



Tennessee Housingmarket

2nd Quarter 2014

Business and Economic Research Center

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Supported by Tennessee Housing Development Agency

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Economic Overview

Tennessee's economy performed reasonably well in the second quarter, producing diverse job gains and lower unemployment; in short, employers are laying off fewer workers and beginning to hire more. Overall, the state's economic performance improved from the first quarter with nonfarm employment up 18,000, including 7,000 in goods-producing and 11,000 in services-providing sectors. In total, nonfarm employment rose 0.7%.

Over the year, Tennessee gained 55,000 nonfarm jobs, increasing 2.0%. Most of the job gains (44,000) are in services, while goods-producing industries, including manufacturing and construction, produced 10,000 new jobs.

The labor force, the sum of total employment and unemployment, is virtually unchanged from the first quarter but lower over the year. The unemployment rate declined to 6.4% in the second quarter, due mostly to job growth. The present unemployment rate for Tennessee is a full two percentage points lower over the year.

Reported by the U.S. Department of Labor, initial claims for unemployment insurance in Tennessee fell to 4,000 per week, the lowest weekly rate since before 2007 (Figure 1). New layoffs in Tennessee are at a very low rate indeed.

Housing Construction

Permits issued for single-family home construction bounced back, rising to an annual rate of 16,700

from 15,700 in the first quarter, a 6% increase (Table 2). Tennessee, the South, and the United States all experienced

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

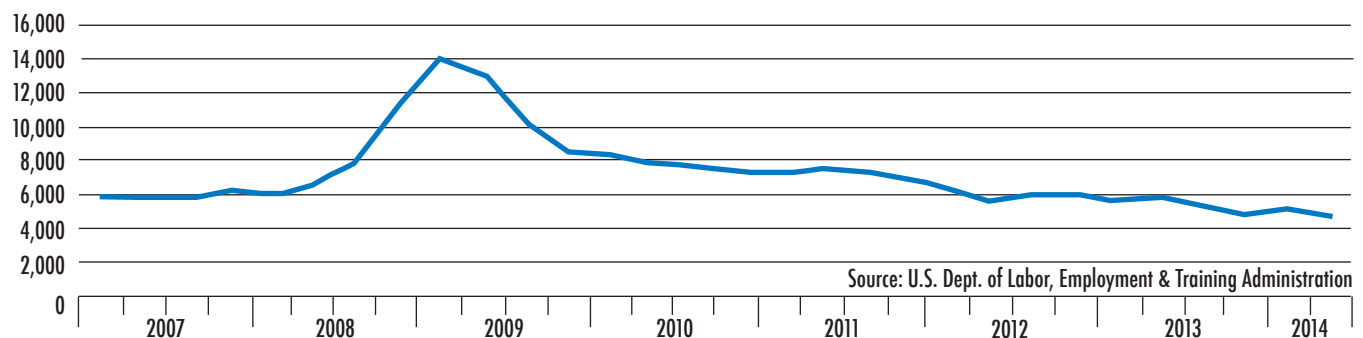


Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

| Employment by industry (nonfarm) | 2013.2 | 2013.3 | 2013.4 | 2014.1 | 2014.2 |
|----------------------------------|--------|--------|--------|--------|--------|
| Total nonfarm | 2,743 | 2,752 | 2,771 | 2,780 | 2,798 |
| Goods-producing sectors | 426 | 426 | 430 | 430 | 436 |
| Manufacturing | 318 | 319 | 322 | 320 | 322 |
| Services-providing sectors | 2,317 | 2,326 | 2,341 | 2,350 | 2,362 |
| Labor force | 3,085 | 3,060 | 3,037 | 3,038 | 3,044 |
| Total employment | 2,827 | 2,805 | 2,797 | 2,828 | 2,848 |
| Unemployed | 258 | 255 | 240 | 211 | 196 |
| Unemployment rate | 8.4% | 8.3% | 7.9% | 6.9% | 6.4% |

