

HOUSING

T E N N E S S E E

TENNESSEE DASHBOARD 2ND QUARTER 2020 (percent change over the year)

Weekly Unemployment Claims	▲	+1376.91	Total Home Permits*	▲	+10.61
Total Nonfarm Employment*	▼	-8.25	Mortgage Tax Collections	▲	+37.34
Unemployment Rate (percentage points)*	▲	+8.57	Real Estate Transfer Tax Collections	▼	-12.52
Homeowner Vacancy Rate (percentage points)	▼	-0.70	Home Prices*	▲	+5.33
Rental Vacancy Rate (percentage points)	▼	-1.40	Mortgages Past Due (percentage points)	▲	+2.35
Single-Family Home Permits*	▼	-3.62	Foreclosure Rate (percentage points)	▼	-0.16

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

Economic Overview

Tennessee's Q2 2020 indicators reveal initial fallout from pandemic shutdowns

The onset of the COVID-19 pandemic prompted state and national governments to mandate widespread shutdowns, beginning in early April. These circumstances slowed economic activity to a crawl across Tennessee and the U.S. and induced an economic downturn unmatched in recent history. Although the long-term consequences and the amount of time it will take for the economy to rebound have yet to be determined, the initial fallout from these events is evident in the second quarter data.

Indicators are evenly split this quarter, with six displaying positive results and six, negative. The most substantial positive outcomes are increases in mortgage tax collections and total home permits: 37.34% and 10.61%, respectively.

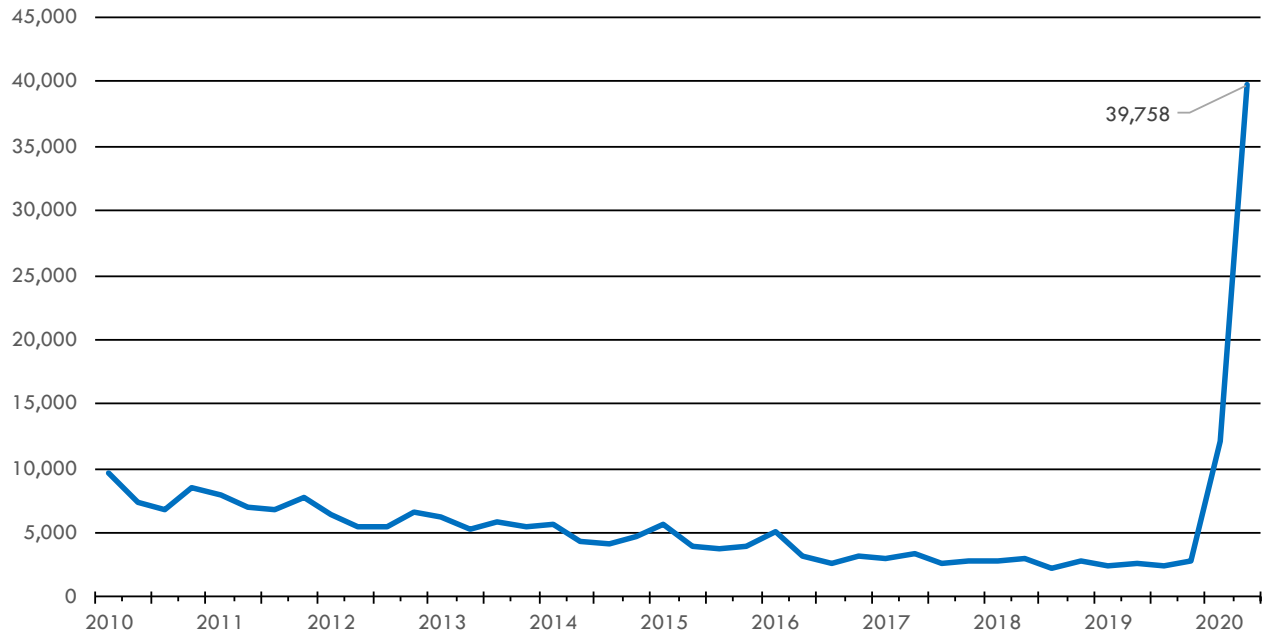
The negative results from this quarter are severe, especially

the unparalleled rise in initial unemployment claims. In the first week of April, unemployment claims spiked to 112,186. Claims have slowly tapered, coming to 21,544 in the last week of June. Although this number is much lower than that of the first week of April, it is still much higher than the 2,702 claims filed in the second week of March, before pandemic response measures were put in place.

