

TENNESSEE HOUSING MARKET

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Economic Overview

The Tennessee economy performed relatively well during the fourth quarter, as demonstrated by the improvement in a number of important economic indicators. However, our two measures of employment, the employer survey and the household survey, differ substantially. The employer survey is drawn from a sample of employers who pay unemployment insurance, while the household survey is estimated from a much smaller number of households in Tennessee. The two measures differ somewhat conceptually and sometimes produce different results.

Nonfarm employment, from the employer survey, rose 1.2% over the year, gaining 31,100 jobs. The goods-producing sectors, including construction and manufacturing, surged 3.7% over the year, gaining 15,300 jobs (Table 1). By contrast, employment in the much larger services-providing sectors edged higher by 0.7%, increasing 15,700.

But according to the household survey, total employment has changed little over the year (Table 1). This means that the dip in unemployment over the year was caused not by job growth but rather by a decline in the labor force. That is, thousands of people simply stopped searching for work. Nonetheless, the unemployment rate fell to 7.8% from 8.7% one year ago.

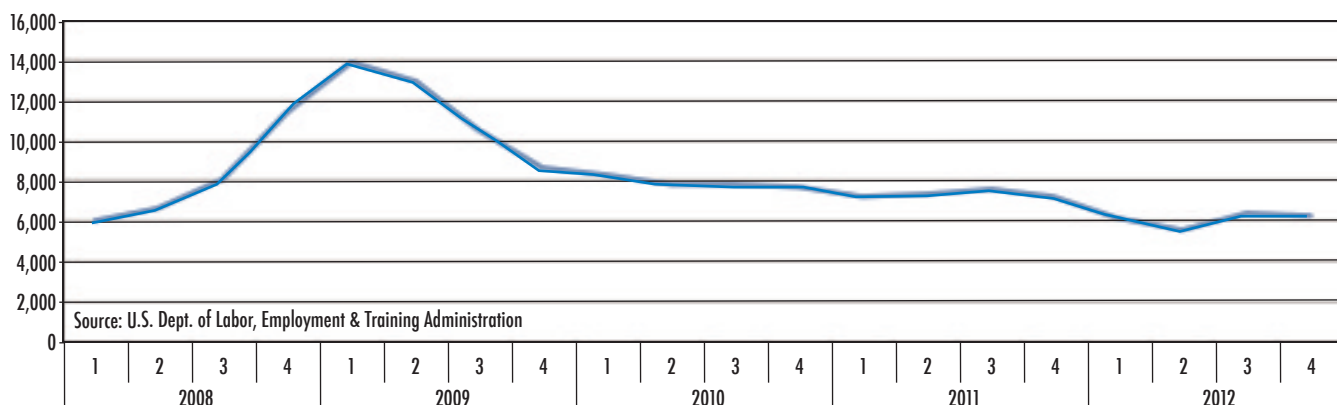
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Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

	2011.4	2012.1	2012.2	2012.3	2012.4
Employment by industry (nonfarm)					
Total nonfarm	2,672	2,692	2,692	2,686	2,703
Goods-producing sectors	419	424	427	432	434
Manufacturing	306	308	313	314	316
Services-providing sectors	2,253	2,268	2,265	2,254	2,269
Labor force	3,138	3,122	3,105	3,108	3,109
Total employment	2,866	2,872	2,860	2,847	2,867
Unemployed	272	251	245	261	242
Unemployment rate	8.7%	8.0%	7.9%	8.4%	7.8%

Source: Bureau of Labor Statistics

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





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The number of new layoffs was virtually unchanged in the fourth quarter, as measured by initial claims for unemployment insurance (Figure 1). Steady initial claims suggest that declines in the unemployment rate may be modest in the next quarter.

