

HOUSING

T E N N E S S E E

1st Quarter 2016

Tennessee dashboard 1st quarter 2016

(percent change over the year)

Weekly Unemployment Claims	▼ -11%	Total Home Permits*	▲ +44%
Total Nonfarm Employment*	▲ +3%	Mortgage Tax Collections	▲ +17%
Unemployment Rate (percentage points)*	▼ -1.10	Real Estate Transfer Tax Collections	▲ +21%
Homeowner Vacancy Rate (percentage points)	▼ -0.9	Home Prices*	▲ +6%
Rental Vacancy Rate (percentage points)	▲ +0.2	Mortgages Past Due (percentage points)	▼ -1.03
Single-Family Home Permits*	▲ +17%	Foreclosure Rate (percentage points)	▼ -0.11

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

Economic Overview

Tennessee employment showed significant increases in the first quarter.

Tennessee's economy started the year on a positive note. Overall, employment showed significant increases in nearly every area tracked in this report. Total employment grew by over 2 percent, gaining 7,200 jobs since the previous quarter. In terms of nonfarm employment, the sector as a whole showed nearly 1 percent growth. In particular, employment in goods-producing sectors rose more than 2 percent, adding 900 new jobs.

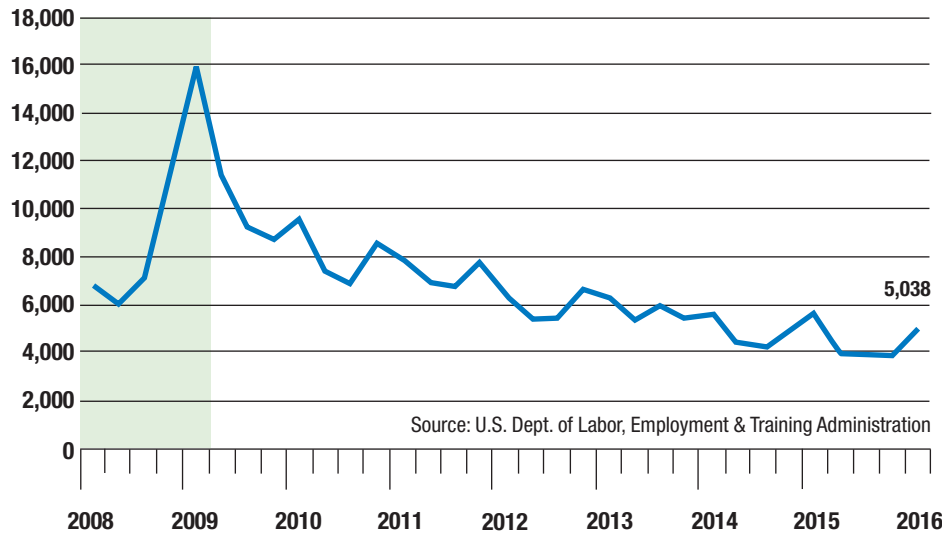
Over the year, the largest increases occurred in goods-producing sectors (5 percent) and manufacturing (3 percent). Perhaps the strong point over both the year

and the quarter is the fall in unemployment. Since the beginning of 2015, the number unemployed and the unemployment rate have steadily declined. The number unemployed decreased more than 17 percent over the year and 11 percent since the fourth quarter of 2015. The current unemployment rate is 4.93 percent, the lowest since 2007.

A weak spot is that first-quarter annual rates for initial unemployment claims rose nearly 30 percent from the previous quarter. Over the year, rates are down nearly 11 percent. A similar trend of first-quarter rising unemployment claims can be seen in previous years.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



First-quarter annual rates for initial claims rose nearly 30 percent from the previous quarter.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2015.1	2015.2	2015.3	2015.4	2016.1
Employment by industry (nonfarm)					
Total nonfarm	2,860	2,878	2,903	2,929	2,952
Goods-producing sectors	445	448	452	457	466
Manufacturing	329	332	333	336	341
Services-providing sectors	2,415	2,430	2,451	2,472	2,485
Labor force	3,054	3,055	3,052	3,063	3,117
Total employment	2,869	2,878	2,881	2,892	2,964
Unemployed	185	177	171	172	154
Unemployment rate	6.03%	5.80%	5.60%	5.60%	4.93%

Source: Bureau of Labor Statistics

Employment in goods-producing sectors rose more than 2 percent, adding 900 new jobs.

