

NOVEMBER 2020



FINANCED BY FIRST HORIZON BANK

Welcome to the November issue of *ECO – financed by First Horizon Bank*, the Knoxville Chamber’s monthly economic outlook analysis. Each month, we 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 is our monthly survey of businesses in the manufacturing, retail, and service sectors, which we leverage to gauge current economic conditions and gain insights into the economic outlook for the next six months. We 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.

ECONOMIC SURVEY RESULTS

MANUFACTURING

Based on the response to the November survey, the current outlook is mixed while the level of general business activity has “improved” in the Knoxville region’s manufacturing sector. The forecast for the next six months appears to be steady with no changes expected.

The month-over-month responses showed “increases” in production, capacity utilization, volume of new orders, growth rate of orders, number of employees, average employee workweek, and capital expenditures. “No change” was mostly reported for wages and benefits, unfilled orders, delivery time, finished goods inventories, prices paid for raw materials, and prices received for finished goods. The volume of shipments was mixed in November. (October’s month-over-month responses indicated “increases” in all of the categories except for prices paid for raw materials, prices received for finished goods, average employee workweek, and capital expenditures which were all reported as “no change”).

The six-month outlook projects “no changes” in production, capacity utilization, volume of new orders, growth rate of orders, unfilled orders, volume of shipments, delivery time, prices paid for raw materials, prices received for finished goods, wages and benefits, number of employees, and capital expenditures. The forecast for finished goods inventories and average employee workweek is mixed. (Compared to the six-month outlook reported in last month’s survey,

November survey responses are no longer projecting “increases” in production, capacity utilization, and number of employees but instead are forecasting “no changes”).

RETAIL

Knoxville area retailers indicated in the November survey that their evaluation of the level of general business activity and their company’s outlook had “improved” from the prior month. (Last month’s survey responses were mixed for these items).

The month-over-month responses in the November survey showed mostly “increases” in net sales revenue, wages and benefits, and number of full-time employees. (In last month’s survey, “no change” was reported for wages and number of employees while net sales revenue was reported as “decreased”). “No change” was reported this month for internet sales, number of part-time employees, capital expenditures, and inventories. (Last month, inventories and capital expenditures were up while internet sales were down). Input prices and selling prices this month were split between “increase” and “no change” and the same was true for the average employee workweek. (Both input and selling prices were unchanged in last month’s survey).

The six-month outlook projects an “increase” in net sales revenue, number of employees (both full-time and part-time), wages and benefits, and inventories. “No changes” are expected in internet sales, average employee workweek, and selling prices. Input prices and capital expenditures are split evenly between “increase” and “no change”. (The October survey’s six-month outlook was similar to this month’s survey except wages and benefits were expected to be unchanged and net sales revenue was expected to decrease).

Some of the retail respondent feedback indicates that restaurants continue to be financially impacted by pandemic-related seating capacity limits and differing COVID-19 restrictions from one jurisdiction to the other which complicates things for businesses that have multiple locations. Restaurants are also caught in the middle between customers who either feel that their COVID-19 prevention compliance measures are too restrictive or feel that their measures are not restrictive enough. There also is post-election uncertainty regarding any potential changes to policies, taxes, etc.

SERVICE

Knoxville area service sector businesses reported in the November survey that compared to the prior month, the level of general business activity has been mixed and their company’s outlook mostly remains unchanged.

The month-over-month responses showed 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, selling prices, and capital expenditures. Revenue was mixed. (This month’s survey responses pretty much align with what we heard in last month’s survey except for revenue which was reported as increasing and input prices which were split between “increase” and “no change”).

The six-month outlook shows most respondents estimating “no changes” in the number of employees (both full-time and part-time), average employee workweek, capital expenditures, and wages and benefits. Selling prices were split evenly between “increase” and “no change”. Revenue and input prices are expected to mostly “increase”. (This month’s survey responses regarding the six-month outlook are similar to last month’s survey except for capital expenditures which were expected to be mixed but are now expected to be unchanged).

Service sector respondent feedback indicates post-election uncertainty regarding potential changes to regulations and taxes. Hiring entry-level workers remains difficult. Attractions are seeing some improvement as the number of visitors are slowly increasing.