Employment dropped across every industry as businesses shut down. The hardest-hit sector in Tennessee, as displayed in Table 1, was manufacturing, which saw a decrease of 13.49% in employment over the quarter and 13.92% over the year. Compared to the first quarter of 2020, total employment fell by 12.87% and the unemployment rate surged by 8.7 percentage points.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



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

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

	2019.2	2019.3	2019.4	2020.1	2020.2
Employment by Industry (Nonfarm)					
Total Nonfarm	3,115	3,128	3,141	3,153	2,858
Goods-Producing Sectors	490	491	487	487	437
Manufacturing	356	356	353	354	306
Services-Providing Sectors	2,625	2,638	2,654	2,666	2,422
Labor Force	3,335	3,355	3,367	3,369	3,227
Total Employment	3,220	3,242	3,256	3,256	2,837
Unemployed	115	113	112	113	390
Unemployment Rate	3.47%	3.37%	3.30%	3.33%	12.03%

Source: Bureau of Labor Statistics

Vacancy Rate

The rate of homeowner vacancies in Tennessee dropped over both the quarter and year, by 0.3 percentage points and 0.7 percentage points, respectively. This brings the homeowner vacancy rate to 0.80%. The rental vacancy rate (9.10%) has also decreased compared to last year, by 1.40 percentage points, but increased compared to last quarter, by 1.70 percentage points.

The U.S. saw declines across the board in homeowner and rental vacancy rates for the quarter and year. The U.S. homeowner vacancy rate (0.90%) decreased by 0.20 percentage points over the quarter and 0.40 percentage points over the year. Likewise, the U.S. rental vacancy rate (5.70%) came down 0.90 percentage points in quarterly comparisons and 1.10 percentage points in annual comparisons.

Figure 2. Homeowner vacancy rate

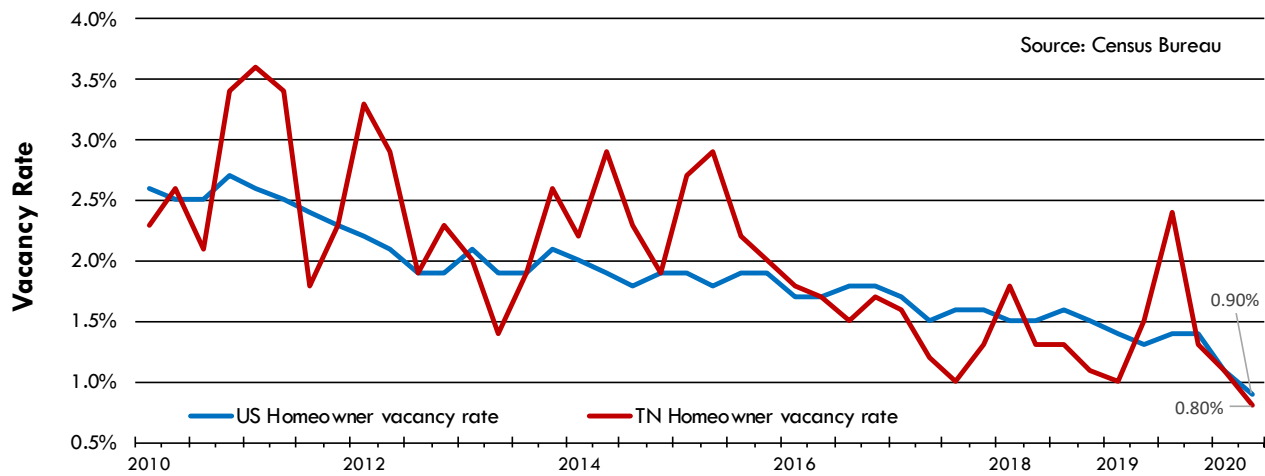
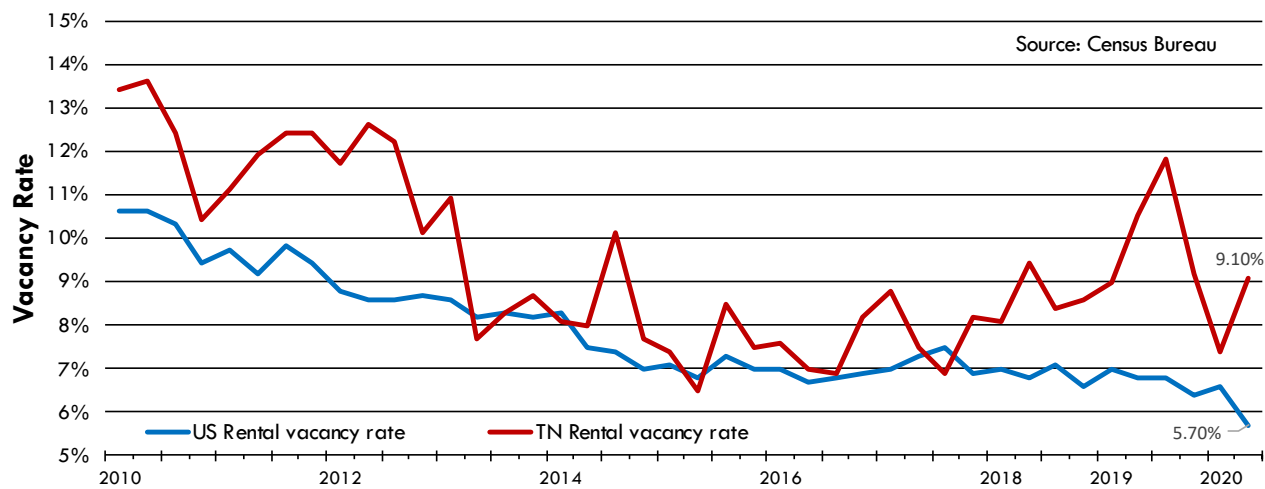


Figure 3. Rental vacancy rate



Housing Construction

Second-quarter data show that Tennessee experienced reductions in single-family permits of 12.9% when compared to the previous quarter and 3.62% compared to the previous year. However, multi-family permits rose significantly, 44.5% over the quarter, and 62.7% over the year. Growth in total permits was also positive but milder, at 0.7% and 10.6% over the quarter and year, respectively.