Vacancy Rates

Vacancy rates for the state turned in a mixed performance. For the quarter, homeowner vacancy rates decreased 0.20 percentage points to 1.8 percent, the lowest since the spring of 2013. Rental vacancy rates, however, increased slightly to 7.6 percent, comparable to the first quarter of 2015.

Nationally, homeowner vacancy rates fell one-fifth of a percentage point to 1.7 percent, the lowest since the spring of 2004. The rental vacancy rate remained

U.S. and state homeowner and rental vacancies are converging.

unchanged at 7.0 percent, one of the lowest rates in recent history.

Unlike recent quarters, state and national figures in both rental and homeowner vacancies are converging.

Figure 2. Homeowner vacancy rate

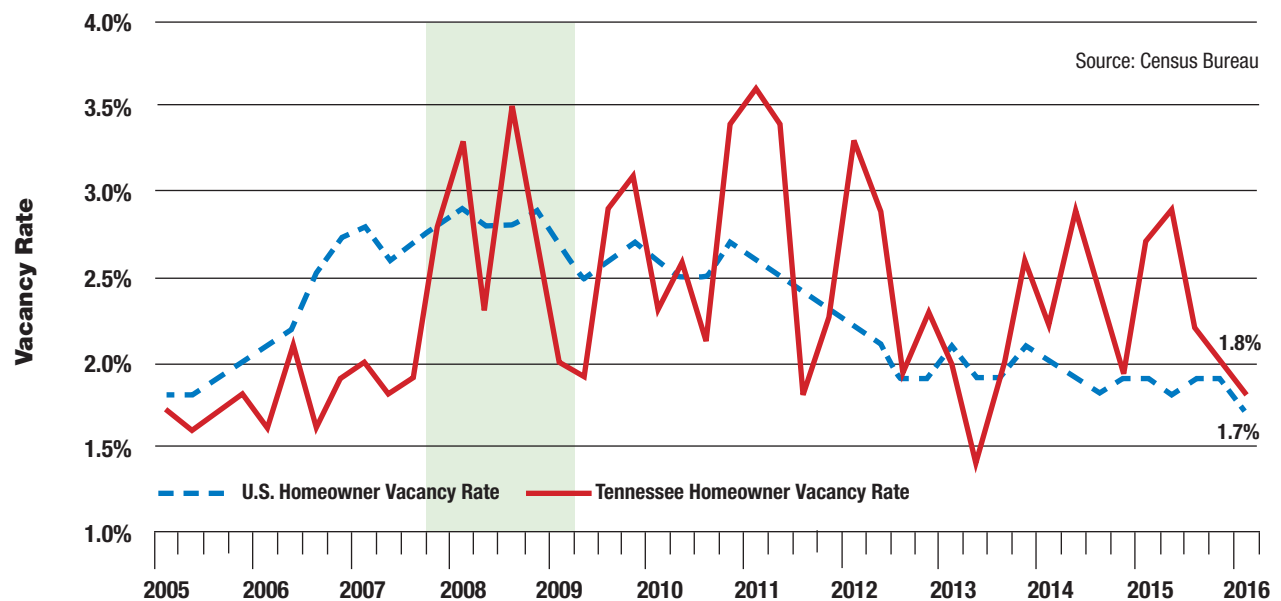
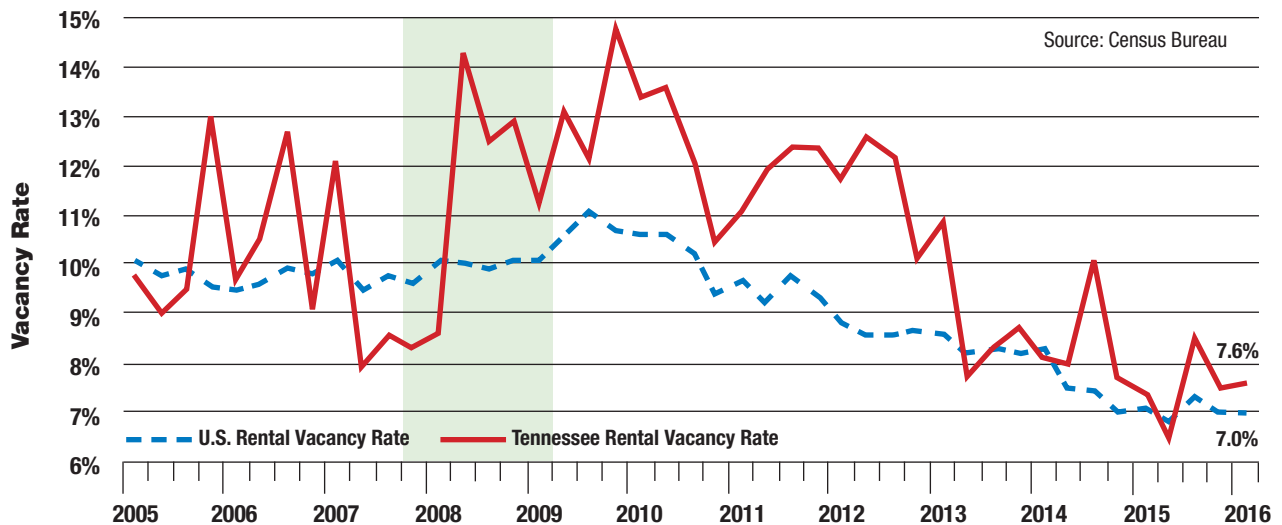