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

LABOR MARKET INFORMATION

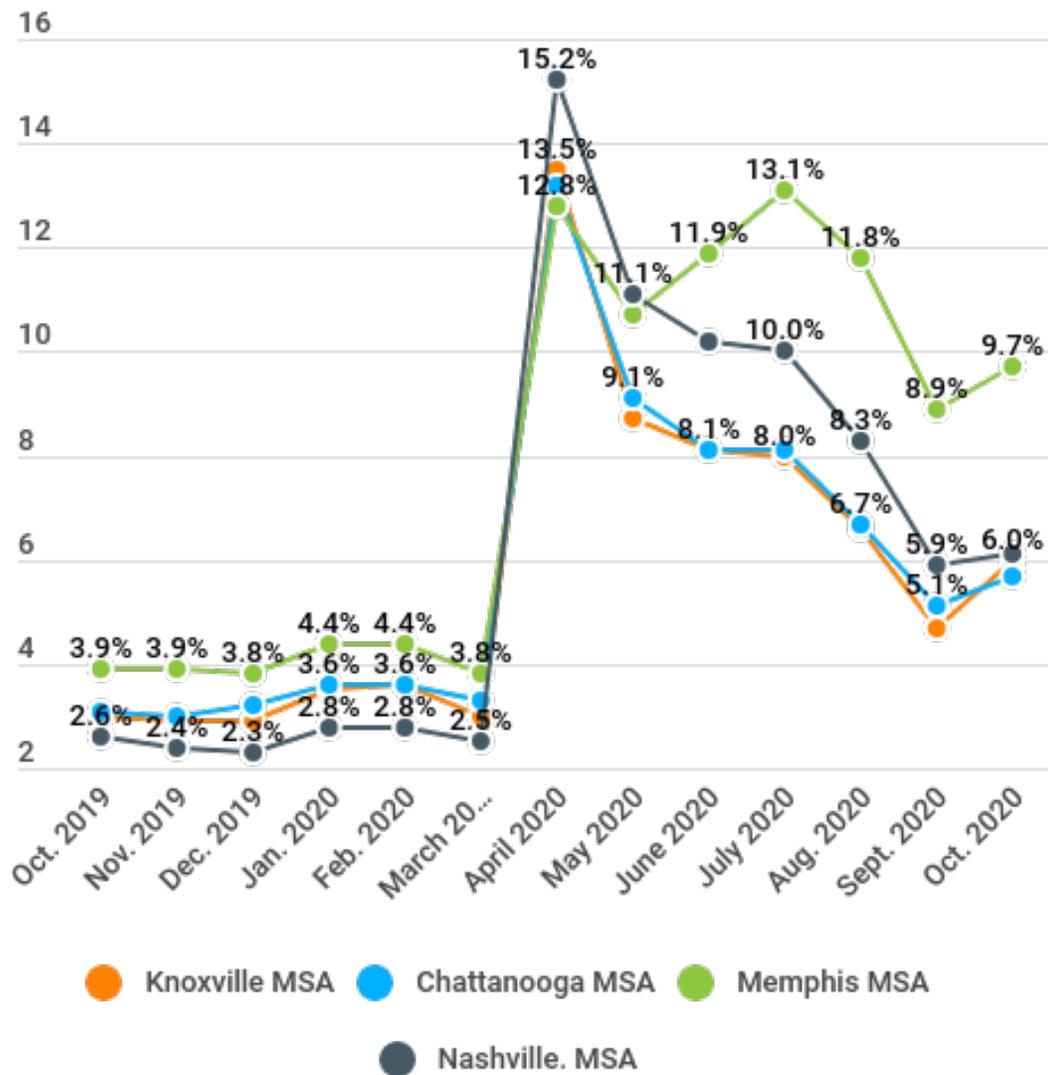
The Knoxville MSA’s unemployment rate in October was 6.0% (this is an increase from last month’s 4.7% rate and double the 3.0% rate from October 2019). Knox County’s unemployment rate in October was 5.7% (up from 4.6% in September and up from 2.6% in October 2019). Tennessee’s unemployment rate was 7.2% in October (up one point from 6.2% in September and more than double the 3.2% from last October). We have not yet seen any data showing why local unemployment has increased. Meanwhile, the U.S. unemployment rate dropped to 6.6% in October from the 7.7% rate in September, however it is still double the 3.3% national unemployment rate recorded last October).

