

# TENNESSEE HOUSING MARKET

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## Economic Overview

Following a strong first-quarter performance, the Tennessee economy slipped into a holding pattern during the second quarter as evidenced by moderating job, construction, and sales activity. Job market indicators changed little in the second quarter, with modest employment gains in manufacturing offset by losses in the services-providing industries, especially wholesale trade and the financial sector. However, durables manufacturing continues to show surprising strength during the recovery, adding 11,000 jobs over the year, nearly half occurring during the second quarter. Recovery and expansion

of the auto sector accounts for much of the manufacturing jobs gain in Tennessee.

The labor force declined in the second quarter, down 17,000 from the first quarter, the second consecutive loss (Table 1). Labor force is measured by a survey of households and includes civilians 16 years and over who are employed or actively seeking employment. Much of the decline was due to a drop in employment (-11,800) but also to a decline in the number of unemployed (-5,500). On balance, the unemployment rate is virtually unchanged at 7.9%. Initial claims for unemployment insurance, a predictor of the unemployment rate, fell again in the second quarter to less than 6,000 per week, the lowest level in more than four years (Figure 1). Employers are not downsizing as much but are not hiring much, either.

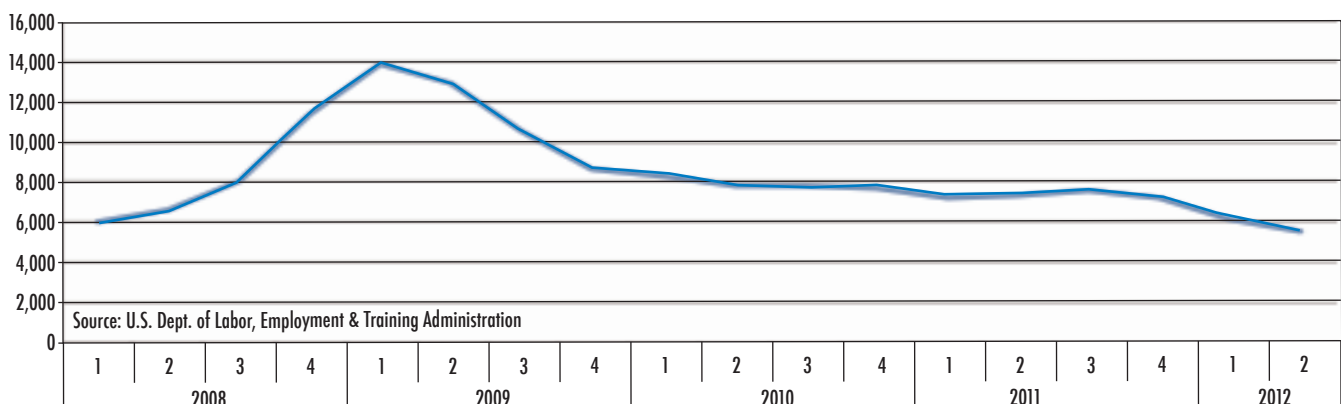
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**Table 1. Selected Tennessee employment indicators** (thousands, seasonally adjusted)

|                            | 2011.1  | 2011.2  | 2011.3  | 2011.4  | 2012.1  | 2012.2  |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Total nonfarm              | 2,639.9 | 2,649.9 | 2,660.0 | 2,671.9 | 2,691.5 | 2,691.7 |
| Goods-producing sectors    | 408.0   | 412.4   | 416.5   | 419.0   | 423.8   | 427.1   |
| Manufacturing              | 302.5   | 303.7   | 305.0   | 305.7   | 308.4   | 312.4   |
| Services-providing sectors | 2,231.9 | 2,237.5 | 2,243.4 | 2,252.8 | 2,267.7 | 2,264.6 |
| Labor force                | 3,129.8 | 3,131.5 | 3,130.2 | 3,138.4 | 3,122.5 | 3,105.2 |
| Total employment           | 2,833.1 | 2,837.3 | 2,841.5 | 2,866.4 | 2,871.6 | 2,859.8 |
| Unemployed                 | 296.7   | 294.2   | 288.7   | 272.0   | 250.8   | 245.4   |
| Unemployment rate          | 9.5%    | 9.4%    | 9.2%    | 8.7%    | 8.0%    | 7.9%    |