Figure 3. Rental vacancy rate



Housing Construction

Tennessee's single-family permits have shown a strong, rapid growth trend.

Over the past three years, seasonally adjusted annual rates of new home permits have grown at a much higher rate than for the South and the country. Specifically in the area of single-family permits, Tennessee shows a strong, rapid growth trend, while the U.S. and the South show a slow, steady increase.

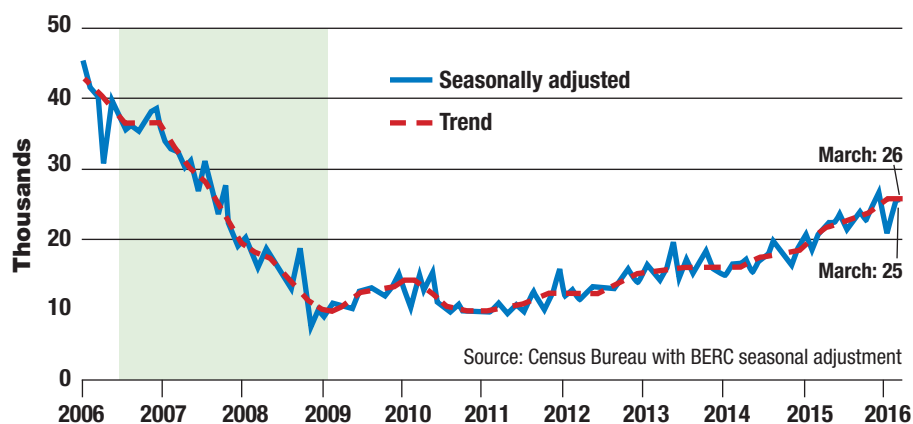
The state housing market is performing at a relatively high level this quarter. Single-family permits fell but remain exceptionally high. Particularly strong, multi-family permits rose by 13 percent, or 2,000 units. Total permits for Tennessee rose more than 2 percent.

Single-family and total permits for the South remained unchanged from the previous quarter, while multi-family permits recorded a 6 percent decrease. The nation saw decreases in multi-family (8 percent) and total permits (3 percent) for the quarter, while single-family permits grew 3 percent, or 22,000 units.

Similar growth trends are apparent over the year with Tennessee showing the largest growth compared to the South and the nation. Compared to the previous year, new housing construction permits are performing at a significantly higher level.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Housing construction permits are significantly higher over the year with multi-family up 119%.

