

HOUSING

T E N N E S S E E

2nd Quarter 2015

Tennessee dashboard 2nd quarter 2015

(percent change over the year)

Weekly Unemployment Claims	▼ -10%	Total Home Permits*	▲ +40%
Total Nonfarm Employment*	▲ +2%	Mortgage Tax Collections	▲ +53%
Unemployment Rate (percentage points)*	▼ -0.7	Real Estate Transfer Tax Collections	▲ +19%
Homeowner Vacancy Rate (percentage points)	No change	Home Prices*	▲ +5%
Rental Vacancy Rate (percentage points)	▼ -1.5	Mortgages Past Due (percentage points)	▼ -0.8
Single-Family Home Permits*	▲ +36%	Foreclosure Rate (percentage points)	No change

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

Economic Overview

The Tennessee economy bounces back from mixed first-quarter results.

Tennessee's economy recorded a great performance in the second quarter with higher total nonfarm employment, job gains in several areas, and a lower unemployment rate. Although the goods-producing sector lost nearly 2,500 jobs, an increase in total nonfarm employment is mainly due to the influx of 15,000 new jobs in service-providing sectors.

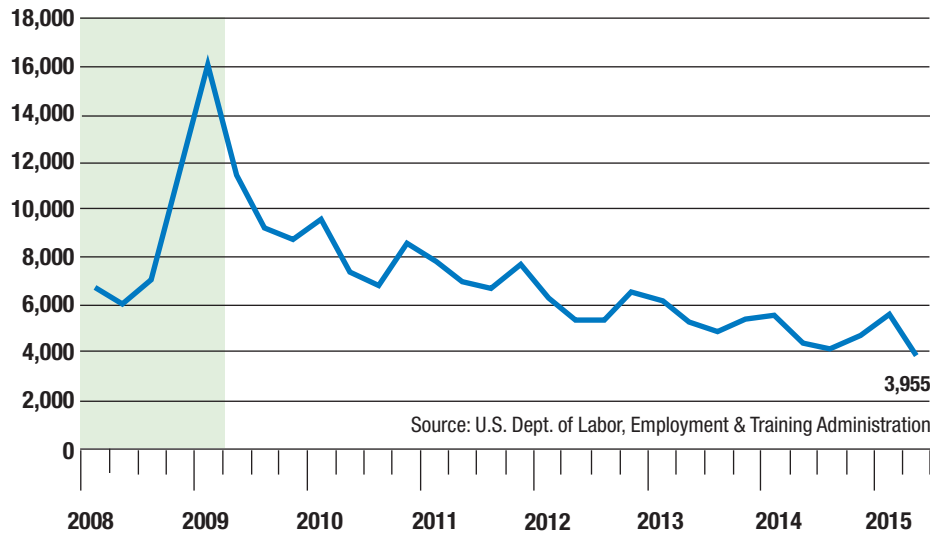
Over the year, Tennessee gained 54,200 nonfarm jobs, increasing 2%. Most gains (43,100) are in services. Goods-producing industries, including manufacturing and construction, added 11,300 new jobs.

The labor force (total employment plus unemployment) grew 2% to 3.1 million, up more than 65,000 over the year. The unemployment rate declined from 6.5% to 5.8% in the second quarter, due to growing employment opportunities. Over the year, the unemployment rate is down 0.8 percentage points.

Reported by the U.S. Department of Labor, initial claims for unemployment insurance in Tennessee (Figure 1), dropped to a recent historical low of 3,955—a steep decrease (30%) from last quarter's average of 5,653 per week, reflecting the significant drop in unemployment.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Initial claims for unemployment insurance dropped 30% to a recent historically low weekly average of 3,955.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2014.2	2014.3	2014.4	2015.1	2015.2
Employment by industry (nonfarm)					
Total nonfarm	2,806.1	2,823.9	2,843.4	2,849.7	2,860.3
Goods-producing sectors	433.3	436.1	442.5	447.1	444.6
Manufacturing	323.1	325.5	329.0	332.1	330.1
Services-providing sectors	2,372.8	2,387.8	2,400.8	2,400.9	2,415.9
Labor force	2,996.8	2,986.9	2,983.2	3,037.2	3,095.7
Total employment	2,801.6	2,789.0	2,786.2	2,839.2	2,915.2
Unemployed	195.2	197.9	196.9	197.9	180.6
Unemployment rate	6.6%	6.6%	6.6%	6.5%	5.8%

Source: Bureau of Labor Statistics

Over the year, Tennessee gained 54,200 nonfarm jobs, increasing 2%.

