

Economic Outlook for the Nashville Area

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Topics

- ◆ Is the economy improving?
 - National
 - Nashville MSA
 - Sumner County
- ◆ When will the recession end?
- ◆ When will the economy recover?

Is the economy improving?

- ◆ Short answer: *some improvement is evident, but several comprehensive measures of the economy continue to show decline.*
- ◆ This message is a vast improvement compared with one year ago.
- ◆ The extent of the economic losses in this *Great Recession* have been underappreciated.

Is the economy improving?

- ◆ What indicators are improving?
 - Housing construction
 - Initial claims for unemployment insurance
 - Manufacturing
 - Household spending

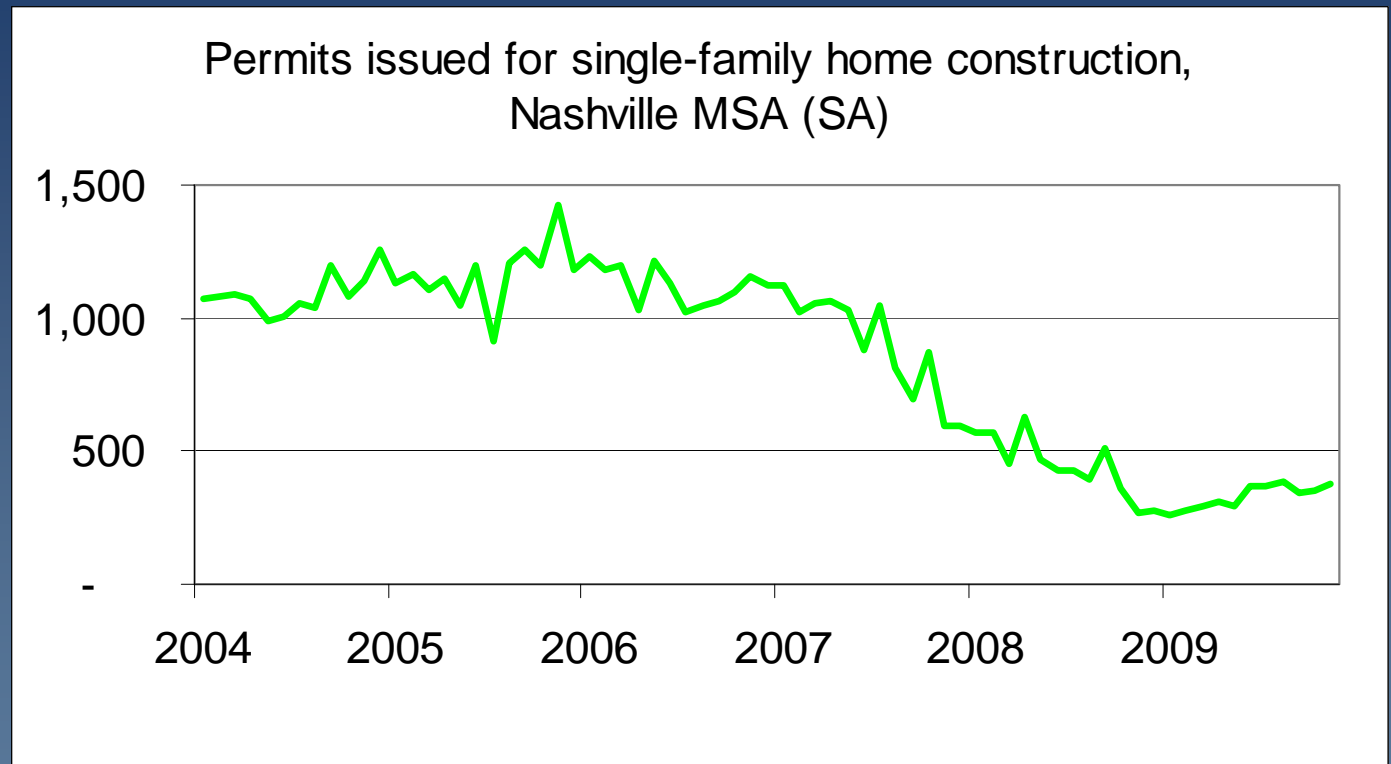
Housing Construction

Hit bottom late 2008.

