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# Tennessee Secretary of State

## Tre Hargett

### QUARTERLY BUSINESS AND ECONOMIC INDICATORS

First Quarter 2014

May 2014

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#### EMPLOYMENT FORECASTS

Q2 2014 vs Q1 2014 ▲

Q2 2014 vs Q2 2013 ▲

Q3 2014 vs Q3 2013 ▲

#### INDICATORS

##### Employment (SA)

vs. prior quarter ▲  
 vs. prior year ▲

##### New Entity Filings

vs. prior quarter ▲  
 vs. prior year ▲

##### Annual Report Filings

vs. prior quarter ▲  
 vs. prior year ▲

##### Unemployment

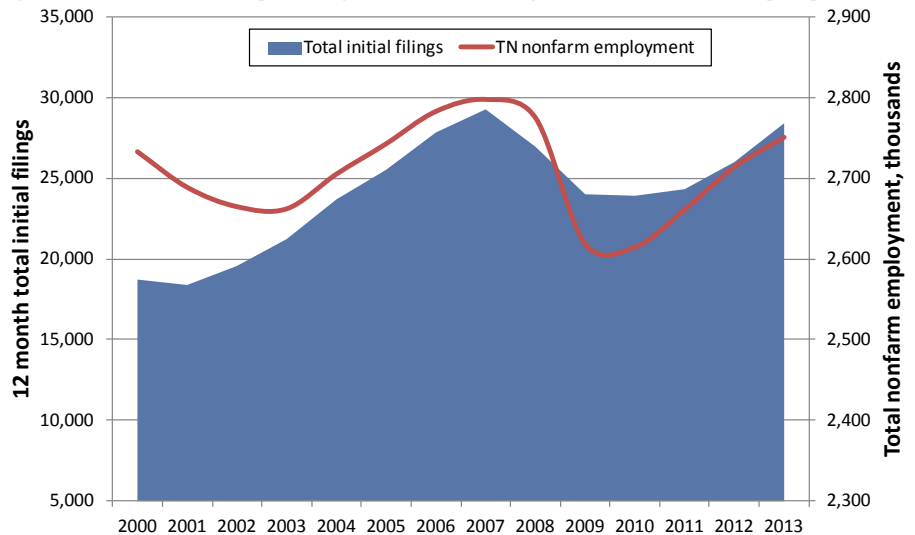
vs. prior quarter ▼  
 vs. prior year ▼

#### Business Filings Overview

**Business filings expanded in the first quarter of 2014.** New entity filings, annual reports, and assumed name registrations all increased in 2014Q1 as compared to 2013Q1. During this period the number of dissolutions in Tennessee shrank as did the number of initial trademark registrations. In the last twelve months Tennessee has registered 28,798 new entity filings and 199,523 annual report filings. As of April 2014 there are 225,862 active entities in Tennessee.

**Growth in new entity filings suggests broader economic growth in Tennessee.** Correlation studies and time-series regression methods show that the number of new entity filings in a quarter is a good leading indicator of broader economic activity in the state. Specifically, the number of initial filings is found to have a positive and significant relationship with a number of important Tennessee economic indicators such as total employment, personal income, and total tax revenues. Total new filings over the last three months are up roughly 20 percent compared to the previous quarter. This suggests that we may observe broader economic growth in Tennessee in the near future.

**Figure 1: New entity filings is a leading indicator of employment**

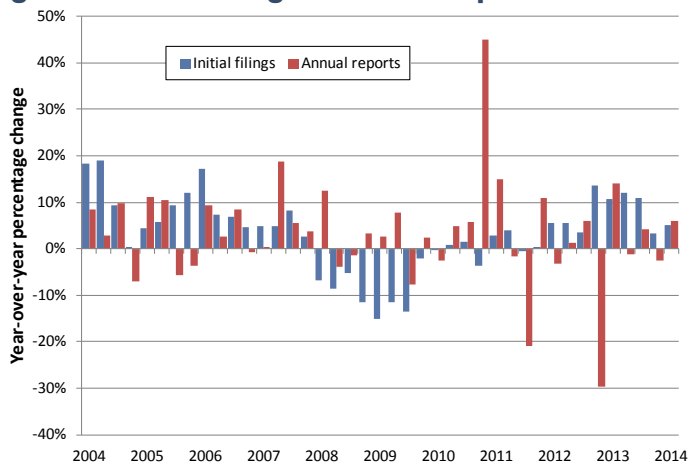


Source: TN Business Filing Data and Bureau of Labor Statistics.