Vacancy Rates

Second-quarter homeowner vacancy rates for the U.S. dropped slightly over the year and for the quarter to 1.8%. Dynamics for Tennessee showed a different pattern, increasing slightly over the quarter to 2.9%, the same rate as a year ago.

Both Tennessee and U.S. retail vacancy rates fell to a 10-year-low in the second quarter.

The rental vacancy rate has been falling for the past few years for both the state and the nation. The state's rate has fallen nearly 1 percentage point this quarter (1.5 over the year) to 6.5%, a 10-year low. The U.S. rate fell but not as steeply, 0.3 percentage points this quarter (0.7 over the year) to 6.8%, also a 10-year low.

Figure 2. Homeowner vacancy rate

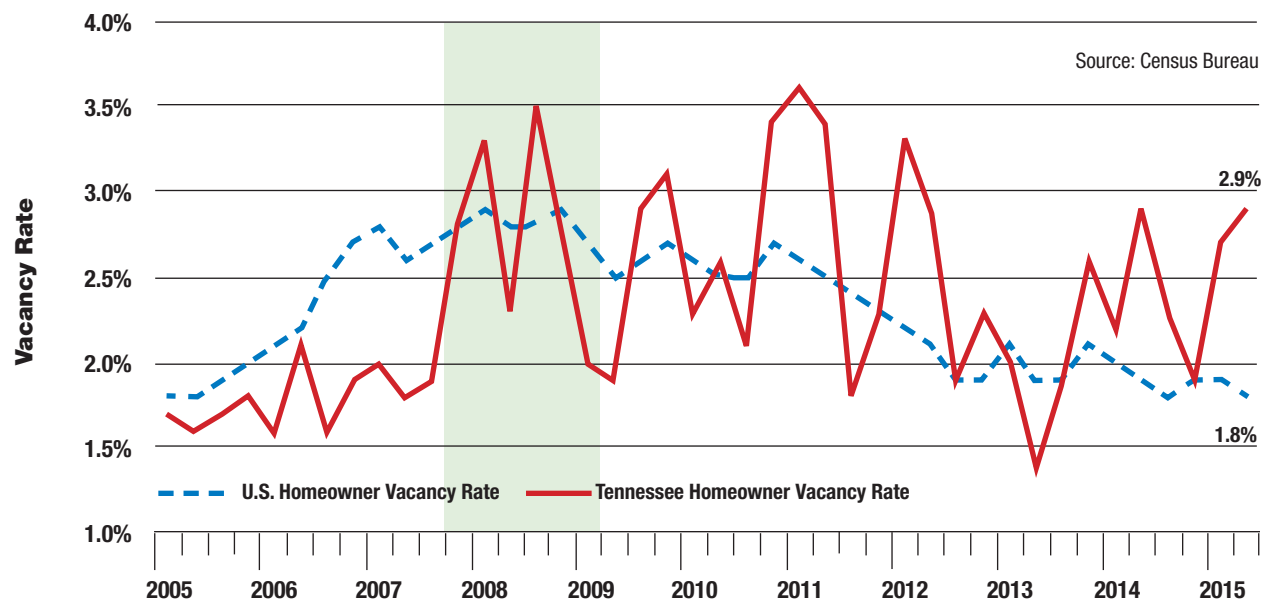
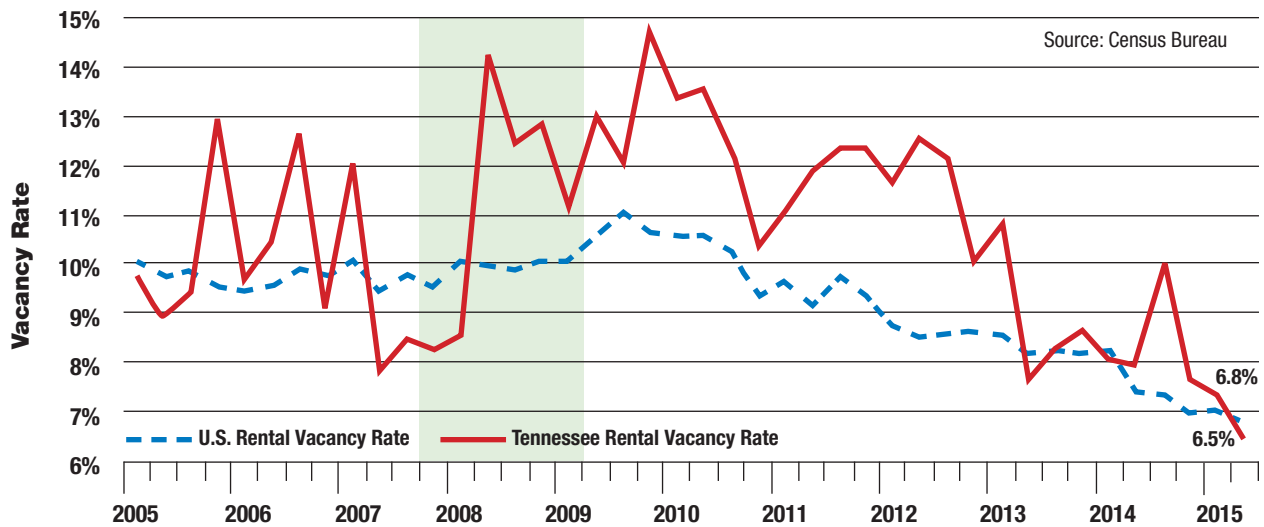


