

TENNESSEE HOUSING MARKET

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Economic Overview

Housing did well during the third quarter, but other aspects of the Tennessee economy, particularly the labor market, took a step backward as economic activity slowed down. For example, nonfarm employment for Tennessee declined by 6,700 jobs following little change in the second quarter (Table 1). Services-providing industries lost 11,200 jobs during the second quarter, with declines focused in information, wholesale trade, and financial activities. By contrast, the goods-producing industries, including manufacturing, natural resources, and construction, added 4,600 jobs, a gain of 1.1%. The goods-producing industries have been an important source of jobs creation since the end of the Great Recession: manufacturing employment is up 3.1% over the year, and mining, logging, and construction employment is 5.1% higher.

The number of new layoffs increased during the third quarter, as measured by initial claims for unemployment insurance (Figure 1), the largest rise since the end of the recession. Higher layoffs, lower employment, and higher unemployment sent the unemployment rate to 8.4% from 7.9% for the second quarter.

Housing Construction

Permits issued for new single-family homes climbed to an annual rate of 13,200 during the third quarter, the highest level since the tax-incentive—fueled fourth quarter of 2009 (Table 2, Figure 2). Single-family home permits are 15.5% higher over the year, with 5.5 points of this gain occurring in the third quarter, meaning the rate of growth is acceleratcontinued on page 2

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

	2011.2	2011.3	2011.4	2012.1	2012.2	2012.3
Total nonfarm	2,649.9	2,660.0	2,671.9	2,691.5	2,691.7	2,685.0
Goods-producing sectors	412.4	416.5	419.0	423.8	427.1	431.6
Manufacturing	303.7	305.0	305.7	308.4	312.5	314.5
Services-providing sectors	2,237.5	2,243.4	2,252.8	2,267.7	2,264.6	2,253.4
Labor force	3,131.5	3,130.2	3,138.4	3,122.5	3,105.2	3,108.3
Total employment	2,837.3	2,841.5	2,866.4	2,871.6	2,859.7	2,847.0
Unemployed	294.2	288.7	272.0	250.8	245.4	261.3
Unemployment rate	9.4%	9.2%	8.7%	8.0%	7.9%	8.4%

Source: Bureau of Labor Statistics

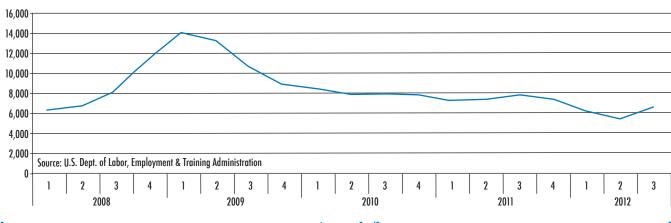


Figure 1. Tennessee initial claims for unemployment insurance (quarterly averages of weekly data, seasonally adjusted)

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ing. The third quarter was even stronger for the South and the United States, however, with these areas experiencing over-the-year gains of 18.6% and 23.4%, respectively.

While single-family permits did well, permits for multifamily housing structures, including townhouses, apartments, and condos, fell during the third quarter to an annual rate of 4,900 units from 5,400 the previous quarter. By contrast, the South and the United States showed large gains. The net result for total permits (single-family plus multi-family) is a small gain from the previous quarter and a gain of 21.7% over the year for Tennessee.

Real Estate Transactions and Mortgages

Taxes collected on both mortgages and real estate transfers rose in the third quarter, reflecting increased refinancing activity and a modest gain in the value of real estate transactions (Figures 3 and 4). Mortgage tax collections are up 13.9% from the previous quarter and 40.3% over the year, while taxes collection on real estate transfers are 1.2% higher from the second quarter and up 16.1% over the year. continued on page 3

