have been purchased or securitized by Fannie Mae or Freddie Mac.



Going Forward 12 Months

- Nashville economy
 - Job growth 1.5% over the year
 - Unemployment rate 5.5% (6.1% now).
 - Home prices gently rising; construction growth picking up more quickly.
 - Manufacturing continues to grow
- Presumes U.S. economy muddles along

Policy

- We have not mentioned the 400 lb gorilla in the room



Policy

- Sequester: spending cuts set to begin March 1.



U.S. Outlook (CBO)

- Real GDP (4th quarter)
 - 1.4% 2013
 - 3.4% 2014
- Unemployment rate
 - 8.0% 2013
 - 7.6% 2014
- Growth picks up 2015-2018
 - <http://cbo.gov/publication/43861>

U.S. Outlook (CBO)

- 2013

- Private sector growing
- Government retrenching
 - Payroll tax increase
 - Income tax increase for high earners
 - Automatic reductions (March 1) that cut 5% from defense and discretionary spending
- Net effect: slow growth



Summary

- Consumer confidence improving but remains fragile.
- Businesses reluctant to hire because demand is not sufficient.
- Unless these fundamentals change, no reason to expect much improvement over the year.

Business and Economic Research Center

- www.mtsu.edu/berc
- TACIR economic recovery website
 - <http://frank.mtsu.edu/~berc/tacir/tacir.html>