

## SEPTEMBER 2020

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Welcome to the first issue of *ECO* – [\*financed by First Horizon Bank\*](#), the Knoxville Chamber’s monthly economic outlook analysis. Each month, we will provide a varied list of economic indicators with subsequent insight into how the data and information may impact the region. A major component of this work will be our monthly survey of businesses in the manufacturing, retail, and service sectors, which we will leverage to gauge current economic conditions and gain insights into the economic outlook for the next six months. We will also include traditional labor market, housing, sales tax, and airport information as well as impromptu information as it becomes available. We hope that *ECO* – [\*financed by First Horizon Bank\*](#) will help our regional business community make more-informed decisions as they run their businesses.

*Note: We are still growing the number of participating companies, so response totals in some areas may be small.*

[\*\*REGISTER TO PARTICIPATE IN ECO.\*\*](#)

## ECONOMIC SURVEY RESULTS BY INDUSTRY

### **MANUFACTURING**

Based on responses to the September survey, there appears to be some uncertainty in the Knoxville region’s manufacturing sector. The forecast for the next six months appears to be more positive with some parts of the business growing.

The month-over-month responses were evenly split between “increase” and “decrease” in production, capacity utilization, volume of new orders, and number of employees. Responses for growth rate of orders, volume of shipments, and capital expenditures were also evenly split between “decrease” and “no change”. Area manufacturers reported “no changes” in unfilled orders, delivery time, finished goods inventories, prices paid for raw materials, prices received for finished goods, wages and benefits, and average employee workweek.

The six-month outlook projects an “increase” in production, volume of shipments, number of employees, and capital expenditures. Respondents predict “no change” in unfilled orders, delivery time, finished goods inventories, prices paid for raw materials, prices received for finished goods, and average employee workweek. Responses were evenly split between

“increase” and “no change” in capacity utilization, volume of new orders, growth rate of orders, and wages and benefits.

## **RETAIL**

Knoxville area retailers indicated in the September survey that their evaluation of the level of general business activity has “improved” since the prior month but uncertainty regarding their company’s outlook remains largely unchanged. This is understandable considering that the reopening of the economy a few months ago would improve business activity but with the continued prevalence of COVID-19 and mixed messages about what to expect, there would be an uncertain outlook.

The month-over-month responses show an “increase” in net sales revenue and “decrease” in inventories. “No change” was mostly reported for the number of employees (both full-time and part-time), average employee workweek, input prices, selling prices, and capital expenditures. Retailers were about split between “increases” and “no changes” in wages and benefits. Internet sales were mixed.

The six-month outlook projects an “increase” in net sales revenue as well as wages and benefits. Retailers are more-or-less split between “no changes” and “increases” in the number of employees (both full-time and part-time), input prices, selling prices, capital expenditures, and inventories. Internet sales and average employee workweek are expected to be mostly unchanged.

Some retail respondent feedback indicate that SBA and bank lending have become too restrictive, slow, and in some cases impossible to access. Restaurants also indicate that the 50% seating capacity continues to negatively impact them.

## **SERVICE**

Knoxville area service sector businesses report in the September survey that compared to the prior month, there mostly has been “no change” in the number of employees (both full-time and part-time), average employee workweek, wages and benefits, input prices, and selling prices. Monthly revenue and capital expenditures were mostly split between “increase” and “no change”. The level of general business activity has “improved” from last month for most service sector respondents.

The six-month outlook shows most respondents estimating an “increase” in revenue, number of employees, and capital expenditures. “No change” is predicted for the number of part-time employees, average employee workweek, and selling prices. Respondents are mostly split between “increase” and “no change” in input prices and wages and benefits.

Service sector feedback indicates that some businesses are seeing a leveling off from earlier declines in business and are slowly recovering as customers regain confidence. Restrictions on social gatherings continue to be an inhibitor. Some businesses were able to adapt by fully embracing the “work from home” model and have seen minimal loss of productivity. Other businesses are indicating that finding employees remains difficult due to extended unemployment benefits or an unwillingness to work.

## FEDERAL RESERVE'S HISTORICALLY LOW-INTEREST RATES

The Federal Reserve Bank's current Federal Funds Rate is 0.25% and the Fed is signaling that it will be keeping the target rate range between 0-0.25% in place through at least 2023.

