

# NashvilleMSAtoday

Fourth Quarter 2003 ■ Nashville Economic Performance Index ■ Partnership 2010

## Nashville and Its Peers



This second issue of the quarterly Nashville Economic Performance Report compares the most recent economic performance of the Nashville Metropolitan Statistical Area (MSA) with that of a group of 11 peer MSAs. The Report analyzes relative economic performance using indicators such as nonfarm employment, unemployment, housing construction, airport activity and housing prices.

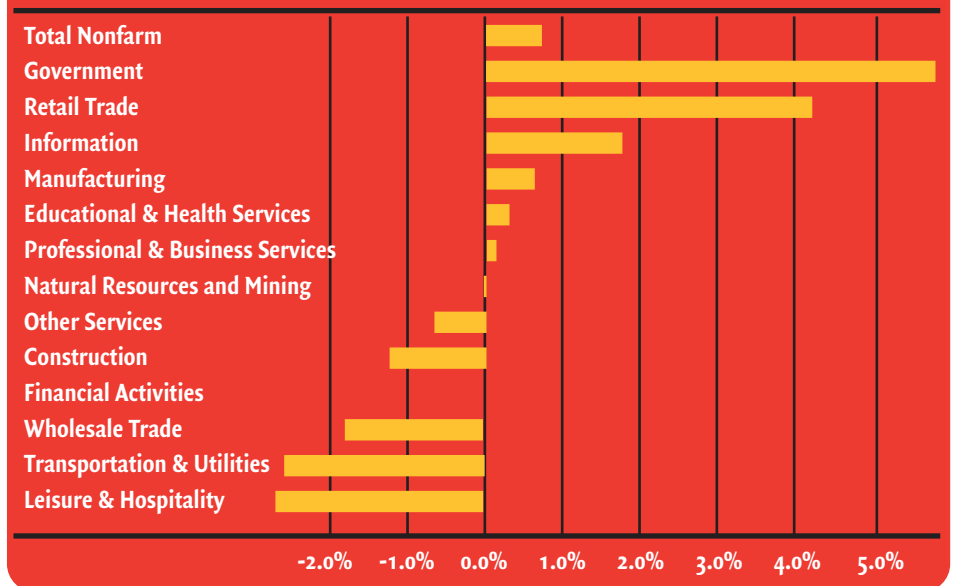
### Nashville MSA Current Performance

Fourth-quarter economic indicators are weakly positive for the Nashville MSA, showing less vitality than in the third quarter. Nonfarm employment increased by 0.8 percent from the third quarter, with increases in just seven sectors compared with gains for nine sectors in the third quarter. Employment in government, retail trade, information and manufacturing increased by 0.5 percent or more, with smaller gains in educational and health services and professional and business services (Figure 1).

Home sales rose 15 percent from the fourth quarter of 2002 and permits for new home construction rose 11 percent.

Broad indicators of the labor force, however, showed increasing weakness. Initial claims for unemployment insurance, for example, rose 3.9 percent from the fourth quarter of 2002, indicating upward pressure on the unemployment rate in coming months. The labor force fell 0.8 percent and the unemployment rate inched up one-half percentage point from 3.7 percent a year ago.

**Figure 1: Percent Change Nonfarm Employment, Nashville MSA  
Third Quarter to Fourth Quarter 2003**



## Growth Performance Index

The Growth Performance Index compares the current economic performance of the Nashville MSA with that of 11 peer MSAs. The index is composed of 17 indicators arranged in four major categories: employment by industry, labor force, real estate and housing and air transportation. The index provides an objective, verifiable method of assessing the current economic vitality of the Nashville MSA relative to its peers.

Nashville's overall fourth-quarter economic performance ranks seventh among the peer MSAs, down considerably from third place in the third quarter. Rankings changed significantly for several other cities as well. For example, Louisville fell from first place in the third quarter to last place in the fourth quarter, Nashville fell four places, Raleigh fell four, Columbus fell two and Jacksonville dropped one place.