Single-family permits also declined in the South (-15.9%) and U.S. (-18.1%) from last quarter. However, the mostly negative data for multi-family and total permits for the South and U.S. diverges sharply from the growth in Tennessee. Compared to last quarter, the South had an increase of 1.7% in multi-family permits and a decrease of 10.1% in total permits. The U.S. saw reductions of 12.6% and 16.5% for multi-family and total permits, respectively.

Figure 4. Tennessee single-family home permits (thousands, seasonally adjusted annual rate)

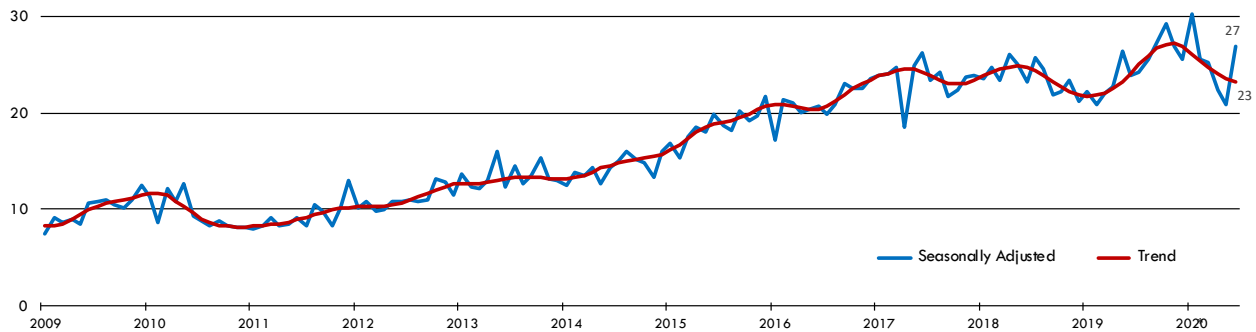


Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2017.2	27.9	437.9	805.5	11.4	163.2	436.8	39.7	606.2	1,235.2
2017.3	27.8	439.1	815.9	14.4	165.6	434.6	41.5	603.8	1,258.6
2017.4	27.9	451.1	840.6	8.2	163.0	430.8	35.5	607.8	1,266.4
2018.1	28.6	463.2	861.1	5.5	188.5	478.6	34.8	651.0	1,336.6
2018.2	29.7	474.8	867.9	10.8	209.4	465.6	41.5	688.7	1,332.2
2018.3	28.9	468.8	854.8	14.6	191.1	431.3	42.7	657.7	1,290.6
2018.4	26.7	458.6	829.3	10.5	212.2	454.5	36.5	669.7	1,287.6
2019.1	26.0	444.3	786.2	11.7	203.8	474.4	38.7	646.7	1,257.2
2019.2	29.2	454.6	825.5	9.5	211.5	473.1	40.2	673.3	1,298.4
2019.3	30.9	504.6	887.1	10.9	231.8	532.2	40.9	731.6	1,417.1
2019.4	32.5	515.8	908.2	15.3	215.3	525.5	46.3	724.6	1,437.9
2020.1	32.3	523.3	932.1	10.7	205.7	488.0	44.1	730.9	1,424.0
2020.2	28.1	440.3	763.3	15.5	209.1	426.3	44.4	656.8	1,189.4
Change from previous quarter	-12.9%	-15.9%	-18.1%	44.5%	1.7%	-12.6%	0.7%	-10.1%	-16.5%
Change from previous year	-3.62%	-3.2%	-7.5%	62.7%	-1.1%	-9.9%	10.6%	-2.5%	-8.4%

Source: Census Bureau

Real Estate Transactions & Mortgages

Real estate transfer tax collections came down to an average of \$14.2 million for the quarter, making annualized collections \$171 million. This is a decline of 12.52% in annual comparisons and 13.44% in quarterly comparisons.

Conversely, mortgage tax collections increased over the year (37.34%) and quarter (21.78%). Mortgage tax collections averaged \$8.85 million, with annualized collections totaled at \$106 million.

