

TENNESSEE HOUSING MARKET

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Economic Overview

The strong first-quarter job performance faded during the second quarter, with important labor-market indicators showing little change. Slower job growth corresponds with several events in the past few months, including the payroll tax increase that took effect earlier this year, significant cuts to federal government spending, and reduced demand for U.S. goods from our trading partners in China and Europe. Nonfarm employment in Tennessee rose by 4,700 jobs, a lackluster 0.2% gain. Manufacturing lost 1,000 jobs, but the services-providing sectors gained 4,200 (Table 1).

Some employers reduced workforces as suggested by a rise in initial claims for unemployment insurance. Initial claims increased 5.1% from the first quarter, rising by a weekly average of 278 but not out of line with the level experienced during the past six quarters (Figure 1).

Labor force changed little, but unemployment rose 14,000, causing the unemployment rate to rise to 8.3% from 7.8% during the first quarter.

Slower growth is also reflected by very slow growth of state sales tax collections, up just 1.4% over the year. Collections have grown very slowly over the past 15 months, reflecting slower spending growth.

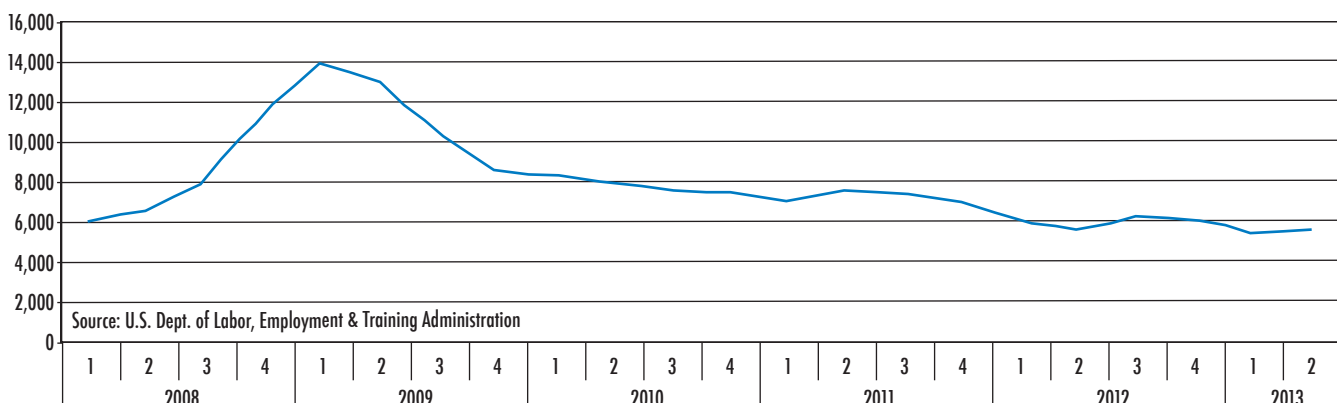
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Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

| | 2012.2 | 2012.3 | 2012.4 | 2013.1 | 2013.2 |
|----------------------------------|--------|--------|--------|--------|--------|
| Employment by industry (nonfarm) | | | | | |
| Total nonfarm | 2,713 | 2,716 | 2,732 | 2,752 | 2,758 |
| Goods-producing sectors | 423 | 424 | 426 | 428 | 429 |
| Manufacturing | 313 | 315 | 317 | 320 | 319 |
| Services-providing sectors | 2,290 | 2,292 | 2,306 | 2,325 | 2,329 |
| Labor force | 3,112 | 3,109 | 3,121 | 3,130 | 3,128 |
| Total employment | 2,859 | 2,858 | 2,880 | 2,886 | 2,870 |
| Unemployed | 253 | 251 | 241 | 244 | 258 |
| Unemployment rate | 8.1% | 8.1% | 7.7% | 7.8% | 8.3% |

Source: Bureau of Labor Statistics

Figure 1. Tennessee initial claims for unemployment insurance (quarterly averages of weekly data, seasonally adjusted)





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Housing Construction

Housing construction activity leaped during the second quarter for both single-family homes and multi-family units. Single-family home activity rose 7.8% from the first quarter, climbing to 16,200 units on an annualized basis, the highest level in five years (Table 2 and Figure 2). Multi-family units more than doubled from the previous quarter, rising to 9,400 units annualized.

Construction activity for the South and the United States was much less impressive compared with Tennessee with

single-family permits gaining just 4.8% in the South and 4.0% for the U.S. Over the year, total Tennessee housing permits grew much more than in either the South or the U.S.