Housing Construction

Housing construction continues to grow: permits issued for single-family construction rose to an annual rate of 15,400 units in the fourth quarter, a level of activity not seen since

2008 (Table 2 and Figure 2). Over the year, single-family permits are 20.2% higher as home builders catch up with pent-up demand boosted by mildly rising incomes and extremely low mortgage rates. Single-family construction rose even faster in the South (22.8%) and the United States (26.5%) over the year.

Permits issued for multi-family housing slowed during the quarter, dropping to an annual rate 4,100 from the recent peak of 5,500. Consequently, total permits (single family plus multi-family) rose 11.7% for Tennessee, about half the rate of growth for the South and the United States.

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

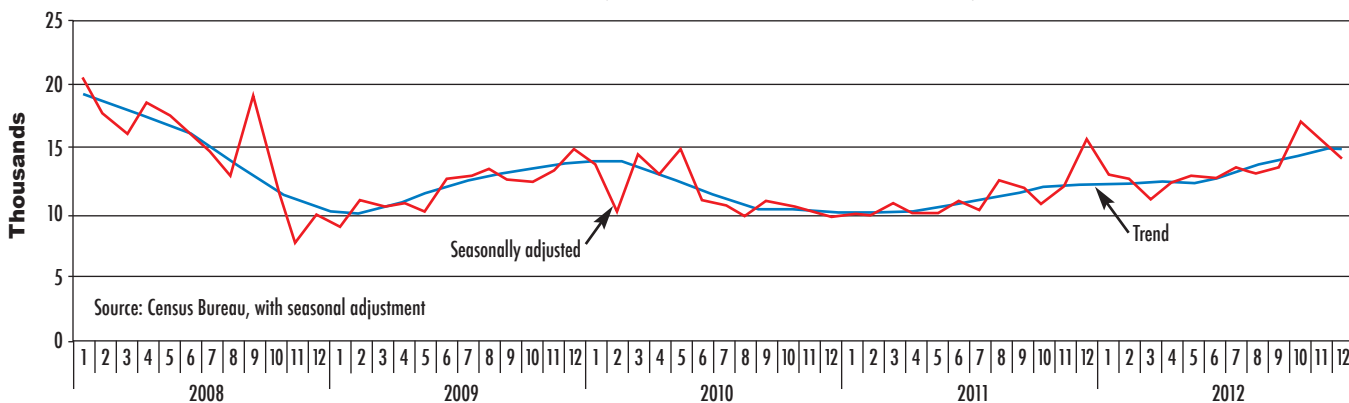


Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2009.1	10.2	197.7	358.3	2.7	82.3	180.3	12.8	280.0	538.7
2009.2	11.2	223.0	426.7	3.3	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	1.9	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	10.4	212.0	405.7	4.6	77.7	168.3	15.0	289.7	574.0
2010.4	10.0	209.0	424.3	1.9	58.7	159.0	12.0	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	10.2	222.0	408.3	2.6	87.0	203.3	12.8	309.0	611.7
2011.3	11.5	230.7	424.7	3.3	92.7	204.7	14.8	323.3	629.3
2011.4	12.9	244.7	449.7	4.6	114.3	242.7	17.5	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	13.3	273.7	524.0	4.7	147.7	310.0	18.0	421.3	834.0
2012.4	15.4	300.3	569.0	4.1	154.7	323.3	19.6	455.0	892.3
Change from previous quarter	16.2%	9.7%	8.6%	-12.7%	4.7%	4.3%	8.6%	8.0%	7.0%
Change from previous year	20.2%	22.8%	26.5%	-11.7%	35.3%	33.2%	11.7%	26.7%	28.9%

Source: Census Bureau



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Real Estate Transactions and Mortgages

Tax collections related to real estate are mixed. Real estate transfer tax collections (Figure 3) rose during the fourth quarter, gaining 6.1% from the previous quarter and 22% over the year. Higher transfer tax collections indicate a growing number of real estate deals, higher values for deals, or both. Mortgage tax collections (Figure 4), on the other hand, fell by 2.6% from the third quarter. The trend for mortgage taxes remains positive, however, and the over-the-year change is a positive 26%.