Figure 5. Real estate transfer tax collections (millions, seasonally adjusted annual rate)

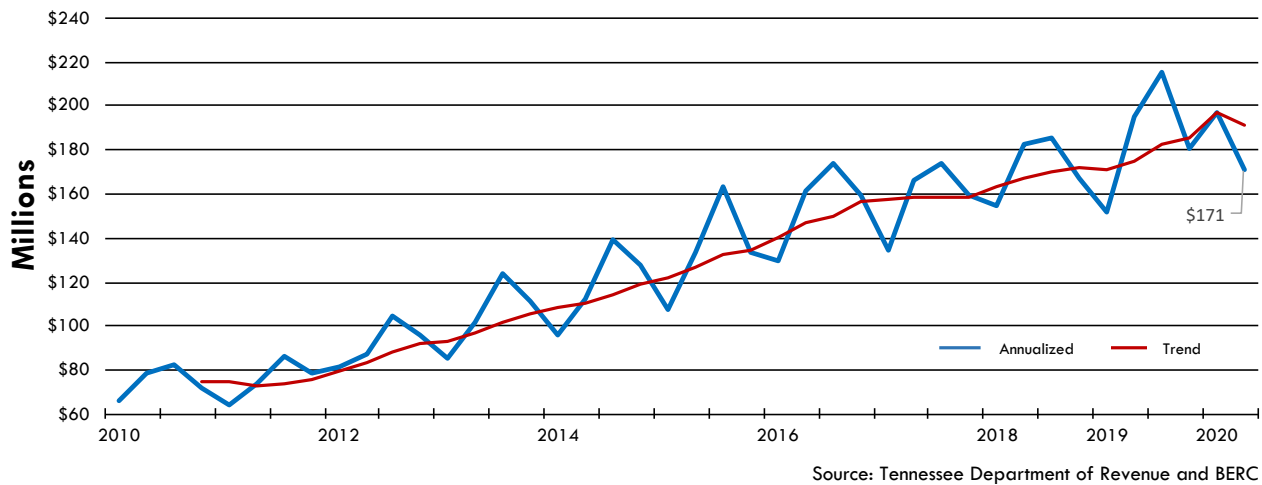
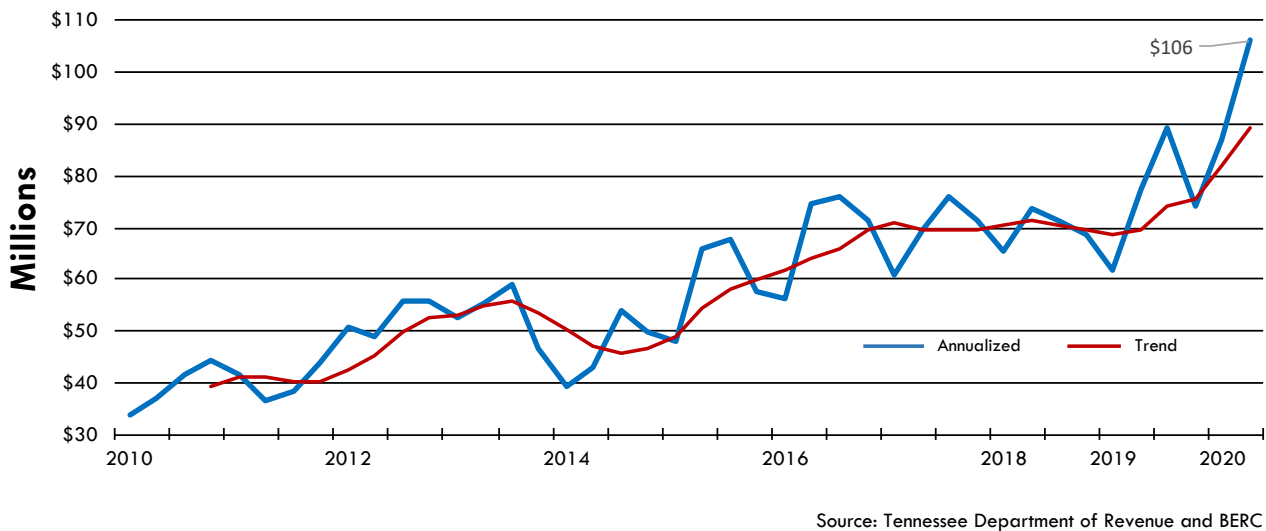


Figure 6. Mortgage tax collections (millions, seasonally adjusted annual rate)

