TENNESSEE HOUSING MARKET

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Economic Overview

Job growth accelerated during the first quarter, with employers adding 20,000 nonfarm jobs from the previous quarter, expanding at a 3.0% annual rate. Service-providing sectors such as professional and business services generated many of these new jobs, with manufacturing adding 3,000 during the quarter and 10,000 over the year (Table 1).

Initial claims for unemployment insurance fell to a monthly average of 5,146 during the quarter, the lowest since pre-recession levels (Figure 1). Initial claims fall when employers lay off fewer workers.

The number unemployed rose 3,000, most likely due to an increase in the number of job seekers. The unemployment rate rose slightly because the number of job seekers increased more rapidly than the number of jobs available.

Housing Construction

Single-family home construction for Tennessee was out of step with the South and the United States in the first quarter. Seasonally adjusted single-family construction fell to an annual rate of 14,900 units from 15,500 in the previous quarter, a 4.1% decline. By contrast, the South gained 4.8% and the United States 4.4% (Table 2 and Figure 2). Figure 2 shows the less-volatile trend peaking late last year, stabiliz-

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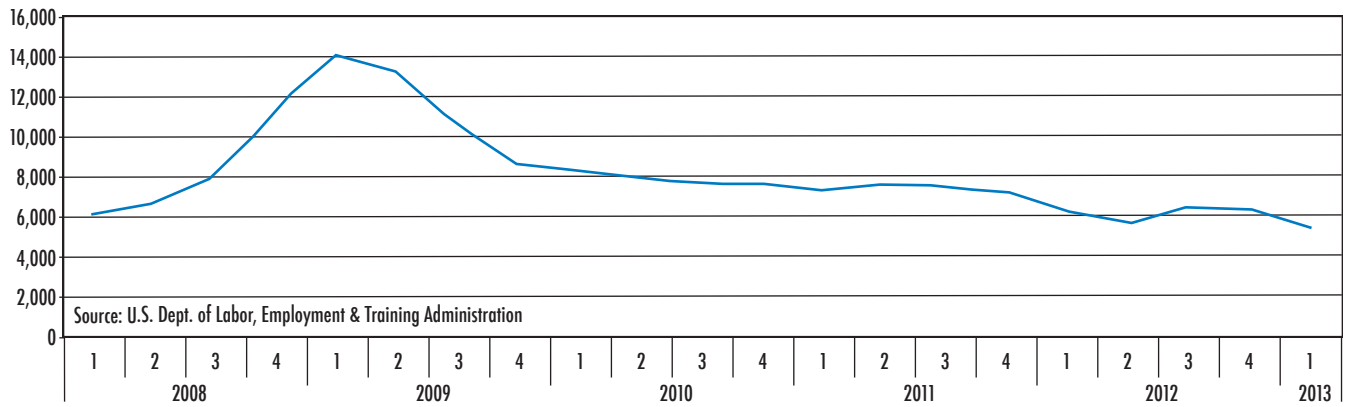
Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

	2012.1	2012.2	2012.3	2012.4	2013.1
Employment by industry (nonfarm)					
Total nonfarm	2,699	2,713	2,716	2,732	2,752
Goods-producing sectors	420	423	424	426	428
Manufacturing	310	313	315	317	320
Services-providing sectors	2,280	2,290	2,292	2,306	2,324
Labor force	3,111	3,112	3,109	3,121	3,130
Total employment	2,860	2,859	2,858	2,880	2,886
Unemployed	251	253	251	241	244
Unemployment rate	8.1%	8.1%	8.1%	7.7%	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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ing around 15,000 units since. Over the year, single-family home construction is up 23.1% for the state. More than half of the increase in construction activity over the year occurred in the Nashville metropolitan area.

Multi-family construction gained 100 units in the first quarter, still down considerably from a stronger performance a year earlier. Total permits (single- plus multi-family) are 6.1% higher over the year, not nearly as strong as experienced by the South and the United States.

Real Estate Transactions and Mortgages

Falling mortgage rates spurred a rise in mortgage tax collections during the first quarter as more homeowners refinanced. Consequently, mortgage tax collections rose 2.7% from the previous quarter and 5.0% over the year (Figure 3).