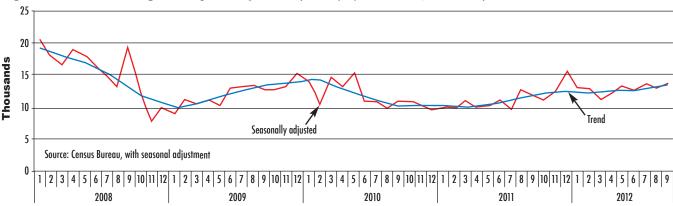




Table 2. Permits issued for privately owned new housing	(thousands, seasonally adjusted annual rate)
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		Single-Family Permits		Multi-Family Permits			Total Permits			
	Quarter	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
	2008.4	10.0	215.3	417.7	5.2	106.3	221.0	15.1	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	14.5	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	1.8	56.7	135.7	15.4	312.0	623.3
	2010.1	12.8	268.0	516.7	6.5	59.3	141.0	19.3	327.3	657.7
	2010.2	13.0	235.3	445.3	3.7	69.3	154.3	16.6	304.7	599.7
	2010.3	10.3	212.0	405.7	4.7	77.7	168.3	15.1	289.7	574.0
	2010.4	10.1	209.0	424.3	1.8	58.7	159.0	11.9	267.7	583.3
	2011.1	10.1	215.3	398.0	2.0	81.0	166.0	12.1	296.3	564.0
	2011.2	10.3	222.0	408.3	2.6	87.0	203.3	12.8	309.0	611.7
	2011.3	11.4	230.7	424.7	3.4	92.7	204.7	14.8	323.3	629.3
	2011.4	12.9	244.7	449.7	4.5	114.3	242.7	17.4	359.0	692.3
	2012.1	12.2	248.7	465.3	5.5	121.0	254.7	17.7	369.7	720.0
	2012.2	12.5	253.0	485.3	5.4	131.0	270.3	17.9	384.0	755.7
	2012.3	13.2	273.7	524.0	4.9	147.7	310.0	18.0	421.3	834.0
hange from previous quart	er	5.1%	8.2%	8.0%	-9.8%	12.7%	14.7%	0.6%	9.7%	10.4%
Change from previous year		15.5%	18.6%	23.4%	42.4%	59 .4%	51.5%	21.7%	30.3%	32.5%

Source: Census Bureau.

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Home Sales

Sales of new and existing homes gained steam during the third quarter for the Nashville and Memphis areas but declined slightly in the Knoxville area (Figure 5). Both Nashville and Memphis have experienced rising sales fairly steadily since the third quarter of 2010, with Nashville sales rising 23.4% annually during the past two years and Memphis growing 16.5% annually. The explanation for higher sales can be found in low mortgage rates, modest employment gains, improved consumer confidence, and increasingly stable home prices.

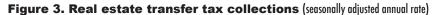
Inventories of unsold homes plunged in the Nashville area, with more modest declines in the Memphis and Knoxville areas. The inventory-to-sales ratio, a measure of the supply of homes relative to demand, has dropped to just 5.9 months for the Nashville area, the lowest in five years. For Memphis, the ratio also is low, at 6.9 months the lowest in six years. The Knoxville inventory-to-sales ratio is presently at 15 months, down from 17 months a year ago.

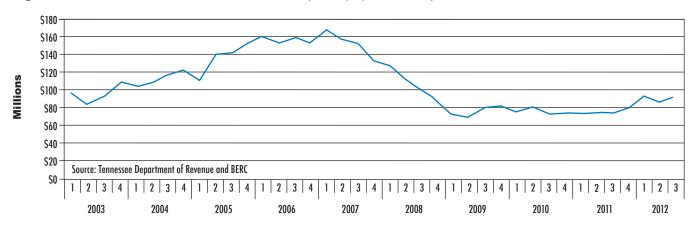
Home Prices

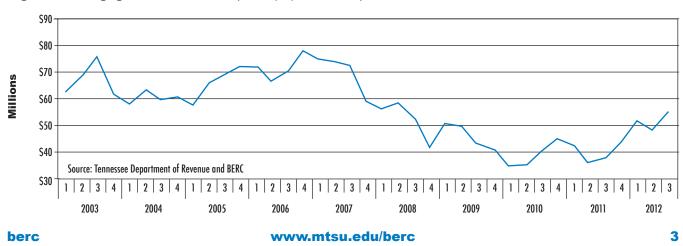
Home prices on average edged ever closer to price stability, just 0.08% lower over the year for Tennessee (Table 3, Figure 6), the fourth consecutive quarter of improvement according to figures from the Federal Housing Finance Agency (FHFA). Six of the 10 metropolitan areas in Tennessee experienced home price appreciation over the year, led by the Johnson City MSA (+4.37%) and the Cleveland MSA (+3.01%). Among the three largest metropolitan areas, home prices are 1% higher in Chattanooga over the year, with the Nashville MSA up 0.17%. The Memphis MSA continued to experience price declines but at a slower rate than previous quarters.

Mortgage Delinquencies and Foreclosures

Delinquencies and foreclosures present a mixed bag for Tennessee in the third quarter. Mortgages past due rose during the third quarter to 9.16% as a percent of all mortgages from 9.09% for the second quarter, according to data from the Mortgage Bankers Association (Figure 7). The increase can likely be attributed to the slower rate of the state economy's growth beginning in the second quarter. continued on page 5











