

HOUSING

T E N N E S S E E

4th Quarter 2014

Tennessee dashboard 4th quarter 2014

(percent change over the year)

Weekly Unemployment Claims	▼ -12%	Total Home Permits*	▲ +32%
Total Nonfarm Employment*	▲ +2%	Mortgage Tax Collections	▲ +7%
Unemployment Rate (percentage points)*	▼ -0.5	Real Estate Transfer Tax Collections	▲ +14%
Homeowner Vacancy Rate (percentage points)	▼ -0.7	Home Prices*	▲ +5%
Rental Vacancy Rate (percentage points)	▼ -1.0	Mortgages Past Due (percentage points)	▼ -1.06
Single-Family Home Permits*	▲ +6%	Foreclosure Rate (percentage points)	▼ -0.1

*seasonally adjusted ▲ positive outcome for economy ▼ negative outcome for economy

Economic Overview

Third quarter is similar to the first two.

Tennessee's economy showed trends similar to those of the previous two quarters. Since the second quarter, nonfarm employment increased from 2.806 million to 2.843 million jobs. Since the third quarter, total nonfarm employment grew 19,500 jobs.

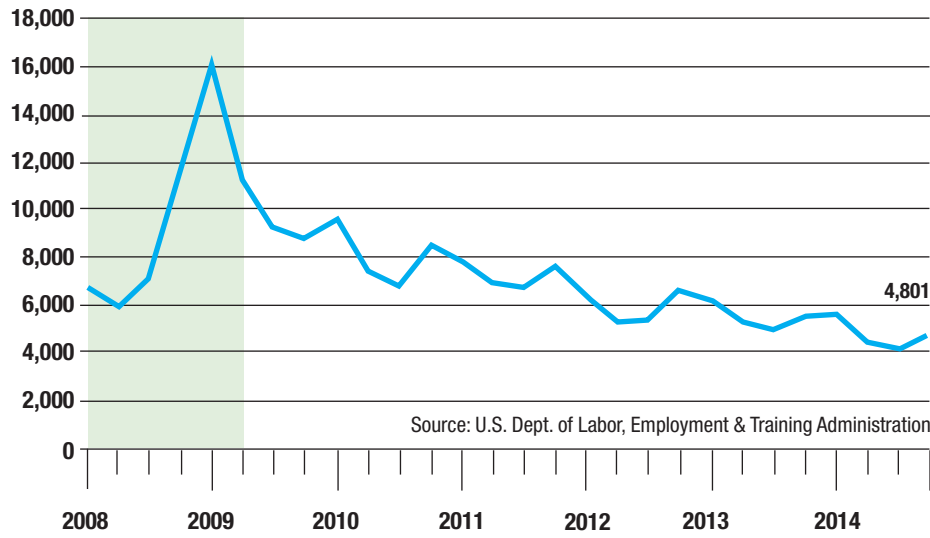
Over the year, Tennessee gained almost 62,000 nonfarm jobs, increasing over 2%. Most of the job gains (48,500) are in services, while goods-producing industries, including manufacturing and construction, produced 13,000 new jobs.

The labor force is nearly 2% lower than in the fourth quarter of 2013 (down 48,000). The unemployment rate remains steady at 6.6%, the same as in the previous two quarters. However, the state's present unemployment rate is 0.5 percentage points lower than a year ago.

Initial claims for unemployment insurance in Tennessee experienced a slight uptick this quarter, increasing to 4,801 per week (Figure 1). The second and third quarters showed recent historic lows for initial claims. Despite this quarter's increase, claims are down 12% over the year.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Initial claims for unemployment insurance are down 12% over the year.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2013.4	2014.1	2014.2	2014.3	2014.4
Employment by industry (nonfarm)					
Total nonfarm	2,781.7	2,790.5	2,806.1	2,823.9	2,843.4
Goods-producing sectors	429.4	432.2	433.3	436.1	442.5
Manufacturing	321.2	322.8	323.1	325.5	329.0
Services-providing sectors	2,352.3	2,358.4	2,372.8	2,387.8	2,400.8
Labor force	3,020.1	3,007.1	2,996.8	2,986.9	2,983.2
Total employment	2,805.3	2,810.7	2,801.6	2,789.0	2,786.2
Unemployed	214.9	196.4	195.2	197.9	196.9
Unemployment rate	7.1%	6.5%	6.6%	6.6%	6.6%

Source: Bureau of Labor Statistics

Over the year, Tennessee gained almost 62,000 nonfarm jobs, increasing over 2%.