Source: Bureau of Labor Statistics

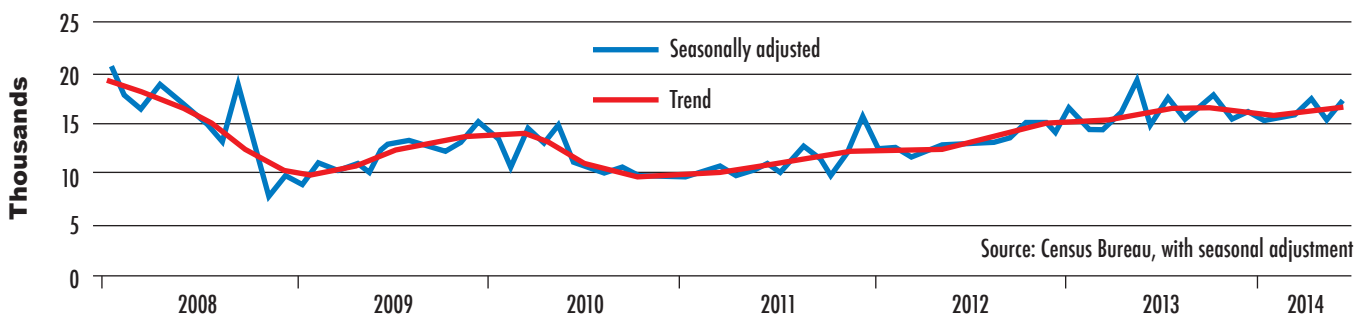
more robust single-family construction activity in the second quarter, rebounding from the unseasonably poor first-quarter weather that hampered construction activity. The present level of single-family home construction is nearly identical to that of the spring and summer months of last year, resulting in a small over-the-year gain of 0.4%.

The trend for single-family permits rose during the second quarter, exceeding peak levels achieved during the early fall of 2013 (Figure 2). The present trend level of activity is the highest since May 2008.

Following very large gains in the first quarter, multi-family home construction shifted to a lower, and perhaps more sustainable, level of activity. Permits issued fell to 8,300 annualized, much lower than 10,400 during the first quarter. Over the year, the level of multi-family construction activity is virtually unchanged.

Total permits (single-family plus multi-family) experienced little change over the year, gaining just 0.2% in Tennessee. The South also experienced a modest gain, while total permits for the United States gained 4.4% due to substantial gains in multi-family permits.

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



Source: Census Bureau, with seasonal adjustment

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. |
| 2011.2 | 10.4 | 222.3 | 409.0 | 2.1 | 87.3 | 202.7 | 12.5 | 309.7 | 611.7 |
| 2011.3 | 11.5 | 229.0 | 423.0 | 3.1 | 91.3 | 203.0 | 14.7 | 320.3 | 626.0 |
| 2011.4 | 12.5 | 244.7 | 448.7 | 5.2 | 113.7 | 242.7 | 17.8 | 358.3 | 691.3 |
| 2012.1 | 12.3 | 257.7 | 474.7 | 5.9 | 132.0 | 271.3 | 18.2 | 389.7 | 746.0 |
| 2012.2 | 12.7 | 261.0 | 494.7 | 4.7 | 142.7 | 285.3 | 17.4 | 403.7 | 780.0 |
| 2012.3 | 13.3 | 282.0 | 533.0 | 4.5 | 162.0 | 329.3 | 17.8 | 444.0 | 862.3 |
| 2012.4 | 14.8 | 308.3 | 576.0 | 5.1 | 171.0 | 352.0 | 19.9 | 479.3 | 928.0 |
| 2013.1 | 15.2 | 316.7 | 595.7 | 4.2 | 145.3 | 323.3 | 19.3 | 462.0 | 919.0 |
| 2013.2 | 16.6 | 332.0 | 619.7 | 8.3 | 162.3 | 349.7 | 24.9 | 494.3 | 969.3 |
| 2013.3 | 16.6 | 326.7 | 617.0 | 6.7 | 134.3 | 334.3 | 23.3 | 461.0 | 951.3 |
| 2013.4 | 16.4 | 329.3 | 624.0 | 5.5 | 177.7 | 391.7 | 22.0 | 507.0 | 1,015.7 |
| 2014.1 | 15.7 | 321.7 | 595.3 | 10.4 | 174.3 | 390.0 | 26.1 | 496.0 | 985.3 |
| 2014.2 | 16.7 | 328.0 | 615.3 | 8.3 | 167.7 | 397.0 | 24.9 | 495.7 | 1,012.3 |
| Change from previous quarter | 6.0% | 2.0% | 3.4% | -20.6% | -3.8% | 1.8% | -4.6% | -0.1% | 2.7% |
| Change from previous year | 0.4% | -1.2% | -0.7% | -0.3% | 3.3% | 13.5% | 0.2% | 0.3% | 4.4% |

