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THE TN QUARTERLY

BUSINESS AND ECONOMIC INDICATORS



BOYD CENTER FOR BUSINESS & ECONOMIC RESEARCH

TENNESSEE SECRETARY OF STATE
Tre Hargett

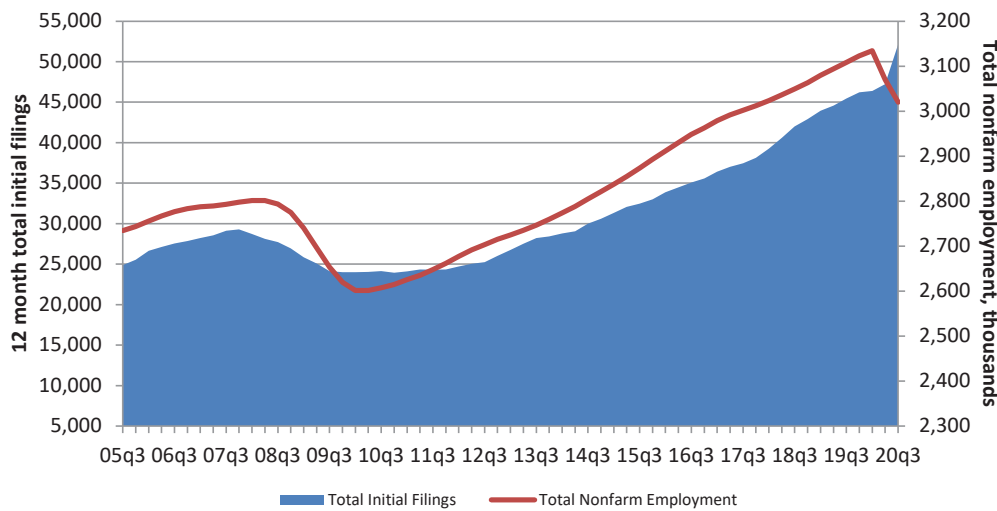
Business Filings Overview

Business filing patterns show signs of a solid economic recovery, as year-over-year growth in new entity filings and annual reports both soared in the third quarter of 2020. During this same period, the number of dissolutions and initial trademark registrations fell while initial assumed name registrations grew. Business filings data are highly seasonal. For example, the number of third quarter renewals (i.e. annual reports) is generally lower than those from the second quarter. For this reason, we largely focus on year-over-year growth rates. Compared to the same quarter last year, new entity filings grew by a robust 42.2 percent while annual reports shot up by 86.2 percent. Over the last twelve months the state has recorded 52,113 new entity filings and 262,338 annual reports.

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Figure 1: Tennessee Employment and New Entity Filings



Source: Tennessee Business Filing Data and Bureau of Labor Statistics.
Note: Nonfarm employment is measured as the 12-month rolling average.

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EMPLOYMENT FORECASTS

Q4 2020 vs Q3 2020 ↑

Q4 2020 vs Q4 2019 ↓

Q1 2021 vs Q4 2020 ↑

INDICATORS

Employment (SA)

(September 2020)

vs. prior month ↑

vs. prior year ↓

New Entity Filings

(2020Q3)

vs. prior quarter ↑

vs. prior year ↑

Annual Report Filings

(2020Q3)

vs. prior quarter ↓

vs. prior year ↑

Unemployment (SA)

(September 2020)

vs. prior month ↓

vs. prior year ↑

TABLE 1: BUSINESS FILINGS – QUARTERLY

	Current Quarter (2020 Q3)	% Change (year-over-year)	Running 12-Month Total
Business Entity Initial Filings			
Domestic For-Profit Corporations	1,688	32.3%	5,719
Domestic Nonprofit Corporations	1,060	7.5%	3,695
Domestic LLC	11,775	56.4%	35,536
Foreign Entities - Total	1,947	8.6%	7,163
Total Business Entity New Filings	16,470	42.2%	52,113
Business Entity Annual Reports			
Domestic For-Profit Corporations	7,509	85.8%	54,143
Domestic Nonprofit Corporations	8,176	65.8%	42,241
Domestic LLC	15,991	116.2%	112,613
Foreign Entities - Total	4,320	45.6%	52,914
Total Business Entity Annual Reports	35,996	86.2%	262,338
Total Active Entities	296,671	4.8%	-
Other Business Filings			
Dissolutions	1,420	-95.4%	8,474
Initial Trademark Registrations	76	-64.2%	598
Initial Assumed Name Registrations	1,862	13.1%	6,765