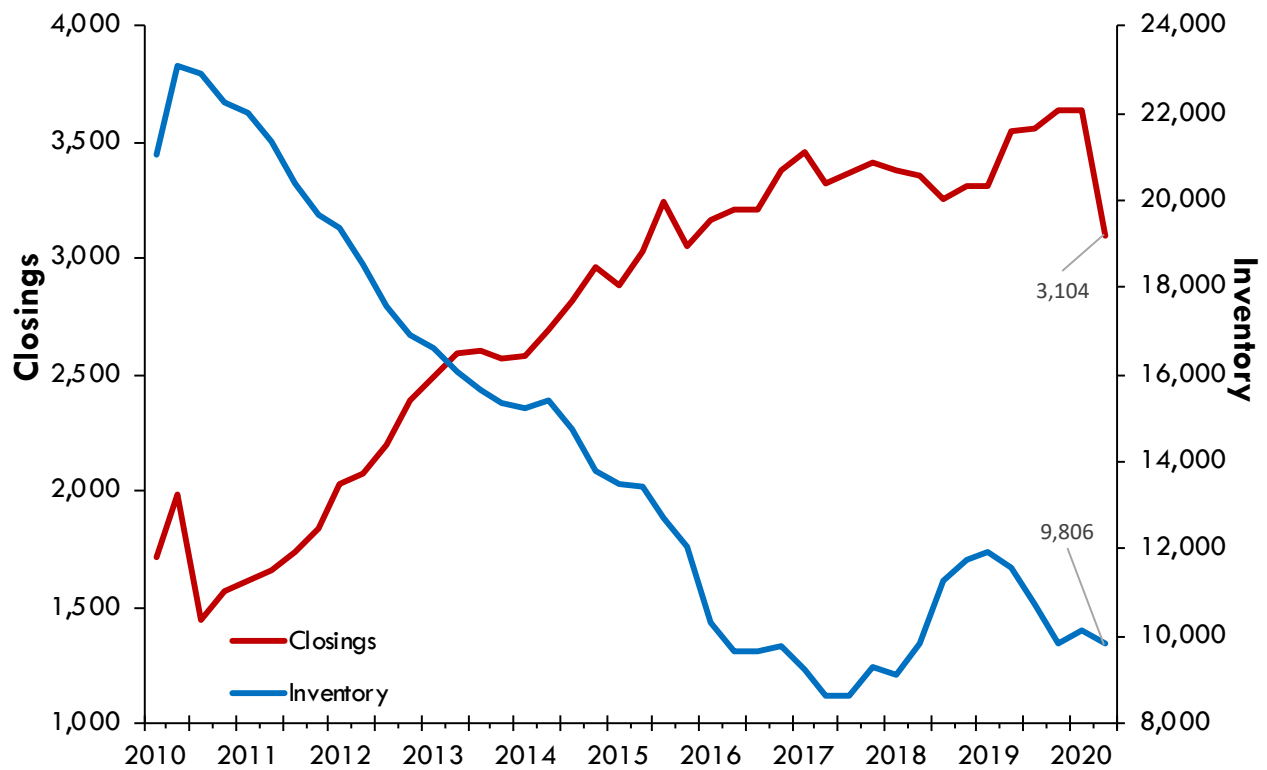


Home Sales

Quarterly comparisons for Nashville, Knoxville, and Memphis show decreases in closings. Nashville saw a 14.80% decline; Knoxville, a 12.06% decline; and Memphis, a 16.59% decline. All areas also saw a drop in inventory over the quarter. For Nashville, this was a decrease of 3.17%; for Knoxville, 14.46%; and for Memphis, 10.71%.

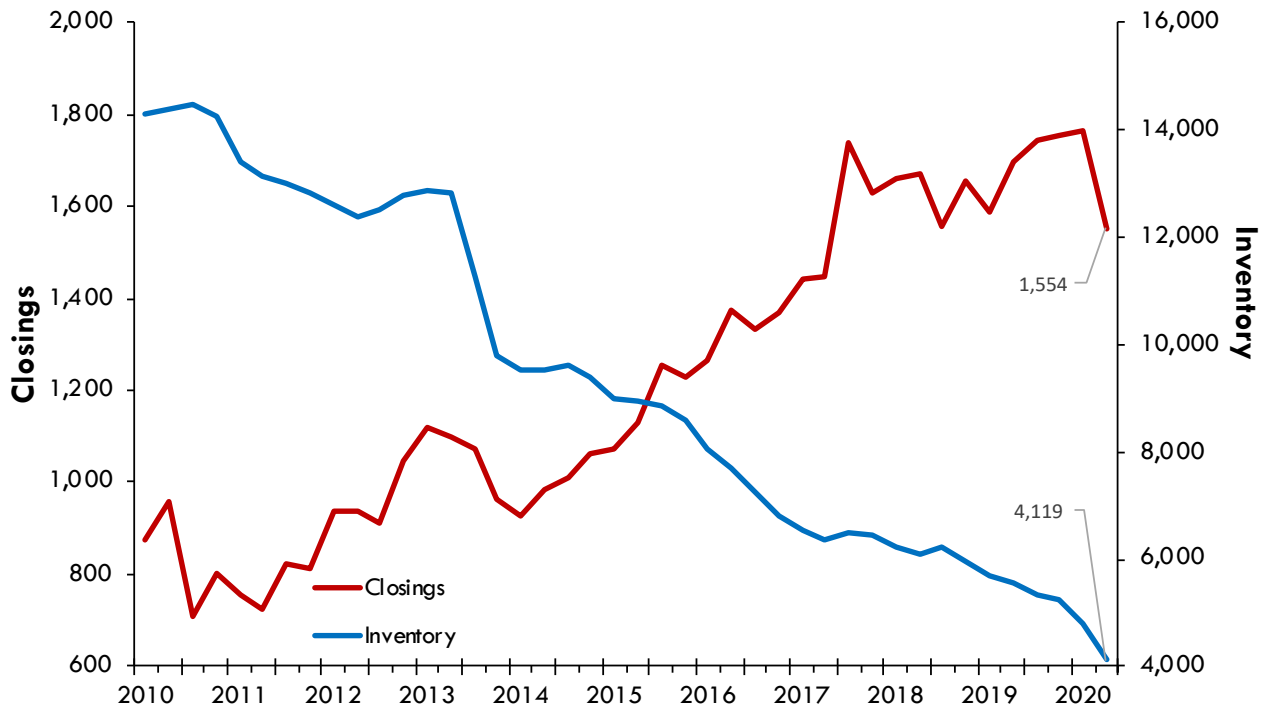
Similarly, Nashville, Knoxville, and Memphis all sustained decreases in closings for the year: -12.62%, -8.51%, and -14.47%, respectively. In all three regions, inventories diminished over the year. Knoxville experienced the greatest decrease (-25.69%), then Memphis (-21.10%), and Nashville (-15.16%).