Source: Census Bureau

Real Estate Transactions and Mortgages

Consistent with the increased housing construction and sales activity, taxes collected by the state on real estate transactions and new or refinanced mortgages rose during the second quarter (Figures 3 and 4). Transfer tax collections jumped more than 5% during the quarter and 10.9% over the year due to a rise in real estate deals. Real estate transfer tax collections are now at their highest level in Tennessee since 2008.

Mortgage tax collections rose 6.1% during the quarter, recovering some of the decline suffered when higher mortgage rates caused home buying activity to decline. Over the year, mortgage tax collections remain lower, down 22.3%.

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

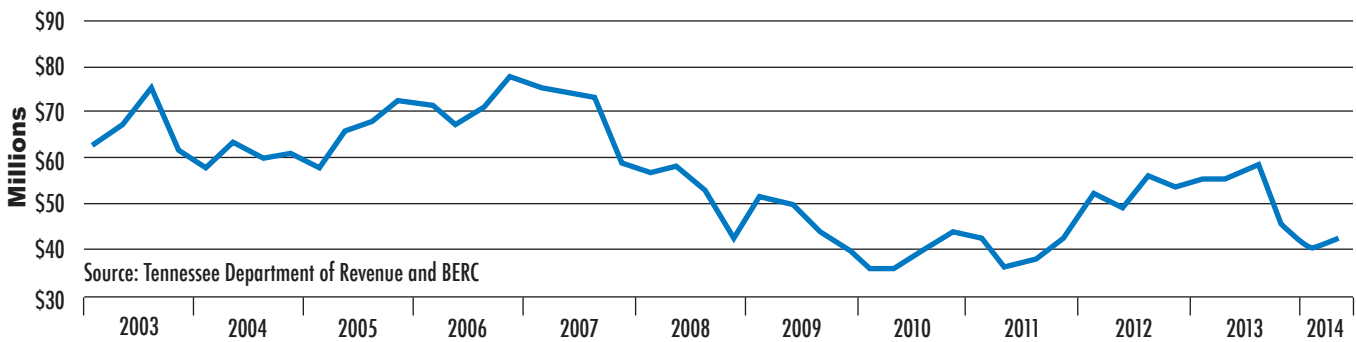
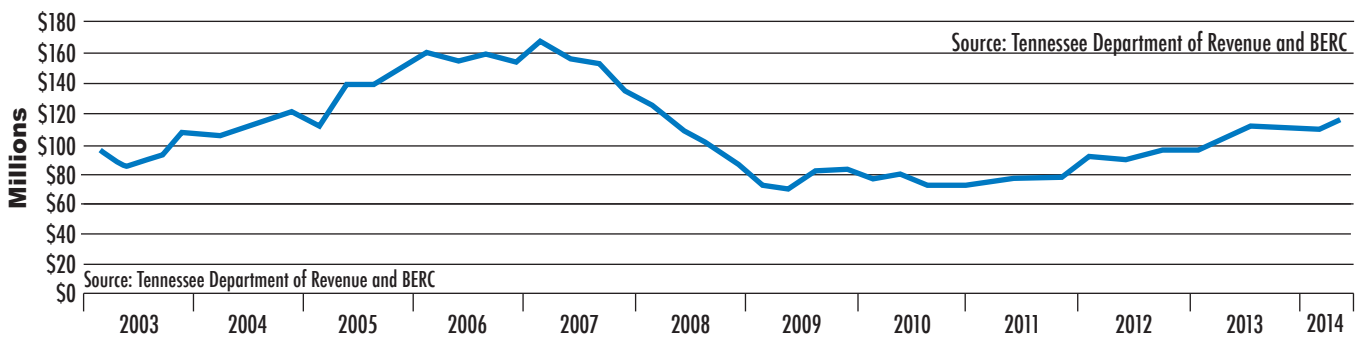