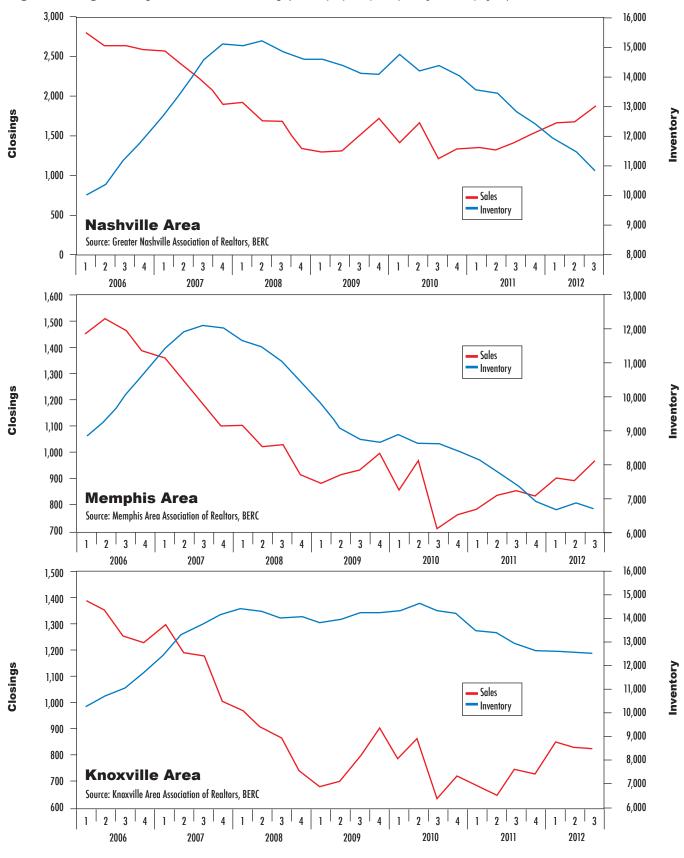


Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)

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

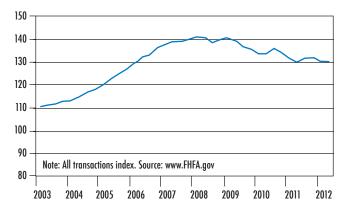


Table 3.	Change	in	housing	prices	year	to year
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Area	2010.3-2011.3	2010.4-2011.4	2011.1-2012.1	2011.2-2012.2
U.S.	- 3.99 %	-2.89%	-1.38%	-0.62
Tennessee	-2.57%	-1.77%	-0.89%	-0.08
Chattanooga MSA	-3.19%	-2.59%	-1.07%	1.00
Clarksville MSA	-0.68%	-0.85%	2.14%	-0.36
Cleveland MSA	-1.38%	-1.15%	0.66%	3.01
Jackson MSA	- 2.92 %	-0.68%	-2.72%	1.05
Johnson City MSA	-4.96%	-1.76%	-0.02%	4.37
Kingsport-Bristol MS	5A -0.83%	- 0.99 %	-1.28%	-1.19
Knoxville MSA	-1.95%	-1.46%	-0.81%	-0.32
Memphis MSA	-4.42%	-2.35%	-1.18%	-1.02
Morristown MSA	-0.25%	-2.86%	-0.91%	1.41
Nashville MSA	-2.33%	- 1.49 %	-0.40%	0.17
TN nonmetro areas	-2.29%	-2.54%	-1.17%	-0.52

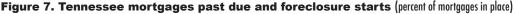
Source: Federal Housing Finance Agency All Transactions Index

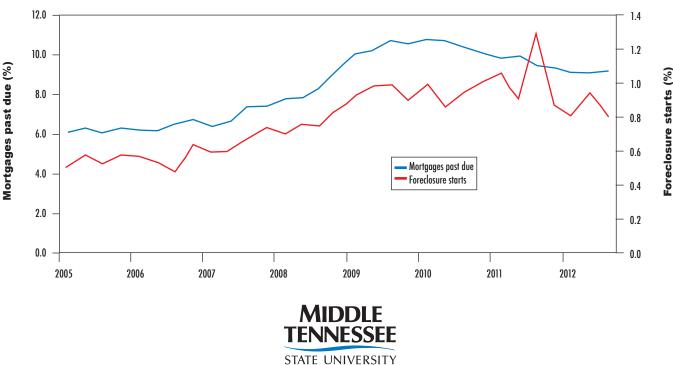
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By contrast, the rate of new foreclosures fell to 0.80% from 0.94%, the same level as the first quarter of 2012. New foreclosures have generally trended lower since early 2011.

Conclusion

The housing market and manufacturing are at the leading edge of the Tennessee economy right now, a somewhat surprising development. Construction of single-family homes continues to rise but from very low levels, and home sales are gaining in two of the three largest metropolitan markets in the state, generating much needed tax revenue for state government. Price stability has arrived for six of the 10 metropolitan areas, with most of the remaining areas showing more modest price declines. Very low mortgage rates and slightly rising prices set the stage for a positive report in coming quarters. Questions remain, however, regarding the outlook for the national economy in light of the federal government's unresolved fiscal-cliff issues.





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