Home Sales

Closing, or sales, of single-family homes gained in all three major metropolitan areas tracked by this report, continuing a three-year trend of gains. Sales in the fourth quarter are 4.3% higher in Nashville, 3.1% higher in Memphis, and 12.7%

higher in Knoxville (Figure 5) compared with the third quarter. Job growth, improving confidence, low housing prices, and extremely low mortgage rates all contribute to rising home sales.

Inventories of unsold homes on the market dipped in Nashville and Memphis but remained about the same in Knoxville. Rising sales combined with falling inventories pushed the inventory-to-sales ratio, a measure of the balance of supply to demand, lower to 5.4 months in Nashville and 6.3 months in Memphis, both very low levels of supply relative to demand. In fact, the inventory-to-sales ratio for Nashville is the lowest since 2007 and for Memphis the lowest since 2006. Very low ratios are typically associated with rising home prices. For Knoxville, the inventory-to-sales ratio remains elevated at more than 13 months.

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

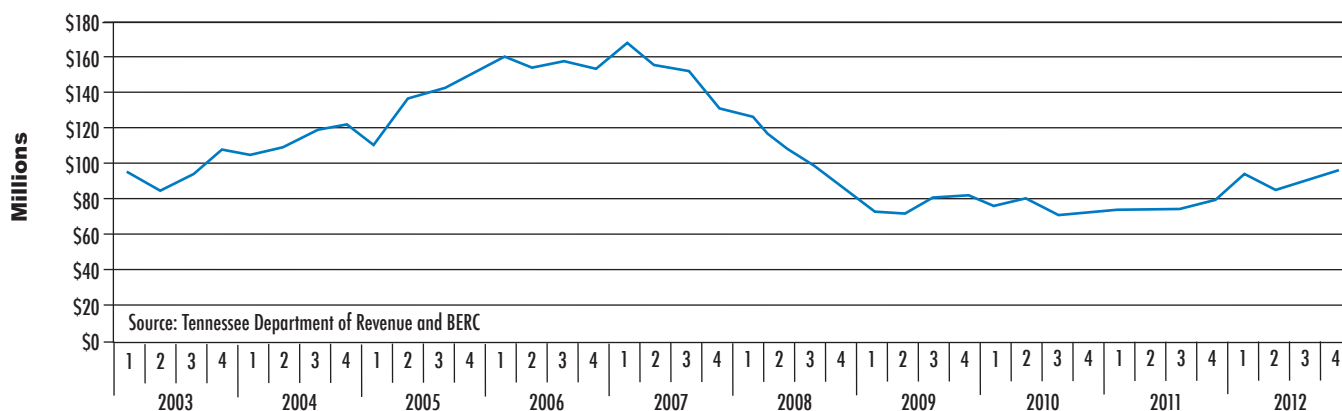
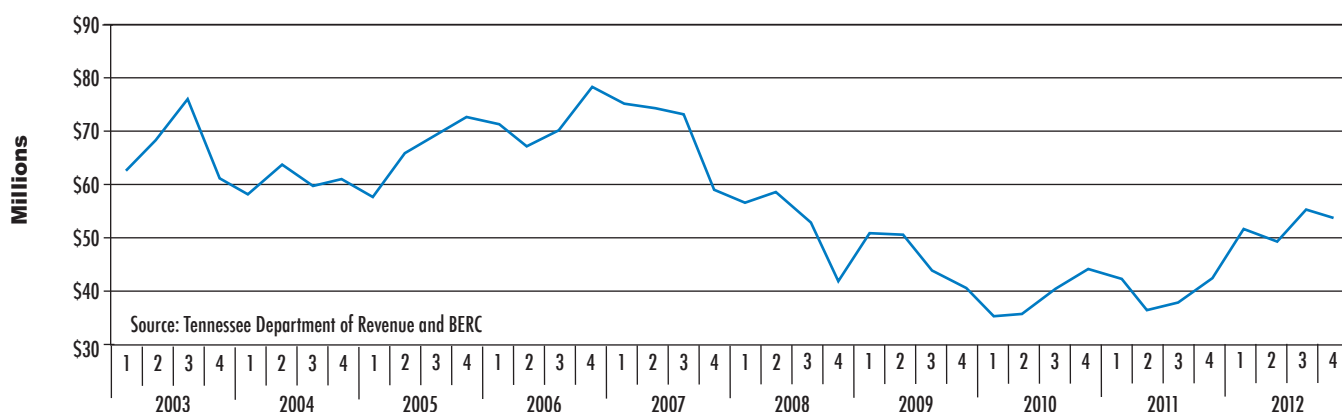
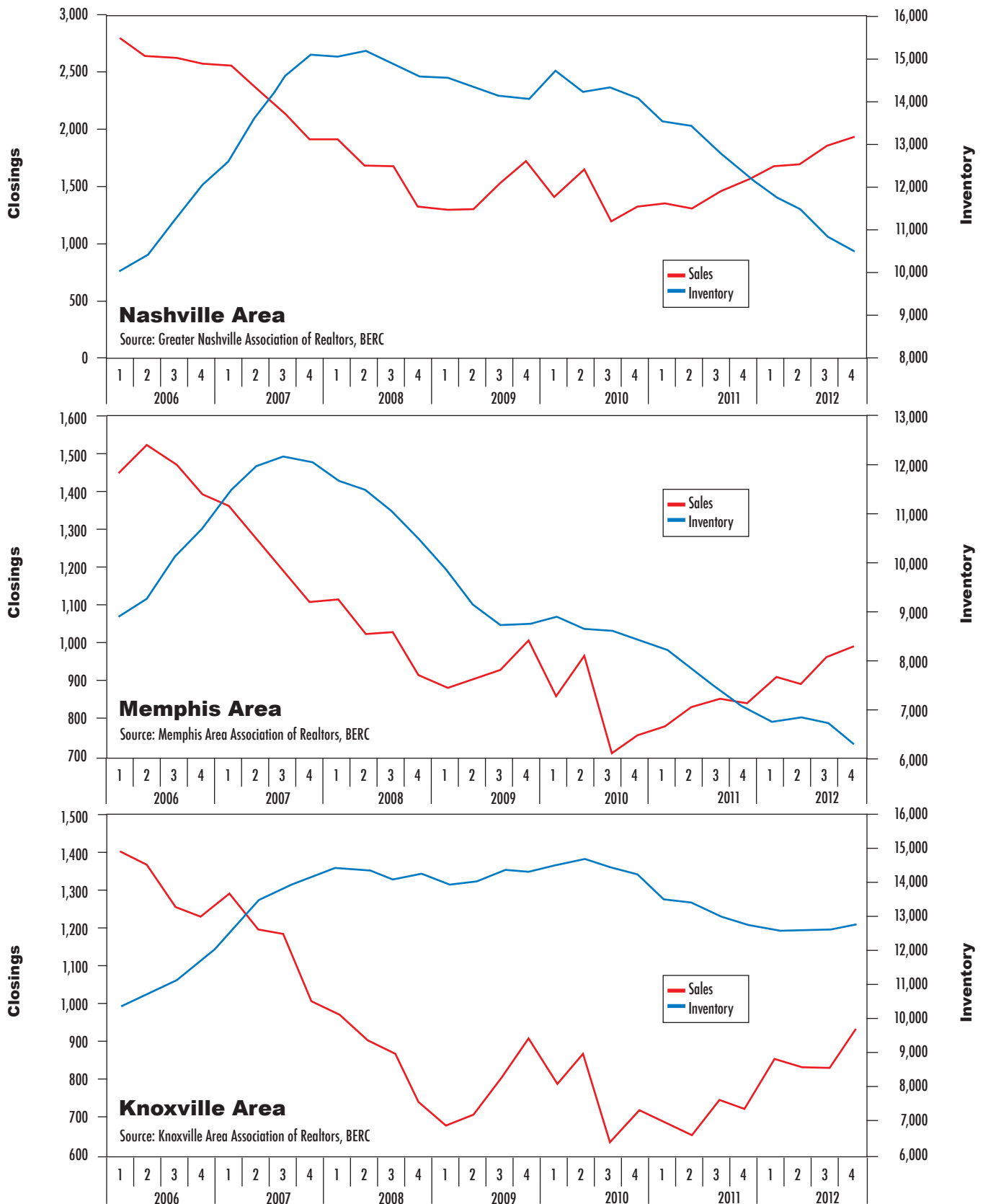
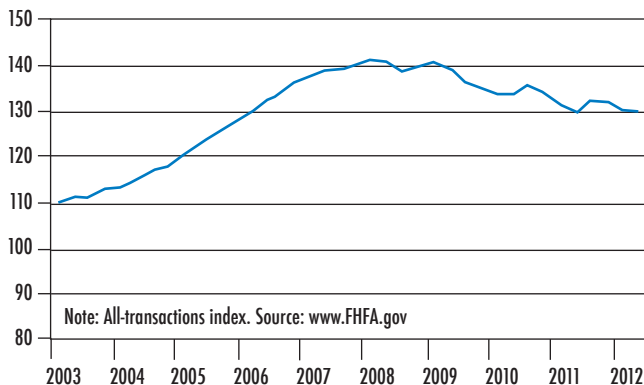