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.
2013.1	15.6	319.4	603.6	4.3	146.8	345.3	19.4	464.7	937.4
2013.2	16.4	336.1	626.4	6.4	161.3	326.7	23.5	496.6	955.6
2013.3	15.9	326.7	619.4	7.4	137.7	342.7	23.9	470.1	970.0
2013.4	16.8	325.6	616.1	6.9	166.0	384.1	23.3	487.4	998.1
2014.1	16.3	325.0	606.0	10.2	170.1	385.2	26.0	493.6	978.9
2014.2	16.4	330.3	617.5	6.4	165.3	395.1	23.4	495.3	1,012.2
2014.3	18.2	346.8	632.4	3.9	169.4	411.8	22.9	520.7	1,050.6
2014.4	17.8	349.1	643.1	12.9	175.8	408.8	30.1	521.1	1,048.7
2015.1	20.3	357.9	651.9	8.5	176.5	444.3	27.9	533.1	1,083.1
2015.2	22.3	375.9	689.1	9.7	190.7	561.7	33.5	566.8	1,249.2
2015.3	22.6	376.9	695.8	9.3	187.3	434.4	33.0	567.7	1,132.5
2015.4	24.5	385.9	705.5	16.4	196.3	481.0	39.3	578.9	1,196.6
2016.1	23.7	387.7	727.1	18.5	184.4	440.5	40.3	574.1	1,164.0
Change from previous quarter	-3%	0%	3%	13%	-6%	-8%	2%	-1%	-3%
Change from previous year	17%	8%	12%	119%	5%	-1%	44%	8%	7%

Source: Census Bureau

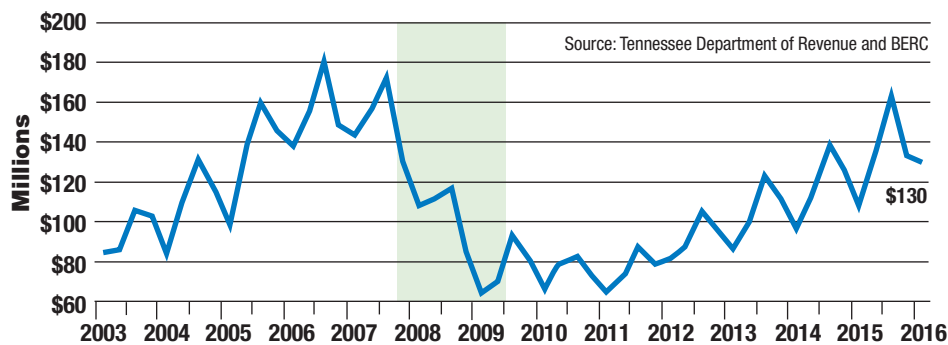
Real Estate Transactions & Mortgages

Continuing the trend started in the previous quarter, mortgage and real estate tax collections are down. Compared to the fourth quarter, collections are down 2.6 percent for mortgage and 2.9 percent for real estate transfer tax collections.

Annual rates are fairly high compared to recent years. Since the first quarter of 2015, rates rose for both mortgage tax collections, 17 percent or \$8.0 million, and real estate transfer tax collections, 21 percent or \$22.3 million.

Figure 5. Real estate transfer tax collections

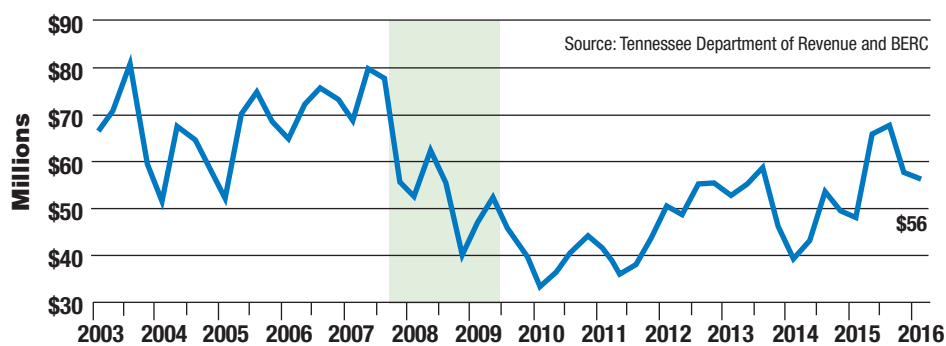
(millions, seasonally adjusted annual rate)



Real estate transfer and mortgage tax collections are down for the quarter.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Annual collections are at a fairly high rate compared to recent years.