In addition to the regular monthly survey questions, we asked participants if today's current historically low-interest rates were causing them to change their capital project plans.

We did receive a few responses indicating that the low-interest rates will allow them to add more office space, remodel their space, purchase more equipment, and give future consideration to purchasing a building instead of leasing space.

Source: *Trading Economics*

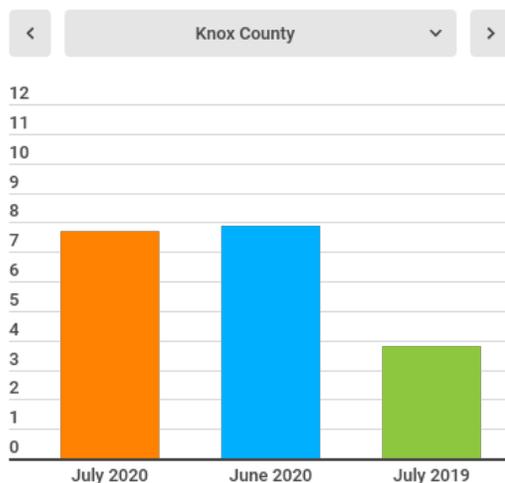
## LABOR MARKET INFORMATION

August unemployment rates continued trending downward since the reopening of the economy back in June. The U.S. unemployment rate for August was 8.5% (down from 10.5% in July and continuing a four-month downward trend from the 14.4% unemployment rate recorded in April during the COVID-19 lockdown). The same trending has held true for Tennessee (8.6% in August, down from 9.9% in July and down from 15% back in April), the Knoxville MSA (6.6% in August, down from 7.9% in July and down from 13.5% in April), and Knoxville County (6.5% in August, down from 7.7% in July and down from 12.9% in April).

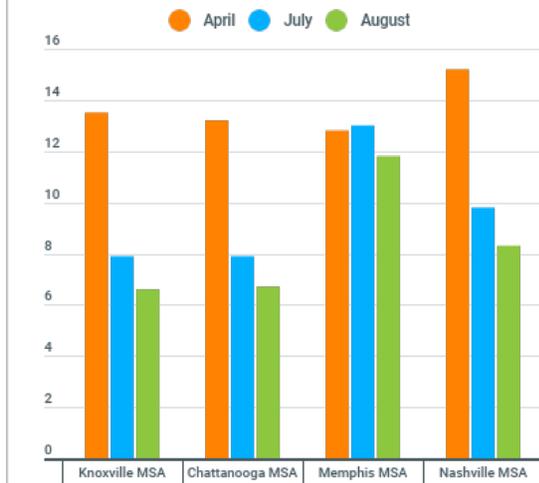
Below is a comparison of the monthly unemployment rates for the four largest MSA's in Tennessee showing April (during COVID-19 lockdown) and monthly change from July to August as well as state and national rates.

## Unemployment Rates

### Local, State and National Rates



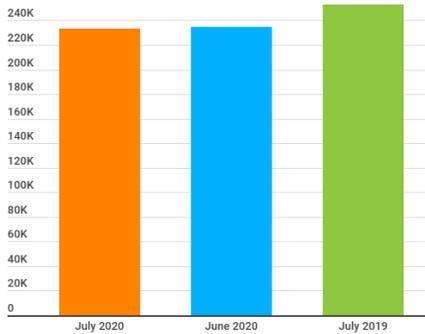
### Top 4 MSAs in Tennessee



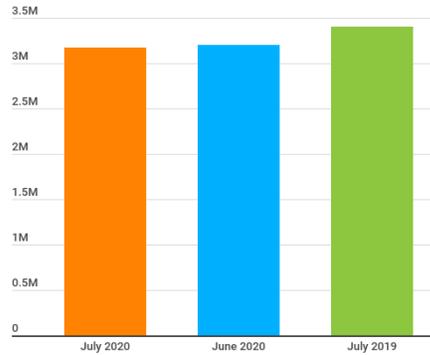
The size of the total labor force has increased in August from July in Tennessee by +6.6% (from 3,173,394 to 3,381,884), Knoxville MSA by +6.4% (from 409,283 to 435,600), and Knox County +6.4% (from 233,163 to 248,179) while the national labor force slightly dipped by -0.3% (from 161,374,000 to 160,966,000).