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



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

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

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Home Prices

Home prices increased in four of 10 metropolitan areas in Tennessee during the third quarter, with some metropolitan areas showing renewed price weakness according to the Federal Housing Finance Agency (FHFA) all-transactions price index (Table 3). The Johnson City MSA showed the strongest gain (2.48%), with the Nashville MSA up 1.2% over the year and Clarksville and Kingsport-Bristol producing smaller increases. Home prices for the state are slightly lower over the year. It appears that the road to higher home prices will not be easy to follow, with good quarters followed by weaker quarters.

Table 3. Change in housing prices year to year

Area	2011.3-2011.4	2011.4-2012.1	2012.1-2012.2	2012.2-2012.3
U.S.	-2.91%	-1.30%	-0.24%	-0.03%
Tennessee	-1.86%	-0.77%	0.41%	-0.36%
Chattanooga MSA	-2.41%	-0.76%	1.62%	-0.78%
Clarksville MSA	-0.71%	1.61%	0.57%	0.64%
Cleveland MSA	-1.16%	0.68%	3.75%	-1.07%
Jackson MSA	-0.96%	-2.50%	1.61%	-0.01%
Johnson City MSA	-1.90%	0.21%	3.69%	2.48%
Kingsport-Bristol MSA	-0.93%	-0.90%	-1.33%	0.37%
Knoxville MSA	-1.42%	-0.82%	0.24%	-0.58%
Memphis MSA	-2.45%	-1.05%	-0.32%	-1.36%
Morristown MSA	-2.88%	-0.91%	2.46%	-3.09%
Nashville MSA	-1.67%	-0.27%	0.32%	1.16%
TN nonmetro areas	-2.53%	-1.11%	-0.04%	-1.26%

Source: FHFA All-Transactions Index

Conclusion

The housing market continues to improve in Tennessee, especially single-family home construction. Sales of homes in the three largest metropolitan areas are still improving, and inventories of unsold homes are falling. The tightening supply relative to demand should place upward pressure on home prices in coming months. However, prices backslid in some MSAs during the latest quarter.

Manufacturing and professional services are generating jobs at a high rate, while some service sectors are lagging, including government. The outlook for federal fiscal policy has improved somewhat, offering both households and businesses a small taste of policy certainty. However, further government spending cutbacks that are likely to occur this year will put the break on more rapid job growth. ■