The size of the total labor force has increased locally, statewide, and nationally in October from September. The Knoxville MSA’s labor force increased by 1.1% (from 430,247 to 435,091), Knox County’s labor force increased by 0.8% (from 245,255 to 247,246), Tennessee increased by 0.7% (from 3,309,301 to 3,332,952), and the national labor force increased by 0.6% (from 160,073,000 to 161,053,000).

Below is the 13-month unemployment rates trending comparison for the four largest MSA’s in Tennessee:

Unemployment Rates - Tennessee MSA

13-Month Trending Comparison



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

JOB MARKET

For the month of October, there were 30,971 unique active job postings in the Knoxville MSA (up 6.3% from September and up 3.5% from last October). There were 19,131 unique active job postings in Knox County (up 9.3% from September and up 4.8% from this time last year).

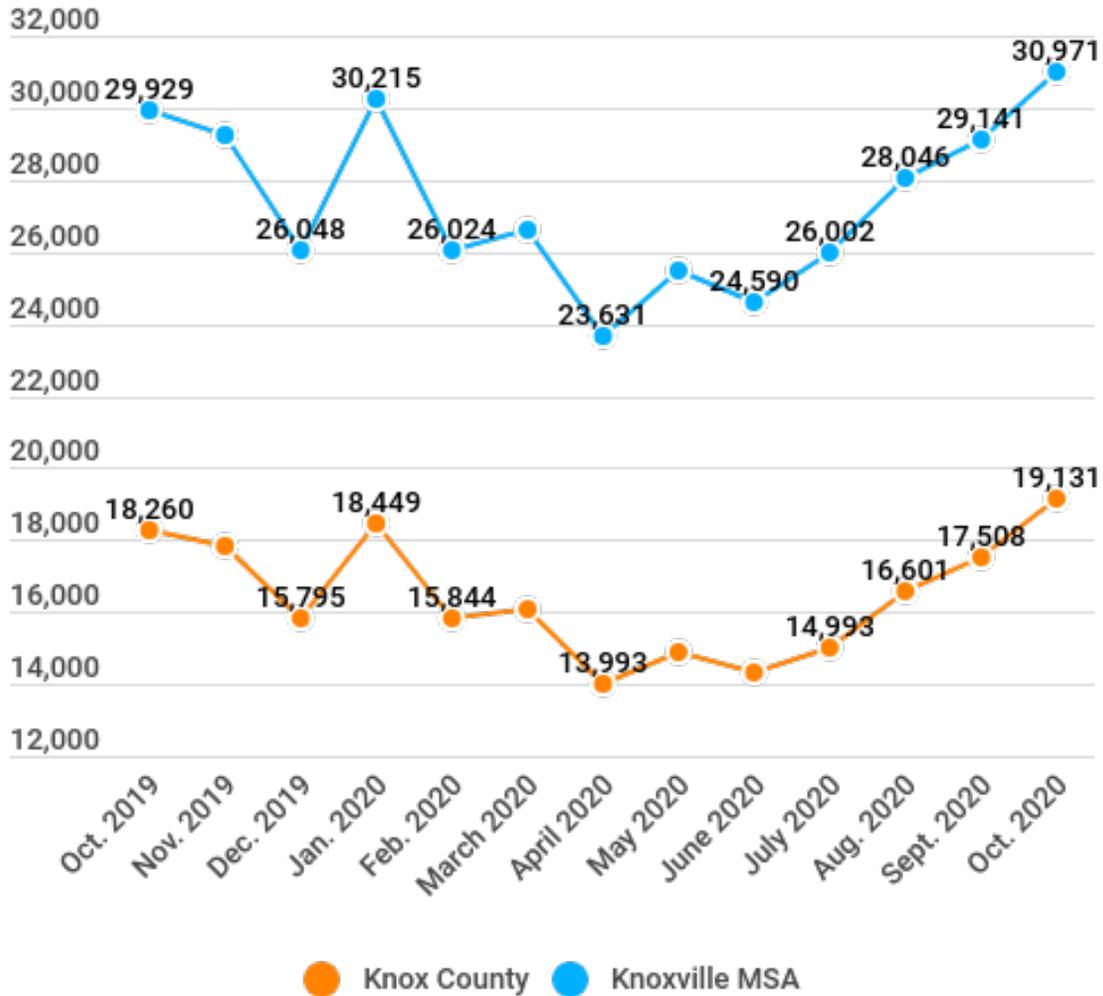
The Top 10 industries (by number of job postings) in the Knoxville MSA in October were:

