

THE TN QUARTERLY

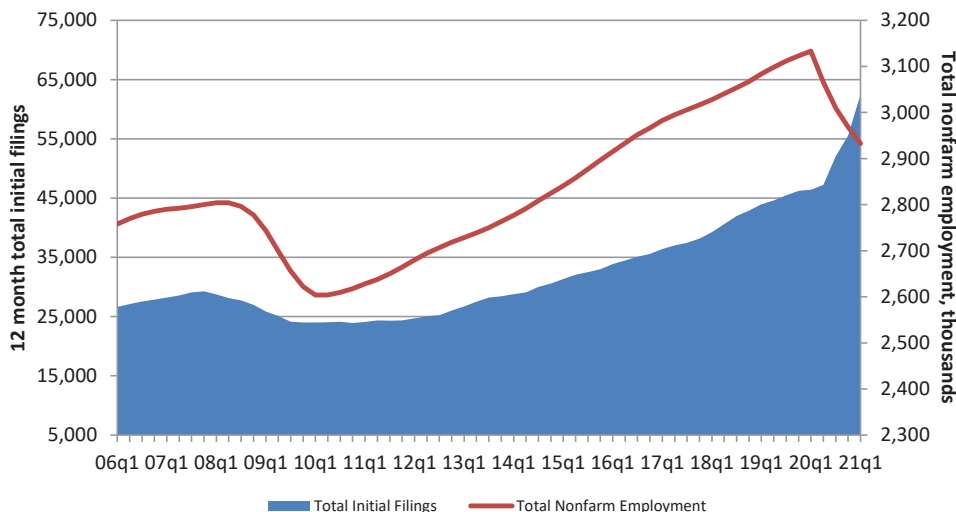
BUSINESS AND ECONOMIC INDICATORS

TENNESSEE SECRETARY OF STATE
Tre Hargett

Business Filings Overview

New business filings continued to expand at record rates in the first quarter of 2021, while annual reports saw a modest drop as compared to the same quarter of 2020. During this same period, the number of dissolutions and initial trademark registrations fell while initial assumed name registrations grew, though each of these represented a small share of Tennessee's first quarter business activity. Compared to the same quarter last year, new entity filings grew by an astounding 55.1 percent, as more new business filings were registered this quarter than ever before. By comparison, annual reports fell by 3.0 percent. Business filings data are highly seasonal. For example, the number of first quarter renewals (i.e. annual reports) is generally higher than those from the fourth quarter of the previous year. For this reason, we largely focus on year-over-year growth rates. Over the last twelve months, the state has recorded 62,502 new entity filings and 261,924 annual reports.

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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Tre Hargett
Tennessee Secretary of State
State Capitol, First Floor
600 Charlotte Avenue
Nashville, TN 37243
Phone: (615) 741-2819
sos.tn.gov

Prepared by the
Boyd Center for Business
and Economic Research
Haslam College of Business
University of Tennessee

EMPLOYMENT FORECASTS

Q2 2021 vs Q1 2021 ↑

Q2 2021 vs Q2 2020 ↓

Q3 2021 vs Q2 2021 ↑

INDICATORS

Employment (SA)

(April 2021)

vs. prior month ↑

vs. prior year ↑

New Entity Filings

(2021Q1)

vs. prior quarter ↑

vs. prior year ↑

Annual Report Filings

(2021Q1)

vs. prior quarter ↑

vs. prior year ↓

Unemployment (SA)