Home Sales

Over the year, inventory fell and home sales rose in all three metro areas.

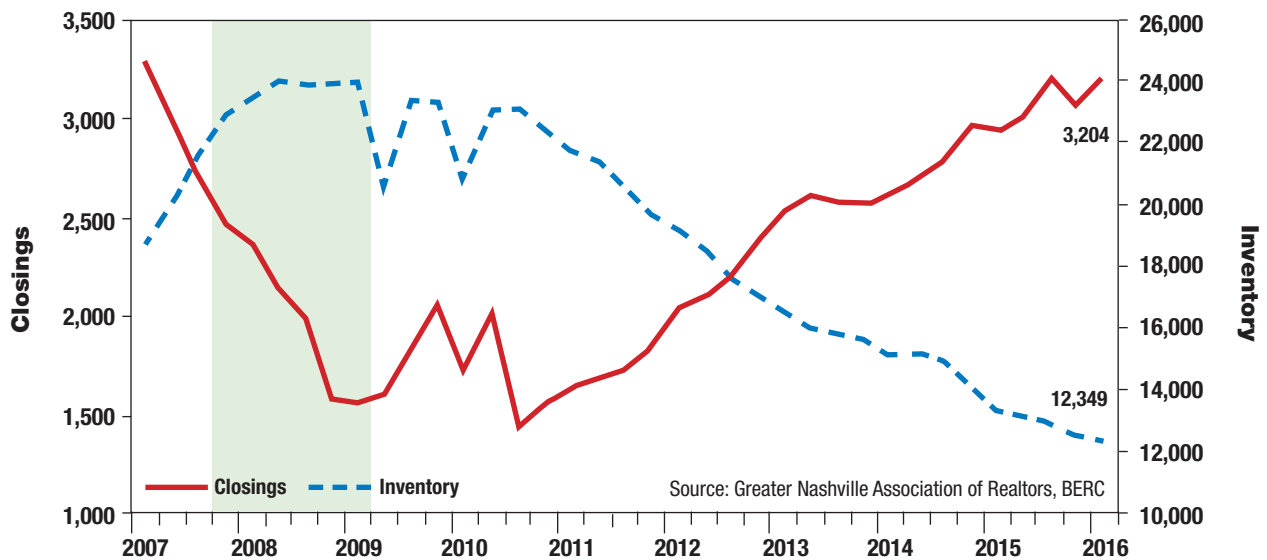
Home closings and inventories this quarter demonstrated vibrant market conditions in the areas tracked by this report. Compared to the last quarter of 2015, closings rose by 4 percent in the Nashville area and showed little to no change in Memphis and Knoxville. Inventories fell in all three areas, especially Knoxville, where the quarter's seasonally adjusted average fell over 6 percent.

Compared to the first quarter of 2015, the Tennessee housing market has been making strides. Closings are significantly up in both the Knoxville area, 16 percent, and the Nashville area, 9 percent.