Vacancy Rates

Post recession, homeowner and rental vacancy rates have been on the decline for the U.S. However, Tennessee's rates have shown much fluctuation.

Tennessee's homeowner vacancy rate, steadily decreasing since the second quarter of 2014, fell to 1.9%, aligning perfectly with the U.S. average (Figure 2). Over the year, rates are down 0.7 percentage points for the state versus 0.2 for the nation.

Similar trends can be seen for fourth-quarter rental vacancy rates. The U.S. rate reached a 10-year low

Tennessee's homeowner and rental vacancy rates, which have fluctuated since the recession, dropped for the quarter.

of 7.0%. Tennessee's rate dropped an impressive 2.4 percentage points to 7.7% since the third quarter, one of the lowest rates in the past 10 years (Figure 3).

Figure 2. Homeowner vacancy rate

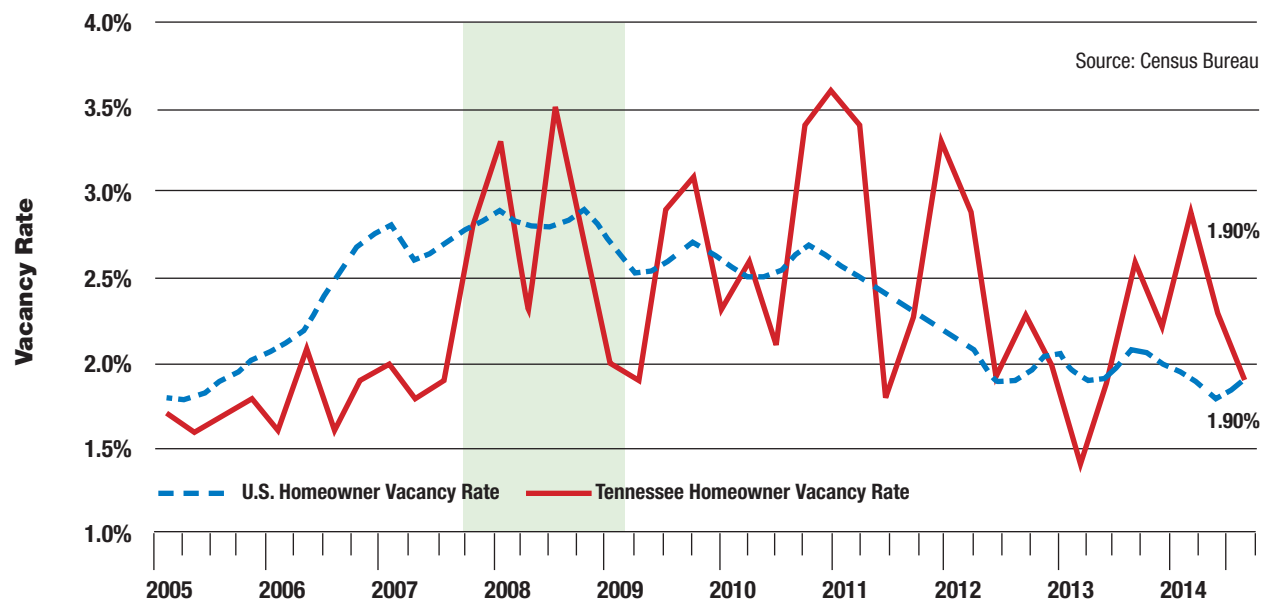
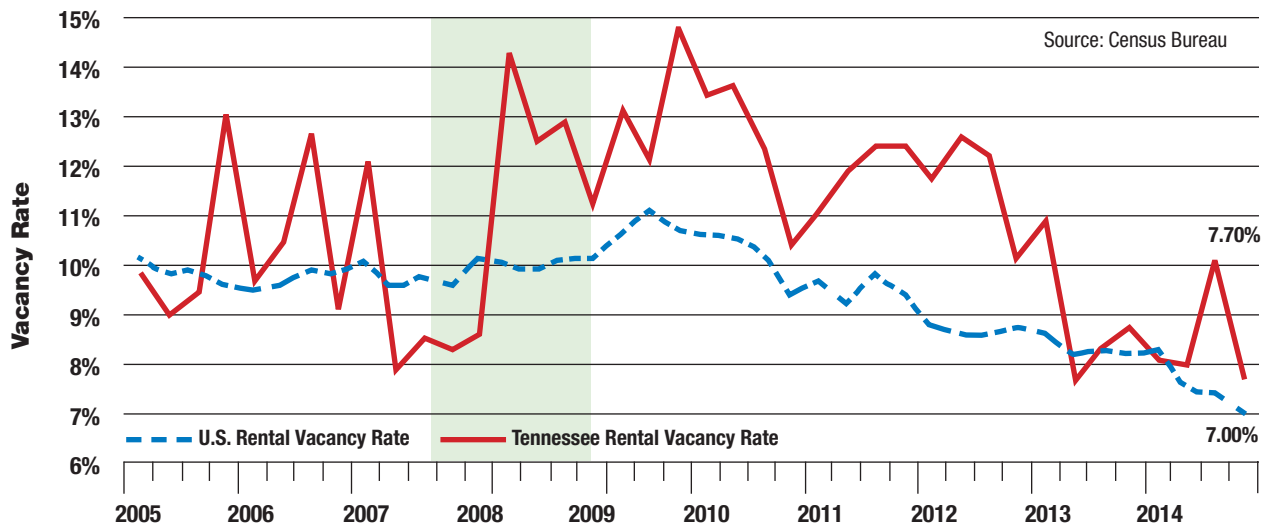