(April 2021)

vs. prior month ↓

vs. prior year ↓

TABLE 1: BUSINESS FILINGS – QUARTERLY

	Current Quarter (2021 Q1)	% Change Running (year-over-year)	12-Month Total
<u>Business Entity Initial Filings</u>			
Domestic For-Profit Corporations	1,699	22.6%	6,234
Domestic Nonprofit Corporations	1,041	11.8%	3,777
Domestic LLC	14,289	69.0%	44,282
Foreign Entities - Total	2,623	38.1%	8,209
Total Business Entity New Filings	19,652	55.1%	62,502
<u>Business Entity Annual Reports</u>			
Domestic For-Profit Corporations	29,005	-9.3%	51,529
Domestic Nonprofit Corporations	19,059	-11.0%	39,650
Domestic LLC	70,480	1.9%	117,660
Foreign Entities - Total	37,314	-1.9%	52,587
Total Business Entity Annual Reports	155,858	-3.0%	261,924
<u>Total Active Entities</u>	341,998	12.0%	-
<u>Other Business Filings</u>			
Dissolutions	2,614	-16.1%	7,301
Initial Trademark Registrations	58	-71.0%	319
Initial Assumed Name Registrations	2,211	35.6%	7,630

The strong rate of new entity filings growth seen in the first quarter suggests positive economic growth for Tennessee going forward, though filing growth is likely inflated due to the pandemic. Historically, growth in new entity filings has been a good leading indicator for nonfarm employment, personal income, and total tax revenue growth in Tennessee. However, the pandemic has led to swift and dramatic shifts in economic activity, which cannot be fully captured by a leading indicator. While the leading indicator is encouraging, economic growth will likely follow the trajectory of the virus and its variants, the distribution and take-up rates of vaccines, and pandemic-related responses by consumers, businesses, and policymakers.

Initial Filings

Tennessee recorded 19,652 new entity filings (i.e. initial filings) in the first quarter of 2021, representing an incredibly strong 55.1 percent increase over the same quarter last year. This represents both the strongest year-over-year increase in new entity filings, and more importantly the highest quarterly tally of new business filings on record (dating back to 1993). Initial filings have now seen positive year-over-year growth in 37 consecutive quarters, including three consecutive quarters with growth of 30 percent or more (Figure 2). The Pandemic-led increase in online sales has led to a strong increase in the number of non-store retailers (e.g. online businesses) nationwide, as consumers have

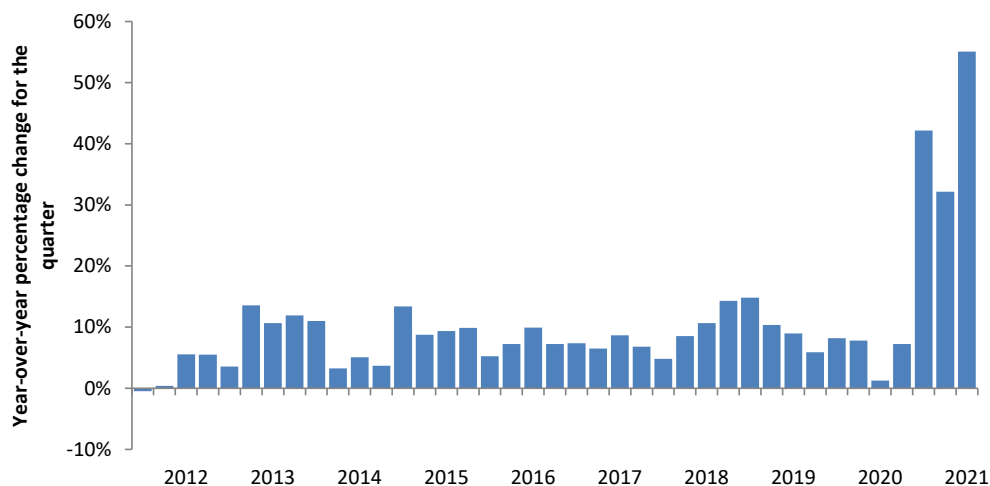
Table 2: Initial Filings among 4 Largest TN Counties, 2021Q1

Rank	County	Current Period (2021 Q1)	% Change (year-over-year)
1	Shelby	3,730	50.2%
2	Davidson	3,413	27.6%
3	Knox	1,196	20.8%
4	Hamilton	1,074	41.1%
Total		9,413	36.3%