## Initial Filings

New entity filings continue to grow, increasing by 5.1 percent in the first quarter of 2014 as compared to 2013Q1. Initial filings have now posted growth for ten consecutive quarters, and this marks the longest period of consecutive growth since between 2005 and 2007 (Figure 2). Growth in new entity filings has been driven in large part by limited liability corporations (LLCs), as new domestic LLC filings are up 9.3 percent and new foreign LLC filings have grown by 25.9 percent compared to 2013Q1. New filings from nonprofit and for-profit corporations declined by an annual rate of 7.4 percent and 5.7 percent respectively, while initial filings of foreign entities experienced

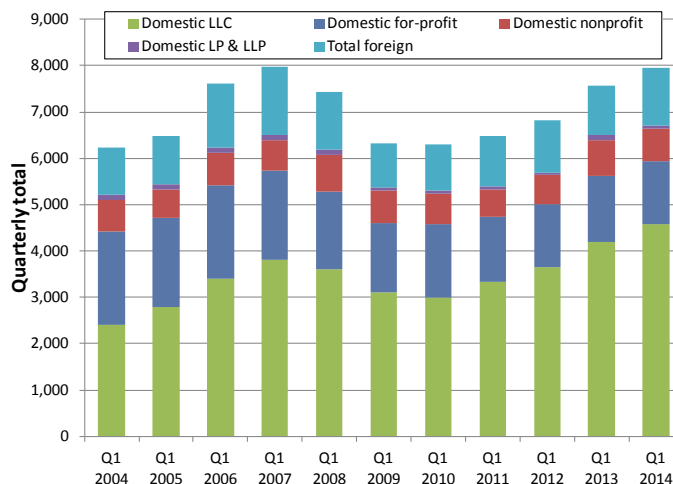
Figure 2: Initial filings & annual reports



Source: TN Business Filing Data.

sizeable growth, expanding by 17.1 percent over 2013Q1. This was driven by growth in new foreign for-profit entities and foreign LLCs. This is the fifth consecutive year to experience first quarter growth in the number of total initial filings (Figure 3).

Figure 3: Initial filings



Source: TN Business Filing Data.

## Annual Reports

Annual reports also rose in the first quarter of 2014. Annual reports are filed by all business entities except for foreign and domestic limited partnerships (LPs), and foreign limited liability partnerships (LLPs). During the first quarter of 2014 there were 114,875 annual

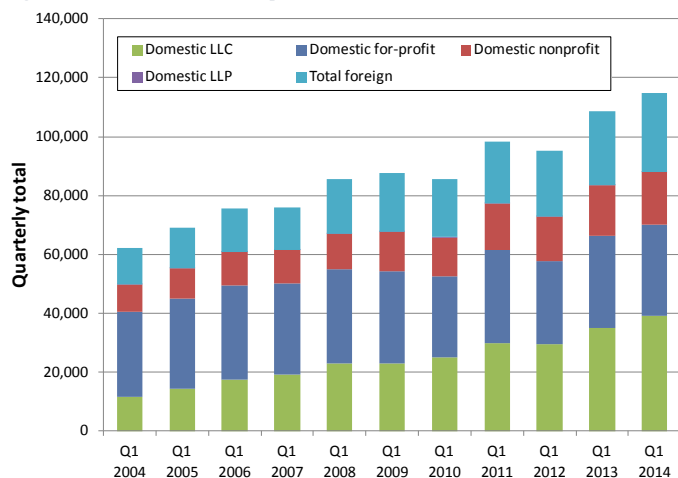
## TABLE 1: BUSINESS FILINGS – QUARTERLY