## Resident Labor Force

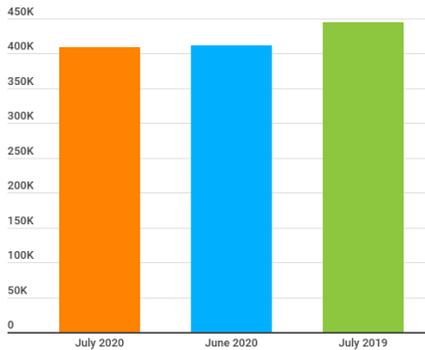
Knox County



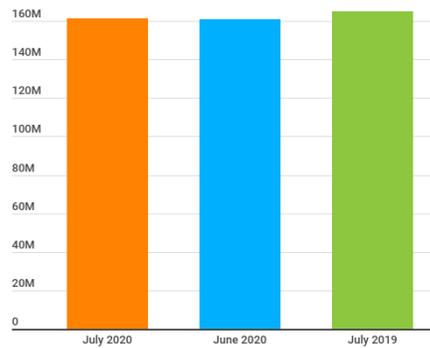
Tennessee



Knoxville MSA



United States



Sources: U.S. Bureau of Labor Statistics; Tennessee Department of Labor & Workforce Development

## JOB MARKET

For the month of August, there were 28,046 unique active job postings in the Knoxville MSA (up 7.8% from July but down 13.7% from last August). There were 16,601 unique active job postings in Knox County (up 10.7% from July but down 9.9% from this time last year).

### Top Ten Industries by Number of Postings

	Industry	Number of Postings
	Retail Trade	3,696
	Health Care and Social Assistance	3,683
	Administrative Support, Waste Management and Remediation Services	3,592
	Transportation and Warehousing	2,957
	Accommodation and Food Services	2,164
	Professional, Scientific and Technical Services	1,927
	Other Services	1,190
	Manufacturing	1,172
	Finance and Insurance	786
	Educational Services	649

Source: EMSI Job Postings Analytics

## **ADP NATIONAL EMPLOYMENT REPORT®**

Each month, ADP, a large-scale payroll and human resources company releases their National Employment Report®, which provides a high-level look at month-over-month private-sector employment changes across the country.

The August report shows an increase of 428,000 in nonfarm private-sector employment (a much higher increase than the 167,000 increase reported in July). Large firms (500+ employees) lead the way by adding 298,000 jobs in August (adding further to the 129,000 jobs gain reported in July). Midsized businesses (50-499 employees) rallied back by adding 79,000 jobs in August (more than canceling out the 25,000 jobs loss reported in July). Small businesses (1-49 employees) added 52,000 jobs in August (11,000 less than the July gain of 63,000).

ADP's Small Business Report, which further synthesizes the small business landscape, shows that most of the 52,000 jobs gain came from the Very Small businesses (1-19 employees) accounting for 43,000 of the added jobs. The remainder of the job gains came from the small businesses that employ 20-49.

*Source: ADP*

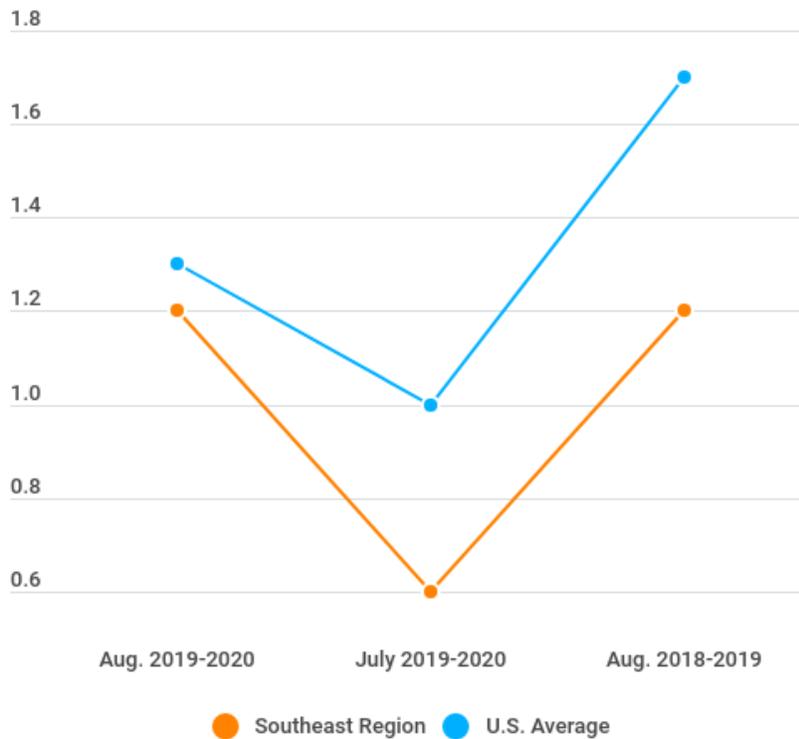
## **CONSUMER PRICE INDEX/INFLATION RATES**