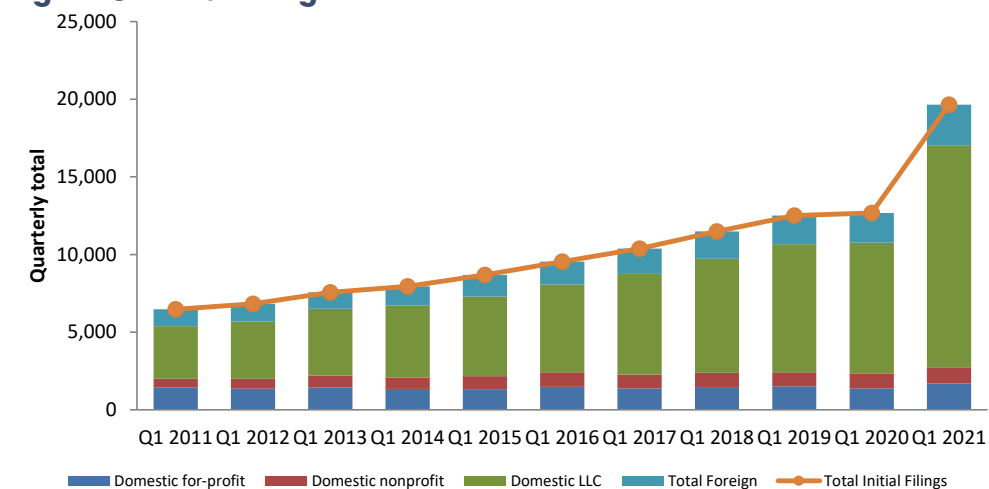
Source: Tennessee Business Filing Data.

dramatically shifted towards online shopping, likely explaining part of the increase in new entity filings. Furthermore, more new business opportunities are emerging throughout the state as vaccines are distributed and the economy continues to reopen.

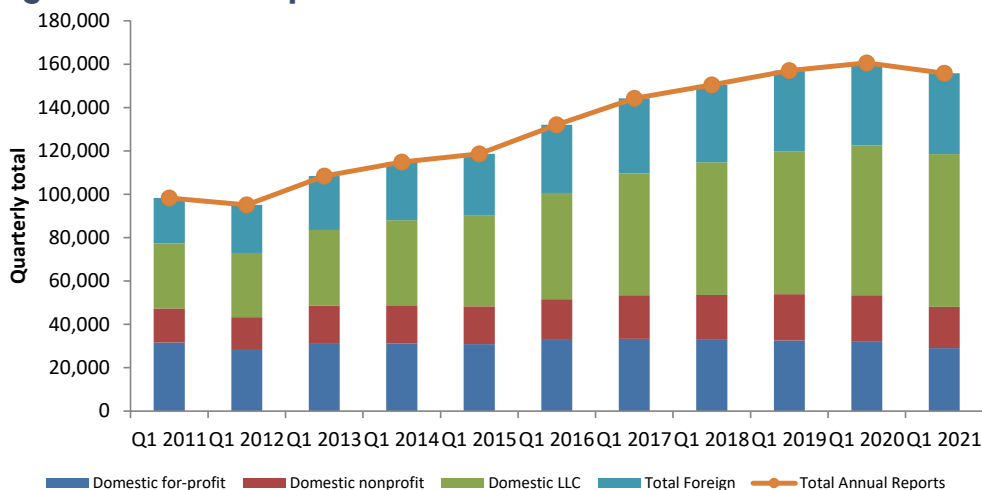
All four initial filing categories saw gains in the first quarter. New filings from domestic limited liability corporations (LLCs), which account for the majority of new entities in the state, rose by a dramatic 69.0 percent as compared to the first quarter of last year, and new filings from foreign entities grew by 38.1 percent. Initial filings from domestic for-profit corporations increased by 22.6 percent, and new filings from domestic nonprofit corporations rose by 11.8 percent. Domestic firms accounted for 86.7 percent of all first quarter new entity filings, while foreign entities accounted for the remaining 13.3 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.