On the rise with gradual growth.

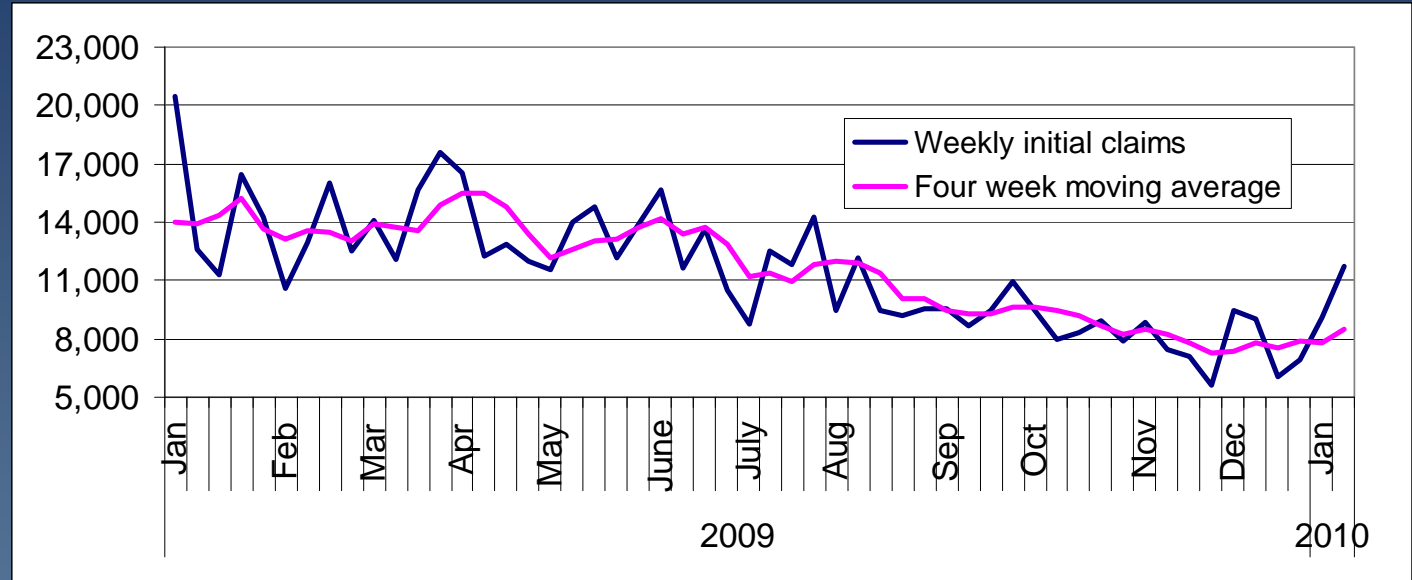
Boosted by tax incentives and very low mortgage rates.

Issue: what will happen this spring when policy changes?



Initial claims for unemployment insurance (Tennessee)

- Initial claims are a good leading indicator for the unemployment rate.
- Drifted lower through most of 2009 from an all time high in Jan 2009.
- Recent increases cause concern.



Initial claims for unemployment insurance

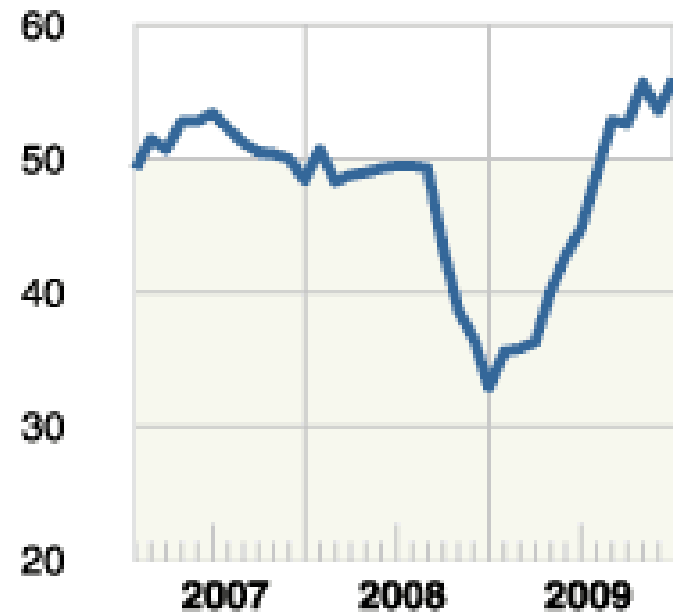
- Experience shows that Tennessee tends to create jobs when weekly initial claims are 10,000 or less (recovery after 1990 and 2000 recessions).
- That's the case right now, but where is the job growth?

