Expectations for the Nashville Area

Independence Trust, Franklin Tennessee
October 18, 2010

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National conditions

- End of recession marked at June 2009 by the NBER.
  - Real GDP growing past four quarters, but at a slowing rate.
  - 2nd QTR growth of 1.7% not enough to have much impact on the unemployment rate.

![Graph showing real GDP changes](Source: Department of Commerce)
Contributions to GDP growth previous four quarters

- Consumption: 1.2
- Capital spending: 2.5
- Net exports: -0.8
- Government: 0.1
National conditions

- Employment growth very slow.
- Unemployment rate will decline only slowly.
- Savings rate high, up to 5.8%, up from 3% before the recession
  - Savings is income not spent
    - Debt reduction
    - Income set aside
  - More savings > less spending for a given level of income.
US private employment (thousands)

- Private sector is hiring, but very slowly.
- Employment growth just 0.8% Jan-Sept.
National conditions

- Gap between actual GDP and potential GDP is large:
  - 0.4% 2007 (-$48 billion gap)
  - 6.5% 2010 (-$921 billion gap)
- Inflation
  - 2.9% 2007
  - 0.6% 2010
- Most economists believe the GDP gap has strong influence on the inflation rate.
- Potential GDP growth: growth in hours worked + productivity growth.
GDP gap last 40 years

[Graph showing GDP gap from 1970 to 2010 with two lines: blue for potential GDP and red for actual GDP.]
GDP gap and rising unemployment

![Graph showing the GDP gap and unemployment gap from 2000 to 2009. The graph illustrates the actual GDP minus potential GDP (billion dollars) and the unemployment gap (%). The data is from the Congressional Budget Office.](image-url)

Data: Congressional Budget Office
National conditions

- Manufacturing expanding
  - 13\(^{\text{th}}\) month of expansion.
  - Manufacturing employment up 130,000 Jan-Sept (+1%).
- Rate of expansion has diminished.
- Jobs returning will not be like the jobs lost.
  - Employers much more choosy.
  - Desire workers with more skills.
Manufacturing

- Still expanding, but not as fast.
- New orders, production are slowing.
- Employment growth slowing.

Source: Institute for Supply Mgmt.
Going Forward

- Households, employers in a vicious cycle:
  - Households won’t spend more until job market improves.
  - Employers won’t hire more until sales improve.
- Will we miss the stimulus?
  - Ends this summer.
  - Unless spending from households, capital investment, or exports step up, the economy will weaken when the stimulus goes away.
Going Forward

- **Deflation much bigger worry than inflation.**
  - Consequences of deflation:
    - Consumers put off purchases, expecting prices to fall further.
    - Borrowers must work harder to make loan payments.
    - Monetary policy becomes powerless.
    - Lending and spending spiral lower and lower as unemployment rises.
  - Japan’s lost decade.
Nashville MSA

- Job creation mixed:
  - Household survey: growing
  - Employer survey: declining
- Unemployment rate improving.
- Housing construction down again, near recession low.
- Home prices declining more slowly.
- Consumers beginning to spend again.
- Some sectors are expanding.
Job growth (nonfarm yty August)

- Nashville: -0.5%
- Memphis: -1.9%
- Chattanooga: +1.3%
- Knoxville: +0.6%
- Tennessee: +0.4%
- United States: +0.2%
Job growth by sector for Nashville (state)

- Education and health services: +2.1% (+1.7%)
- Professional and business services: +3.3 (+4.5)
- Trade, transportation, utilities: -1.0 (-0.3)
- Manufacturing: -4.1 (+1.0)
- Construction: -5.1 (-4.2)
- Total nonfarm: -0.5 (+0.4)
Loss of payroll jobs (peak-current)

- Nashville: -7.3% (-55,000)
- Memphis: -9.0% (-57,000)
- Chattanooga: -8.3% (-20,000)
- Knoxville: -4.4% (-14,000)
- Tennessee: -7.1% (-199,000)
- United States: -5.5% (-7,655,000)
## Unemployment rates

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<th>Year Ago</th>
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<tr>
<td>Tennessee</td>
<td>9.6</td>
<td>10.9</td>
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</table>
Consumers are spending more
Consumer spending growing

- Sales tax collections for August (yty)
  - Nashville: +6.0%
  - Memphis: +4.9%
  - Chattanooga: +4.7%
  - Knoxville: +2.4%
  - Tennessee: +3.3%
Retail sales tax collections by category

- Auto dealers and service stations: 20%
- General merchandise: 13%
- Eating and drinking places: 13%
- Misc retail: 13%
- Food stores: 9%
- Building materials: 4%
- Furniture and home furnishings: 5%
- Apparel and accessories: 4%
Sales tax collections growth (Statewide, yty Jun-Aug)
Nashville housing market

- Home buyer’s tax credit stimulated activity through most of 2009.
- Final expiration in spring 2010 caused housing construction to plummet.
- Now at back down to lowest level of the recession.
- Home prices are closer to stability, but still down over the year.
Nashville single family permits
Nashville home prices (2000=100, HPI from FHFA.gov)
Nashville home prices

- 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.
Tennessee new foreclosures

- New foreclosures may have peaked.
- TN: 0.85%
- US: 1.20%
- Peak may be temporary.
- Source: MBAA
Housing construction leads employment
Tennessee Housing Market Report

- Produced by the Business and Economic Research Center for the Tennessee Housing Development Agency.
- Quarterly report summarizing housing construction and sales trends.
- Available online: http://frank.mtsu.edu/~berc/housingbrief.html
Going Forward 12 Months

- Nashville economy (BERC)
  - Job growth 1.5% over the year (may be too aggressive).
  - Unemployment rate 7.9% (8.7% now).
  - Housing construction growth questionable.
  - Home prices flat (improvement).
- Presumes moderate US job growth.
Summary

• The patient has stabilized, but condition is guarded.
• Due to severity of trauma, a long period of recovery will be needed.
• Should guard against removing support systems too soon.
Recovery

- Full recovery of lost jobs will require 4-5 years of moderate growth.
- Jobs must replace lost jobs AND provide employment for growing labor force.
- Unemployment rate will be slow to improve.
Current and recent research contracts
- TACIR economic recovery website
  - [http://frank.mtsu.edu/~berc/tacir/tacir.html](http://frank.mtsu.edu/~berc/tacir/tacir.html)
- Estimating medical care costs for southern and eastern Indian tribes
- Cost-benefit analysis of new port at Cates Landing (received funding)
- Quarterly report on Tennessee housing market (THDA)