Source: Bureau of Labor Statistics

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



Source: U.S. Dept. of Labor, Employment & Training Administration



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State sales tax collections rose 6.5% over the year as households gained confidence and began to spend a little more freely. Though not as robust as the first quarter (+8.4%), second-quarter sales tax growth is the second highest during the recovery.

**Housing Construction**

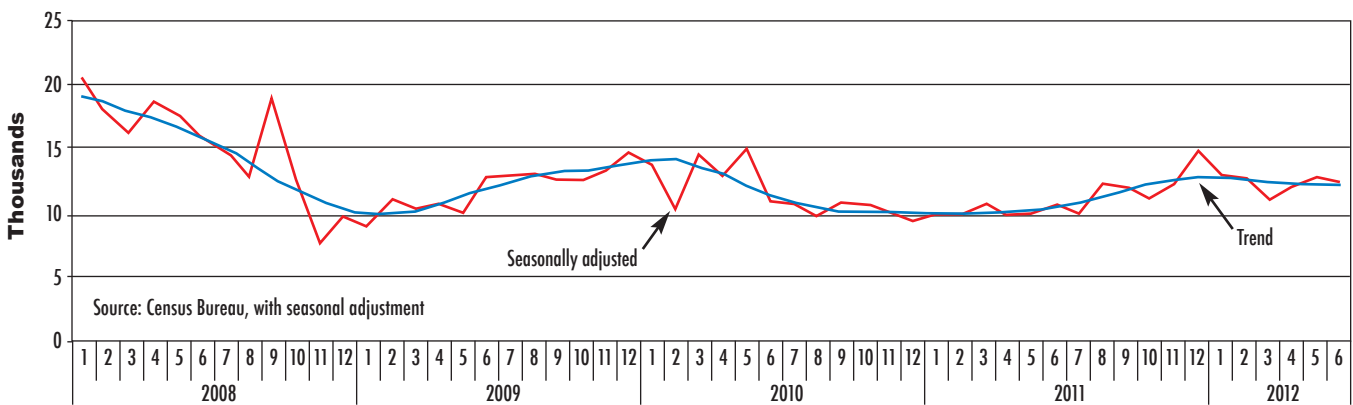
Permits issued for home construction showed a very small rise in the second quarter, with single-family permits 200 units higher and multi-family permits unchanged (Table 2). Follow-

ing a strong second-half performance in 2011, housing construction has held relatively steady for the first six months of 2012.

Viewed in comparison with the same period last year, however, single-family construction is 20% higher. The trend shows a definite leveling off at about 12,200 units (annualized) since the beginning of 2012 (Figure 2). Among the metropolitan areas, Knoxville, Memphis, and Nashville produced the largest percentage increases in single-family homes