Figure 3. Rental vacancy rate



Housing Construction

The trend level of single-family home construction activity is at a historical high.

The trend for single-family permits rose during the second quarter, exceeding peak levels achieved during the fall of 2014 (Figure 4). The present trend level of activity is at a historical high.

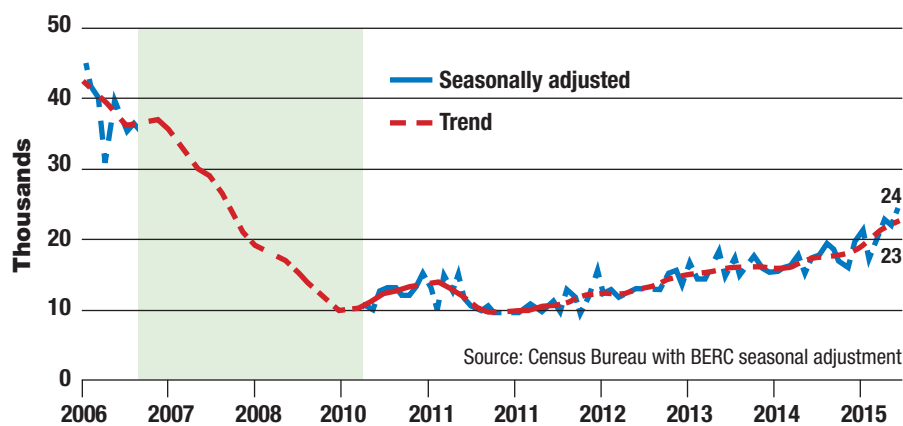
At the state level, multi-family permits are up 17% this quarter to a seasonally adjusted annualized rate of 9,700, a significant increase over the year (32%).

Figures are similar for the South and nation, both showing large increases over the quarter and the year.