Real Estate Transactions and Mortgages

Tennessee tax collections on real estate transactions and mortgages gained during the second quarter, reflecting increased real estate and borrowing activity (Figures 3 and 4). Real estate tax collections rose 6.2% from the first quarter, and mortgage tax collections increased 5.4%. Over the year, transfer taxes are 16.6% higher, and mortgage taxes are up 14.8%.

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Figure 2. Tennessee single-family home permits (seasonally adjusted annual rate, thousand units)

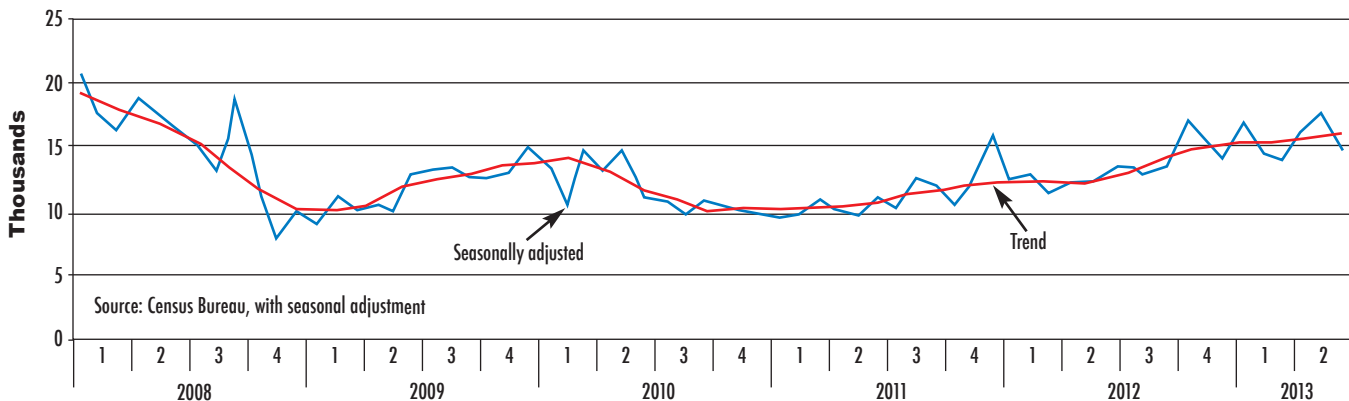


Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

| Quarter | Single-Family Permits | | | Multi-Family Permits | | | Total Permits | | |
|------------------------------|-----------------------|-------|-------|----------------------|-------|-------|---------------|-------|-------|
| | Tennessee | South | U.S. | Tennessee | South | U.S. | Tennessee | South | U.S. |
| 2009.2 | 11.2 | 223.0 | 426.7 | 3.4 | 68.7 | 132.7 | 14.5 | 291.7 | 559.3 |
| 2009.3 | 12.9 | 252.3 | 485.7 | 1.5 | 53.3 | 121.0 | 14.4 | 305.7 | 606.7 |
| 2009.4 | 13.6 | 255.3 | 487.7 | 1.7 | 56.7 | 135.7 | 15.3 | 312.0 | 623.3 |
| 2010.1 | 12.8 | 268.0 | 516.7 | 6.7 | 59.3 | 141.0 | 19.5 | 327.3 | 657.7 |
| 2010.2 | 12.9 | 235.3 | 445.3 | 3.6 | 69.3 | 154.3 | 16.6 | 304.7 | 599.7 |
| 2010.3 | 10.4 | 212.0 | 405.7 | 4.7 | 77.7 | 168.3 | 15.1 | 289.7 | 574.0 |
| 2010.4 | 10.0 | 209.0 | 424.3 | 1.8 | 58.7 | 159.0 | 11.8 | 267.7 | 583.3 |
| 2011.1 | 10.1 | 216.7 | 399.3 | 2.2 | 81.0 | 167.7 | 12.3 | 297.7 | 567.0 |
| 2011.2 | 10.2 | 222.3 | 409.0 | 2.5 | 87.3 | 202.7 | 12.8 | 309.7 | 611.7 |
| 2011.3 | 11.5 | 229.0 | 423.0 | 3.4 | 91.3 | 203.0 | 14.8 | 320.3 | 626.0 |
| 2011.4 | 12.8 | 244.7 | 448.7 | 4.4 | 113.7 | 242.7 | 17.2 | 358.3 | 691.3 |
| 2012.1 | 12.2 | 257.7 | 474.7 | 5.8 | 132.0 | 271.3 | 18.1 | 389.7 | 746.0 |
| 2012.2 | 12.5 | 261.0 | 494.7 | 5.4 | 142.7 | 285.3 | 17.8 | 403.7 | 780.0 |
| 2012.3 | 13.3 | 282.0 | 533.0 | 4.8 | 162.0 | 329.3 | 18.1 | 444.0 | 862.3 |
| 2012.4 | 15.4 | 308.3 | 576.0 | 3.8 | 171.0 | 352.0 | 19.2 | 479.3 | 928.0 |
| 2013.1 | 15.0 | 316.7 | 595.7 | 4.2 | 145.3 | 323.3 | 19.2 | 462.0 | 919.0 |
| 2013.2 | 16.2 | 332.0 | 619.7 | 9.4 | 162.3 | 349.7 | 25.6 | 494.3 | 969.3 |
| Change from previous quarter | 7.8% | 4.8% | 4.0% | 122.9% | 11.7% | 8.1% | 33.0% | 7.0% | 5.5% |
| Change from previous year | 30.1% | 27.2% | 25.3% | 75.0% | 13.8% | 22.5% | 43.6% | 22.5% | 24.3% |