Figure 7.1 Single-family sales and inventory - Nashville Area



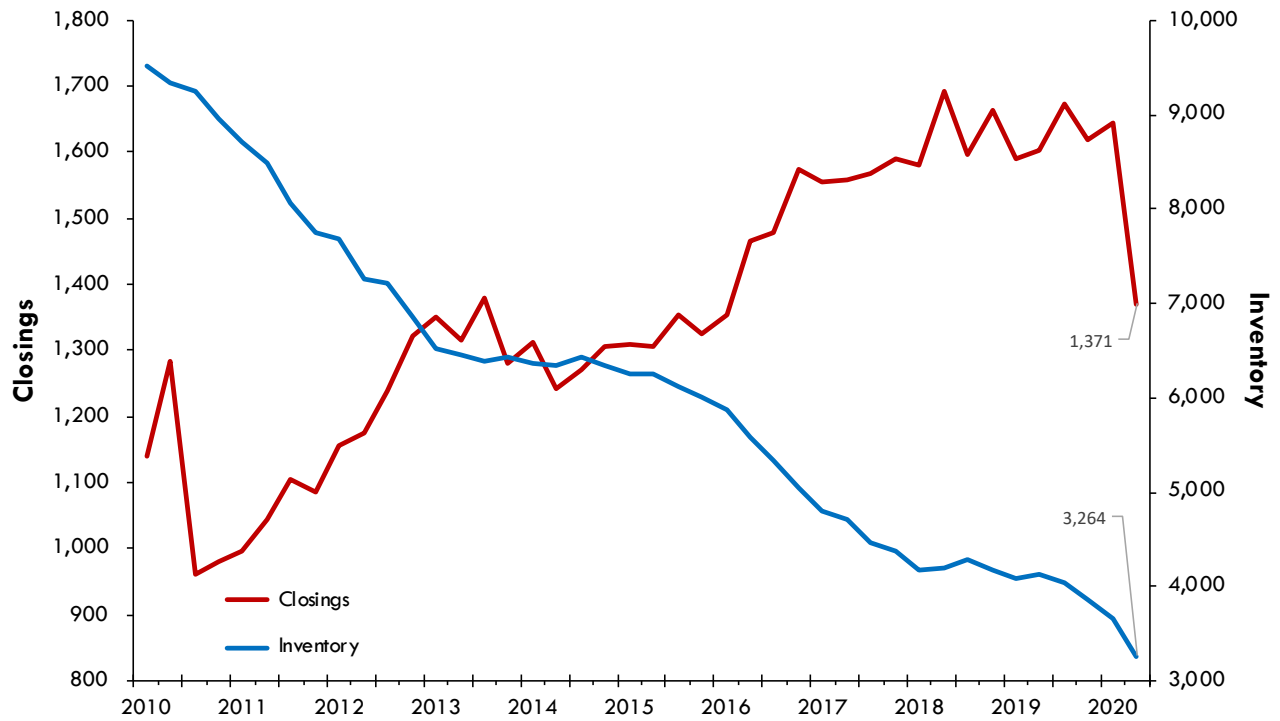
Source: Greater Nashville Association of Realtors, BEREC

Figure 7.2 Single-family sales and inventory - Knoxville Area



Source: Knoxville Area Association of Realtors, BEREC

Figure 7.3 Single-family sales and inventory - Memphis Area



Source: Memphis Area Association of Realtors, BEREC

Home Prices

From the previous year, home prices in Tennessee have increased by 5.3%, continuing their upward trend and surpassing the national yearly increase of 4.0%. Likewise, all MSAs encountered growing home prices, three of which saw steeper growth than Tennessee. Clarksville MSA had an increase of 6.6%; Knoxville MSA, 6.2%; and Chattanooga MSA, 5.4%.