The national inflation rate from August 2019 to August 2020 is 1.3%. This rate is a modest increase from the 1.0% rate in the July 2019 to July 2020 period. Nationally, the inflation rate in 2020 has been trending downward from 2.5% in January to as low as 0.1% in May and then modestly increasing through the June to August period.

Knoxville falls into the South Size Class B/C (population of 2.5 million or less) grouping. The current inflation rate for this region is 1.2% for the August 2019 to August 2020 period. This rate is up from the 0.6% rate in the July 2019 to July 2020 period. Similar to the national rate, the South Region's B/C class inflation rate has been trending downward in 2020 from 2.3% in January to as low as -0.3% in May and then modestly trending upward back into positive territory through the June to August period.

## Inflation Rates

### Consumer Price Index - All Items



Source: U.S. Bureau of Labor Statistics; Consumer Price Index, not seasonally adjusted

## HOUSING MARKET

Nationally, home sales in August increased 2.4% from July and are up 10.5% from last August. This shows three consecutive months of home sales gains. Home sales in the South increased 0.8% in August, up 13% from last August. Home sales estimates for August in the Knoxville area were not yet released but July sales showed an increase of 13.8% from June, while down 16.3% from July 2019.

## Knoxville Area Housing Market

	July 2020	June 2020	July 2019
Residential Closings	2,314	2,034	2,766
Residential Inventory	3,640	3,745	5,087
Median Residential Price	\$232,000	\$225,000	\$208,600

Lawrence Yun, chief economist for the National Association of Realtors, forecasts further home sales gains for the remainder of the year as mortgage rates continue to hover around 3% and jobs continue to recover from the past spring's COVID-19 lockdowns.

Housing inventories remain tight nationally, regionally, and locally which continues to drive median home prices higher. The national median home sales price in August was \$310,600 (up 11.4% from last year). The median home sales price in the South was \$269,200 (up 12.3% from last August). Median home sales price estimates for August in the Knoxville area were not yet available but July's estimate was \$232,000 (up 3.1% from June and up 11.2% from July 2019).

A shortage of lumber caused by the massive wildfires in the western states and corresponding surge in lumber prices are certain to exacerbate the current housing shortage. According to the National Association of Home Builders, a spike in the price for softwood lumber prompted an average price increase of \$14,116 since April.

## Residential Building Permits

City of Knoxville



Knoxville MSA



Knox County



Tennessee



Sources: National Association of Realtors; Knoxville Area Association of Realtors

## NATIONAL RETAIL SALES

The total advance monthly retail sales estimate for August 2020 was \$545.89 billion (down 0.9% from July and slightly up 0.1% from last August).

The retail sectors that showed the most growth from this time last year were Non-store Retailers (+20.1%), Building Materials (+11.9%), Food and Beverage Stores (+8.3%), and Sporting Goods/Books/Hobby/Music Stores (+8.0%).

