Economic Update for the Nashville and Rutherford County Areas

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Following a slow fourth quarter, economic activity in the Nashville and Rutherford County areas gained momentum during the first quarter of 2004. Job gains were relatively diverse, the unemployment rate is low, and taxable sales are very strong although some weak spots remain in the local economy. This report provides a brief appraisal of current conditions in the local labor market, the housing construction market, and trends in taxable sales for the Nashville and Rutherford County areas.

Labor Market

Initial claims for unemployment insurance are a leading indicator of labor market conditions. During the first quarter of 2004 initial claims for unemployment insurance fell markedly, resulting from fewer layoffs and more hiring in the labor market. Initial claims for unemployment insurance dropped by 15.3 percent for the Nashville MSA and declined by 42.6 percent for Rutherford County compared with the first quarter of 2003. Unemployment rates for Rutherford County and the Nashville MSA are relatively low: just 3.8 percent for Rutherford County and 4.0 percent for the Nashville MSA during the first two months of 2004, unchanged from the first two months of 2003. Declining initial claims for unemployment insurance should pull down the unemployment rate in coming months.

Housing Construction

Permit-authorized housing construction boomed during the first two months of 2004. The total number of units rose 36 percent in the Nashville MSA and 62 percent in Rutherford County compared with the first two months of 2003, according to Census Bureau figures. The total value of housing construction increased by 40 percent for the Nashville MSA and 70 percent for Rutherford County from the first two months of 2003. In February, the number of housing permits issued for Rutherford County is the highest amount since August 2001. Much of the increase since 2003 can be attributed to new permits for multifamily housing in Rutherford County.

Employment by Industry

The booming housing construction market produced strong employment gains in the construction and mining sector, up 1,000 jobs from 2003 first quarter to the first quarter of 2004 for the Nashville MSA, a gain of 3.1 percent (table). Impressive employment increases also occurred in educational and health services (up 3.4 percent), leisure and hospitality and government, both 3.2 percent higher than in the first quarter of 2003. Importantly, the manufacturing sector produced a small gain of 100 jobs from one year ago, suggesting that job increases in this sector may be expected in the coming months.

Not all sectors gained jobs from last year. Employment in the information sector was particularly weak, down 5.2 percent from the first quarter of 2003, a loss of 1,000 jobs. Job losses also occurred in professional and business services (-1.8 percent) and other services (-1.2 percent).

Taxable Sales

An important measure of local economic vitality, taxable sales are expenditures by households and businesses that are subject to the state sales tax. Taxable sales rebounded strongly in the first quarter after weakening in the fourth quarter of last year. January sales for the Nashville MSA rose 9.8 percent from one year ago and February sales were up 10.6 percent. Rutherford County showed very strong growth, with taxable sales up 14.4 percent in January and 19.6 percent in February from one year ago. Double-digit growth rates can't be sustained indefinitely, so this pace is sure to slow during the coming months.

Sustained growth for Nashville and Rutherford County will depend no small part on the continuing recovery of the national economy. According to the Wall Street Journal Online, manufacturing production capacity is expected to increase 1.8 percent this year, much better than the 1.0 percent gain for 2003.

Most of the increase in capacity is expected in high-technology industries. Employment growth for the national economy continues to disappoint: payroll employment is just 0.2 percent higher during the first quarter of 2004 compared with one year earlier.

Increased competition and impressive improvements in productivity provide little incentive for employers to hire more workers in the short run.