- Total permits (single-family plus multi-family)
 - after seasonal adjustments rose 26% this quarter for the state, 7% for the South, and 15% for the nation.
 - over the year gained 8% in Tennessee, 8% in the South, and 10% in the United States.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Tennessee single-family home permits are up 32% over the year.

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.
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
2015.1	20.0	355.4	647.7	8.3	170.3	439.1	27.8	528.5	1,084.8
2015.2	22.5	378.6	693.5	9.7	190.2	562.2	35.0	566.0	1,245.5
Change from previous quarter	12%	7%	7%	17%	12%	28%	26%	7%	15%
Change from previous year	36%	14%	12%	52%	16%	49%	40%	15%	24%

Source: Census Bureau

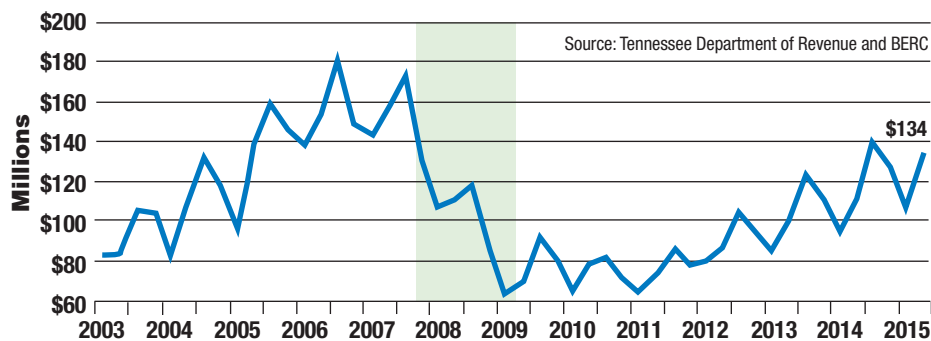
Real Estate Transactions & Mortgages

Consistent with increased housing construction and sales, taxes collected by the state on real estate transactions and new or refinanced mortgages rose in the second quarter (Figures 5 and 6). Transfer tax collections jumped more than 25% for the quarter (19%

over the year) due to increased real estate deals. Real estate transfer tax collections are at their highest level in Tennessee since 2007. Mortgage tax collections rose 37%, reversing the previous three quarters' declining trend. Over the year, mortgage tax collections rose 53%.

Figure 5. Real estate transfer tax collections

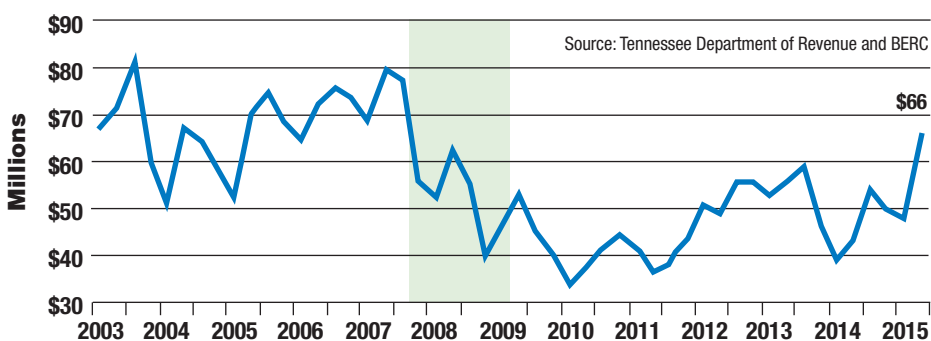
(millions, seasonally adjusted annual rate)



Transfer tax collections jumped more than 25% for the quarter.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections rose 37% during the quarter (53% over the year).