Real estate transfer taxes declined modestly from the fourth quarter, down 0.8% (Figure 4). The drop in collections is consistent with the decline in single-family home construc-

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

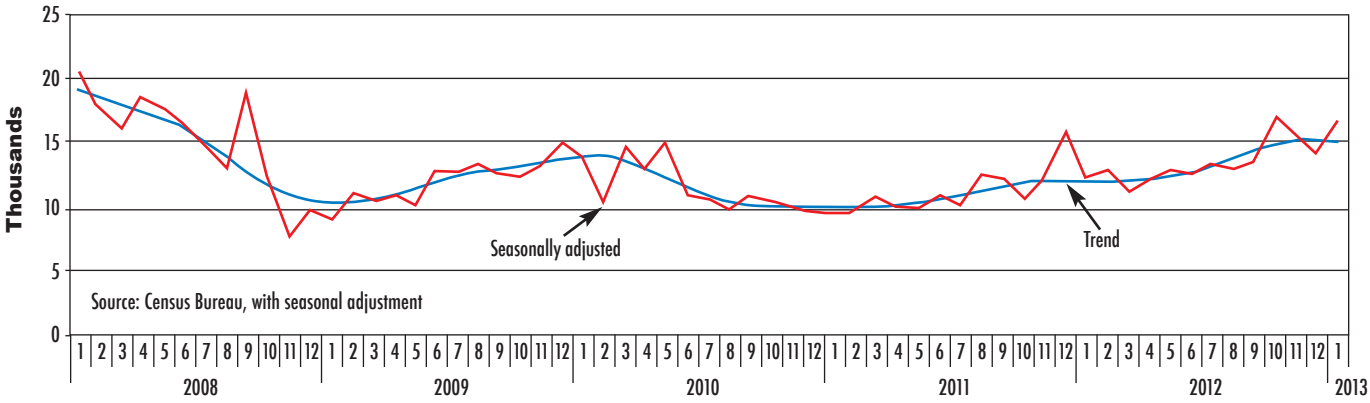

Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

	Single-Family Permits			Multi-Family Permits			Total Permits		
Quarter	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2009.1	10.1	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	6.6	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	4.7	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	10.0	215.3	398.0	2.1	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	11.5	230.7	424.7	3.3	92.7	204.7	14.8	323.3	629.3
2011.4	12.9	244.7	449.7	4.5	114.3	242.7	17.4	359.0	692.3
2012.1	12.1	248.7	465.3	5.7	121.0	254.7	17.8	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	15.5	300.3	569.0	3.9	154.7	323.3	19.4	455.0	892.3
2013.1	14.9	314.7	594.0	4.0	147.0	322.7	18.9	461.7	916.7
Change from previous quarter	-4.1%	4.8%	4.4%	2.6%	-5.0%	-0.2%	-2.8%	1.5%	2.7%
Change from previous year	23.1%	26.5%	27.7%	-29.9%	21.5%	26.7%	6.1%	24.9%	27.3%

Source: Census Bureau

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tion and flat home sales in Memphis and Nashville.

Home Sales

Seasonally adjusted sales of single-family homes changed little in the fourth quarter for the Memphis and Nashville areas but experienced a large gain in the Knoxville MSA (Figure 5). Average monthly sales for the Nashville area dropped 6 units to 1,981, while Memphis was unchanged at 992. However, both areas still show large gains over the year, with Nashville 19.9% higher and Memphis up 10.0%. Sales in the Knoxville area gained 11.5% in the first quarter over the fourth, rising to 1,048 units. Sales levels have reached 2007 pre-recession levels in all three areas.

Inventories of unsold homes declined in Nashville and Memphis but rose in Knoxville. The current inventory-to-sales ratio suggests a 5.1-month supply of homes in Nashville, 6.1 for Memphis, and 12.2 for Knoxville. The ratio suggests substantially tighter markets than a year ago when Nashville and Memphis had a 7-month supply and Knoxville 15 .

Home Prices

Home prices as measured by the Federal Housing Finance Agency (FHFA) show little change for Tennessee (Figure 6). In fact, Tennessee home prices have been flat since 2011. The largest regional price increases occurred in four metropolitan areas: Cleveland, Clarksville, Morristown, and Nashville (Table 3). Home prices fell modestly over the year in Chattanooga, Johnson City, Kingsport-Bristol, Memphis, and the non-metropolitan areas of the state.