Figure 4. Real estate transfer tax collections (in millions, seasonally adjusted annual rate)

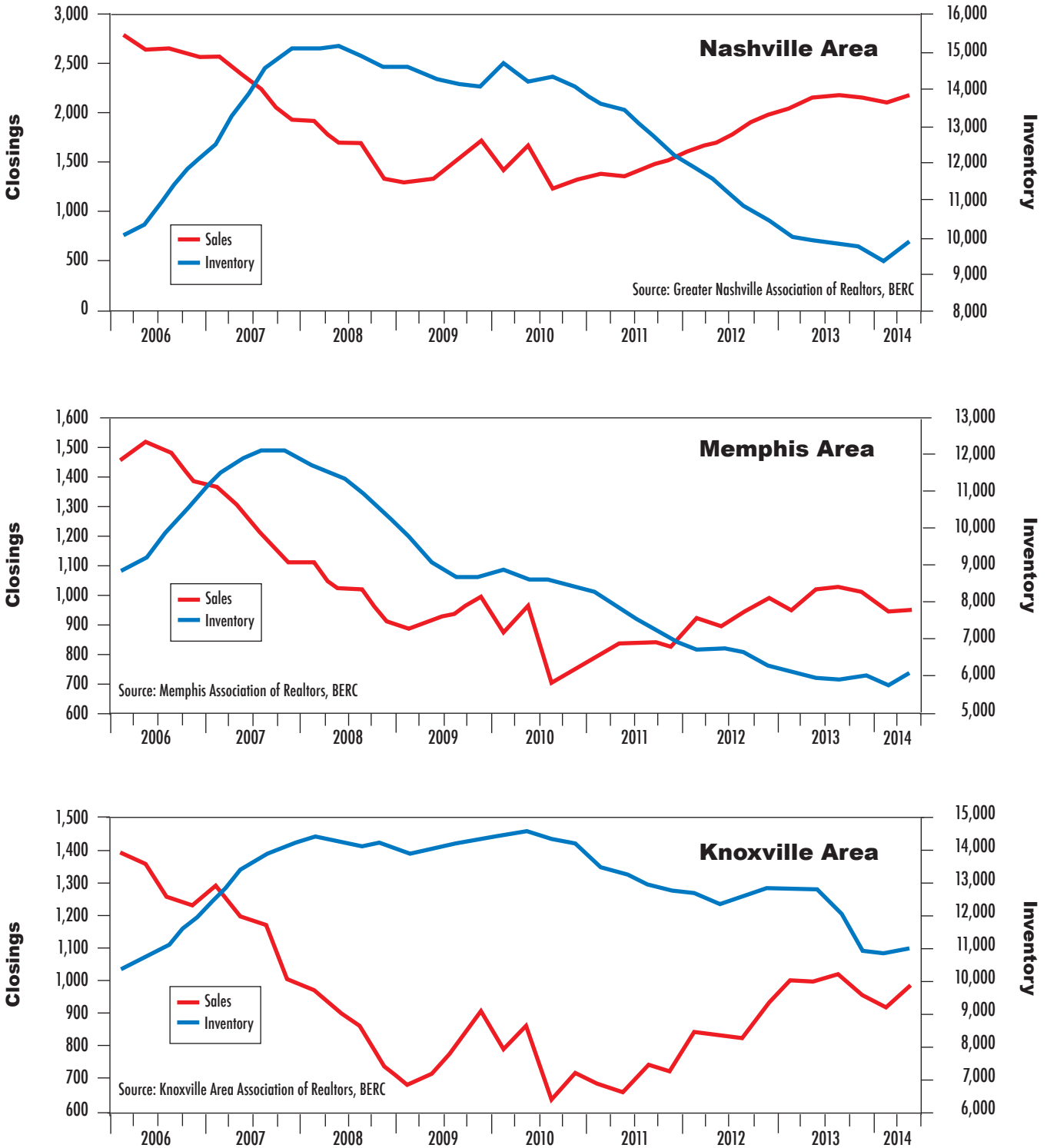


Home Sales

Sales of single-family homes increased in all three metropolitan areas tracked by this report, rising 4.5% in the Nashville area, 0.7% in the Memphis area, and 7.6% in the Knoxville area, all after seasonal adjustments. The second-quarter improvement halted the decline that had occurred during the fourth and first quarters.