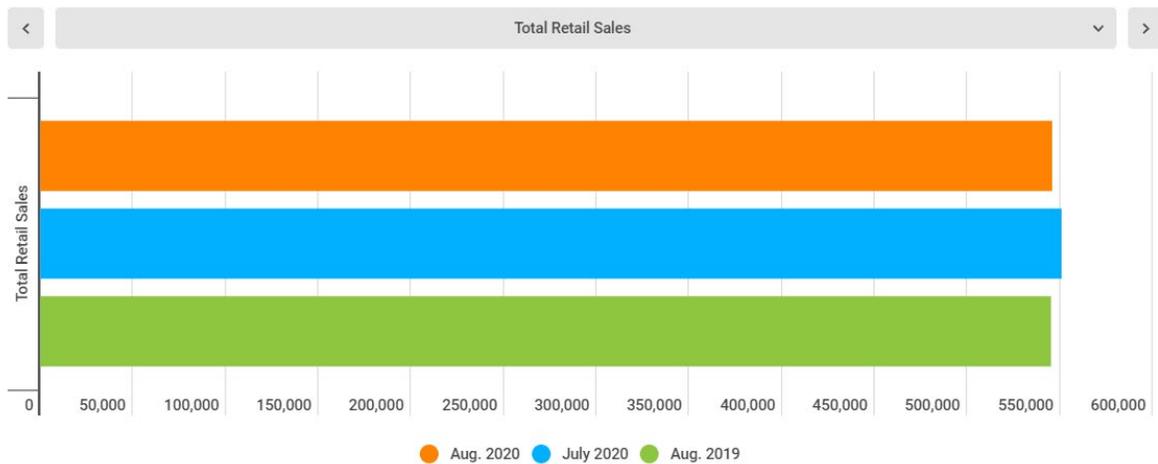
The retail sectors that experienced the biggest declines in sales from last August were Clothing Stores (-23.5%), Food Services and Drinking Places (-17.1%), and Gasoline Stations (-16.2%).

Consumers in these COVID-19 pandemic times are increasingly making more purchases online through Non-Store Retailers like Amazon and Wayfair, doing more home improvement projects, buying more groceries to eat at home, and trying to exercise and entertain themselves at home.

COVID-19 social distancing and capacity restrictions are most likely contributing to the sales declines at Clothing Stores and Food Services and Drinking Places (i.e. restaurants and bars) as there is probably less foot traffic, more online purchases, and more people cooking at home. Gas Stations are most likely being affected by people commuting and traveling less.

### National Retail Sales

in Millions of Dollars

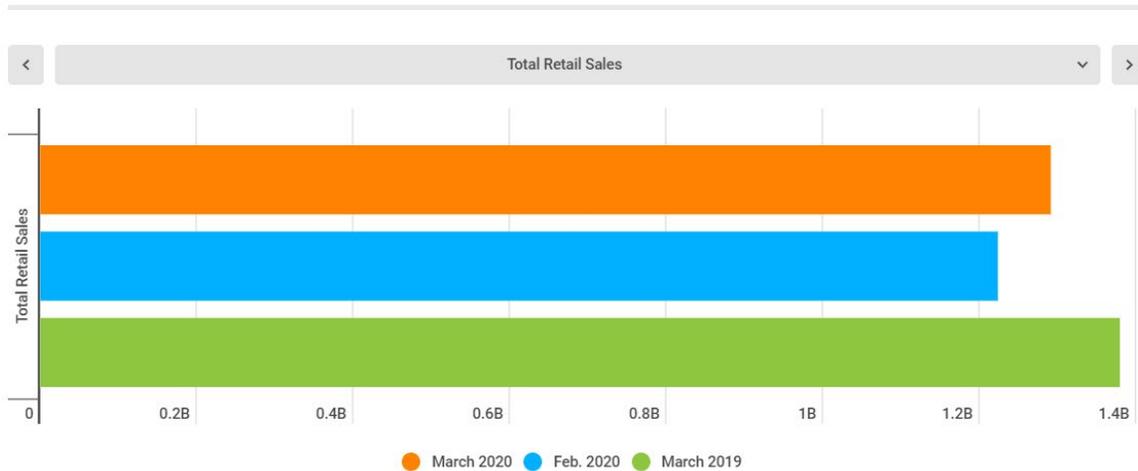


Source: U.S. Census Bureau; Advance Monthly Retail Trade Reports, not adjusted

## TENNESSEE PULSE SURVEY

According to the last bi-weekly Tennessee Pulse Survey (COVID-19 Consumer Sentiments) conducted August 17-25 by the State of Tennessee's Economic Recovery Group and the University of Tennessee, only 27% of people statewide felt comfortable eating at dine-in restaurants, 25% felt comfortable shopping at department stores, 15% felt comfortable going to the movies or bowling alleys, 14% felt comfortable going to the gym, and 13% felt comfortable going to large public events like concerts, theatre plays, and sporting events. These results indicate that low consumer confidence is more of a driver for the slow recovery in many industries versus any regulatory mandates. You can view the full COVID-19 Consumer Sentiments Survey [here](#).