There were 9,413 new entities registered among the four largest Tennessee counties –Davidson, Shelby, Knox, and Hamilton, representing a 36.3 percent increase over the same quarter last year (Table 2). Initial filings from these four counties accounted for roughly half of the state’s new business filings in the first quarter, but they increased at a slower pace than the other 91 counties in Tennessee. During this period, Shelby County saw the largest number of new filings (3,730) followed by Davidson County (3,413). Shelby County also saw the strongest rate of new filings growth among the top-four counties, as initial filings expanded by 50.2 percent between the first quarter of 2020 and the same quarter in 2021. All four counties saw new filings growth in excess of 20 percent.

Annual Reports and Dissolutions

There were 155,858 annual reports (i.e. renewals) filed in the first quarter of 2021, representing a 3.0 percent drop as compared to the same quarter last year. Domestic LLCs saw a modest, 1.9 percent increase in annual reports, while all other categories declined. Renewals of domestic nonprofit corporations fell by 11.0 percent, those from domestic for-profit corporations decreased by 9.3 percent, and annual reports from foreign entities fell by 1.9 percent. In the first quarter of 2021, domestic firms accounted for 76.1 percent of all annual reports, and foreign entities accounted for the remaining 23.9 percent.

There were 2,614 dissolutions filed in the first quarter of 2021, representing a 16.1 percent drop compared to the same quarter last year. This is not indicative of any underlying economic trends as this represents a very small number of dissolutions for a three-month period. The majority of dissolutions typically occur in the third quarter of each year when entities are administratively closed for failing to file their annual report.

Tennessee Economic Indicators

Tennessee’s economy continues to recover from the trough of the pandemic recession. In April, nonfarm employment expanded by 0.3 percent, representing a pickup of 9,800 jobs over the previous month (Table 5). The state lost nearly 400 thousand jobs in the spring of 2020 due to the COVID-19 pandemic. Since then, the Tennessee economy has added 287.4 thousand jobs back to payrolls, as a result, there are still 92.4 thousand fewer workers on payrolls today than there were during the pre-pandemic peak of February 2020 (Figure 5). The state saw a strong rebound in job growth over the summer of 2020, adding a combined 161.7 thousand workers back to payrolls in May and June. However, monthly job gains have been much slower ever since, as average monthly job gains have fallen to roughly 12,600 per month over the last ten months (July 2020 through April 2021). In April, employment in the leisure and hospitality sector, one of the hardest hit by the pandemic, advanced by 0.8 percent compared to the

TABLE 3: TENNESSEE DATA

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (millions of dollars) [2020Q4]	346,787	-0.3%	3.3%
Total tax revenue (millions of dollars) - monthly [2021-April]	2,473	-	90.9%
Sales tax revenue (millions of dollars) - monthly [2021-April]	1,074	-	40.2%
Franchise & excise tax revenue (millions of dollars) - monthly [2021-April]	1,007	-	319.3%
Total nonfarm employment (in thousands) - monthly [2021-April]	3,061	0.3%	10.4%
Manufacturing employment (in thousands) - monthly [2021-April]	345	-0.4%	17.1%
Leisure and hospitality employment (in thousands) - monthly [2021-April]	302	0.8%	39.2%
Unemployment rate (%)			
	April 2021	February 2021	April 2020
	Rate	Rate	Rate
	5.0	5.1	15.8
		Change	Change
		-0.1	-10.8

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.

month prior, representing an additional 2,400 jobs. As of April, leisure and hospitality employment levels are still 49,600 below their pre-pandemic peak (Figure 5). The Tennessee unemployment rate quickly rebounded from its 15.8 percent peak in April 2020, and now sits at 5.0 percent as of April 2021. By comparison, the national unemployment rate, which rose to 14.8 percent in April 2020, has since fallen to 6.1 percent as of April 2021 (Figure 6).