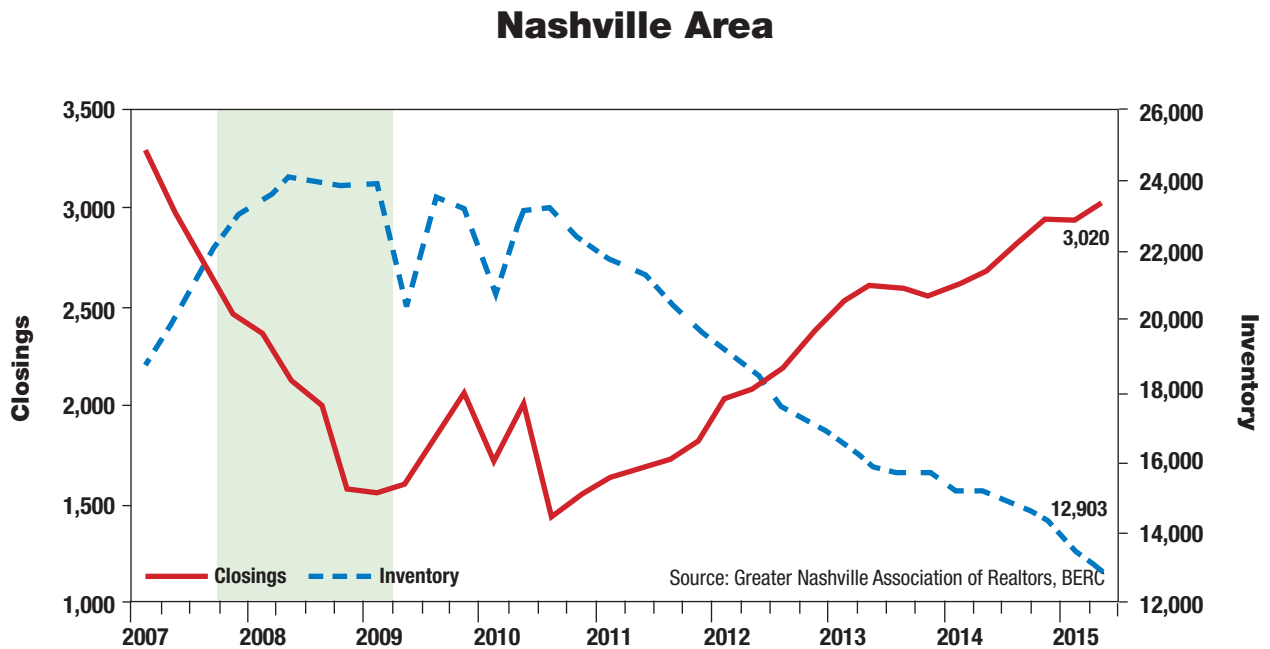
Home Sales

In the second quarter, home sales rose in all three metro areas tracked in this report.

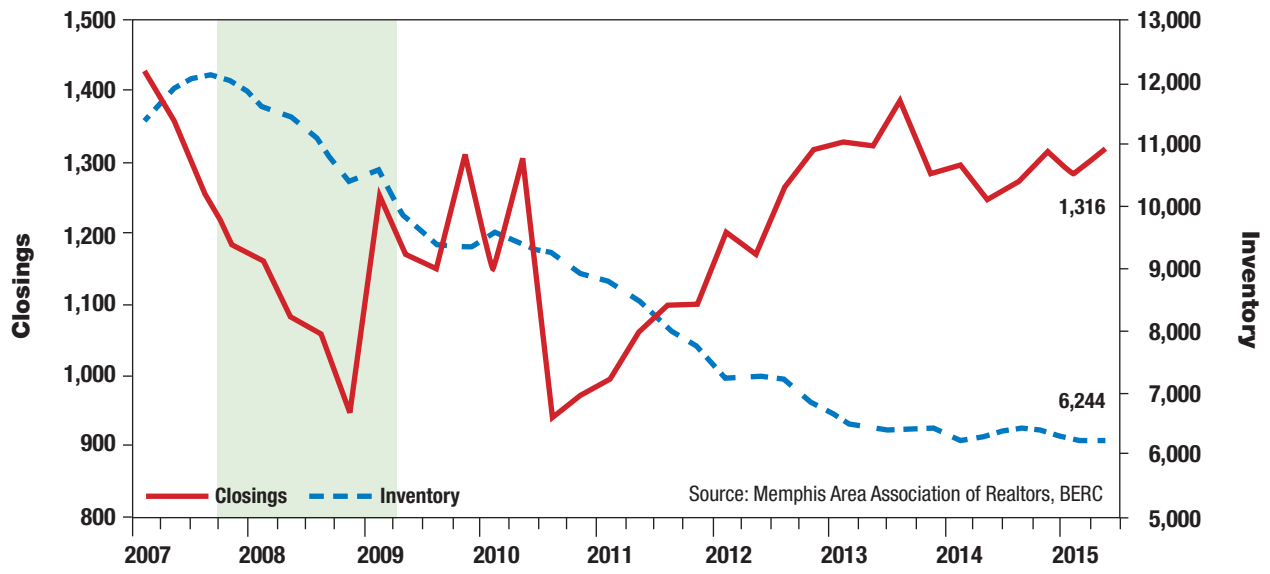
Sales of single-family homes rose in the second quarter in all three metropolitan areas tracked by this report, rising 3% in the Nashville area, 3% in the Memphis area, and 6% in the Knoxville area, all after seasonal adjustments (Figure 7).