New entity filings saw very strong growth in the third quarter of 2020, which in normal times would signal positive economic growth for Tennessee going forward. Growth in new entity filings is generally a good leading indicator for nonfarm employment, personal income, and total tax revenue growth in Tennessee. However, the pandemic has produced an ever-evolving and rapidly changing economic landscape that cannot be captured by a leading indicator. For the time being, economic growth will likely follow the trajectory of the virus along with pandemic related responses. Daily infection rates declined in the early part of the summer, but have started surging again, which could dampen economic growth in the near term. Economic growth, to some extent, will depend on public policy measures as well as the reactions of businesses and private consumers.

Initial Filings

Tennessee recorded 16,470 new entity filings (i.e. initial filings) in the third quarter of 2020, representing an incredibly strong 42.2 percent increase over the same quarter last year. The pandemic has certainly led to new business opportunities for some (e.g. enhanced cleaning services, mask making, and food delivery to name a few), and many people who lost their jobs in the spring may have started their own businesses to try to make ends meet or to take advantage of evolving opportunities. Initial filings have now seen positive year-over-year growth in 35 consecutive quarters (Figure 2).

All initial filing categories saw growth in the third quarter. Domestic limited liability corporations (LLCs), which make up the bulk of new entities in the state, saw new filings rise by 56.4 percent as compared

Table 2: Initial Filings among 4 Largest TN Counties, 2020Q3

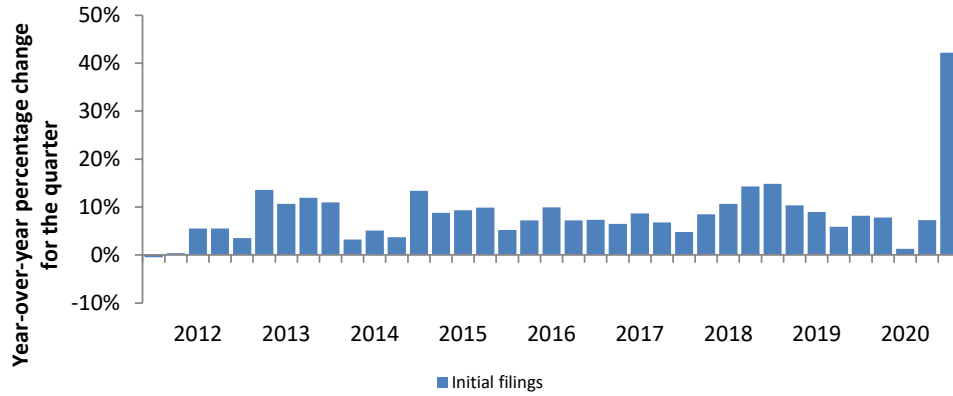
Rank	County	Current Period (2020Q2)	% Change (year-over-year)
1	Shelby	3,912	60.3%
2	Davidson	3,303	23.1%
3	Knox	1,080	15.6%
4	Hamilton	935	17.0%
	Total	9,230	34.6%

Source: Tennessee Business Filing Data.

to the third quarter of last year, and new filings from domestic for-profit corporations grew by a robust 32.3 percent. New entity filings from foreign entities increased by 8.6 percent and those by domestic nonprofit corporations rose by 7.5 percent. In the third quarter, domestic firms accounted for 88.2 percent of all new filings while foreign entities accounted for the remaining 11.8 percent.