Figure 3. Rental vacancy rate



Housing Construction

Overall, Tennessee’s housing construction bounced back after a period of poor growth. Although it is slightly lower (2 percent) on a quarterly basis, seasonally adjusted annualized single-family home permits are above the trend line.

After a two-year low of 4,300 multi-family permits, Tennessee’s multi-family permits increased dramatically by 197% from the third quarter. This is significant compared to the increase of 5% for the South and 0% for the nation (Table 2).

Annually, single-family permits performed reasonably well in the fourth quarter, increasing at a rate higher

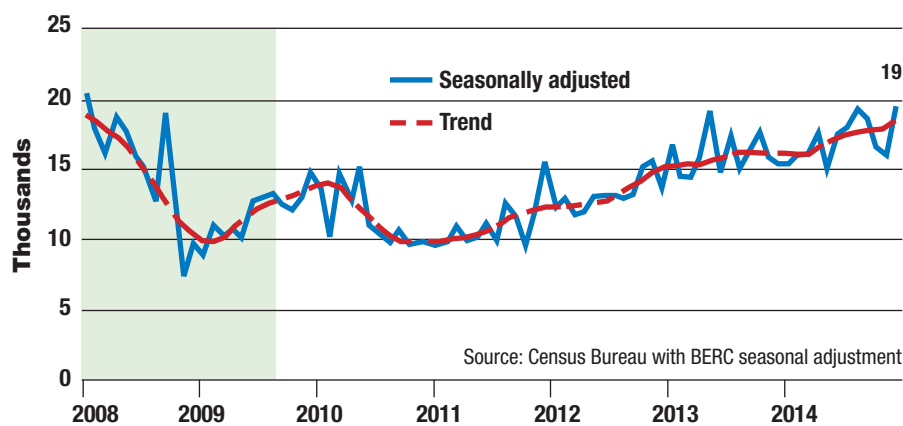
Tennessee’s multi-family permits increased dramatically by 197% from the third quarter.

than that of the U.S. and nearly on par with the South (seasonally adjusted annual rate).

Due to the increase in multi-family permits, Tennessee total permits are up 23% over the quarter and 32% over the year to 28,300. Comparatively, the South and U.S. annual rates are up just 1% over the quarter and 7% and 5% over the year, respectively.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Seasonally adjusted annualized single-family home permits are above the trend line.

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.
2011.4	12.9	241.4	447.6	3.8	97.2	227.2	15.3	336.3	651.1
2012.1	12.3	247.4	481.8	5.7	133.0	261.4	17.9	382.9	725.2
2012.2	12.7	250.5	474.6	4.6	132.4	262.3	18.7	381.7	762.7
2012.3	13.1	274.9	522.8	5.9	164.4	324.2	19.6	440.0	849.0
2012.4	15.1	299.5	565.8	6.1	141.8	318.4	19.4	439.2	879.4
2013.1	15.5	318.5	604.7	4.0	142.8	332.5	19.0	463.7	940.2
2013.2	16.4	337.4	626.3	6.4	159.6	335.9	24.8	495.2	953.5
2013.3	15.9	328.8	622.4	7.9	140.3	343.9	24.3	470.7	965.8
2013.4	16.9	324.2	613.4	6.7	169.1	386.9	21.4	490.9	1,004.9
2014.1	16.1	323.3	604.3	10.0	164.9	396.3	25.7	490.7	983.6
2014.2	16.5	332.3	619.8	6.4	164.1	376.6	24.9	494.1	1,006.9
2014.3	18.2	349.1	636.9	4.3	171.2	413.3	23.1	522.2	1,046.4
2014.4	17.9	347.6	639.1	12.7	179.9	412.1	28.3	525.3	1,057.5
Change from previous quarter	-2%	0%	0%	197%	5%	0%	23%	1%	1%
Change from previous year	6%	7%	4%	90%	6%	7%	32%	7%	5%