**Table 1: Overall Growth Performance Ranking**

MSA	Fourth Quarter	Previous Quarter
Orlando, FL	1	6
Birmingham, AL	2	4
Jacksonville, FL	3	2
Denver, CO	4	8
Atlanta, GA	5	7
Tampa, FL	6	11
<b>Nashville, TN</b>	<b>7</b>	<b>3</b>
Dallas, TX	8	12
Raleigh-Durham, NC	9	5
Charlotte, NC	10	10
Columbus, OH	11	9
Louisville, KY	12	1

## Focus on employment by industry

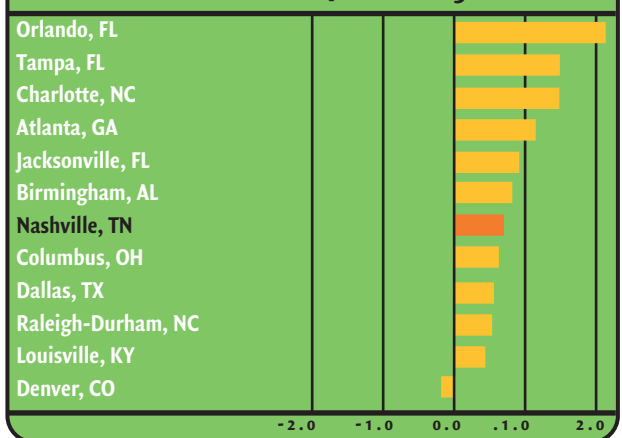
The employment by industry component of the Growth Performance Index measures the degree of diversified employment growth: an MSA with modest employment growth in a variety of sectors will score higher than an MSA that experiences rapid growth in just one or two sectors.

The Nashville MSA ranks seventh in this category, down from a ranking of second in the third quarter (Table 3). Nashville payroll employment grew faster than the peer average in just four of 13 sectors: government, information, manufacturing and retail trade.

Orlando enjoyed the most rapid employment growth, up 2 percent from the third quarter (Figure 2). A significant gain in tourism-related employment during the holiday season is hardly unexpected for Orlando, with its thousands of tourist-related jobs. But Orlando's fourth-quarter gain was impressively broad-based, showing the most rapid job increases for five of the 13 sectors we follow: construction and mining, professional and business services, transportation and utilities, leisure and hospitality and other services.

Just one MSA, Denver, lost jobs in the fourth quarter. Louisville, Raleigh and Dallas grew marginally, up just 0.5 percent from the third quarter. Columbus, Nashville, Birmingham and Jacksonville are the next best performers, growing between 0.7 percent and 1 percent. Atlanta, Charlotte, Tampa and Orlando all grew by 1.2 percent or higher.

**Figure 2: Growth of Nonfarm Employment Third–Fourth Quarter 2003**



## Focus on labor force and unemployment

The labor force and unemployment component of the Growth Performance Index measures the overall strength of the labor market. It consists of two sub-components: quarterly labor force growth and the quarterly change in the unemployment rate. A growing labor force combined with a falling unemployment rate indicates improving labor market conditions for both job seekers and for those looking for better jobs.

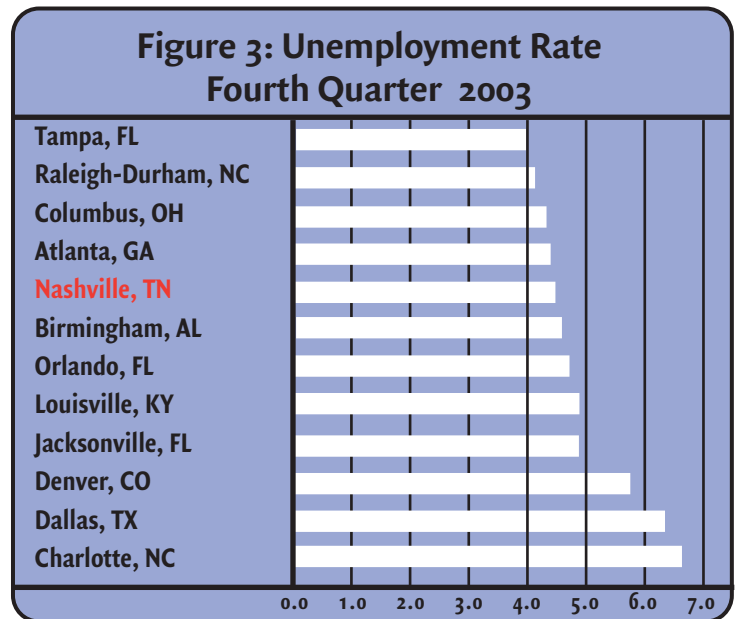
Labor force is a contemporaneous indicator of economic conditions. By contrast, the unemployment rate is considered a lagging economic indicator; it shows where the local economy has been, but it is not a good indicator of where the economy is going in the future.