Inventories of single-family homes on the market increased in all three areas, rising 5.4% in Nashville, 4.2% in Memphis, and 1.3% in Knoxville from the previous quarter. Even after the second-quarter increase, inventories have trended lower since 2010. The recent rise may actually reflect an improving housing market; homeowners who had been on the sidelines may have decided the market has improved sufficiently to put their homes up for sale.

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



Home Prices

Average home prices gained 3% over the year for Tennessee (in the first quarter), according to the Home Price Index published by the Federal Housing Finance Agency (FHFA, Table 3). Prices in Tennessee increased less than in the United States (up 4.9%), but the gap narrowed slightly in the first quarter (Figure 6).

The Nashville metropolitan statistical area (MSA) continues to produce the largest price gain, rising an impressive 6.5% over the year. The next largest gain is found in the Chattanooga MSA, up 2.5%, while the Memphis and Knoxville MSAs rose 1.9%. The weakest price gains are found in the non-metropolitan portions of the state and in the Jackson MSA.

Table 3. % Change in Housing Prices Year to Year

| Area | 2012.2-2013.2 | 2012.3-2013.3 | 2012.4-2013.4 | 2013.1-2014.1 |
|-----------------------|---------------|---------------|---------------|---------------|
| Chattanooga MSA | 2.1% | 1.1% | 1.7% | 2.5% |
| Clarksville MSA | -0.1% | 0.5% | -0.4% | 1.7% |
| Cleveland MSA | 1.3% | -1.5% | -1.8% | 0.9% |
| Jackson MSA | 0.4% | -2.5% | -1.5% | -5.7% |
| Johnson City MSA | 1.2% | -0.4% | -3.5% | 1.2% |
| Kingsport-Bristol MSA | 4.1% | 1.2% | 1.5% | 1.5% |
| Knoxville MSA | 1.4% | 1.4% | 1.5% | 1.9% |
| Memphis MSA | 1.7% | 1.1% | 0.4% | 1.9% |
| Morristown MSA | 1.2% | -1.4% | -2.0% | 0.8% |
| Nashville MSA | 3.8% | 4.5% | 5.9% | 6.5% |
| Tennessee | 2.3% | 2.1% | 2.6% | 3.0% |
| Tennessee non-metro | 0.8% | 0.8% | 1.0% | 0.6% |
| United States | 4.3% | 4.7% | 4.9% | 4.9% |

Source: FHFA All Transactions Index.

Mortgage Delinquencies and Foreclosures

Mortgages past due fell to 7.7%, down from 8% in the first quarter (Figure 7) according to data from the Mortgage Bankers Association. By contrast, the United States averaged 6% for the quarter. The percentage of mortgages past due in Tennessee has declined steadily since the peak of 10.8 percent in 2010, indicating fewer home-owning households are in financial difficulty. Though the percentage has improved substantially since 2010,

it remains elevated compared with the rate that prevailed prior to the recession.

Foreclosure starts (new foreclosures initiated during the quarter) for Tennessee fell sharply again during the second quarter, falling to 0.39%. This level is much lower than the pre-recession level of 0.5% and is the lowest since 2000.