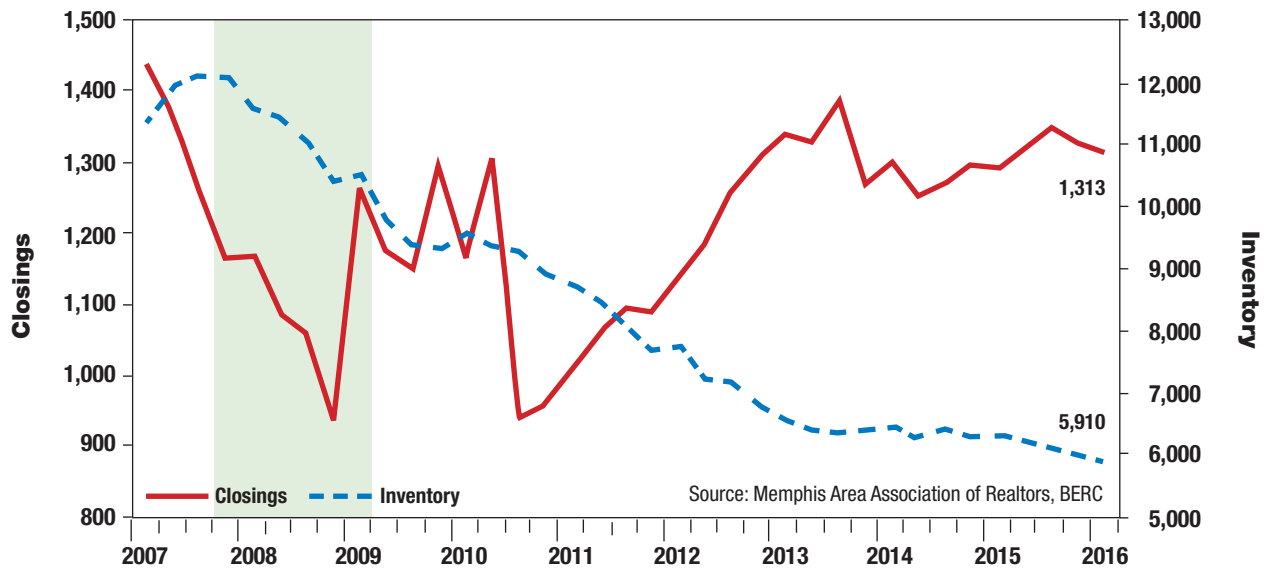
Inventories have also shrunk over the year in all three areas: 6 percent in Memphis, 8 percent Nashville, and 11 percent in Knoxville.

Figure 7. Single-family sales and inventory

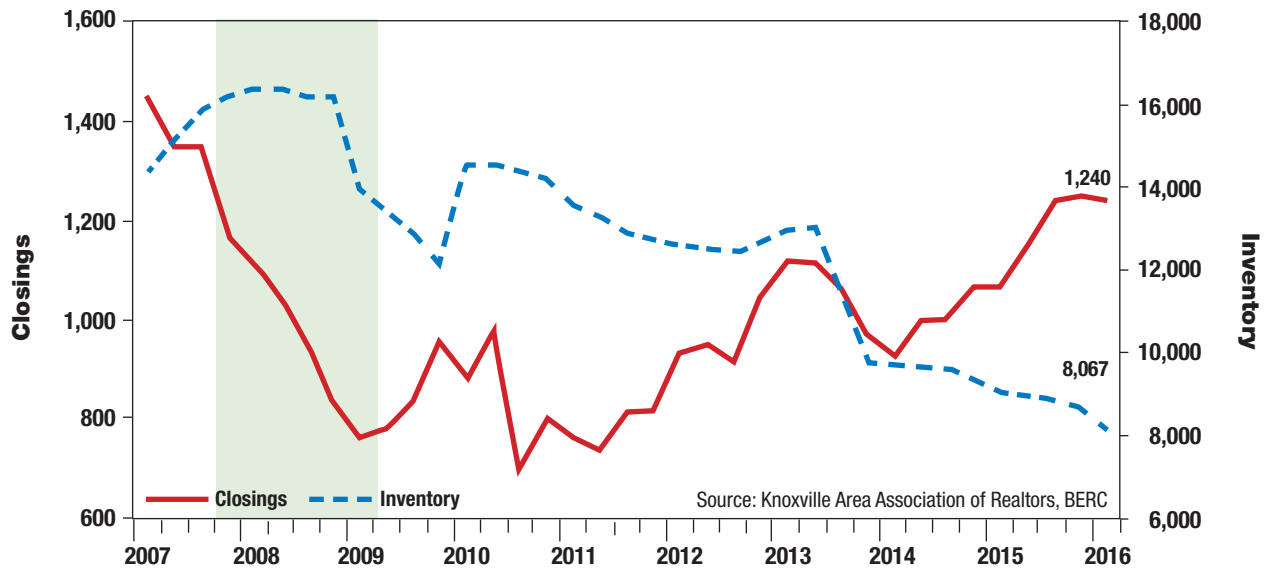
Nashville Area



Memphis Area



Knoxville Area



Home Prices

The state housing price index is well above pre-recession levels.