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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.    |
| 2008.1                       | 18.2                  | 366.3 | 671.3 | 5.4                  | 170.0 | 353.7 | 23.6          | 536.3 | 1,025.0 |
| 2008.2                       | 17.5                  | 333.7 | 633.0 | 3.2                  | 152.7 | 428.0 | 20.7          | 486.3 | 1,061.0 |
| 2008.3                       | 15.6                  | 283.7 | 547.7 | 5.7                  | 162.7 | 311.0 | 21.3          | 446.3 | 858.7   |
| 2008.4                       | 10.0                  | 215.3 | 417.7 | 5.2                  | 106.3 | 221.0 | 15.2          | 321.7 | 638.7   |
| 2009.1                       | 10.2                  | 197.7 | 358.3 | 2.7                  | 82.3  | 180.3 | 12.9          | 280.0 | 538.7   |
| 2009.2                       | 11.2                  | 223.0 | 426.7 | 3.4                  | 68.7  | 132.7 | 14.6          | 291.7 | 559.3   |
| 2009.3                       | 12.9                  | 252.3 | 485.7 | 1.3                  | 53.3  | 121.0 | 14.2          | 305.7 | 606.7   |
| 2009.4                       | 13.5                  | 255.3 | 487.7 | 1.9                  | 56.7  | 135.7 | 15.5          | 312.0 | 623.3   |
| 2010.1                       | 12.9                  | 268.0 | 516.7 | 6.6                  | 59.3  | 141.0 | 19.4          | 327.3 | 657.7   |
| 2010.2                       | 12.9                  | 235.3 | 445.3 | 3.8                  | 69.3  | 154.3 | 16.7          | 304.7 | 599.7   |
| 2010.3                       | 10.3                  | 212.0 | 405.7 | 4.6                  | 77.7  | 168.3 | 14.9          | 289.7 | 574.0   |
| 2010.4                       | 10.1                  | 209.0 | 424.3 | 1.9                  | 58.7  | 159.0 | 12.0          | 267.7 | 583.3   |
| 2011.1                       | 10.2                  | 215.3 | 398.0 | 2.0                  | 81.0  | 166.0 | 12.2          | 296.3 | 564.0   |
| 2011.2                       | 10.2                  | 222.0 | 408.3 | 2.7                  | 87.0  | 203.3 | 12.9          | 309.0 | 611.7   |
| 2011.3                       | 11.4                  | 230.7 | 424.7 | 3.2                  | 92.7  | 204.7 | 14.6          | 323.3 | 629.3   |
| 2011.4                       | 12.8                  | 244.7 | 449.7 | 4.7                  | 114.3 | 242.7 | 17.5          | 359.0 | 692.3   |
| 2012.1                       | 12.3                  | 248.7 | 465.3 | 5.6                  | 121.0 | 254.7 | 17.9          | 369.7 | 720.0   |
| 2012.2                       | 12.5                  | 253.0 | 485.3 | 5.6                  | 131.0 | 270.3 | 18.0          | 384.0 | 755.7   |
| Change from previous quarter | 1.0%                  | 1.7%  | 4.3%  | 0.5%                 | 8.3%  | 6.2%  | 0.8%          | 3.9%  | 5.0%    |
| Change from previous year    | 22.0%                 | 14.0% | 18.9% | 110.4%               | 50.6% | 33.0% | 40.2%         | 24.3% | 23.5%   |

Source: Census Bureau.



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over the year, with all three areas more than 20% higher in June 2012 compared with 2011.

At 5,600 new units (annualized), multi-family construction continued at a brisk pace, equaling that of the first quarter and one of the largest numbers in the past four years. Multi-family construction has enjoyed large growth rates over the year for Tennessee, the South, and the U.S. (Table 2), reflecting rising demand for rental units.

**Real Estate Transactions and Mortgages**

Following very large first-quarter gains, tax collections for real estate transactions and mortgages declined in the second quarter, with mortgage tax collections down 7.0% and real estate transaction tax collections off 5.5%. Though activity has definitely cooled from the first quarter, the trend still is positive (Figures 3 and 4). One could interpret the second quarter decline simply as a return to a more sustainable level of activity.

**Home Sales**

Sales are mixed in the second quarter, with the Nashville area gaining from the first quarter after seasonal adjustments but