Although every region experienced increases in housing prices, the rate of growth slowed across all regions when

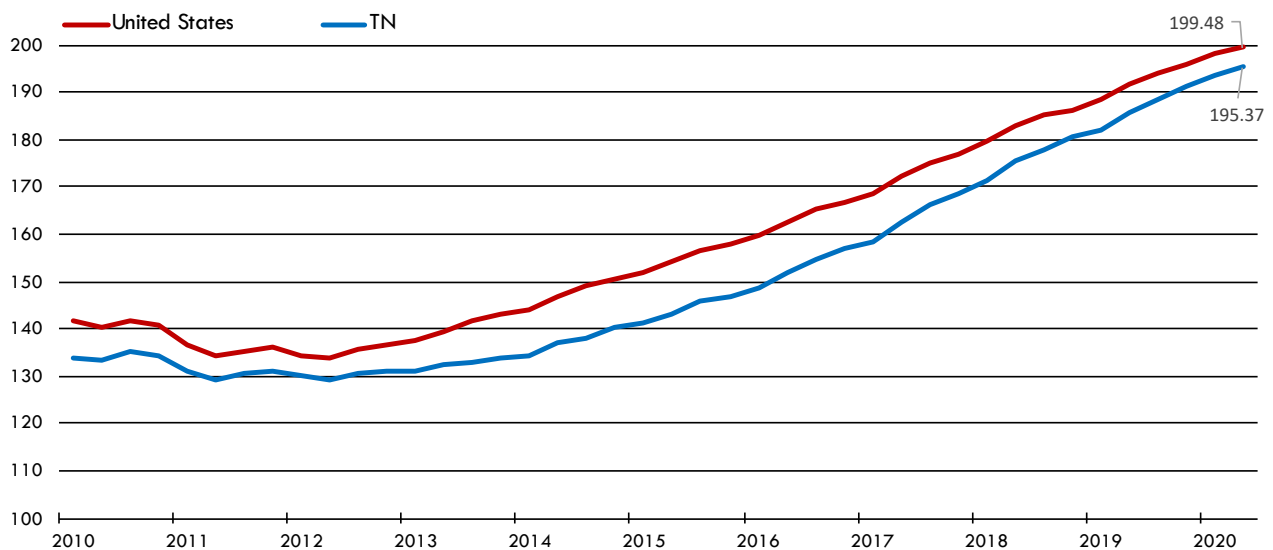
compared to last quarter. For some areas, this curtailment was relatively small: growth came down from 6.6% last quarter to 6.2% this quarter in Knoxville MSA, a 0.5 percentage point difference. For others, it was more acute: Jackson MSA went from a 7.3% increase last quarter to a 2.6% increase this quarter (a 4.7 percentage point reduction). The growth rates of Tennessee and the U.S. mirrored one another; both slowed at the same pace, by 1.1 percentage points.

Table 3. Change in housing prices year to year

Area	2018.3-2019.3	2018.4-2019.4	2019.1-2020.1	2019.2-2020.2
Chattanooga MSA	6.6%	6.6%	7.0%	5.4%
Clarksville MSA	4.9%	4.0%	9.1%	6.6%
Cleveland MSA	6.7%	4.1%	6.4%	2.4%
Jackson MSA	3.1%	2.6%	7.3%	2.6%
Johnson City MSA	3.7%	6.8%	6.1%	3.9%
Kingsport-Bristol MSA	5.2%	6.9%	4.5%	2.7%
Knoxville MSA	6.3%	6.4%	6.6%	6.2%
Memphis MSA	6.2%	6.6%	7.1%	5.2%
Morristown MSA	8.1%	10.1%	7.9%	5.2%
Nashville MSA	5.6%	5.3%	5.8%	5.0%
Tennessee	6.0%	6.0%	6.4%	5.3%
United States	4.7%	5.2%	5.1%	4.0%

Source: FHFA All Transactions Index

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



Source: www.FHFA.gov All Transactions Index

Mortgage Delinquencies & Foreclosures

In the second quarter of 2020, the number of mortgages past due jumped substantially in Tennessee. Mortgage delinquencies rose to 7.35%, representing a 3.00 percentage point increase from the previous quarter. The U.S. sustained an even larger percentage point increase of 3.97, bringing the national mortgage delinquency rate to 7.97%. Percentages this high have not been seen in Tennessee

since the end of 2014, and in the U.S. since the end of 2012.

The foreclosure rates in Tennessee and the U.S. decreased by 0.15 percentage points and 0.16 percentage points, respectively, bringing the rates of both to 0.03%. As with mortgage delinquencies, these values are a significant divergence from the rates seen in recent years.

Figure 9. Tennessee mortgages past due and foreclosure rate (percent of mortgages in place)