Source: Census Bureau



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Home Sales

The Nashville MSA continues to lead in home sales among the three largest Tennessee MSAs (Figure 5). Sales rose 4.4%, and inventory fell, causing the inventory-to-sales ratio to fall to just 4.7 months' supply. Over the year, sales are 24.5% higher, and inventory is down 13.1%. By contrast, sales of existing homes for the United States are 12.3% higher over the year, according to data obtained from the National Association of Realtors, with five months' supply.

Sales in the Memphis area gained 7.0%, and inventory fell somewhat, causing the supply of homes to fall to six months. Sales are up 13.0% over the year, and inventory is down 11.7%. In the Knoxville area sales are about the same as in the previous quarter, and inventory is on the rise.

Presently, Knoxville has a 13-month supply of homes on the market. Over-the-year sales are 18.8% higher, and inventory has increased 3.8%.

Home Prices

Home prices gained positive momentum in Tennessee and several metropolitan areas. Home prices gained 0.9% over the year for the state, the largest increase since early 2008, according to data compiled by the Federal Housing Finance Agency. Prices have been very stable since early 2011 (Figure 6). By comparison, prices in the United States are 2.0% higher over the year.

Among Tennessee metropolitan areas the largest home-price increases were in Jackson (3.3%), Nashville (2.5%), and Kingsport-Bristol (2.2%). Only three of the 10 MSAs experienced price declines: Clarksville (-1.3%), Morristown (-0.4%), and Memphis with a slight decline (-0.1%).

Mortgage Delinquencies and Foreclosures

Mortgages past due (as a percent of all mortgages) fell slightly following an increase in the previous quarter. Past-due mortgages dropped to 9.0% from 9.1% in the first

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Figure 3. Mortgage tax collections (seasonally adjusted annual rate)