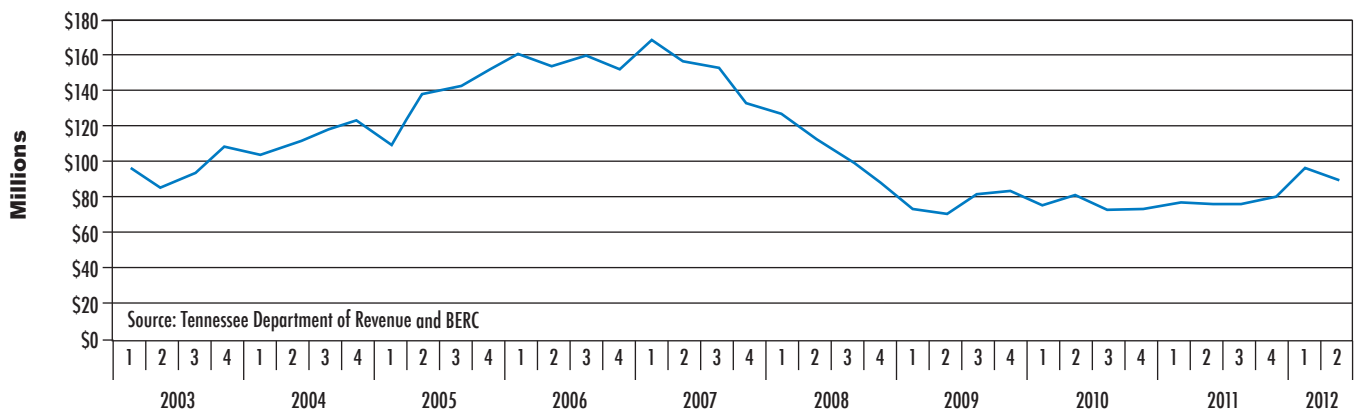
Knoxville and Memphis down modestly (Figure 5). Nashville sales of single-family homes rose 1.7% in the second quarter from the first quarter, while Memphis and Knoxville fell 1.5% and 2.1%, respectively. Inventories of unsold homes also are mixed, as inventories dropped in Nashville, rose in Memphis, and were unchanged in Knoxville. The inventory-to-sales ratio presently is seven months for Nashville, eight months for Memphis, and fifteen months for Knoxville, all three considerably lower than last year.

**Home Prices**

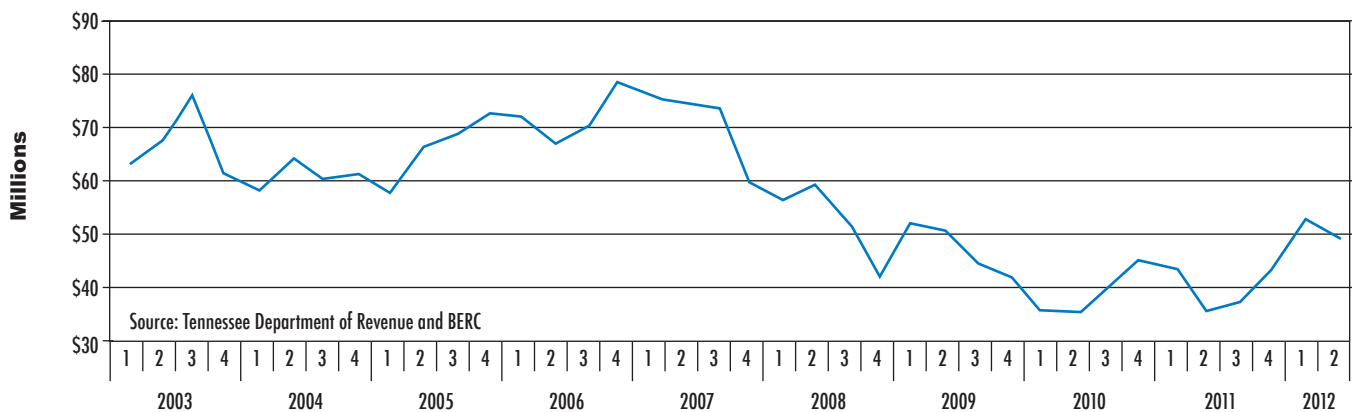
Home prices continue to decline for most areas of Tennessee but generally at a slower pace. Home prices are edging closer to stability, with the most recent quarter (2012.1) showing the smallest decline since 2010. According to data from the Federal Housing Finance Agency, home prices are 1% lower for the state over the year, compared with a 1.37% decline for the U.S. (Table 3). Prices have trended lower since 2008, with the most recent four quarters showing relative stability (Figure 6). Among the state's 10 metropolitan areas, three (Clarksville, Cleveland, Johnson City) produced small home-price gains over the year.