Housing prices for the state continued to grow this quarter, rising nearly 6 percent over the year. For the first time in more than a year, Tennessee house price growth has surpassed the national level, which is currently 5.4 percent.

Some MSAs tracked by this report recorded major growth this quarter. Nashville house prices rose over 9 percent. Other notable gains occurred in Chattanooga (5.7%), Jackson (5.2%), and Memphis (3.8%).

Unfortunately, this trend is does not represent the activity occurring in all of Tennessee's metropolitan statistical areas. For instance, the Cleveland and Morristown MSAs experienced large increases in the fourth quarter of 2015. However, in the first quarter of 2016, that trend reversed, as housing values decreased 1.4 percent in Cleveland and 0.1 percent in Morristown. Additionally, the Johnson City MSA continued the downward trend started last quarter, falling another 0.6 percent.

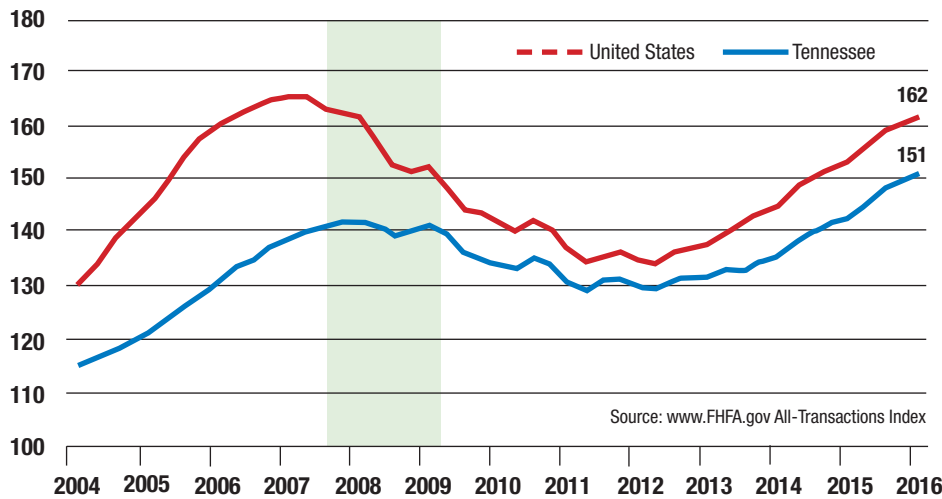
Table 3. Change in housing prices year to year

Area	2014.2–2015.2	2014.3–2015.3	2014.4–2015.4	2015.1–2016.1
Chattanooga MSA	3.4%	4.4%	5.0%	5.7%
Clarksville MSA	3.6%	1.6%	1.8%	1.8%
Cleveland MSA	-2.1%	3.0%	3.1%	-1.4%
Jackson MSA	0.2%	-0.3%	2.9%	5.2%
Johnson City MSA	0.3%	0.2%	-0.8%	-0.6%
Kingsport-Bristol MSA	3.4%	2.7%	4.4%	-0.4%
Knoxville MSA	1.1%	3.3%	1.9%	2.6%
Memphis MSA	4.4%	3.4%	3.1%	3.8%
Morristown MSA	-0.3%	0.2%	6.0%	-0.1%
Nashville MSA	8.1%	8.6%	8.5%	9.2%
Tennessee	4.9%	5.5%	5.3%	5.8%
United States	5.5%	5.7%	5.6%	5.4%

Source: FHFA All-Transactions Index

Cleveland, Morristown, Kingsport-Bristol, and Johnson City did not share the rest of Tennessee's first-quarter growth trend.

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



Tennessee's housing price growth rate has surpassed the national level.

Mortgage Delinquencies, Foreclosures

Mortgages past due and foreclosure rates for Tennessee are at 16-year lows.