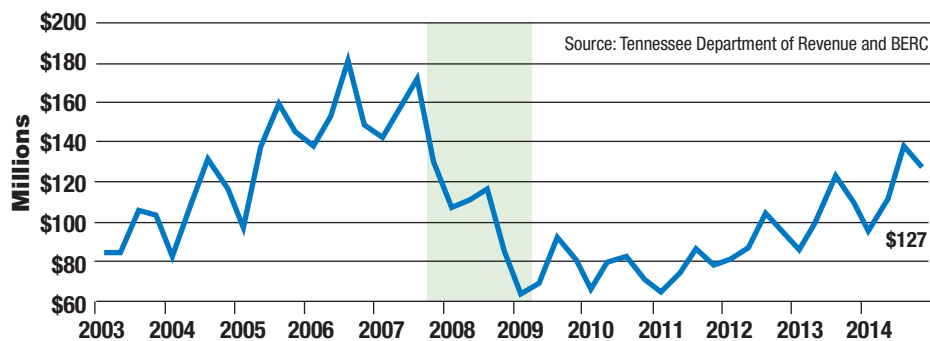
Source: Census Bureau

Real Estate Transactions & Mortgages

After three quarters of steady growth, taxes collected by the state on real estate transactions and new or refinanced mortgages fell during the fourth quarter (Figures 5 and 6). Mortgage tax collections dropped 7% but demonstrate significant increase over the year, up 7% to an annual rate of \$50 million. Transfer tax collections fell more than 8% during the quarter but overall grew 15% over the year.

Figure 5. Real estate transfer tax collections

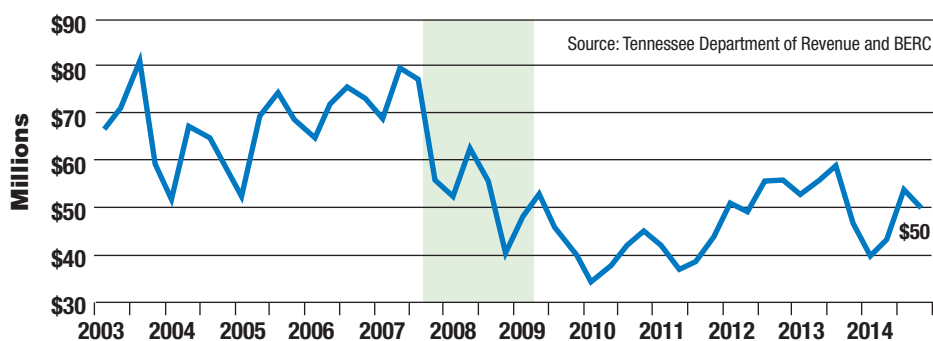
(millions, seasonally adjusted annual rate)



Transfer tax collections fell 8% for the quarter but rose 15% over the year.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections were down 7% for the quarter but up 7% over the year.