Inventories of single-family homes on the market decreased in two of the three areas, falling 4% in Nashville, flat in Memphis, and falling 2% in Knoxville from the previous quarter. The current level of inventory is at a 10-year low.

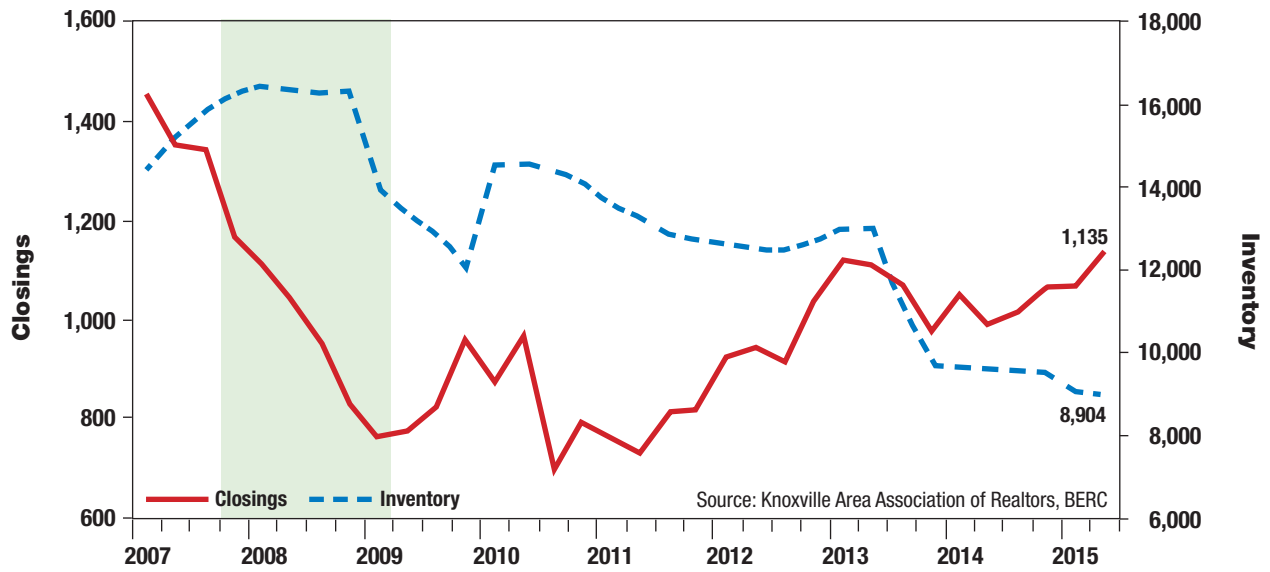
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

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

Average home prices gained 4.5% over the year for Tennessee, according to the Home Price Index published by the Federal Housing Finance Agency (FHFA, Table 3). Tennessee prices increased less than U.S. prices, which were up 5.2%.