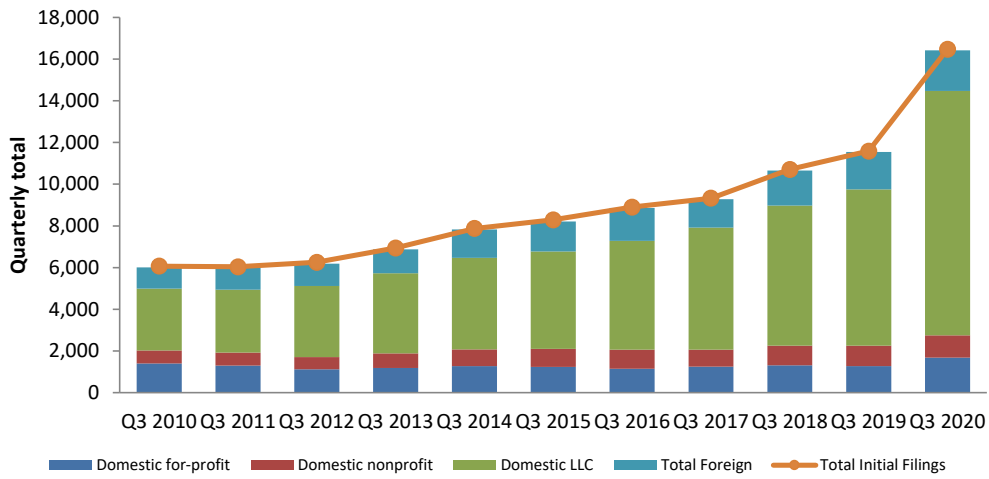
Among the four largest Tennessee counties 9,230 new entities were registered during the third quarter of 2020, representing an extremely strong 34.6 percent increase over the same quarter last year (Table 2). Together, these four counties accounted for 56 percent of all new entity filings in Tennessee. In the third quarter, Shelby County saw the largest number of new entity filings (3,912) and the strongest rate of new filings growth (60.3 percent) as compared to the same quarter last year. Davidson County was a close second with 3,303 new entity filings, representing a 23.1 percent increase over the third quarter of 2019. Hamilton and Knox County also saw new filings growth in excess of 15 percent.

Figure 2: Growth in Quarterly Initial Filings



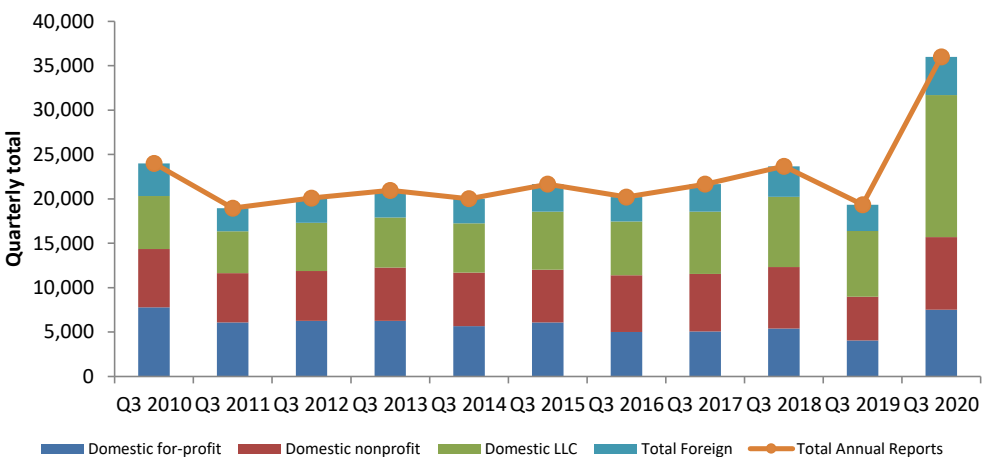
Source: Tennessee Business Filing Data.

Figure 3: Initial Filings



Source: Tennessee Business Filing Data.

Figure 4: Annual Reports



Source: Tennessee Business Filing Data.

Annual Reports and Dissolutions

There were 35,996 annual reports filed in the third quarter of 2020, representing the highest third quarter renewal count in the history of the data (dating back to 1993). This was an 86.2 percent increase over the same quarter last year, and also represents the largest year-over-year increase in two decades. There was a large decrease in annual reports in the second quarter of 2020 as many businesses were temporarily shut down earlier in the year or may have delayed filing their annual report due to economic uncertainty. Thus this high third quarter tally could be driven by a shift in the timing of renewals, as business owners who generally file in the second quarter may have filed in the third quarter instead this year.