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**Figure 3. Real estate transfer tax collections** (seasonally adjusted annual rate)

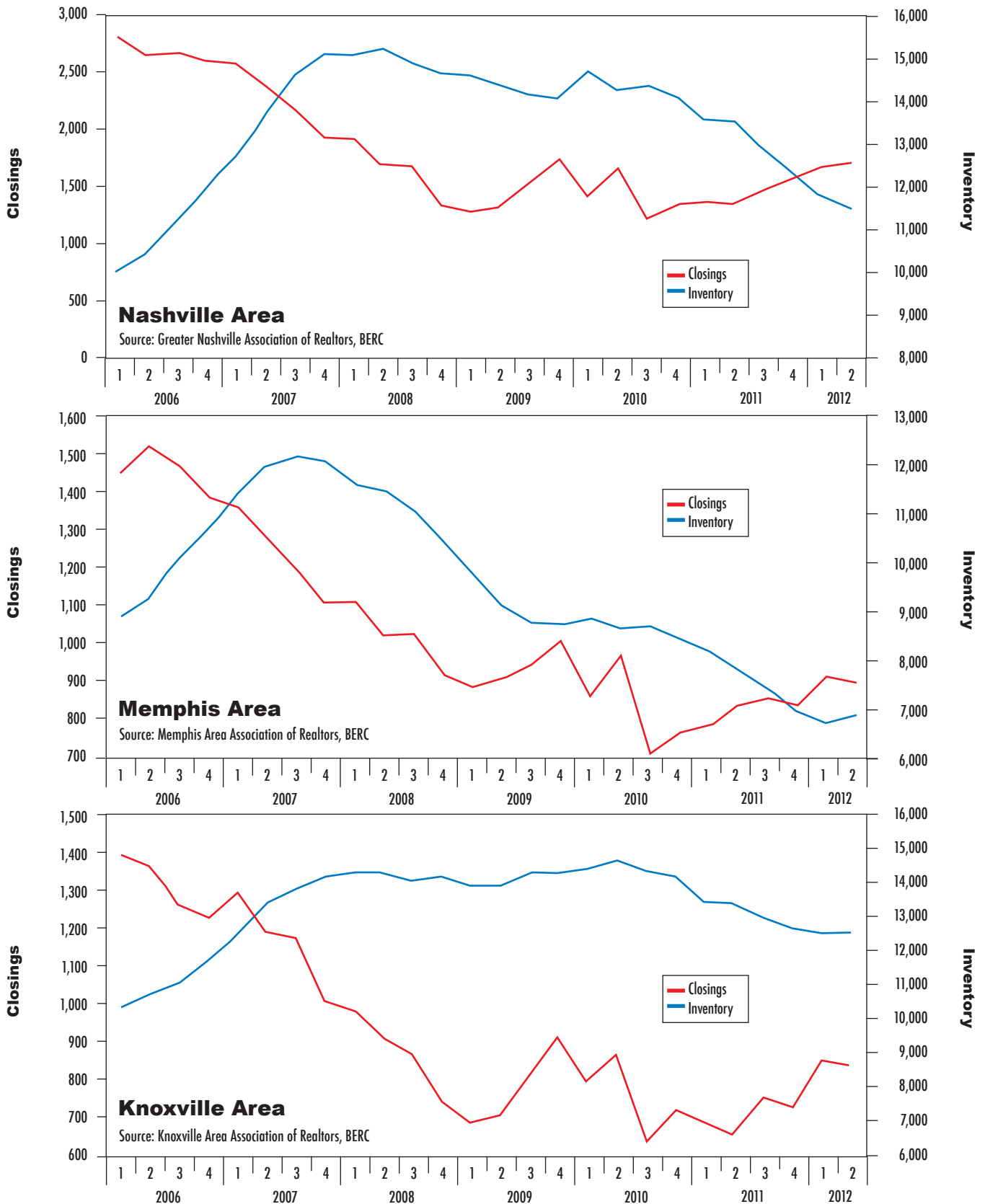


**Figure 4. Mortgage tax collections** (seasonally adjusted annual rate)





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





**Table 3. Change in housing prices year to year**

| Area                  | 2010.2-2011.2 | 2010.3-2011.3 | 2010.4-2011.4 | 2011.1-2012.1 |
|-----------------------|---------------|---------------|---------------|---------------|
| U.S.                  | -3.89%        | -3.99%        | -2.88%        | -1.37%        |
| Tennessee             | -2.79%        | -2.57%        | -1.81%        | -1.00%        |
| Chattanooga MSA       | -2.40%        | -3.41%        | -2.63%        | -1.15%        |
| Clarksville MSA       | 0.45%         | -1.41%        | -0.59%        | 1.75%         |
| Cleveland MSA         | -2.14%        | -1.65%        | -1.01%        | 0.16%         |
| Jackson MSA           | 5.84%         | -2.70%        | -0.81%        | -2.74%        |
| Johnson City MSA      | -4.90%        | -4.70%        | -1.67%        | 0.06%         |
| Kingsport-Bristol MSA | -0.34%        | -0.56%        | -1.27%        | -2.36%        |
| Knoxville MSA         | -2.07%        | -2.02%        | -1.60%        | -0.46%        |
| Memphis MSA           | -5.39%        | -4.37%        | -2.36%        | -1.28%        |
| Morristown MSA        | -2.71%        | 0.22%         | -3.02%        | -1.23%        |