Top Ten Industries by Number of Postings

	Industry	Number of Postings
	Administrative Support, Waste Management and Remediation Services	3,940
	Retail Trade	3,922
	Health Care and Social Assistance	3,656
	Transportation and Warehousing	3,172
	Professional, Scientific and Technical Services	2,270
	Accommodation and Food Services	1,908
	Manufacturing	1,292
	Finance and Insurance	904
	Other Services	725
	Educational Services	691

You can view the 13-month job postings trend for Knox County and the Knoxville MSA below:

Unique Active Job Postings



Source: EMSI Job Postings Analytics

ADP National Employment Report®

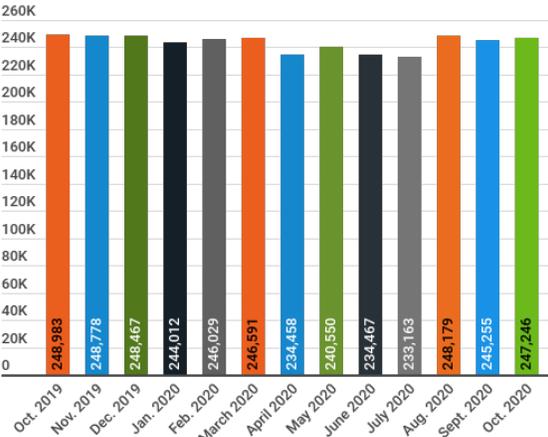
Each month, ADP, a large-scale payroll and human resources company releases their National Employment Report®, which provides a high-level look at month-over-month private-sector employment changes across the country.

The October report shows an increase of 365,000 in nonfarm private-sector employment (a much lower increase than the 749,000 jobs gain reported in September). Midsized businesses (50-499 employees) led the way by adding 135,000 jobs in October (this gain is less than the 259,000 jobs added in September). Large firms (500+ employees) added 116,000 jobs in October (a much smaller gain than the 297,000 jobs gain reported in September). Small businesses (1-49 employees) added 114,000 jobs in October (78,000 less than the September gain of 192,000).

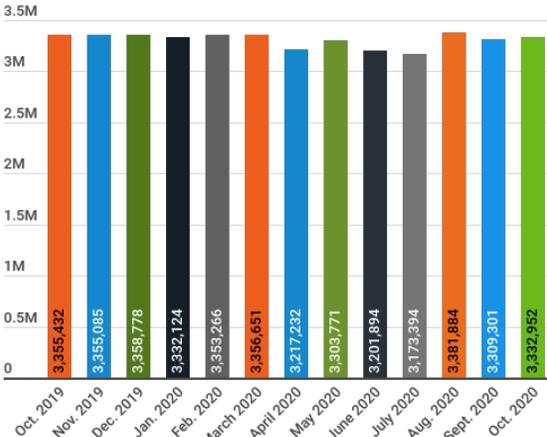
ADP's Small Business Report, which further synthesizes the small business landscape, shows that most of the 114,000 jobs gain came from the Very Small businesses (1-19 employees) accounting for 63,000 of the added jobs. The remainder of the job gains came from the small businesses that employ 20-49.

