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Economic Outlook Breakfast with Economist William Emmons of the Federal Reserve Bank in St. Louis and Bill Fox, director of the Center for Business and Economic Research at the University of Tennessee, Knoxville

By Jane Schneider

Business leaders in Memphis may have reason to be cautiously optimistic as 2012 approaches. Two speakers at the Economic Club's annual Economic Outlook Breakfast at the University of Memphis' Holiday Inn, echoed forecasts that suggested the economy may be slowly strengthening.

Economist William Emmons with the Federal Reserve Bank in St. Louis, and Bill Fox, Director of the Center for Business and Economic Research at the University of Tennessee, Knoxville, spoke before more than 100 club members during the December 1st breakfast with an emphasis on the housing and labor markets.

"Job reports are better than in recent months and we'll see improvements," said Emmons. "Maybe we can grow this year, with the corrections in the housing and labor market near completion."

With the nation's unemployment rate stubbornly pegged just under 9 percent — and reaching double digits in places like California, Nevada, and the upper Midwest — job growth has been much, much slower than anticipated. Over the length of the recession, the Federal Reserve underestimated the severity of the nation's problems. The Fed initially anticipated unemployment stabilizing at five percent, and then expected a rebound by a full percentage point a year once recovery began. But during last month's projections, that figure was readjusted to just one-half a percentage point annually. At this rate, "It will be almost a decade [from the trough of the recession] before we get back to 5 percent unemployment," acknowledged Emmons.

Despite the country's slow rebound, corporations have realized fairly healthy profits since the end of the recession. This hasn't translated into new jobs, however. According to Emmons, it's been more than a half-century since the nation has seen job growth remain flat two consecutive years after a recession. The last time such an event took place was in 1940.

Where have jobs gone? Many workers in manufacturing have been replaced by automation or had jobs overseas to take advantage of cheaper labor costs. Another segment of workers remain employable but are either no longer looking or are working under capacity. This group reflects what Emmons called the "hidden" unemployment rate, "those people who would like a job but are discouraged by looking or are working part-time instead of full-time."

According to economist Bill Fox, the state of Tennessee lost 220,000 jobs during the economic downturn, and of that, 60,000 jobs were lost in Memphis. Since the peak of the recession in January 2008, only one-sixth of those jobs have been added back to the labor market. While Memphis endured a longer downturn during the recession, over the past year business picked up and the local economy experienced the fastest growth rate in the state. But that uptick might not be enough to improve unemployment numbers quite yet.

"The local economy is growing by 1 percent and it needs to be 2 to 3 percent to lower the unemployment rate," said Emmons.

Tennessee has long been a manufacturing state and that segment continues to remain strong, but that could prove problematic, noted Fox. Textile plants have been replaced by automotive

suppliers and employ a sizable number of workers. But personal income levels — the median income in Tennessee is \$35,000 — continue to run well-below the national average of \$42,000 annually. Fox noted with concern the employment trend in the state, “Tennessee’s personal income grew from 1982 to 1994, then steadily declined. What do we do to create jobs that are growing rather than declining? We need to invest in ourselves. We must do this in order to turn Tennessee around.”

The biggest job growth state-wide has been in construction, though not in housing starts, but in commercial projects and churches. While the bursting of the housing bubble was painful, it helped to correct a market that had become grossly overvalued. “It’s not a good thing, but it had to happen. Housing prices were 50 percent overvalued and now they’re more realistic,” he said.

One problem the Mid-South continues to face is the number of homeowners in mortgage distress. A map of the region showed more and more home owners falling behind on their mortgages as the recession deepened. And because of slowed job growth, mortgage modifications haven’t been very effective. “It’s just prolonging the agony. There is still a raging foreclosure crisis in much of the region,” noted Emmons. The weak housing market will mean Memphis’ economy will continue to lag behind the nation’s.