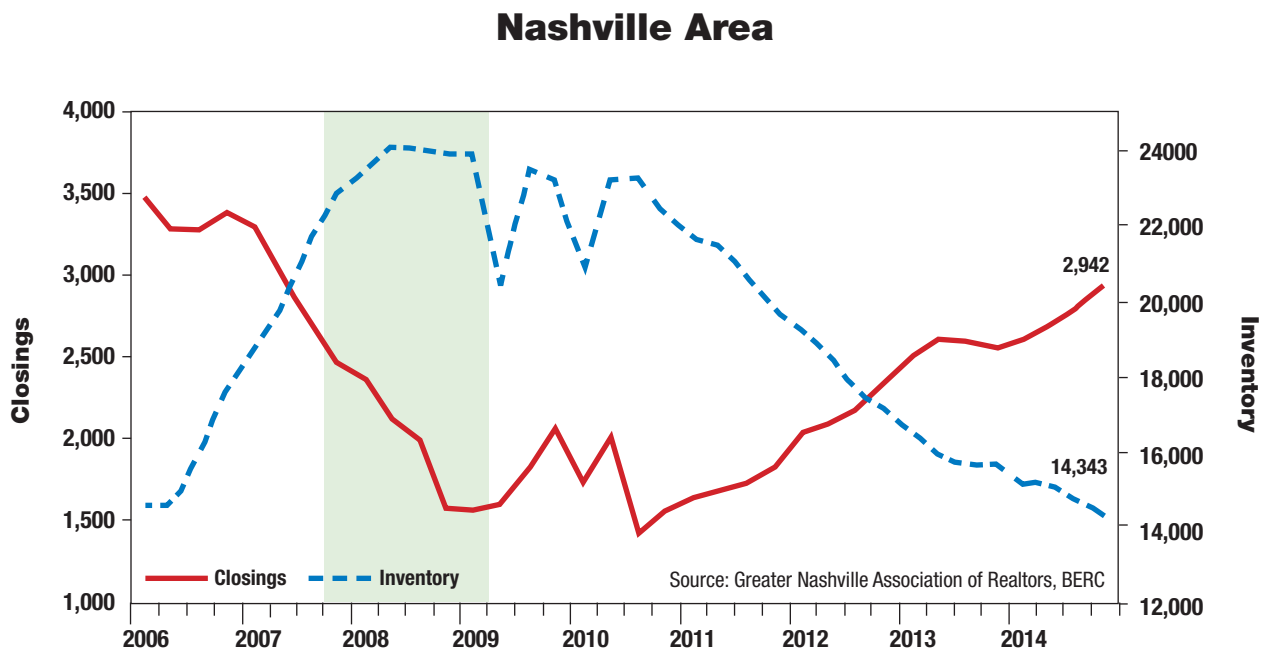
Home Sales

The fourth quarter continued the expansion of the first three quarters of 2014 for all three metropolitan areas tracked by this report.

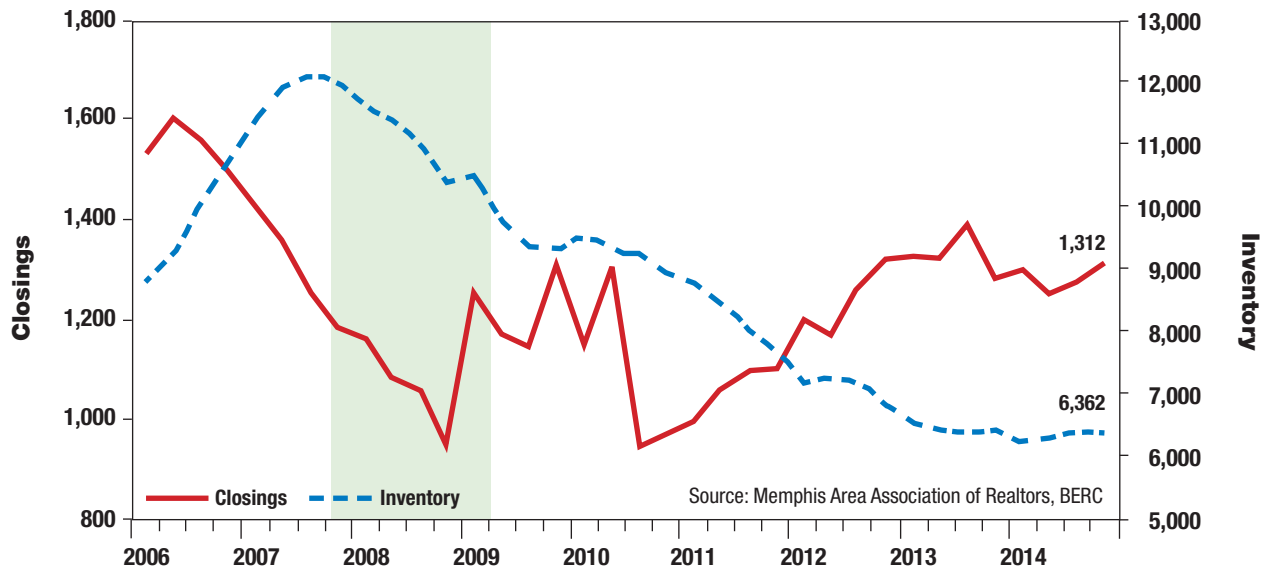
Sales of single-family homes increased in all three metropolitan areas tracked by this report, increasing 5% in the Nashville area, 3% in the Memphis area, and 4% in the Knoxville area, all after seasonal adjustments.