Manufacturing

- National manufacturing (PMI) index has signaled growth for the fifth straight month in December.
- Growth is apparent in most of the components of the index.

PURCHASING MANAGERS' INDEX

Reading above 50 indicates expansion in manufacturing activity



Source: Institute for Supply Mgmt.

PMI Components

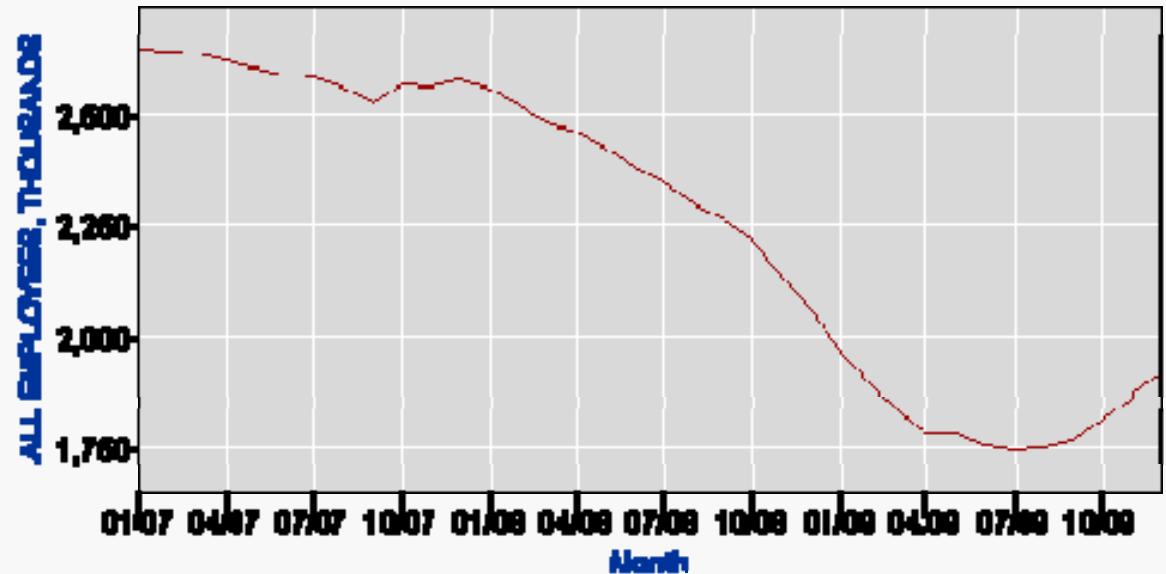
Index	Direction	Rate of Change
PMI	Growing	Faster
New Orders	Growing	Faster
Production	Growing	Faster
Employment	Growing	Faster
Supplier Deliveries	Slowing	Faster
Inventories	Contracting	Slower
Customers' Inventories	Too Low	Faster
Prices	Increasing	Faster
Backlog of Orders	Unchanged	From Growing
Exports	Growing	Slower
Imports	Growing	Faster

Manufacturing (U.S.)

- Manufacturing employment continues to decline (BLS).
- *But* employment in temporary help services is rapidly growing.
- *And* hours worked in manufacturing is growing.
- Both point to eventual improvement in manufacturing employment.

Temporary help services

- ◆ Employment is up 9.3% Aug-Dec 2009.
- ◆ Tends to rise when manufacturers need workers but are not ready to hire permanent employees.



Hours worked in manufacturing

- ◆ Avg. weekly hours for production workers up nearly 1 hour from the low in May 2009.
- ◆ Manufacturers will boost hours worked before they hire new permanent workers.