Resident Labor Force

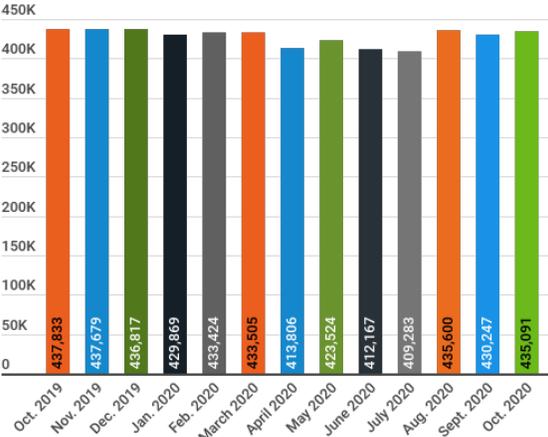
Knox County



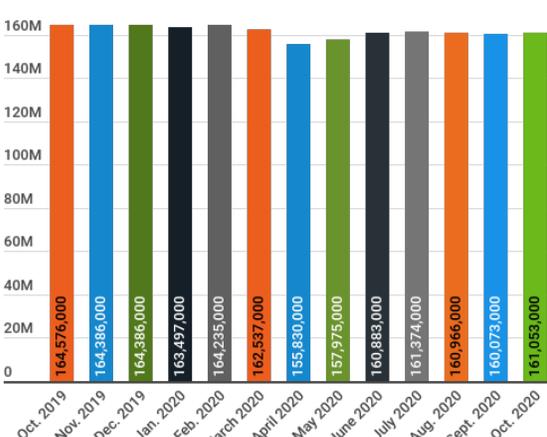
Tennessee



Knoxville MSA



United States



Source: ADP

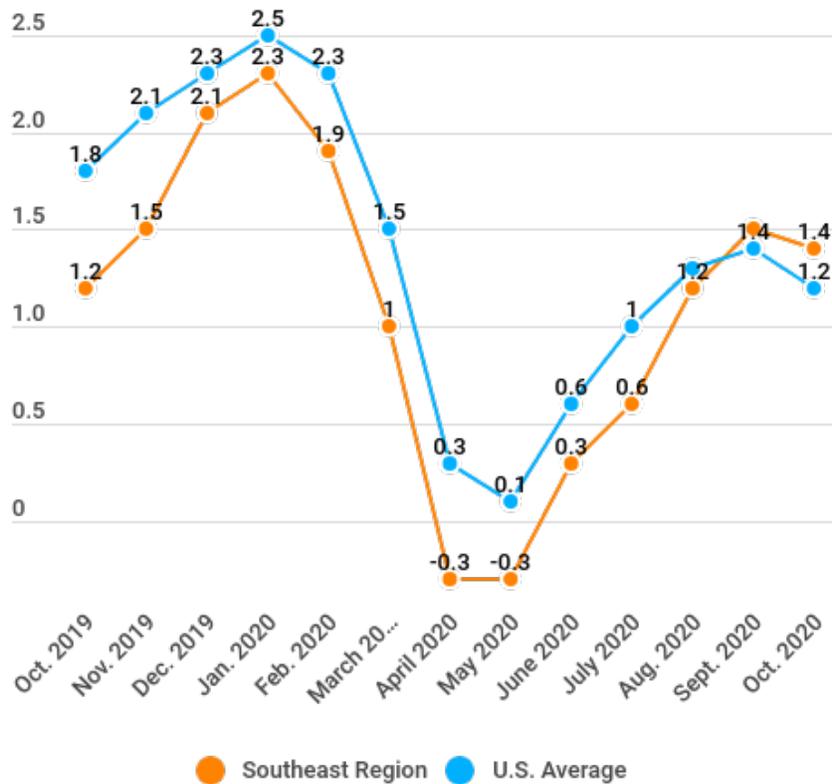
CONSUMER PRICE INDEX (INFLATION RATES)

The national inflation rate from October 2019 to October 2020 is 1.2%. This rate is a modest decrease from the 1.4% rate in the September 2019 to September 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 September 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 1.4% for the October 2019 to October 2020 period. This rate is down from the 1.5% rate in the September 2019 to September 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 September period.

Inflation Rates

Consumer Price Index - All Items



Source: U.S. Bureau of Labor Statistics; Consumer Price Index; Not Seasonally Adjusted

HOUSING MARKET

October's existing-home sales in the Knoxville area were up 0.5% from September and up 18% from one year ago. Knox County's home sales increased 5.8% from September to October and are up 19% from last October. Nationally, existing-home sales in October grew to 6.85 million — up 4.3% from the prior month and 26.6% from one year ago — marking the fifth consecutive month of year-over-year gains. Home sales in the South also increased, up 3.2% from the prior month and 26.5% from one year ago.

The median home sales price in the Knoxville area was \$249,000 in October — up 5.5% from September and almost 25% from one year ago. Knox County's median home sales price was \$256,000 in October — up 2.8% from last month and up 22% from last October.

Housing inventories remain tight nationally, regionally, and locally. In the Knoxville area, more than 6 in 10 homes sold in October were on the market for less than one month.

Total housing inventory declined in October. Months of inventory, the number of months it would take to exhaust active listings at the current sales rate, declined to 1.31 in October, and the absorption rate, or the percentage of inventory sold per month, increased to 76 percent.