	Current Quarter (2014 Q1)	% Change (over last quarter)	% Change (year-over-year)
<b>Business Entity Initial Filings</b>			
Domestic For-Profit Corporations	1,351	19.7	-5.7
Domestic Nonprofit Corporations	711	12.7	-7.4
Domestic LLC	4,582	27.7	9.3
Foreign Entities - Total	1,238	1.8	17.1
Total Business Entity New Filings	7,943	20.1	5.1
<b>Business Entity Annual Reports</b>			
Domestic For-Profit Corporations	31,089	569.2	-1.1
Domestic Nonprofit Corporations	17,758	338.4	3.9
Domestic LLC	39,130	1423.2	12.0
Domestic LLP	125	635.3	-3.8
Foreign Entities - Total	26,773	915.7	7.7
Total Business Entity Annual Reports	114,875	725.3	5.9
<b>Other Business Filings</b>			
Dissolutions	1,897	77.3	-3.4
Initial Trademark Registrations	169	-16.3	-15.5
Initial Assumed Name Registrations	898	3.6	3.8

Source: TN Business Filing Data

reports filed which represents a 5.9 percent increase over the same quarter last year. Over three-fourths of the annual reports were filed by domestic firms, with LLCs leading the way followed by for-profit corporations. This is the third consecutive year to experience rising annual reports in the first quarter (Figure 4).

**Figure 4: Annual reports**



Source: TN Business Filing Data.

## Dissolutions

**Dissolution filings contracted in the first quarter of 2014.** Specifically, there were 1,897 dissolutions filed, which was down 3.4 percent compared to this time last year. This is the third consecutive

quarter to experience a year-over-year drop in dissolution filings. Observing consistent reductions in dissolution filings is a good indicator of a strengthening state economy. However, due to the fiscal year schedule used by most entities in Tennessee (fiscal year ending in December,) the majority of dissolutions are filed in the third quarter each year. Therefore, observing low dissolutions in the first quarter is not an uncommon occurrence and by itself it is not indicative of statewide economic performance.

## Tennessee Economic Indicators

**Current economic data show slow but positive growth and are consistent with business filing gains in Tennessee.** This is supported by modest growth in total nonfarm employment, personal income, and sales tax revenues, all of which are positively associated with new entity filings. Year-over-year growth in Tennessee personal income was 1.1 percent. Sales tax revenues have increased by 4.0 percent over 2013Q1, while total tax revenues are only up 0.2 percent. Growth in total tax revenues has been stunted by the seemingly underperforming franchise and excise tax collections, which have contracted by 13.2 percent compared to 2013Q1.

In the Tennessee labor market the picture is slightly more favorable; total nonfarm employment has increased by an annual rate of 1.4 percent, and the unemployment rate dropped below 7.0 percent for the first time since August 2008. However, Tennessee's unemployment rate is still slightly above the national average of 6.7 percent (Figure 5).