Tennessee

- Administrative services (includes temporary employment sector) rose during the last half of 2009.
- Hours worked in manufacturing rose in most months during 2009.

Manufacturing

- ◆ Positive news:
 - PMI index signals growth, with many index components growing.
 - Temporary help employment growing fast.
 - Hours worked for production workers growing.
- ◆ More than just an inventory correction? Probably.

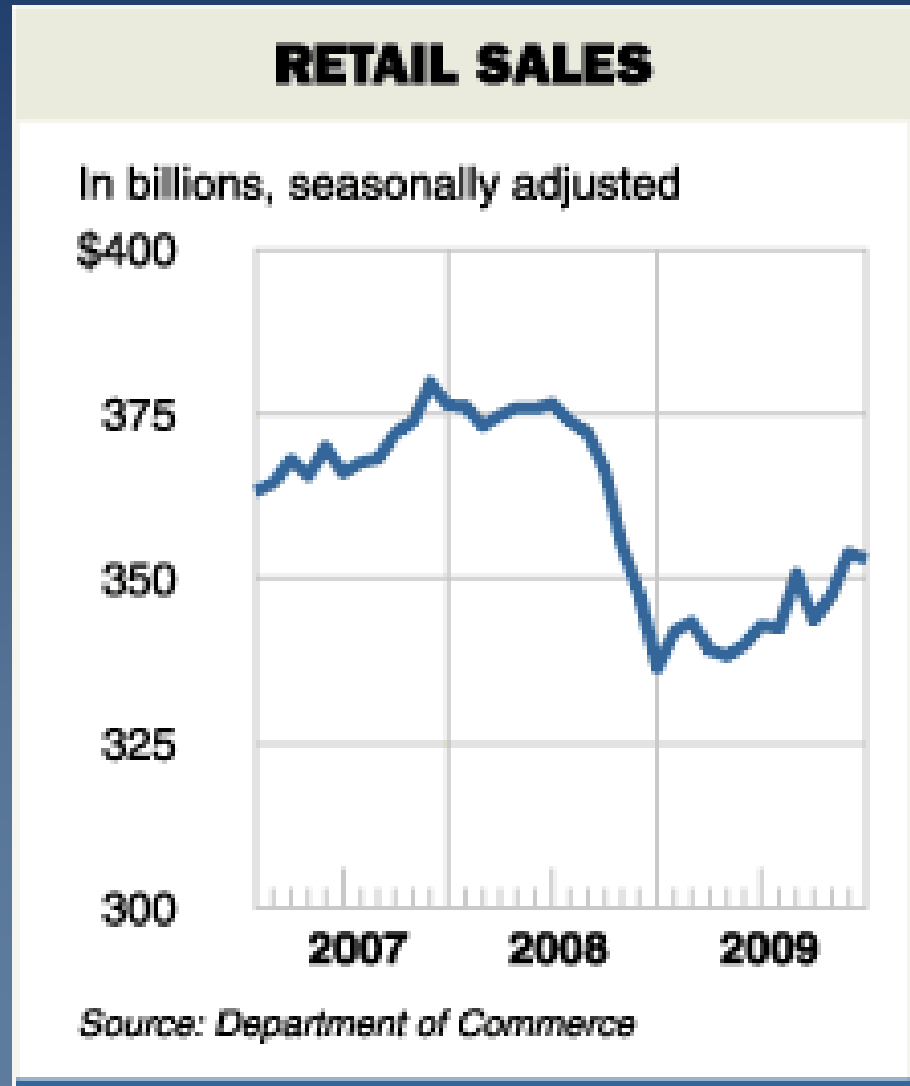
Household spending

- ◆ Household spending depends on confidence, income growth, and wealth growth.
- ◆ Consumer confidence has stabilized. Job market weakness is a drag on confidence.
- ◆ Personal income is stable (after tax and inflation, Sept-Nov 2009).
- ◆ Wealth is growing.
 - Housing prices increasing.
 - Stock market up substantially.