According to Hancen Sale, Governmental Affairs and Policy Director at the Knoxville Area Association of Realtors®, *“The housing market generally cools down in the last few months of the year, but home sales continue to outpace expectations. This can be attributed to a host of factors including record-low interest rates, the desire to add a home office or more outdoor space, and even some extra savings among higher-income households accrued during the pandemic. There are multiple forces creating upward pressure on home prices including a very limited supply of homes, especially those priced under \$200,000, and remarkably high demand. Looking forward, I suspect the record low inventory and surging prices coupled with a worsening pandemic could temper home sales in the coming months. But the housing market has been particularly resilient throughout the pandemic, so it's hard to know what exactly the future holds.”*

Knoxville Area Housing Market

Knoxville Area

	Jan. 2020	Feb. 202	March 2020	April 2020	May 2020	June 2020
Homes Sold	1,289	1,308	1,757	1,555	1,568	2,024
Active Listings Inventory	4,940	4,718	4,618	4,751	4,595	4,224
Median Home Sales Price	\$200,000	\$205,000	\$210,000	\$215,000	\$214,000	\$227,000
Months Inventory	2.4	3.03	3.38	2.58	2.79	2.52
Absorption Rates	42%	33%	30%	39%	36%	40%

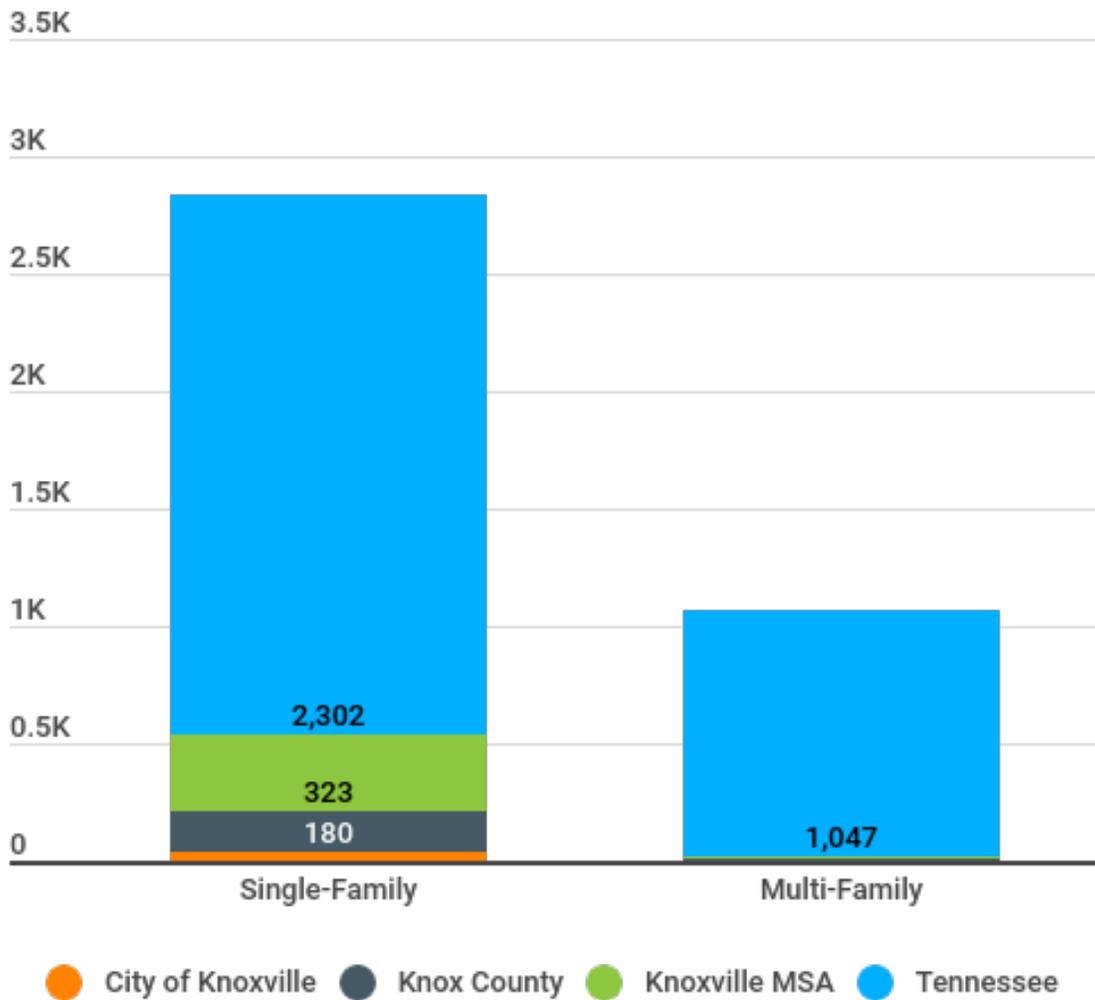
Knox County