Nashville's performance in this component of the Growth Performance Index dropped significantly, falling from fourth place in the third quarter to eleventh place in the fourth quarter. Poor performance of both labor force and the unemployment rate contributed to Nashville's decline in the ranking. Nashville's labor force declined by -0.5 percent, slightly smaller than the peer MSA average decline of -0.73 percent. The performance of the unemployment rate, however, is the big difference between Nashville and the peer MSAs: Nashville was the only MSA to experience an increase in the unemployment rate, rising from 3.9 percent in the third quarter to 4.2 percent in the fourth quarter. Although Nashville's labor force performed somewhat better than the peer average, this was not enough to offset the very poor performance of the unemployment rate.

## Focus on housing construction and home prices

The housing construction and home prices component of the Growth Performance Index consists of two parts: the quarterly growth rate of total housing permits and the quarterly growth rate of housing prices. Rising home prices and construction activity are signs of robust local economic activity.

The Nashville MSA ranked seventh in this category for the fourth quarter, up one place from the third quarter. As reported by the Census Bureau, permit-authorized construction declined in the fourth quarter for nine of the 11 MSAs. Nashville's permit-authorized housing construction fell by 14.8 percent, a somewhat larger decline than the peer average drop of 8.8 percent. Housing prices in Nashville were up 0.62 percent, close to the peer average increase of 0.68 percent.



The best performers are Atlanta, Dallas and Charlotte. Atlanta enjoyed a growing labor force along with a declining unemployment rate. Dallas experienced a large 0.9 point decline in the unemployment rate, while Charlotte benefited from a smaller-than-average drop in the labor force and a larger-than-average decline in the unemployment rate.

Figure 3 shows the fourth-quarter unemployment rate for the peer MSAs. The unemployment rate is highest in Charlotte, Dallas, Denver and Jacksonville, and lowest in Tampa, Raleigh, Columbus and Atlanta. Nashville's unemployment rate ranks in the middle of the 12 MSAs.

## Focus on air transportation

The air transportation component of the Growth Performance Index consists of two sub-components: quarterly growth rates of passenger enplanements and passenger deplanements. Growth in passenger activity can signal increased demand for local goods and services, especially in the leisure and hospitality sectors. Comparable air passenger data are only available with a one-quarter lag; therefore, this component of the index measures activity from the second quarter to the third quarter of 2003.

The Nashville MSA performed well in this component of the GPI, ranking second among the peer MSAs. Last quarter, Nashville ranked third in this category.

All but one MSA showed a drop in enplanements from the previous quarter and deplanements fell in all but three MSAs. Nashville enplanements fell 0.4 percent, compared with the MSA average decline of 3.7 percent, while deplanements gained 1.4 percent, compared with a peer average decline of 2.6 percent.

**Table 2. Component Rankings for the Fourth Quarter 2003**

MSA	Overall Ranking	Category Ranking			
		Employment by Industry	Labor Force and Unemployment	Housing Construction and Home Prices	Air Transportation
Orlando, FL	1	1	6	1	2
Birmingham, AL	2	6	4	5	3
Jacksonville, FL	3	4	9	3	5
Denver, CO	4	12	10	4	1
Atlanta, GA	5	3	1	12	9
Tampa, FL	6	2	7	2	1
<b>Nashville, TN</b>	<b>7</b>	<b>7</b>	<b>11</b>	<b>7</b>	<b>2</b>
Dallas, TX	8	9	2	10	8
Raleigh-Durham, NC	9	11	5	6	7
Charlotte, NC	10	5	3	8	0
Columbus, OH	11	10	8	11	4
Louisville, KY	12	8	12	9	6

## Ranking Summary

Overall ranking and detailed rankings for the fourth quarter are summarized in Table 2.

## Outlook

Stable manufacturing employment is good news for the Nashville economy. Local manufacturers will probably experience steady increases in demand as the national economy continues to grow.

Weakness in Nashville's financial, transportation and wholesale sectors, coupled

with a rising unemployment rate, suggests that cost-cutting pressures on businesses are resulting in job losses in the short run. Industry consolidation and the trend towards outsourcing will likely continue. Although cost-cutting typically entails job losses in the short run, enhanced competitiveness in the long run should result in new jobs.

## Methodology

We identified 17 indicators for each MSA and organized them into four categories: employment by industry (11 indicators), labor force and unemployment (two indicators), housing construction and housing prices (two indicators) and air transportation (two indicators). Each indicator contributes equally to the calculation of the category score.

Growth from the previous quarter was compared to the MSA average growth for each indicator. A performance score was calculated ranging from zero to one. The score for each of the four categories is the average of the scores for all variables in that category. The overall Growth Performance is the average of the four category scores. The higher the Growth Performance Index, the higher the rank for an MSA.

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