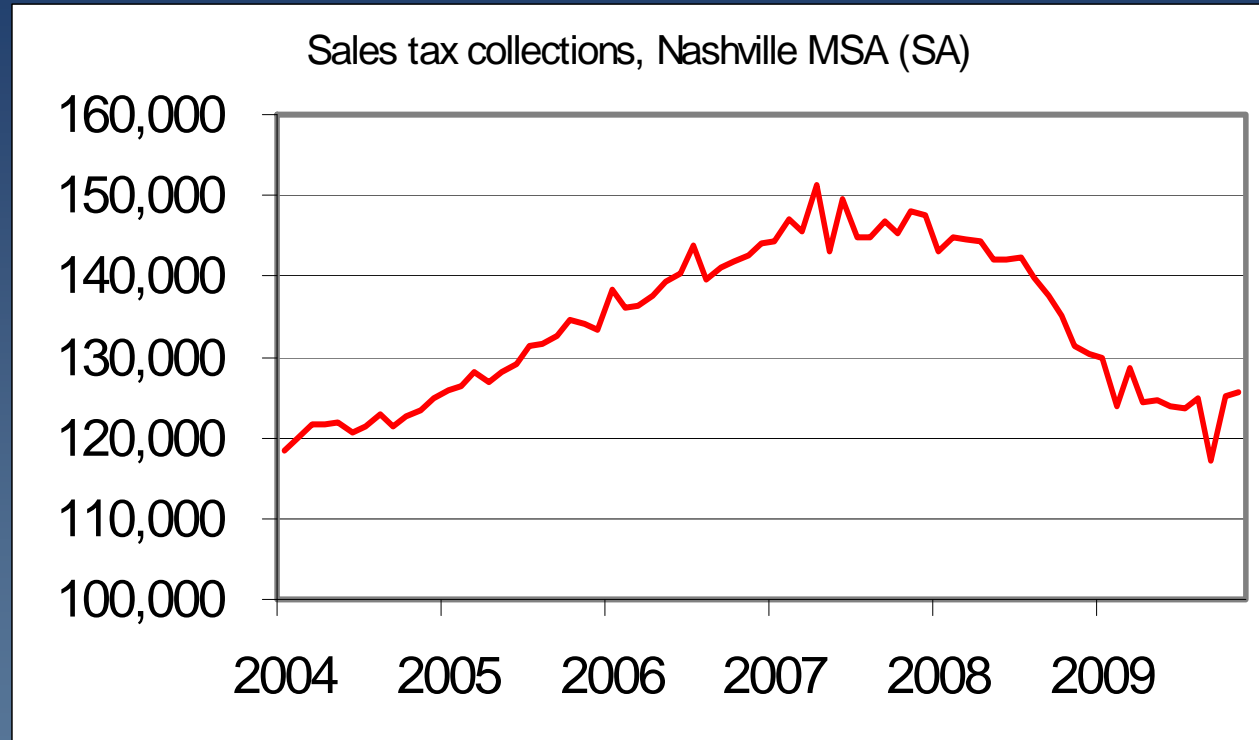
Retail sales (U.S.)

- ◆ Retail sales are improving from the low in Jan 2009.
- ◆ Higher energy prices and health care costs will create strong headwinds for household spending.



Sales tax collections

- ◆ Sales tax collections for Nashville MSA showing some stability.
- ◆ Collections 1.5% higher in Nov 2009 than in July 2009.