All categories of business structures saw positive growth in annual reports. Domestic LLCs saw the largest increase, as annual reports more than doubled, growing by 116.2 percent. Domestic for-profit corporations saw renewals increase by 85.8 percent, renewals of domestic nonprofit corporations increased by 65.8 percent, and those from foreign entities grew by 45.6 percent. Domestic firms accounted for 88 percent of all annual reports, and foreign entities accounted for the remaining 12 percent.

There were 1,420 dissolutions filed in the third quarter of 2020, representing a 95.4 percent drop compared to the same quarter last year. However, this large drop in dissolutions is due to administrative decisions and provides little insight into business

activities. In a typical year the majority of dissolutions occur in the third quarter as entities are administratively dissolved on August 1st for failing to file their annual report. However, this year the state pushed the data back to October in order to provide greater flexibility to businesses during the pandemic. Thus, the bulk of this year's dissolutions will be recorded in the fourth quarter of 2020 rather than the third like in years past.

Tennessee Economic Indicators

State data show signs of an economic recovery but economic activity is still well below pre-pandemic peak levels and parts of the economy continue to struggle. In April, at the height of the pandemic recession, nonfarm employment rolls fell by nearly 400 thousand in a one-month period. The state has seen positive job growth in each month since, adding 245 thousand workers back between May and September. However, there are still 155 thousand fewer workers in Tennessee today than there were prior to the pandemic. Job growth has also slowed in recent months. In both May and June, nonfarm employment grew by 3.7 percent compared to the month prior, representing an increase of over 100 thousand workers in both months. However, in September, employment only grew by 0.4 percent, as the state added 11 thousand new workers to payrolls. From an employment perspective, the leisure and hospitality industry was the hardest hit, by a wide margin, with over 155 thousand jobs lost in April, representing a 44.0 percent reduction in the workforce compared to just one month prior.

TABLE 3: TENNESSEE DATA

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (millions of dollars) [2020Q2]	352,529	15.8%	6.3%
Total tax revenue (millions of dollars) - monthly [2020-September]	1,586	-	1.5%
Sales tax revenue (millions of dollars) - monthly [2020-September]	827	-	1.6%
Franchise & excise tax revenue (millions of dollars) - monthly [2020-September]	500	-	2.1%
Total nonfarm employment (in thousands) - monthly [2020-September]	3,000	0.4%	-4.2%
Manufacturing employment (in thousands) - monthly [2020-September]	326	0.5%	-8.5%
Mining, logging, & construction employment (in thousands) - monthly [2020-September]	130	0.2%	-2.8%

Unemployment rate (%)					
September 2020		August 2020		September 2019	
Rate	Change	Rate	Change	Rate	Change
6.3		8.6	-2.3	3.3	3.0

Sources in order as metrics appear and dates in brackets indicate most recent data available at time of publication: Bureau of Economic Analysis, IHS, U.S. Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, Bureau of Labor Statistics.

Note: Month-to-month growth rates are informative if the underlying data are seasonally adjusted, but can be misleading otherwise. For this reason, month-to-month growth rates are excluded for any non-seasonally adjusted data.

The leisure and hospitality sector has seen positive employment growth in the ensuing months, but there are still 50 thousand fewer leisure and hospitality workers today than there were just six months ago (see Figure 5). Over the last few months, the number of new COVID-19 cases has accelerated throughout the state, and while the current prospects of a second stay at home order are unlikely, many households may deem it unsafe to revert to their pre-pandemic spending behaviors, which could have a negative effect on economic growth going forward.

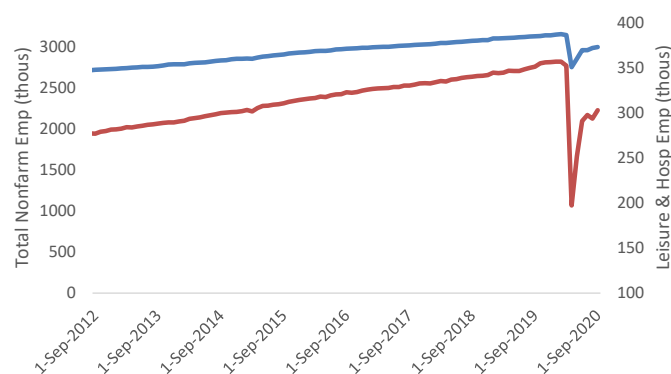
Tennessee's unemployment rate shot up to 15.5 percent in April, marking the state's first double digit unemployment rate since March 2010. The state rate has quickly drifted downward since then, falling to 6.3 percent as of September. By comparison, the national unemployment rate spiked to 14.7 percent in April and has since fallen to 7.9 percent in September (Figure 6).