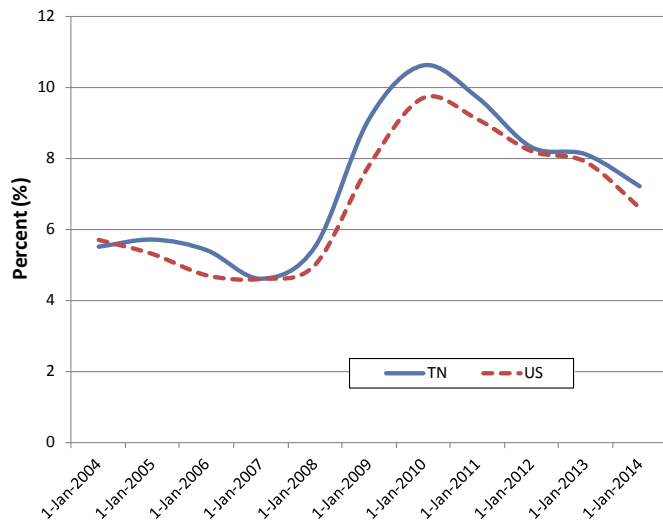
**TABLE 2: TENNESSEE DATA**

	Current Period <sup>a</sup>	% Change (over last period)	% Change (year-over-year)
Personal income (millions of dollars)	258,145	0.63	1.11
Total tax revenue (millions of dollars)	2,759	6.42	0.17
Sales tax revenue (millions of dollars)	1,831	4.68	4.00
Franchise & excise tax revenue (millions of dollars)	366	31.93	-13.19
Total nonfarm employment (in thousands) - monthly	2,778	0.25	1.38
Manufacturing employment (in thousands) - monthly	321	0.09	0.98
Mining, logging, & construction employment (in thousands) - monthly	108	0.09	-0.64
Unemployment rate (%) - monthly	6.9	-4.17	-15.85

<sup>a</sup> Periods are quarters unless otherwise noted.

Sources in order as metrics appear and dates in parenthesis indicate most recent data available at time of publication: Bureau of Economic Analysis (2013Q4), Tennessee Department of Revenue (2014Q1), Bureau of Labor Statistics (2014-February).

**Figure 5: Unemployment rate**



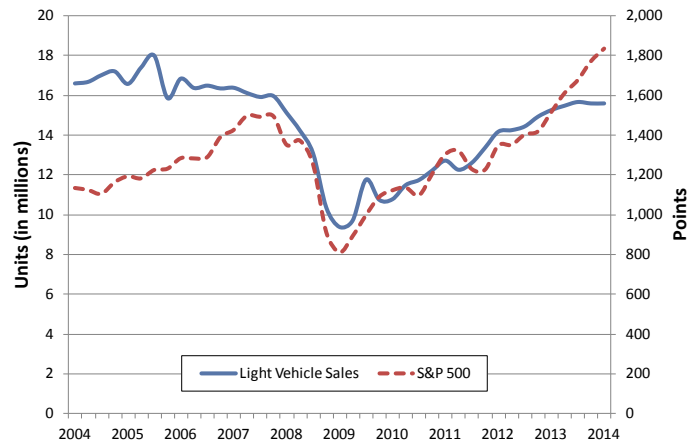
Source: Bureau of Labor Statistics.

### National Economic Indicators

**The U.S. economy continues its recovery.** According to IHS Global Insights, year-over-year growth in real GDP was recorded at 2.5 percent during the first quarter of 2014 and real GDP grew by 0.2 percent over the previous quarter. U.S. personal income expanded by 1.4 percent for the year and total nonfarm employment increased by 1.7 percent, both of which are comparable to Tennessee.

The overall price level, as measured by the consumer price index, increased by 1.4 percent compared to 2013Q1. Light-vehicle sales have rebounded nicely since the Great Recession; per unit sales have experienced year-over-year growth of 2.2 percent, but light-vehicle sales are still slightly below pre-recession levels. The S&P 500 continues to increase, growing by 3.6 percent since last quarter, and up 21.1 percent annually. While light vehicle sales have begun to taper, the S&P 500 index continues to climb (Figure 6).

**Figure 6: Light vehicle sales and the S&P 500 index have both rebounded from the recession**



Sources: IHS Global Insights

### TABLE 3: NATIONAL DATA

	Current Period <sup>a</sup>	% Change (over last period)	% Change (year-over-year)
Personal income (billions of dollars)	14,251	0.55	1.39
Real GDP (2009 billions of dollars)	15,977	0.22	2.52
Consumer price index (1982-84 = 1.00)	2.35	0.43	1.36
Light vehicle sales (millions)	15.59	0.01	2.21
Housing starts (millions)	0.92	-8.24	-3.38
Federal funds rate (%)	0.07	-16.21	-49.34
30-year fixed mortgage rate (%)	4.36	1.26	24.38
S&P 500 stock index	1,834	3.60	21.10
Total nonfarm employment (in thousands) - monthly	137,928	0.14	1.66
Unemployment rate (%) - monthly	6.7	0.00	-10.67

<sup>a</sup> Periods are quarters unless otherwise noted.

Sources in order as metrics appear and dates in parenthesis indicate most recent data available at time of publication: Bureau of Economic Analysis (2013Q4), IHS Global Insights (2014Q1), Bureau of Labor Statistics (2014-March).