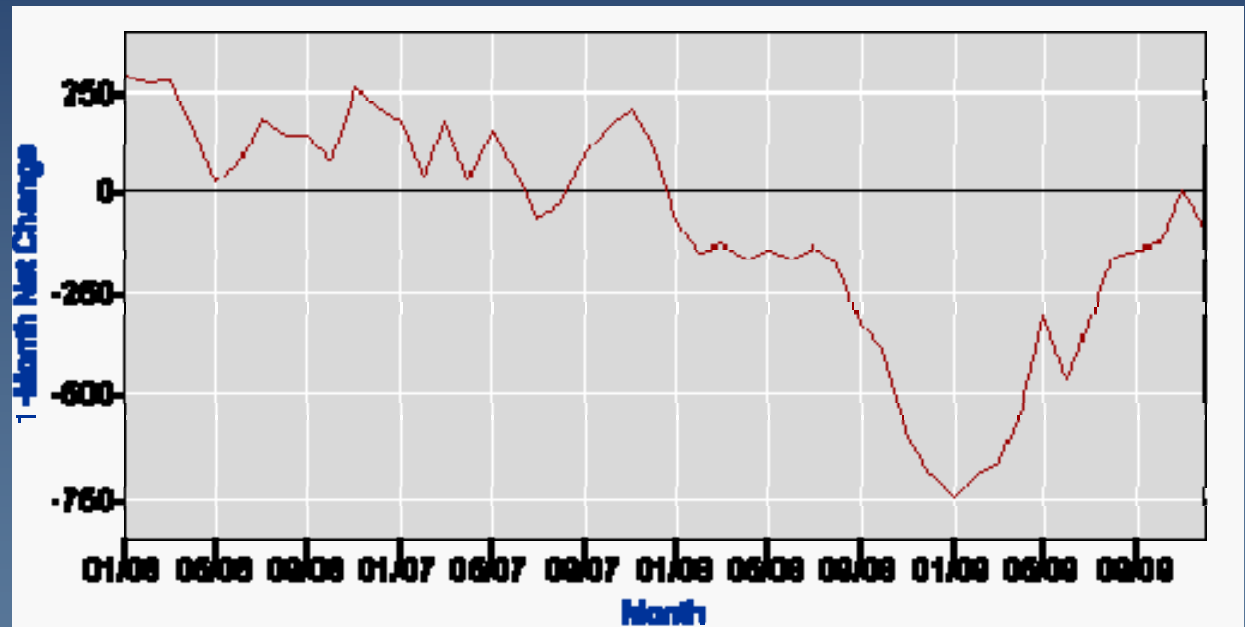
Is the economy improving?

- ◆ What indicators have not improved?
 - Job growth
 - Unemployment rate

Job growth (U.S.)

- On the cusp of job growth (nonfarm employment).
- December figure discouraging, but trend shows unmistakable improvement.
- Job growth in the next 2-3 months?