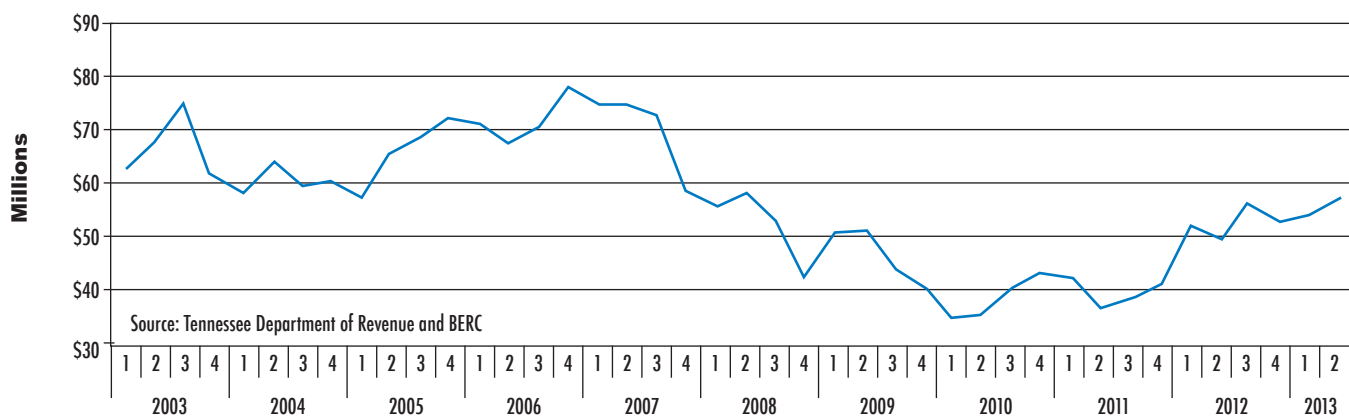
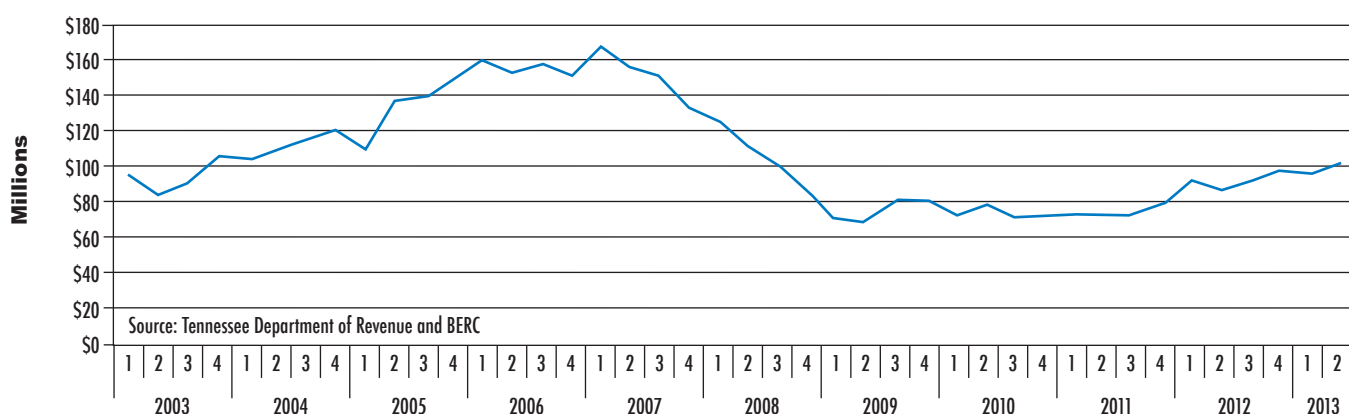
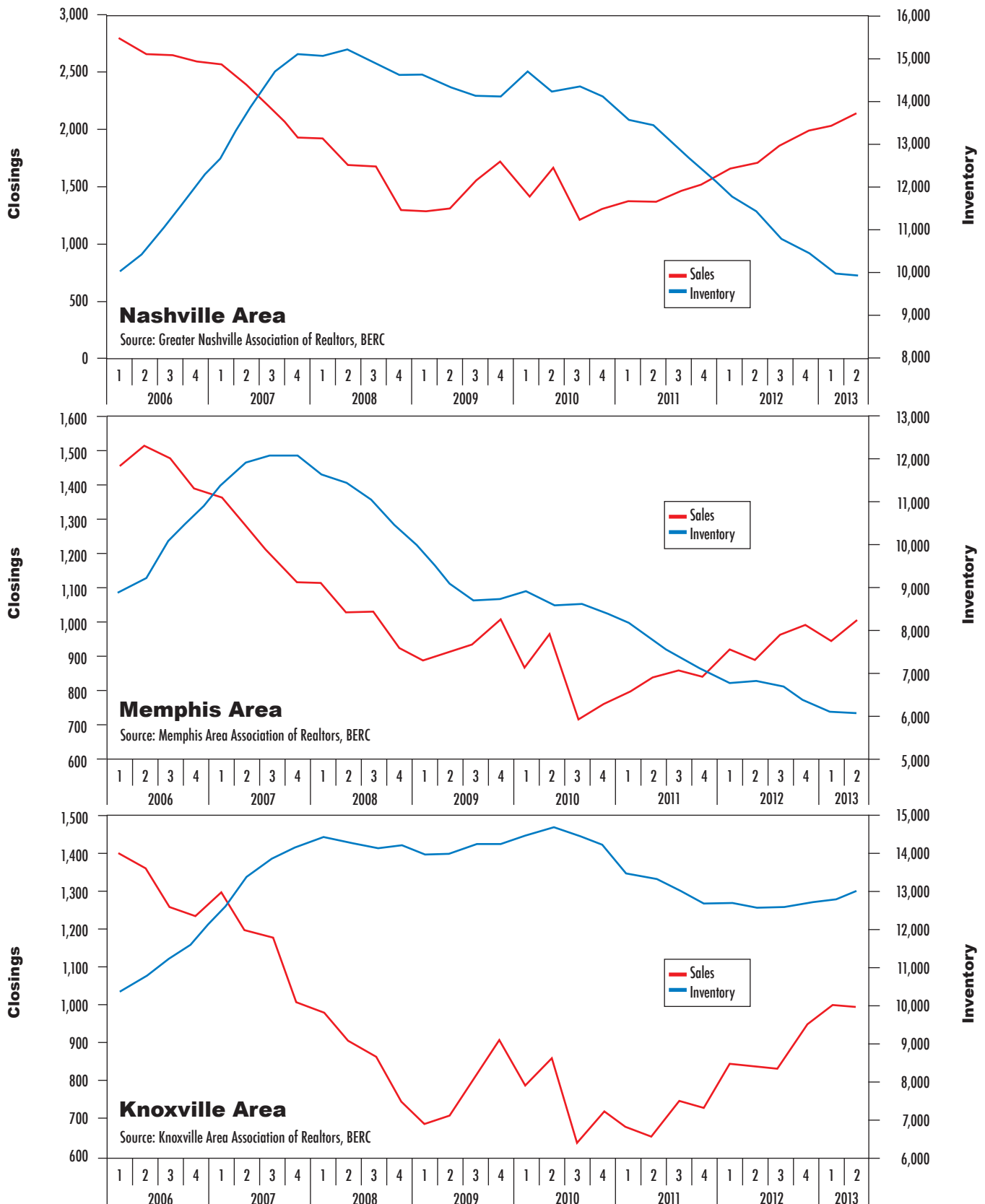
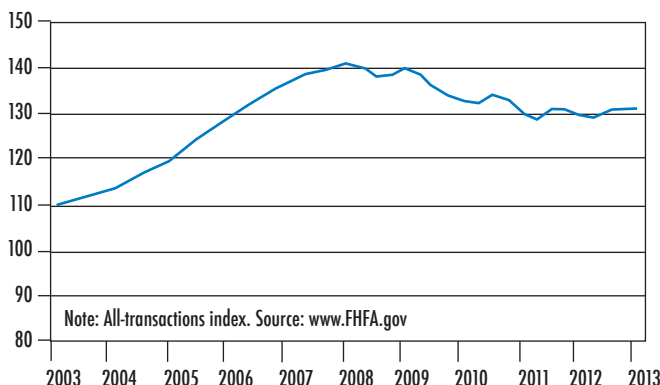