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

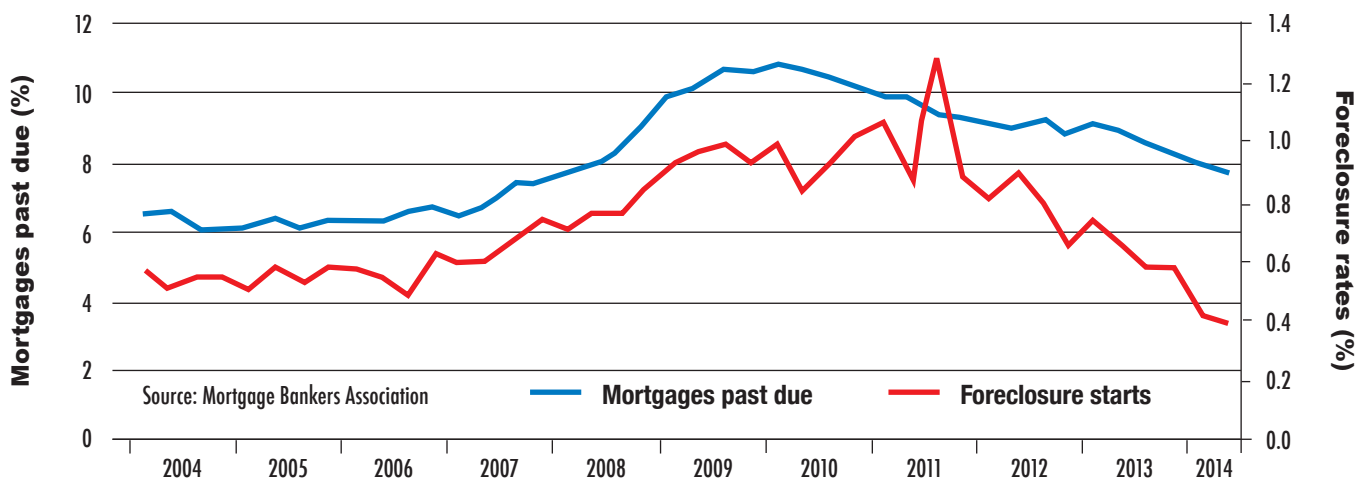
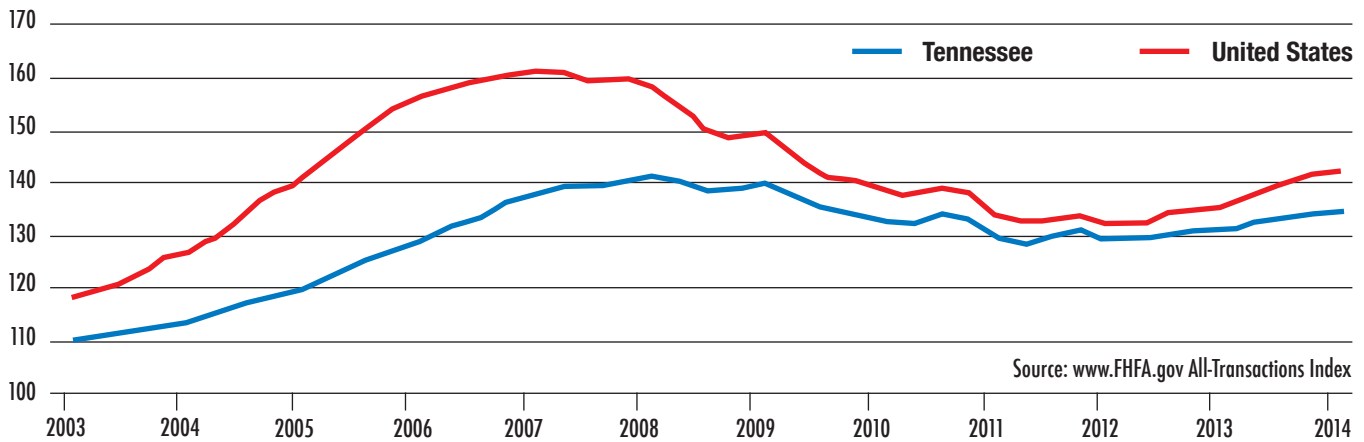


Figure 6. Tennessee FHFA house price index (2000 = 100.0)



Conclusion

Tennessee's economy perked up during the second quarter, showing stronger job growth and lower unemployment. The housing market in the state also improved, with single-family home construction returning to pre-first quarter levels, although construction of multi-family units experienced somewhat slower activity. Housing construction is particularly strong in the Nashville MSA. Home price increases accelerated, with the Nashville

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MSA leading the way, but the rate of increase lags behind the United States. Tax collections related to real estate transactions and mortgage activity experienced gains, as did sales of homes in the three largest metropolitan areas. ■

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