Mortgage Delinquencies and Foreclosures

Both mortgages past due and foreclosures increased, suggesting more Tennessee home-owning households experi-

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Figure 3. Mortgage tax collections (seasonally adjusted annual rate)

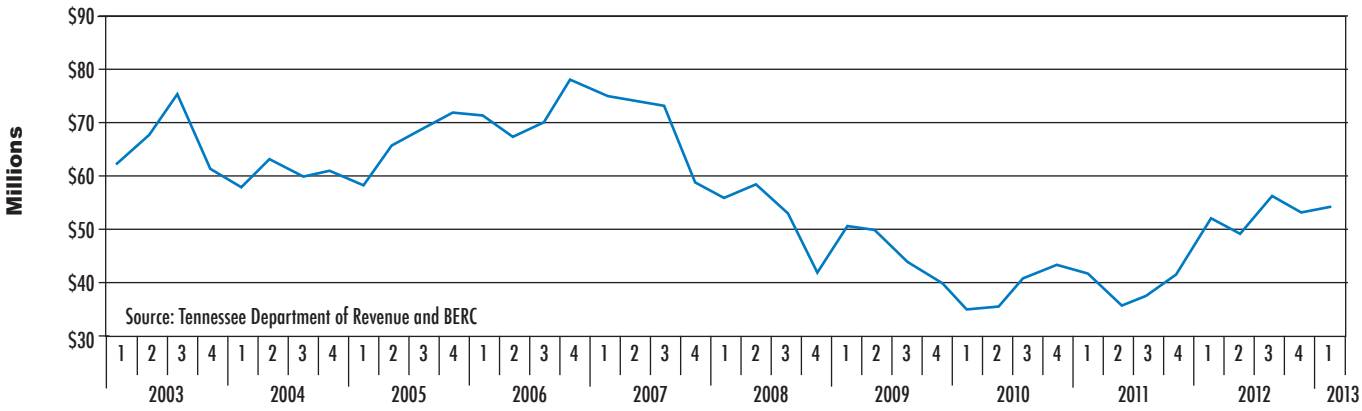

Figure 4. Real estate transfer tax collections (seasonally adjusted annual rate)

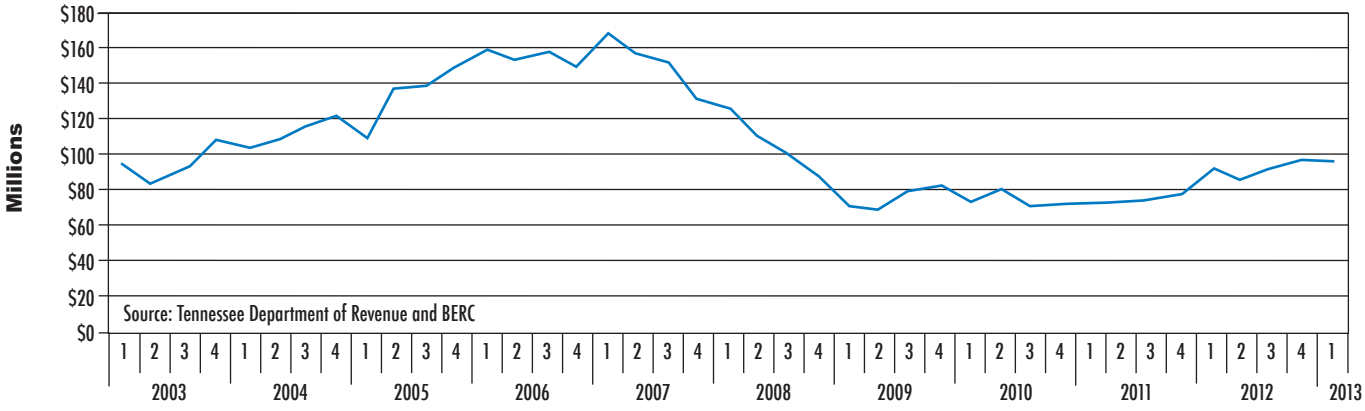

Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)