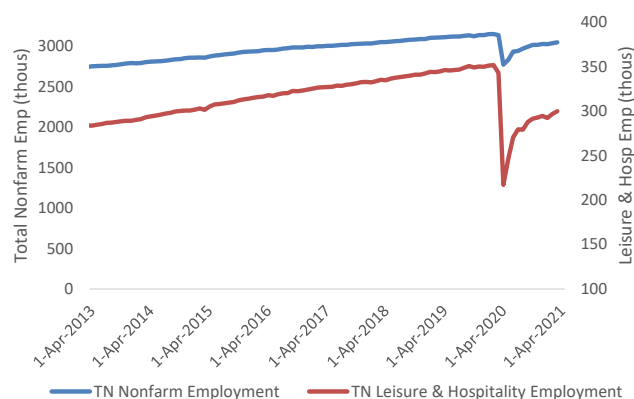
In the fourth quarter of 2020, nominal personal income was \$346.8 billion, representing a 0.3 percent annualized drop as compared to the previous quarter. This decline was due to a drop in federal transfer payments (e.g. unemployment insurance payments, stimulus checks, etc.), as the effects of fiscal stimulus through the CARES Act continued to moderate in the fourth quarter of 2020. However, we should see an acceleration in personal income growth in the first quarter of 2021 due to the most recent COVID relief bill, the American Rescue Plan Act, which went into effect in March 2021, and provided a number of relief measures, including additional stimulus checks and extensions to federal unemployment insurance programs.

In April 2021, Tennessee tax revenues shot up by 90.9 percent as compared to the same month last year, and for the fiscal year-to-date (August 2020 through April 2021), tax revenues are up 14.7 percent. Strong revenue growth was driven by a number of pandemic-related factors. First, April 2021 tax collections are being compared to the incredibly weak collections from April 2020, when much of the state and national economy was shutdown. Second, in response to the pandemic, the state suspended or postponed a number of April 2020 tax payment deadlines, which shifted the timing of tax collections and depressed April 2020 tax revenues even further. These changes included the postponements for franchise and excise tax payments, which as a result, grew more than four-fold in April 2021 as compared to April 2020. Finally, the rapid vaccine rollout and decline in COVID-19 cases has led to an uptick in consumer confidence and economic activity. As a result, sales tax revenues rose by 40.2 percent as compared to the same month last year. Strong sales tax collections have also been driven by recently implemented legislative changes requiring marketplace facilitators (e.g. eBay and Amazon) to collect sales tax on online transactions on their platforms.

National Economic Indicators

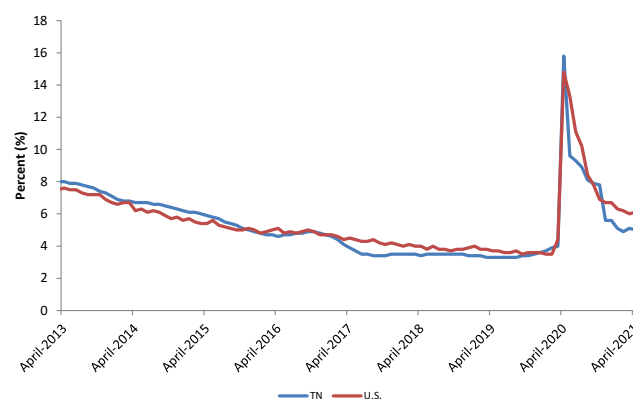
The U.S. economy saw a strong surge in economic growth during the first quarter of 2021. In the first quarter, inflation-adjusted gross domestic product advanced at an annual rate of 6.4

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.