In the second quarter of 2020, nominal personal income reached \$352.5 billion, representing an astounding 15.8 percent annualized increase over the previous quarter. This acceleration was entirely driven by an increase in transfer payments (e.g. unemployment insurance payments, stimulus checks, etc.), which grew by 463.0 percent compared to the previous quarter. In September 2020, Tennessee tax revenues grew by 1.5 percent compared to the same month last year, as sales and use tax revenues increased by 1.6 percent and franchise and excise tax collections were up 2.1 percent. For the fiscal year-to-date (August to September), Tennessee tax revenues have risen by 1.7 percent.

National Economic Indicators

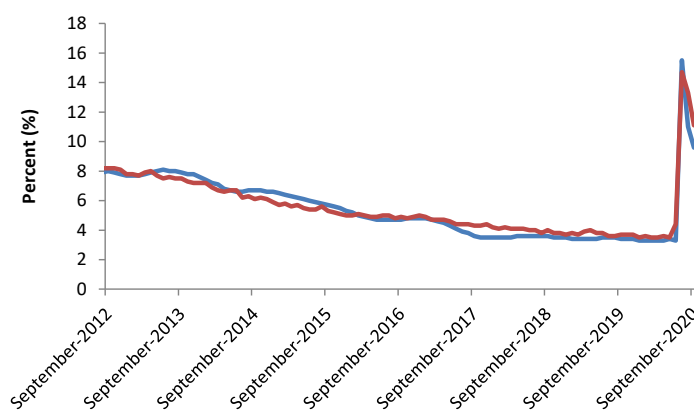
The national economy saw a swift rebound in the third quarter, as inflation-adjusted gross domestic product (real GDP) shot up at an annual rate of 33.1 percent compared to the depressed level of economic activity during the previous quarter. It is important to note that GDP growth is reported at an annualized rate, meaning that if this quarterly change were to last the full year, the national economy would grow by one-third (33.1 percent). However, combined with the economic carnage from previous quarters, we find that total economic activity levels are still 2.9 lower than they were during the third quarter of last year. Thus, the national economy has not fully recovered from the pandemic recession. While there are hopes that the economy will continue to show improvements in the quarters ahead, a surge in infection rates across the country has muddied the waters. Most components of GDP rose sharply in the third quarter. Consumption spending, which generally accounts for two-thirds of economic activity in the U.S., shot up by 40.7 percent as compared to the depressed spending

Figure 5: TN Nonfarm Employment and Leisure and Hospitality Employment Levels



Source: Bureau of Labor Statistics.

Figure 6: Unemployment Rate



Source: Bureau of Labor Statistics.