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 Memphis MSA, up 4.1%, while the Chattanooga, Clarksville, and Kingsport MSAs rose 3.4%. Losses were seen in two MSAs, Cleveland (down 2.8%) and Morristown (down 1.3%).

Nashville MSA home prices rose 7.9% over the year.

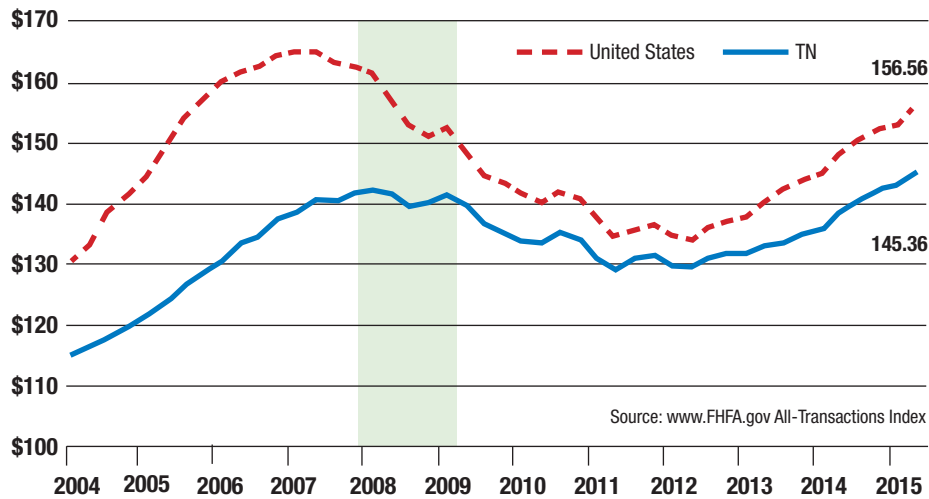
Table 3. Change in housing prices year to year

Area	2013.3–2014.3	2013.4–2014.4	2014.1–2015.1	2014.2–2015.2
Chattanooga MSA	3.8%	2.8%	2.1%	3.4%
Clarksville MSA	0.3%	2.8%	-0.9%	3.4%
Cleveland MSA	4.5%	1.6%	3.3%	-2.8%
Jackson MSA	4.1%	-0.4%	2.4%	0.0%
Johnson City MSA	2.4%	6.6%	3.3%	1.1%
Kingsport-Bristol MSA	1.8%	-0.4%	5.0%	3.4%
Knoxville MSA	3.1%	4.0%	3.7%	1.2%
Memphis MSA	4.5%	5.3%	4.3%	4.1%
Morristown MSA	1.6%	2.0%	4.2%	-1.3%
Nashville MSA	8.3%	7.9%	7.3%	7.9%
Tennessee	5.3%	5.4%	5.3%	4.5%
United States	5.8%	5.6%	5.6%	5.2%

Source: FHFA All-Transactions Index

Home prices fell over the year in two MSAs, Cleveland (down 2.8%) and Morristown (down 1.3%).

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



Tennessee home prices gained 4.5% versus 5.2% for the nation.

Mortgage Delinquencies, Foreclosures

Tennessee mortgages past due decreased, while foreclosures started increased.