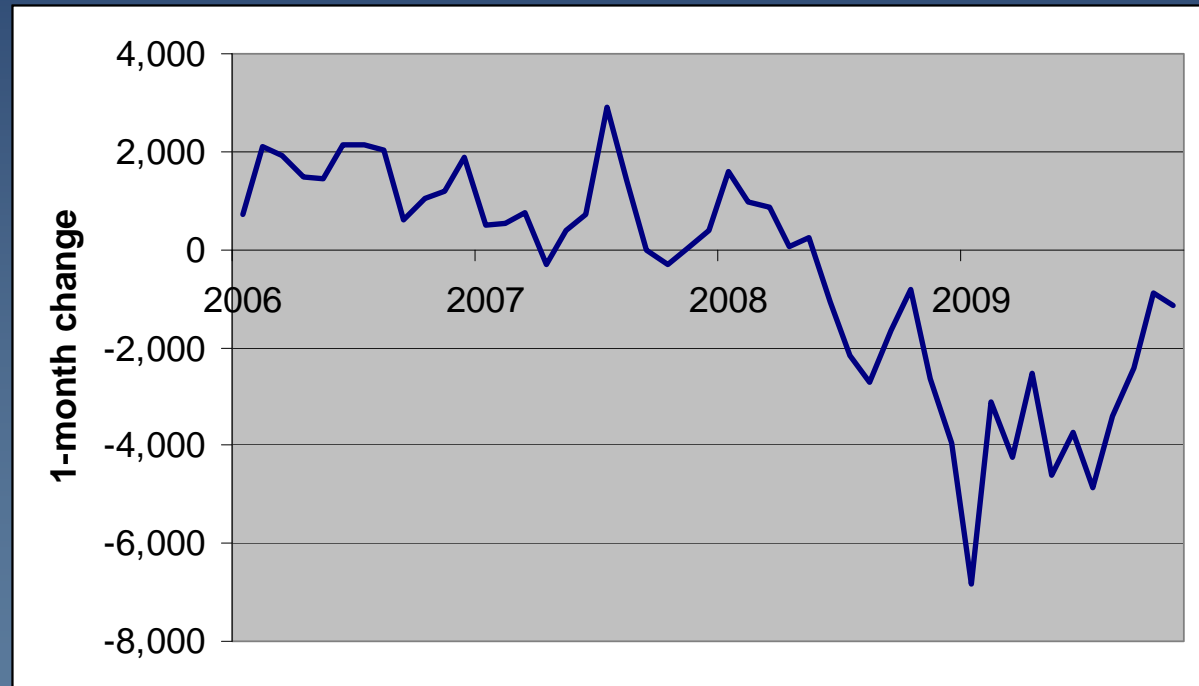
Monthly change nonfarm employment



Job growth (Nashville MSA)

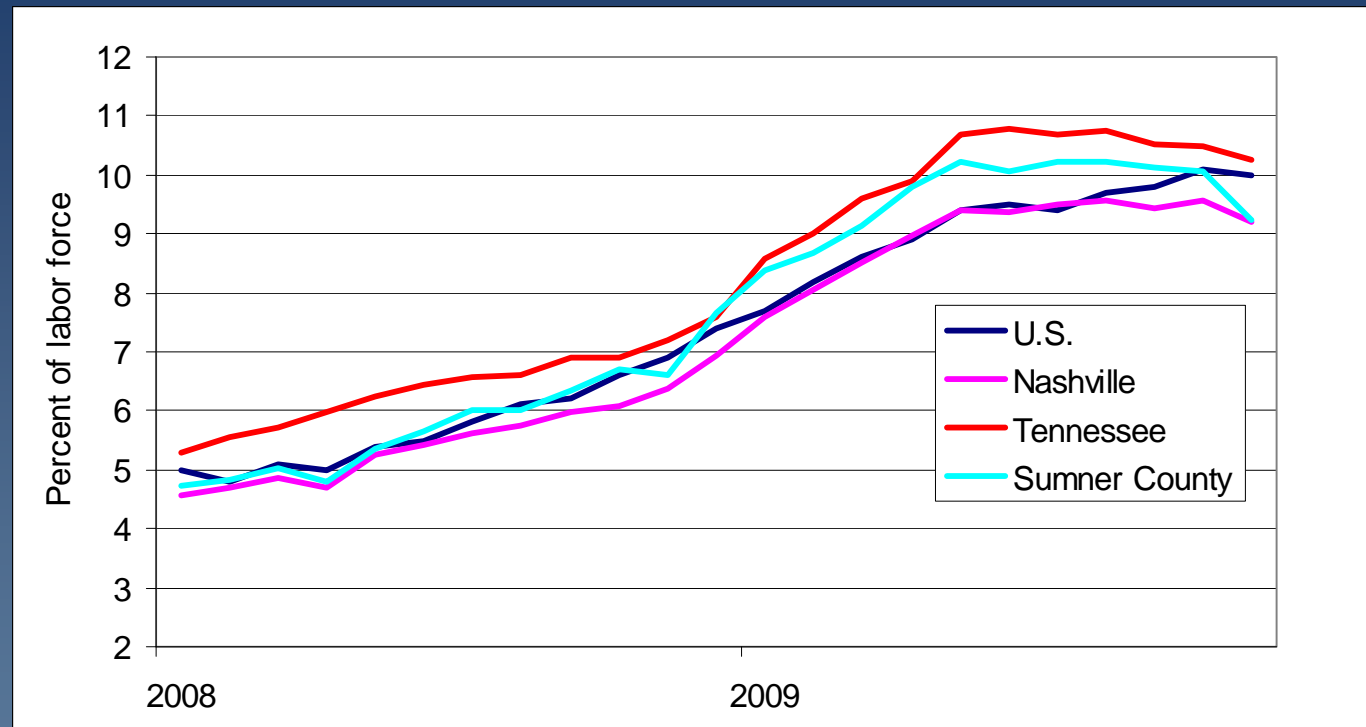
- Nashville continues to lose jobs, but not nearly as many as last year.
- Rate of decline just $\frac{1}{4}$ compared with first nine months of 2009.
- Job growth within 3-4 months?