Inventories of single-family homes on the market decreased in all three areas, dropping 3% in Nashville, 1% in Memphis, and 1% in Knoxville from the previous quarter. The inventory figures are some of the lowest since the period prior to 2006.

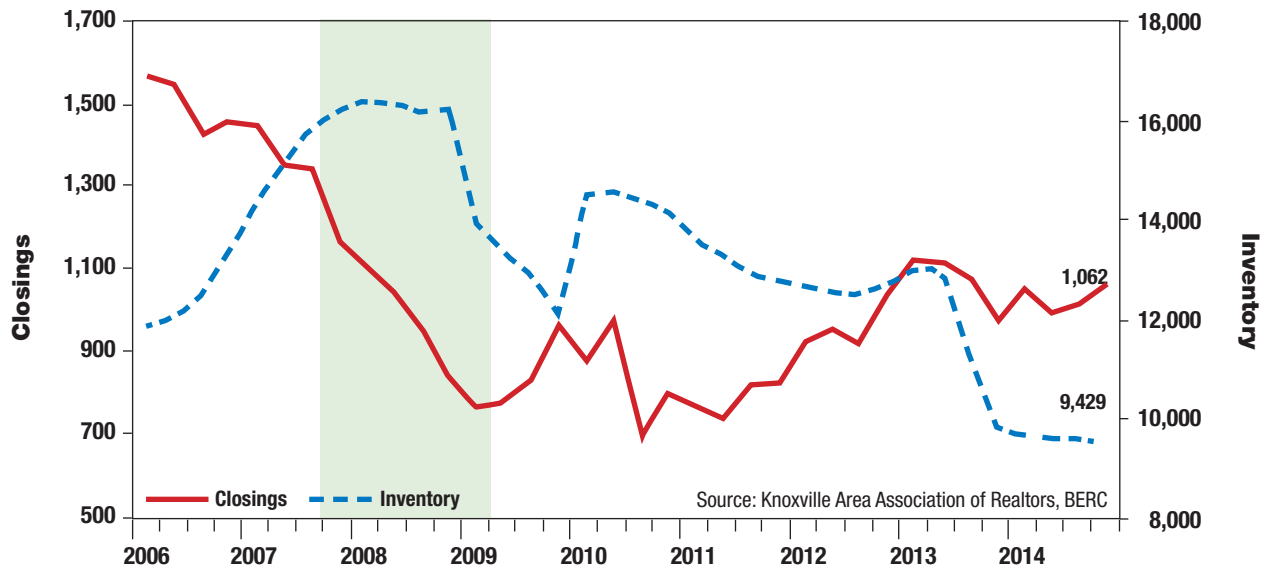
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

The gap between state and U.S. home prices narrows further.

Average home prices gained 5.4% over the year for Tennessee, according to the Home Price Index published by the Federal Housing Finance Agency, compared to 5.6% for the United States. As Table 3 shows, the gap between Tennessee and the nation is continuing to narrow.

The Nashville Metropolitan Statistical Area (MSA) continues to produce the largest price gain, rising an impressive 7.9% over the year. The next largest gain is found in the Johnson City MSA, up 6.6%, while the Memphis MSA rose 5.3% and the Knoxville MSA 4.0%. Two areas recorded a decline in housing prices: both Jackson and Kingsport-Bristol MSAs saw home prices decrease 0.4%.

Nashville's price gains, 7.9% over the year, continue to outstrip the state's other MSAs.