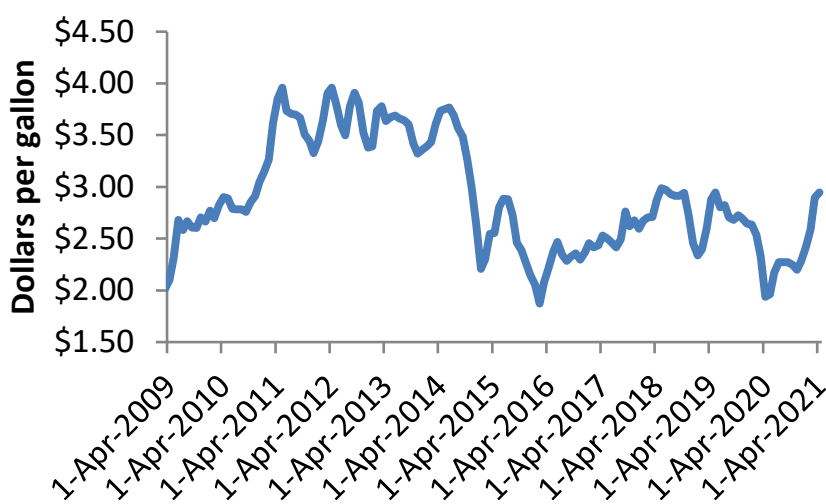
percent as compared to the previous quarter, and as a result, real GDP is nearing its pre-pandemic peak level from the fourth quarter of 2019. Strong growth has been driven by a number of factors, including new rounds of stimulus checks, larger unemployment insurance payments, the speedy rollout of COVID-19 vaccinations, and the gradual loosening of COVID-related restrictions across the nation. As a result, consumption spending, which accounts for more than two-thirds of U.S. economic activity, grew by an annual rate of 10.7 percent in the first quarter. Nominal personal income shot up at an annual rate of 15.6 percent in the first quarter of 2021. This was driven by incredibly strong growth in transfer payments due to the American Rescue Plan Act.

The nation's labor market continues to recover, but employment levels are still well below the pre-pandemic peak. In April, nonfarm employment grew by 0.2 percent compared to the month prior, representing a net increase of 266 thousand jobs.

Over the last four months, the national economy has added 1.8 million jobs back to payrolls. However, there are still 8.2 million fewer jobs today than there were prior to the pandemic (February 2020). April job growth was strongest in the leisure and hospitality sector, where 331 thousand jobs were added back to payrolls as compared to the previous month. However, leisure and hospitality employment is still down by 2.8 million compared to the pre-pandemic peak. In contrast, employment in professional and businesses services shrunk by 79,000 and manufacturing employment declined by 18,000 workers compared to the month prior.

In the first quarter of 2021, light vehicle sales rose to 16.8 million units, representing a robust 4.0 percent increase compared to the previous quarter. Retail gasoline prices, which plummeted to \$1.94 per gallon in April 2020, have surged in recent months, and currently sit at \$2.95/gallon as of April 2021. This is the highest monthly gas price since June 2018 (see Figure 7). This uptick in prices is likely driven by a number of factors. As the pandemic continues to subside, the demand for travel has picked up, putting upward pressure on gasoline prices. Furthermore, there has been a reduction in the U.S. supply of crude oil, as the abnormally harsh Texas winter led to a drop in the state's oil production, which is also driving gasoline prices upward.

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) [2021Q1]	21,900	59.0%	15.6%
Real GDP (2012 billions of dollars) [2021Q1]	19,088	6.4%	0.4%
Consumer price index (1982-84 = 1.00) [2021Q1]	2.63	0.9%	1.8%
Light vehicle sales (millions) [2021Q1]	16.75	4.0%	11.6%
Housing starts (millions) [2021Q1]	1.54	-3.1%	3.4%
Federal funds rate (%) [2021Q1]	0.08	-9.5%	-93.5%
30-year fixed mortgage rate (%) [2021Q1]	2.88	4.3%	-18.0%
S&P 500 stock index [2021Q1]	3,863	8.7%	25.8%
Retail Gasoline Prices (dollars per gallon) - monthly [2021-April]	2.95	1.7%	52.1%
Total nonfarm employment (in thousands) - monthly [2021-April]	144,308	0.2%	10.9%

Unemployment rate (%)

April 2021		March 2021		April 2020	
Rate		Rate	Change	Rate	Change
6.1		6.0	0.1	14.8	-8.7

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.