Monthly change nonfarm employment
(three month moving average)



Unemployment rate

- ◆ Continues to climb.
- ◆ Unemployment will lag behind other important indicators.
- ◆ The unemployment rate will be stubborn to drop.
- ◆ Don't use the unemployment rate as an indicator of improvement.



A troubling aspect is the amount of long-term unemployed.

Is the economy improving?

◆ Recap:

– Yes:

- ◆ Housing construction
- ◆ Initial claims for unemployment insurance
- ◆ Manufacturing (except jobs)
- ◆ Household spending (not declining)

– No:

- ◆ Job market
- ◆ Unemployment rate.

When will the recession end?

- ◆ Answer: the recession is probably over.
- ◆ This means that the bottom has been reached and we are starting to climb out of the hole.
- ◆ Evidence: real GDP rose 2.2% in the 3rd quarter, largest gain in two years.

When will the recession end?

- ◆ Moody's Economy.com predicts that Tennessee will experience positive job growth sometime beginning with the 2nd quarter of this year.
- ◆ The Nashville area will probably start growing somewhat sooner, perhaps one quarter earlier.

When will the recession end?

- ◆ Overall job growth is the key.
- ◆ Business conditions could well be improving even though employers are not hiring.
- ◆ This is because employers need to use productivity increases to boost output as long as possible.
- ◆ As new orders grow, employers will need to hire once productivity gains have run their course.

When will the economy recover?

◆ Short answer:

- Recovery means to return to the status quo before the recession began.
- Recovery will take a long time.

When will the economy recover?

- Nashville lost 50,000 nonfarm jobs Dec 2007- Dec 2009.
- But recovery is not just a matter of replacing the 50,000 jobs.
- We also need to grow jobs for new entrants (school graduates, in-migrants).
- New growth will need about 15,000 jobs per year.

When will the economy recover?

- So to *recover* in four years (Jan 2014), returning to the pre-recession unemployment rate, we will need to create $50,000 + (15,000 * 4) = 110,000$ jobs.
- This averages to 27,500 jobs per year for each of the next four years.

When will the economy recover?

- What if we reset our notion of recovery: Is 4% unemployment (prevalent before the recession) realistic?
- What if:
 - The economy settles at 6.5% unemployment (not 4%), and
 - 2.5% fewer people participate in the labor force.
 - These two assumptions reduce the jobs needed by 39,000 to 71,000.

When will the economy recover?

- Can we create 71,000 nonfarm jobs by Jan 2014?
- This requires an average job growth rate of 2.4%.
- Experience: since 1990, jobs grew at 2.4% or more in 64% of the years. This (0.64) is the probability of success.
- But job growth is likely to be slower this decade than in the past two, so let's adjust the probability down to 0.5.

When will the economy recover?

- Conclusion:
 - We estimate a five in ten chance of creating 71,000 jobs by Jan 2014.
 - By the end of 2013, the unemployment rate will be down to 6.5%, and
 - 2% fewer adults will participate in the labor force.
- We need to think about labor market improvements as a long-term process, requiring five years or more.

Summary

- Hard evidence exists of an improving economy:
 - Housing
 - Manufacturing
 - Claims for unemployment insurance
 - Household spending.
- The recession probably has ended, and the recovery begun.
- Job growth locally should be apparent within the next 2-3 months.
- Reducing the unemployment rate below 7% will require several years of effort.

Business and Economic Research Center

- ◆ www.mtsu.edu/BERC
- ◆ Developing economic indicator website for the state and 10 metro areas for the Tennessee Advisory Commission for Intergovernmental Relations (TACIR).
- ◆ Publications (online)
 - *Tennessee's Business*
 - *Global Commerce*
 - *Midstate Economic Indicators*

Business and Economic Research Center

- ◆ Current and recent research contracts
 - TACIR website
 - Estimating medical care costs for southern and eastern Indian tribes
 - Economic impact of the arts in Nashville
 - Quarterly report on Tennessee housing market (THDA)
 - Estimating underemployment for south central Tennessee
 - Revenue projections for the Rutherford County Comprehensive Plan
 - Economic impact of a prison industry in Bledsoe County, Tennessee
 - Estimating the economic impact of a new port in northwest Tennessee