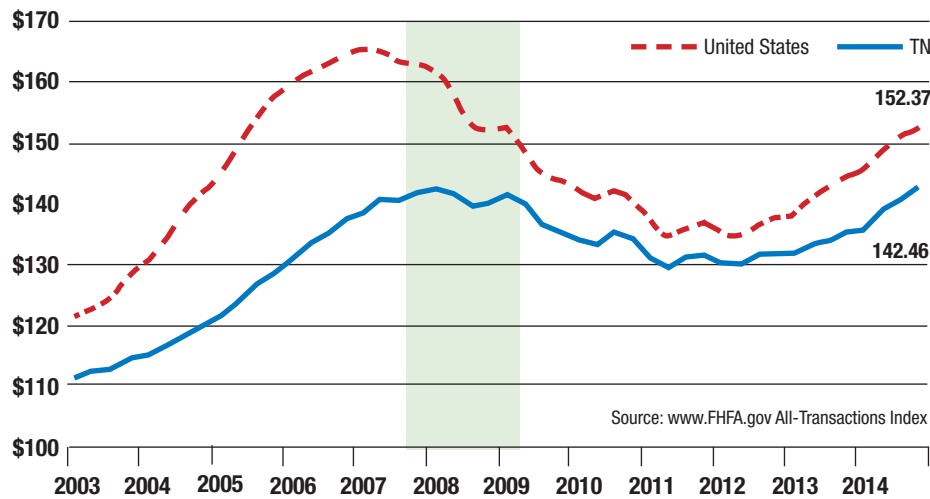
Table 3. Change in housing prices year to year

Area	2013.1–2014.1	2013.2–2014.2	2013.3–2014.3	2013.4–2014.4
Chattanooga MSA	2.0%	1.8%	3.8%	2.8%
Clarksville MSA	1.3%	-2.1%	0.3%	2.8%
Cleveland MSA	0.4%	1.8%	4.5%	1.6%
Jackson MSA	-5.1%	2.2%	4.1%	-0.4%
Johnson City MSA	0.8%	1.5%	2.4%	6.6%
Kingsport-Bristol MSA	-0.5%	-1.3%	1.8%	-0.4%
Knoxville MSA	1.4%	3.2%	3.1%	4.0%
Memphis MSA	2.7%	3.9%	4.5%	5.3%
Morristown MSA	1.0%	0.7%	1.6%	2.0%
Nashville MSA	7.2%	7.9%	8.3%	7.9%
Tennessee	3.2%	4.5%	5.3%	5.4%
United States	5.3%	5.9%	5.8%	5.6%

Source: FHFA All-Transactions Index

Johnson City MSA saw the second-largest gain (6.6%). Home prices dropped 0.4% in Jackson and Kingsport-Bristol MSAs.

Figure 8. Tennessee FHFA house price index (2000 – 100.0)



The gap between Tennessee and U.S. home prices continues to narrow.

Mortgage Delinquencies, Foreclosures

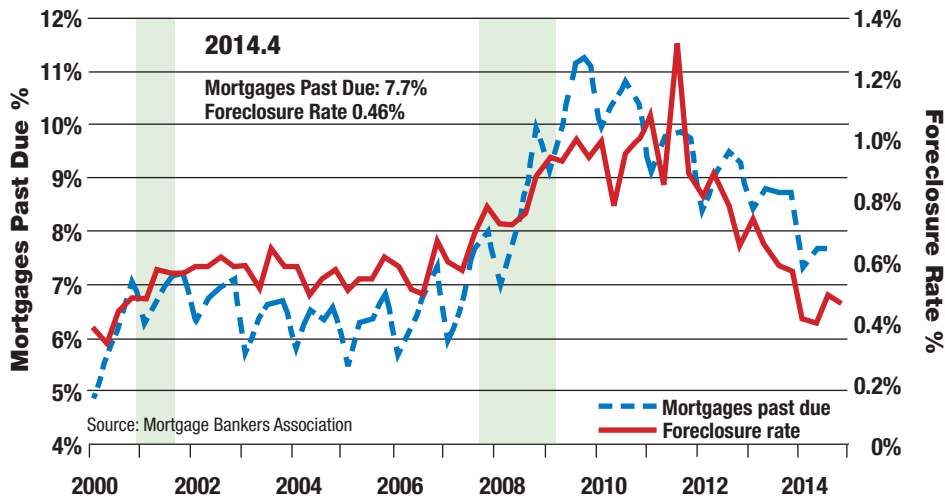
Tennessee’s foreclosures were down and mortgages past due relatively unchanged.

Mortgages past due remained relatively unchanged from the previous quarter. Tennessee mortgages past due stayed at 7.7% for the third quarter in a row. The U.S. rate remained at 6.0 percent, also for the third consecutive quarter. Over the year, mortgages past due are down 0.72 percentage points for the nation and 1.06 for the state.

The foreclosure rate was 0.46% for both the nation the state, representing a small increase for the U.S. but a slight decrease for Tennessee from the previous quarter. Over the year, rates decreased significantly, 0.08 percentage points for the nation and 0.11 for the state.