### Knoxville Retail Sales



Source: Tennessee Department of Revenue

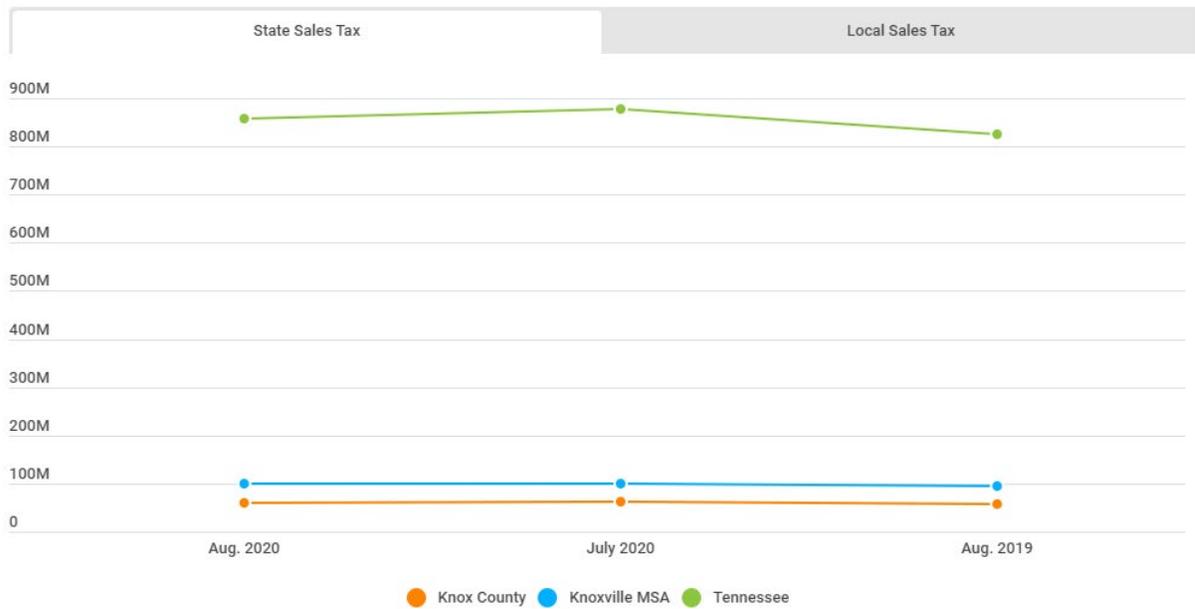
## TENNESSEE STATE AND LOCAL SALES TAX COLLECTIONS

State and local sales tax revenues in August 2020 are down from July but up from last year.

Tennessee collected \$857.7 million in state sales taxes (down 2.2% from July and up 3.8% from last August). The nine-county Knoxville MSA region collected \$99.3 million (down 1.6% from July and up 5.8% from last August) and Knox County collected \$60.8 million (down 3.3% from July and up 4.1% from last August).

The Knoxville MSA collected \$32.7 million in local sales taxes (down 2.3% from July and up 14.9% from last August) and Knox County collected \$19.2 million (down 4.4% from July and up 13.1% from last August).

## Sales Tax Revenue



Source: Tennessee Department of Revenue

## MCGHEE TYSON AIRPORT PASSENGER AND FREIGHT TRENDS

The Metropolitan Knoxville Airport Authority recorded 92,426 passengers in July (up 34% from June passenger traffic but still way down from the 259,119 passengers recorded in July 2019).

COVID-19 continues to hamper the airline industry with very modest travel demand and expiring federal government support via the Payroll Protection Program. American and United Airlines announced major layoffs of 19,000 and 16,370 employees respectively effective October 1. Delta Air Lines announced it would furlough 1,941 pilots on October 1 as well.

The total freight recorded in July at TYS was 7,412,014 tons (up 12.3% from June and up 9.6% from last July).

# Air Service

at McGhee-Tyson Airport



Source: Metropolitan Knoxville Airport Authority