| Nashville MSA         | -2.05%        | -2.35%        | -1.60%        | -0.54%        |
| TN nonmetro areas     | -2.78%        | -2.21%        | -2.54%        | -1.42%        |

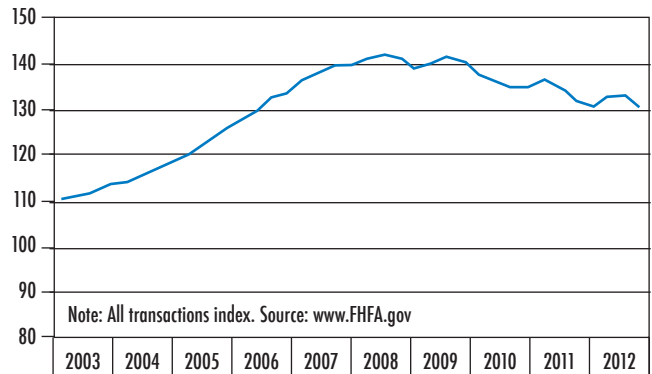
Source: Federal Housing Finance Agency All Transactions Index

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**Mortgage Delinquencies and Foreclosures**

Households are finding themselves in less difficulty with their mortgages in the first quarter, with past due mortgages falling to 9.03%, the lowest level since the third quarter of 2008 (Figure 7). One year ago, the percent of mortgages past due in Tennessee was 9.89%. The number of new foreclosures rose, however, climbing to 0.95% from 0.79% in the previous quarter.

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



**Conclusion**

On balance, the Tennessee housing market showed very modest improvement in the second quarter, following a stronger first quarter. Housing construction continued to grow, rebounding mildly from very low levels, but real estate transactions and mortgage activity fell. Home sales rose in Nashville but not in Memphis or Knoxville. Mortgage delinquency rates fell again, continuing a long trend of improvement.

The bottom line is that the slower rate of improvement in the housing sector is most likely due to lackluster job growth. Without an increase in the rate of growth of job creation, maintaining the present level of sales and construction activity will be challenging. ■

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