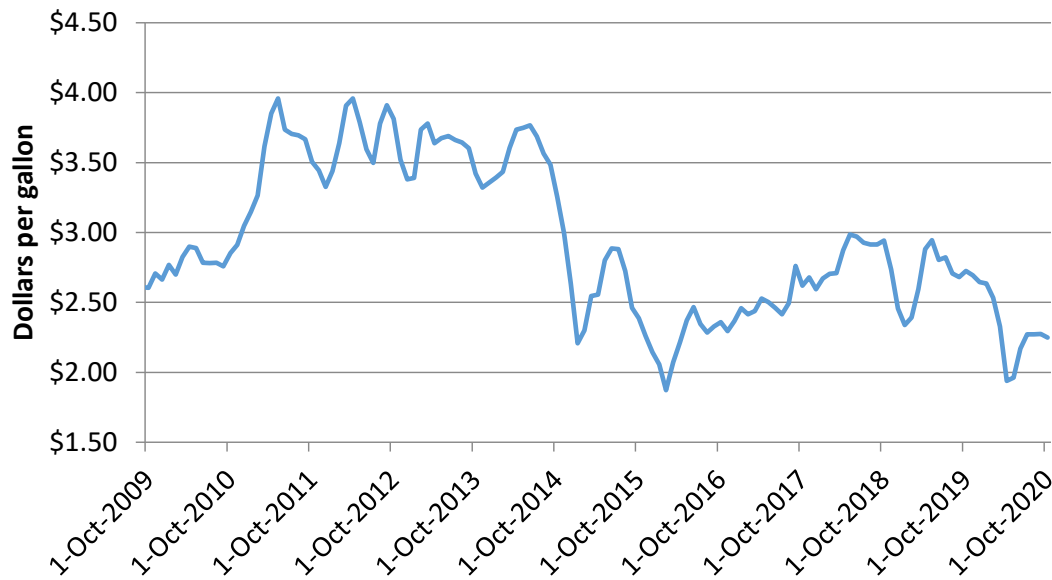
levels from the previous quarter, and investment spending grew by 83.0 percent. Exports and imports also rose sharply, while government spending fell by 4.5 percent as compared to the high levels of government spending associated with the CARES Act during the previous quarter. By comparison, nominal personal income fell by 10.2 percent in the third quarter, as compared to the elevated levels from the quarter prior. This was largely due to a reduction in federal transfer payments associated with Covid-19 relief aid, as unemployment insurance payments fell by \$313 billion or 74.4 percent and other transfer payments (i.e. excluding Unemployment insurance, Social security, Medicare, Medicaid, and Veterans' benefits) shrunk by more than \$1.0 trillion or 96.0 percent compared to the second quarter. Most other components of personal income saw robust growth as states across the country opened back up in the third quarter. Wages and salaries grew by an annualized rate of 21.6 percent compared to the second quarter and proprietors' income rose by over 100 percent.

In April, the U.S. economy lost over 20.7 million jobs in a one-month period. Similar to Tennessee, national job growth has turned positive since then, and 11.4 million jobs have been added back to payrolls over the last 5 months. However, nonfarm employment in September is still well below pre-pandemic levels. Jobless claims also remain elevated, with 751 thousand new claims during the week ending in October 24. This is of course well below the pandemic peak of nearly 6.9 million claims in late-March, but still well above the pre-

pandemic levels of roughly 200 thousand per week.

Light vehicle sales have partly recovered from the second quarter trough of 11.3 million units, and grew to an annualized rate of 15.4 million units in the third quarter. However, light vehicle sales are still 9.7 percent lower than the same time last year. Retail gasoline prices appear to have bottomed out at \$1.94 per gallon in April and have since rebounded slightly with a current average price of \$2.25 per gallon as of October (Figure 7).

Figure 7: Retail Gasoline Prices – All Grades



Source: U.S. Energy Information Administration.

TABLE 4: NATIONAL DATA

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (billions of dollars) [2020Q3]	19,856	-10.2%	6.8%
Real GDP (2012 billions of dollars) [2020Q3]	18,584	33.1%	-2.9%
Consumer price index (1982-84 = 1.00) [2020Q3]	2.60	1.3%	1.3%
Light vehicle sales (millions) [2020Q3]	15.38	36.4%	-9.7%
Housing starts (millions) [2020Q3]	1.45	34.6%	12.8%
Federal funds rate (%) [2020Q3]	0.09	50.0%	-95.9%
30-year fixed mortgage rate (%) [2020Q3]	2.95	-8.9%	-19.4%
S&P 500 stock index [2020Q3]	3,322	13.4%	12.3%
Retail Gasoline Prices (dollars per gallon) - monthly [2020-October]	2.25	-1.1%	-17.5%
Total nonfarm employment (in thousands) - monthly [2020-September]	141,720	0.5%	-6.4%

Unemployment rate (%)

September 2020		August 2020		September 2019	
Rate	Change	Rate	Change	Rate	Change
7.9	-0.5	8.4	-0.5	3.5	4.4

Sources in order as metrics appear and dates in brackets indicate most recent data available at time of publication: Bureau of Economic Analysis, IHS, U.S. Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, Bureau of Labor Statistics.