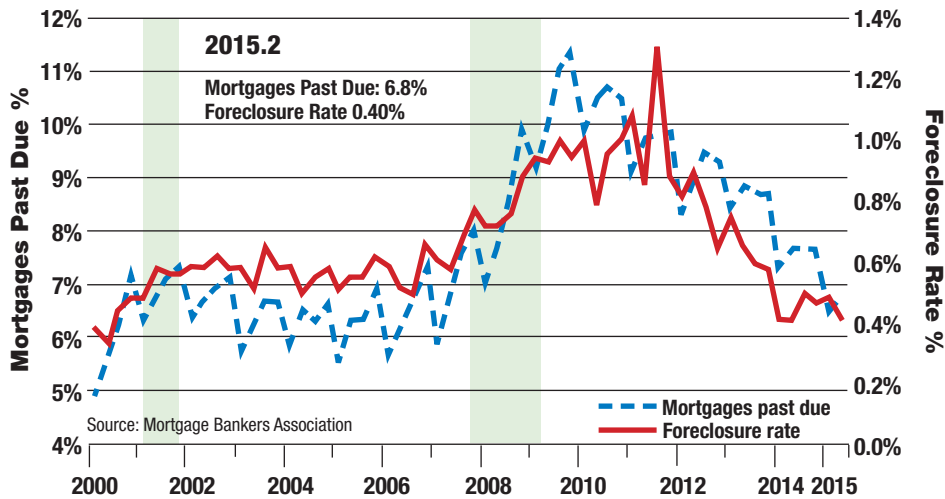
Mortgages past due in Tennessee rose slightly to 6.78%, up from 6.49% in the first quarter (Figure 9), according to data from the Mortgage Bankers Association. In similar fashion, the United States averaged 5.26% for the quarter, up from 5.14% last quarter. The percentage of mortgages past due in Tennessee has declined overall since the peak of 11.31% in late 2009, indicating fewer homeowners are

in financial difficulty. In fact, the number of mortgages past due is at the same level it was in 2006, showing that Tennessee is back to pre-recession levels.

New foreclosures initiated during the quarter in Tennessee fell sharply again during the second quarter to 0.40%, a 15-year historical low—much lower than the pre-recession level of 0.68%.

Figure 9. Tennessee mortgages past due and foreclosure starts

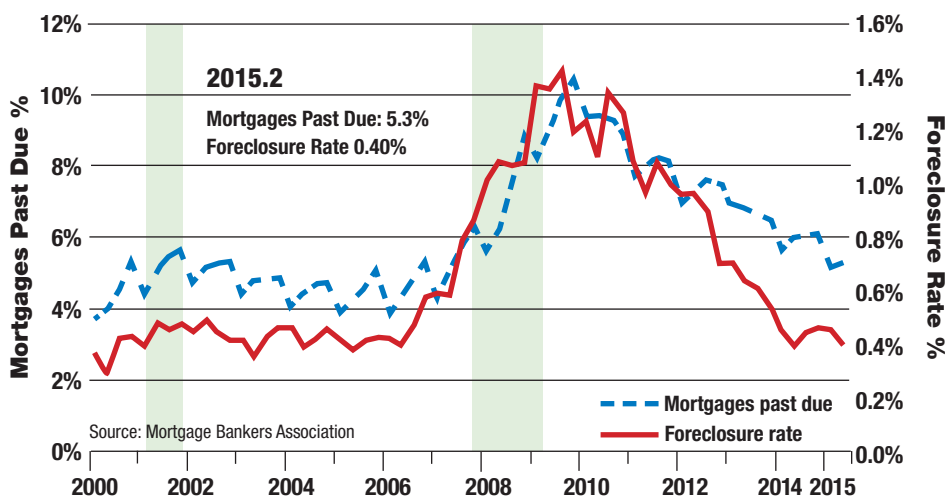
(percent of mortgages in place)



Tennessee mortgages past due in are at 2006 levels. New foreclosures are at a 15-year low.

Figure 10. United States mortgages past due and foreclosure starts

(percent of mortgages in place)



U.S. mortgages past due rose slightly, to 5.26% from 5.14% for the quarter.

Conclusion

Tennessee's economy recorded a vibrant second quarter, showing positive trends for nearly all economic indicators. Housing permits in the state improved, with single-family home construction continuing its gains from the previous quarters. Home prices increased over the year with the Nashville MSA leading the way, but the rate of increase lagged behind the United States. Tax collections related to real estate transactions and mortgage activity experienced strong gains. The three largest metropolitan areas recorded increases in home sales, reversing the trend of the previous quarter. ■

Housing construction was particularly strong across the state in the second quarter.



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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)