Figure 9. Tennessee mortgages past due and foreclosure starts

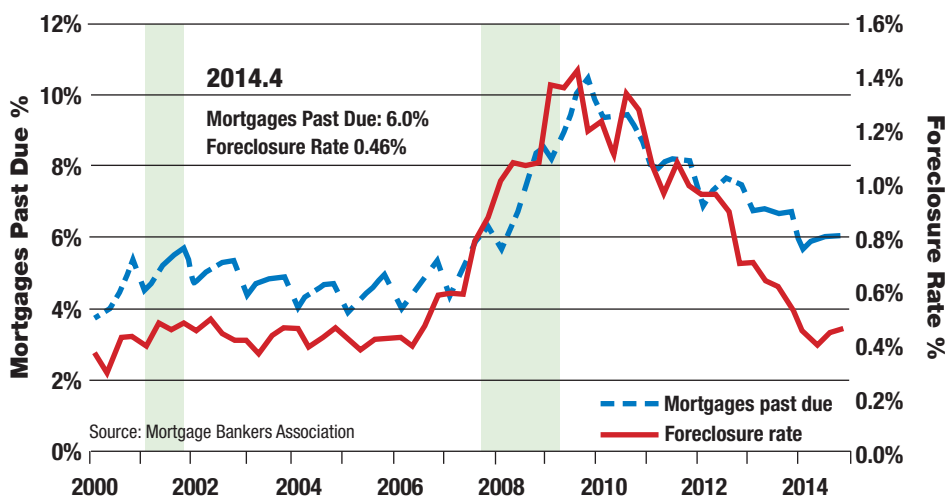
(percent of mortgages in place)



The percent of mortgages past due in Tennessee has declined steadily since 2009.

Figure 10. United States mortgages past due and foreclosure starts

(percent of mortgages in place)



The U.S. foreclosure rate, which has been decreasing since 2009, is currently one of the lowest since 2006.

Conclusion

Quarter-to-quarter changes in economic indicators show a somewhat modest overall growth trend in the state's economy with a few weak spots: a slight increase in unemployment insurance claims and decreases in state tax collections for both mortgages and real estate. However, compared with the same quarter in 2013, all dashboard indicators exhibit a positive upward trend.

Housing sales in the Nashville, Memphis, and Knoxville MSAs all recorded increases in closings and decreases in inventory. Furthermore, the yearly change in housing prices in these MSAs as well as other areas of the state recorded increases.

Additionally, the gap between Tennessee and the United States in the change in housing prices continues to narrow. At the end of the fourth quarter, Tennessee was only 0.2 percentage points from the average change in price for the country. ■

At the end of the fourth quarter, Tennessee was only 0.2 percentage points from the average change in home prices for the nation.



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Glossary

Home Closings/Inventory.

Number of houses sold/number of houses with active listings. A high number of closings and a low number of inventories would demonstrate a positive step for the economy. (Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, and Knoxville Area Association of Realtors)

Homeowner/Rental Vacancy Rate.

Number of vacant units divided by total number of units. A high vacancy rate indicates poor market conditions, a low one strong market conditions. (Source: Census Bureau)

Labor Force.

All persons employed and unemployed but actively looking for a job. Net changes in number of people employed and unemployed are important gauges of the health of the U.S. job market. (Source: Bureau of Labor Statistics)

Mortgage/Real Estate Transfer Tax Collections.

Amount of taxes collected for realty transfers and mortgages, which together account for a large portion of privilege taxes. (Source: Tennessee Department of Revenue)

Mortgages Past Due and Foreclosures Started.

Percentage of mortgages past due and percentage of new foreclosures started, indicating individuals in financial distress. (Source: Mortgage Bankers Association)

Single/Multi-Family Home Permits.

Level of new single- and multi-family housing construction. Housing permits can be early indicators of housing market activity. New residential housing construction generally leads to other types of economic production. (Source: Census Bureau)

Total Nonfarm Employment.

Total number of paid U.S. workers of any business, excluding government, farm, nonprofit, and private household employees; one of the key economic statistics used to analyze whether the economy is expanding or contracting. (Source: Bureau of Labor Statistics)

Unemployment Insurance Claims.

Weekly average layoff figures. The smaller the number, the better the economy is performing. (Source: U.S. Department of Labor)

Unemployment Rate.

Percentage of unemployed individuals divided by the labor force, a determinant of future conditions, used to determine overall economic health. (Source: Bureau of Labor Statistics)