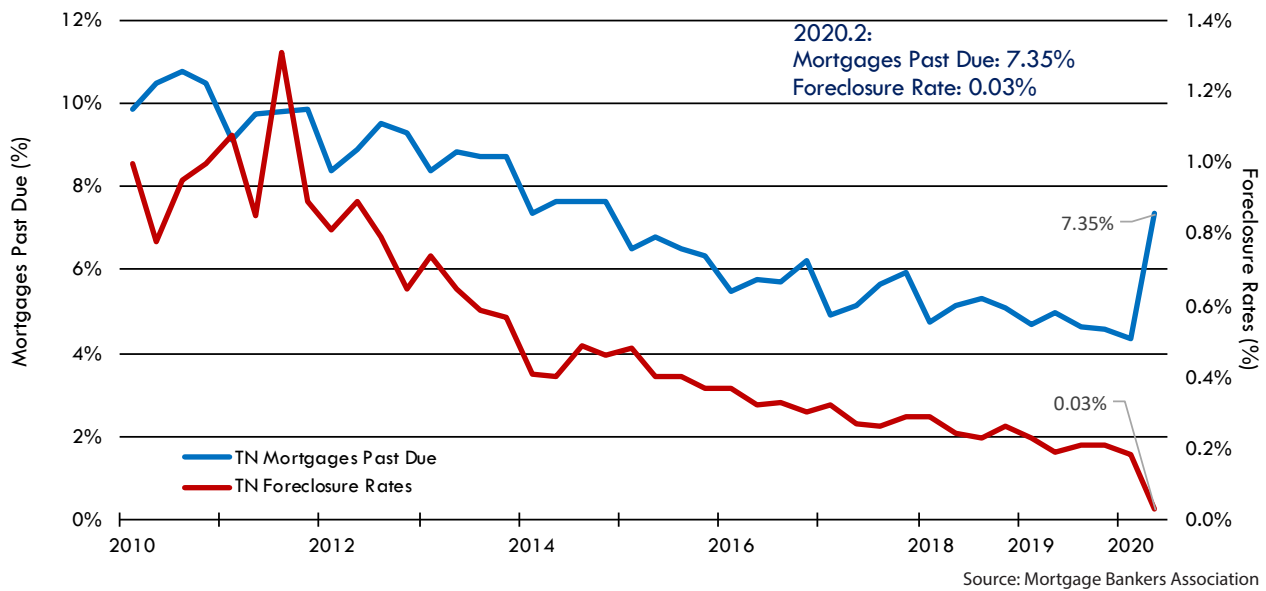
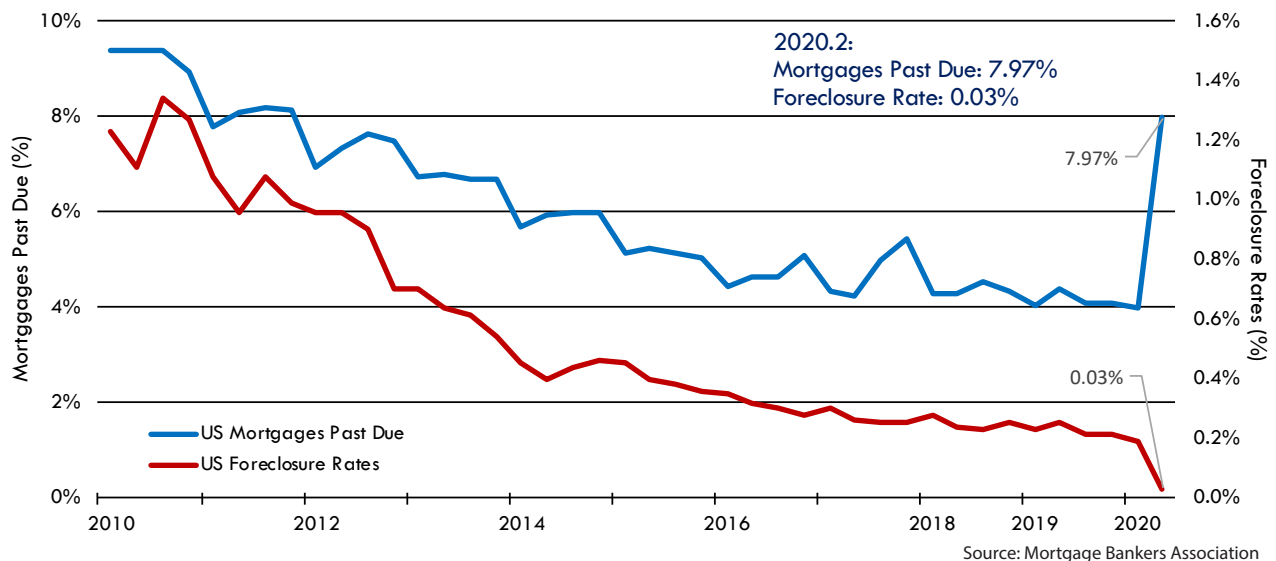


Figure 10. United States mortgages past due and foreclosure rate (percent of mortgages in place)



Conclusion

Q2 indicators show substantial downturn from last quarter in wake of COVID-19 impact

As expected, data from the second quarter of 2020 reflect the volatility of the economy caused by the COVID-19 pandemic and subsequent containment measures. In quarterly comparisons, there was a substantial downturn in employment across all industries, closings in home sales across all areas, and single-family housing permits. However, there are a few highlights worth pointing out: homeowner and rental vacancy rates in Tennessee both fell over the year, and the foreclosure rate dropped over the quarter and year.

BERC's housing report for the first quarter of 2020 noted the unprecedented nature of the surge in unemployment claims. This report further emphasizes this observation, as the number of claims rose much higher in the second quarter. Such a large volume of initial unemployment claims in a contracted time period has not been seen before. Additionally, the unemployment rate climbed 8.7 percentage points. An increase in the unemployment rate as severe as this has not occurred since the last economic recession.



JONES COLLEGE OF BUSINESS

Business and Economic Research Center

Murat Arik, PhD, PDBP, Director

Supported by



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)