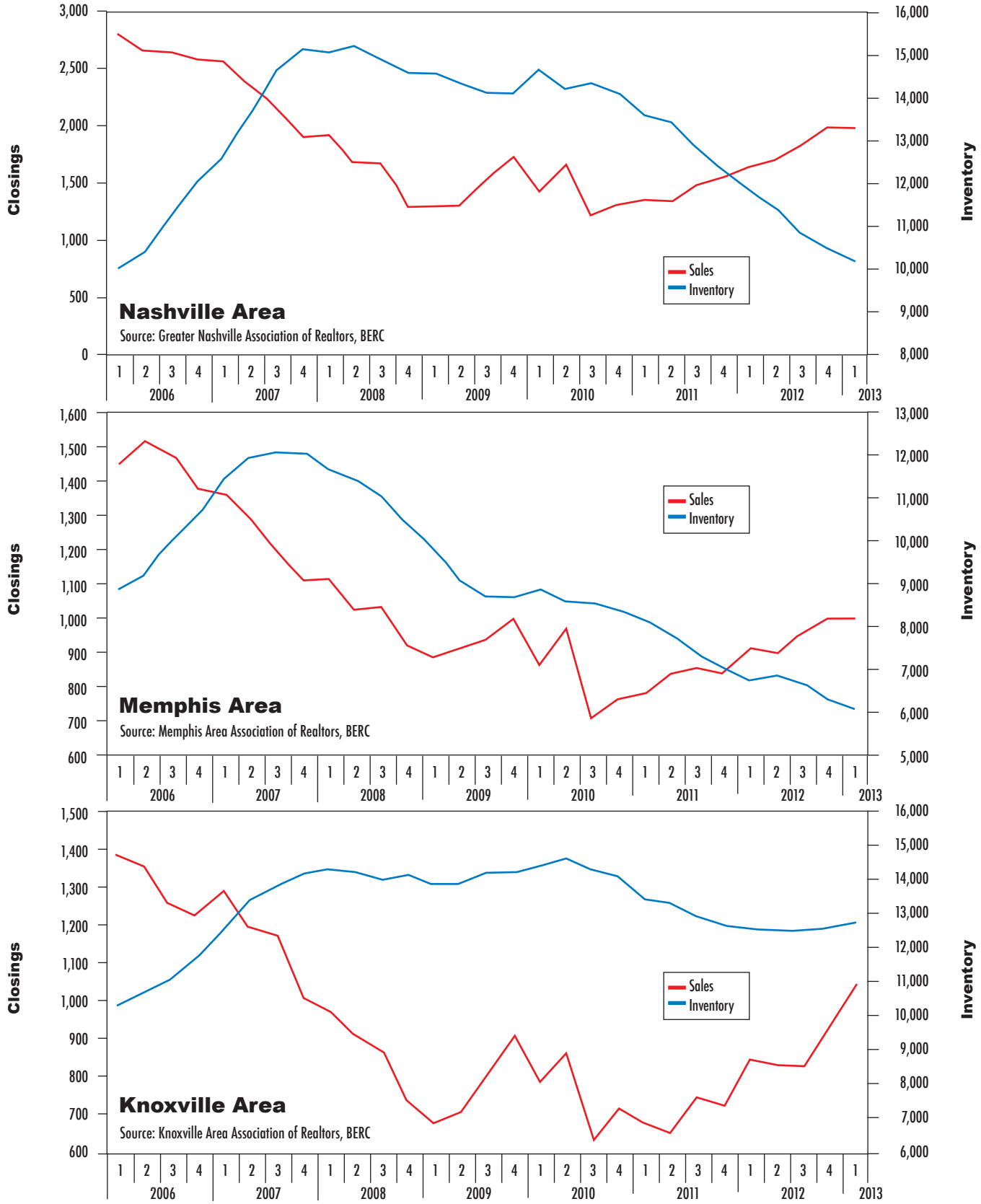

Figure 6. Tennessee house price index (2000=100.0)