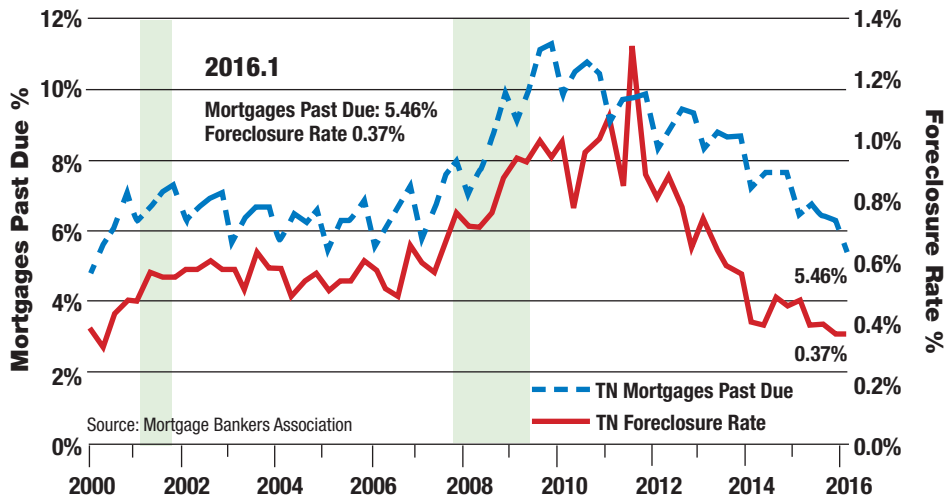
Delinquency rates and foreclosures this quarter displayed exceptional performance for both the state and the nation. For Tennessee, foreclosure rates stayed at 0.37 percent, the same as the fourth quarter

of 2015, which was the lowest since the year 2000. Mortgages past due dropped 0.8 percentage points from 6.3 percent to a 16-year low of 5.5 percent.

Figures for the nation showed similar trends as the state. U.S. mortgages past due fell 0.6 percentage points since the fourth quarter of 2015 to 4.4 percent, the lowest rate in nearly a decade. Similarly, foreclosures dropped to the lowest rate in 16 years, 0.35 percent.

Figure 9. Tennessee mortgages past due and foreclosure starts

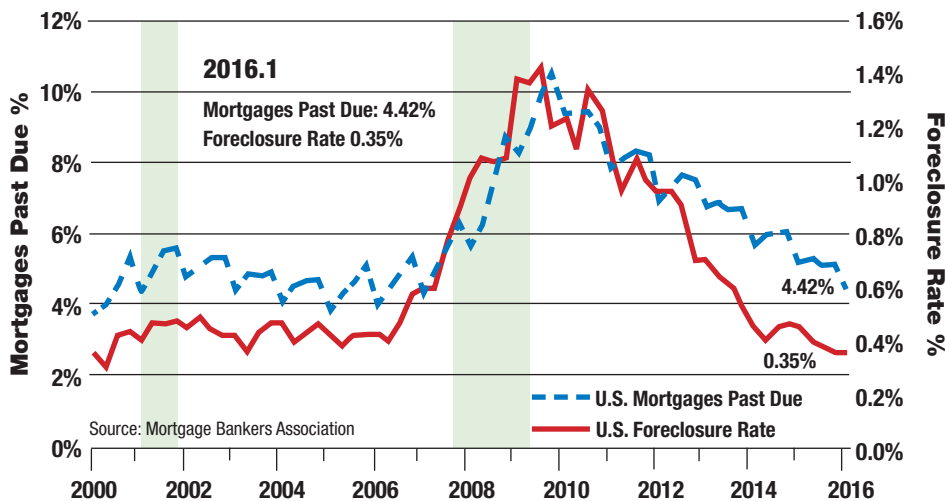
(percent of mortgages in place)



Tennessee mortgages past due and foreclosure rates are at 16-year lows.

Figure 10. United States mortgages past due and foreclosure starts

(percent of mortgages in place)



National foreclosure starts and mortgages past due closely followed Tennessee's trend.

Conclusion

The first quarter of 2016 featured Tennessee's housing market beginning on a positive note. With the lowest unemployment rate in more than a decade and state vacancy rates at pre-recession levels, market conditions are very favorable. Tennessee housing permits surged over the year, particularly in the multi-family area.

Perhaps one of strongest points this quarter is the rise in Tennessee's housing prices. For the first time in a few years, Tennessee's housing price

For the first time in a few years, Tennessee's housing price growth surpassed the national rate.

growth surpassed the national rate. This increase is particularly strong in the Nashville MSA, where housing prices rose nearly 9 percent over the year. ■



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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)