Figure 4. Real estate transfer tax collections (seasonally adjusted annual rate)



**Figure 5. Single-family sales and inventory** (seasonally adjusted quarterly average of monthly figures)

**Figure 6. Tennessee house price index (2000=100.0)**

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quarter and have shown little meaningful change during the previous 18 months (Figure 7).

New foreclosures also are little changed, falling to 0.68% from 0.71%. Foreclosure starts have now dropped to their lowest level since 2007, reflecting a more solid financial footing for Tennessee households.

Conclusion

Housing out-performed other portions of the economy in Tennessee during the second quarter. Home prices continued to improve, with several areas of the state experiencing

Table 3. Change in housing prices year to year

| Area | 2011.2-2012.2 | 2011.3-2012.3 | 2011.4-2012.4 | 2012.1-2013.1 |
|-----------------------|---------------|---------------|---------------|---------------|
| U.S. | 0.0% | 0.4% | 0.6% | 2.0 |
| Tennessee | 0.6% | 0.1% | 0.3% | 0.9 |
| Chattanooga MSA | 1.9% | 0.1% | 0.3% | 1.2 |
| Clarksville MSA | 0.9% | 0.8% | 1.5% | -1.3 |
| Cleveland MSA | 3.6% | -0.1% | 2.0% | 0.8 |
| Jackson MSA | 1.9% | 0.8% | 0.1% | 3.3 |
| Johnson City MSA | 4.0% | 2.9% | 0.4% | 0.1 |
| Kingsport-Bristol MSA | -0.5% | -0.1% | -0.6% | 2.2 |
| Knoxville MSA | 0.5% | 0.1% | 0.2% | 0.6 |
| Memphis MSA | -0.2% | -0.9% | -0.5% | -0.1 |
| Morristown MSA | 2.5% | -3.0% | 1.6% | -0.4 |
| Nashville MSA | 0.5% | 1.5% | 1.0% | 2.5 |
| TN nonmetro areas | 0.0% | -1.1% | -0.5% | -0.7 |

Source: FHFA All-Transactions Index

price appreciation. Construction of both single-family and multi-family housing accelerated much more quickly than for the South and the U.S. The value of real estate transactions and new or refinanced mortgages also increased during the quarter. All these indicators point to an improving housing market for Tennessee.

More robust job growth would help move housing to more solid ground. Many forecasters expect economic activity and job growth to improve during the second half of 2013. ■

Figure 7. Tennessee mortgages past due and foreclosure starts (percent of mortgages in place)