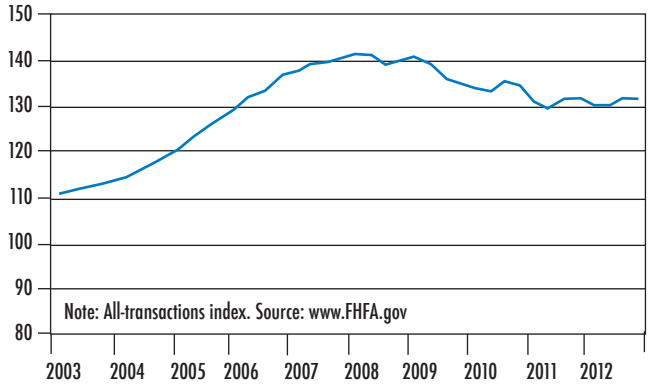

Table 3. Change in housing prices year to year

Area	2011.1-2012.1	2011.2-2012.2	2011.3-2012.3	2011.4-2012.4
U.S.	-1.26%	-0.08%	0.24%	0.42%
Tennessee	-0.70%	0.52%	0.04%	0.05%
Chattanooga MSA	-0.70%	1.93%	-0.08%	-0.18%
Clarksville MSA	1.50%	1.06%	0.77%	1.54%
Cleveland MSA	0.83%	3.57%	-0.53%	2.01%
Jackson MSA	-2.12%	1.89%	0.46%	0.47%
Johnson City MSA	0.59%	4.09%	2.99%	-0.26%
Kingsport-Bristol MSA	-1.04%	-0.91%	0.23%	-0.12%
Knoxville MSA	-0.71%	0.27%	0.13%	-0.09%
Memphis MSA	-1.11%	-0.16%	-1.00%	-0.95%
Morristown MSA	-1.35%	2.32%	-3.03%	1.64%
Nashville MSA	-0.31%	0.46%	1.45%	0.79%
TN nonmetro areas	-0.95%	-0.09%	-1.10%	-0.53%

Source: FHFA All-Transactions Index

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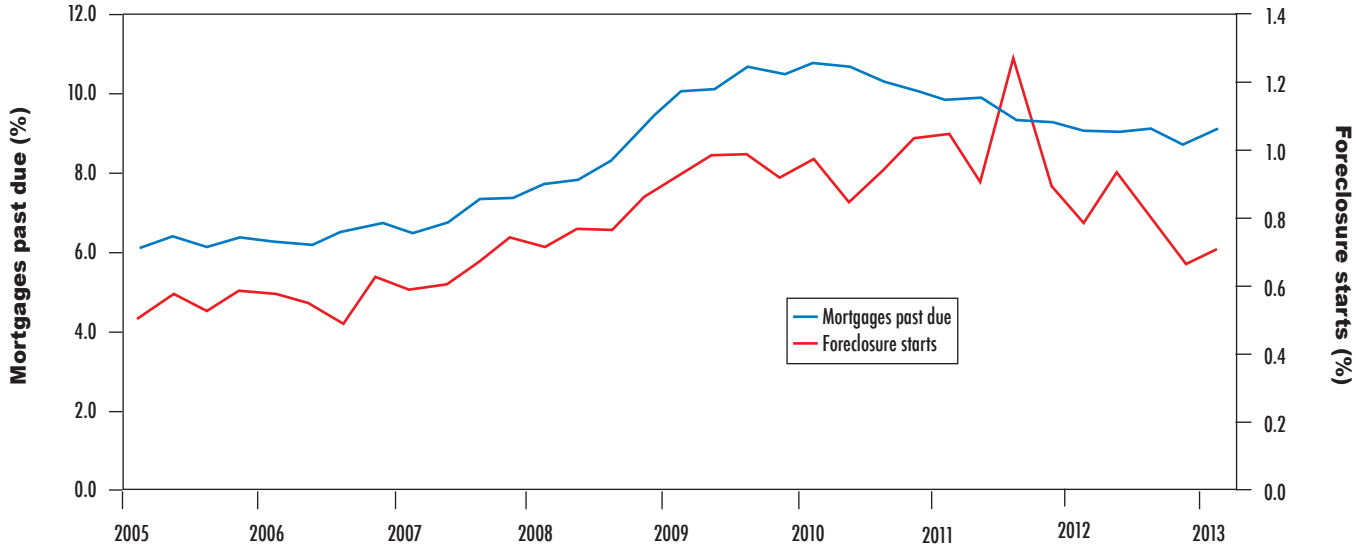
enced financial distress during the first quarter. The percent of mortgages past due rose to 9.1, nearly returning to the third-quarter 2012 level (Figure 7). Past-due mortgages have trended lower virtually each quarter from a peak of 10.8% three years ago.

New foreclosures also gained, rising to 0.71% from 0.66% in the previous quarter. This measure has improved considerably since its peak in 2011.

Conclusion

Job creation accelerated during the first quarter, but the housing market did not. The Tennessee housing market cooled somewhat during the first quarter following a strong fourth-quarter performance, not that the first quarter was particularly weak. In fact, the first quarter is in the top two or three post recession for construction, home sales, and real estate tax collections, just not up to par with the fourth quarter. The slower level of activity could be attributed to the payroll-tax increase earlier this year and renewed fiscal uncertainty. ■

Figure 7. Tennessee mortgages past due and foreclosure starts (percent of mortgages in place)



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