	Jan. 2020	Feb. 202	March 2020	April 2020	May 2020	June 2020
Homes Sold	489	442	628	616	679	869
Active Listings Inventory	1,040	1,050	1,170	1,210	1,140	989
Median Home Sales Price	\$215,000	\$215,000	\$225,000	\$235,000	\$231,000	\$245,000
Months Inventory	1.71	2.15	2.66	1.93	1.85	1.46
Absorption Rates	59%	47%	38%	52%	54%	69%

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

Residential Building Permits

Sept. 2020



Sources: U.S. Housing & Urban Development – SOCDs – State of the Cities Data Systems; U.S. Census Bureau – Building Permits Survey

NATIONAL RETAIL SALES

The total advance monthly retail sales estimate for October 2020 was \$557.15 billion (up 4.9% from September and up 6.1% from last October).

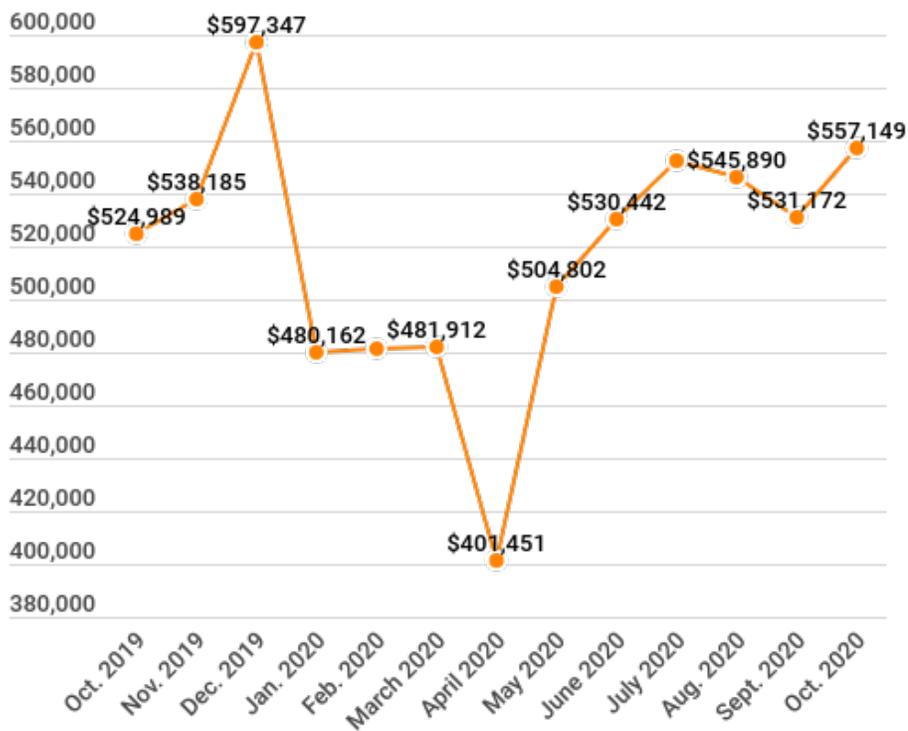
The retail sectors that showed the most growth from this time last year were Non-store Retailers (+30.6%), Sporting Goods/Books/Hobby/Music Stores (+22.9%), Building Materials (+18.6%), Motor Vehicle and Parts Sales (+10.4%), and Food and Beverage Stores (+9.0%).

The retail sectors that experienced the biggest declines in sales from last October were Gasoline Stations (-15.2%), Food Services and Drinking Places (-12.8%), Clothing Stores (-11.1%), and Electronics and Appliances Stores (-3.5%).

National Retail Sales

in Millions of Dollars

Total Retail Sales



Source: U.S. Census Bureau; Advance Monthly Retail Trade Reports; Not Adjusted

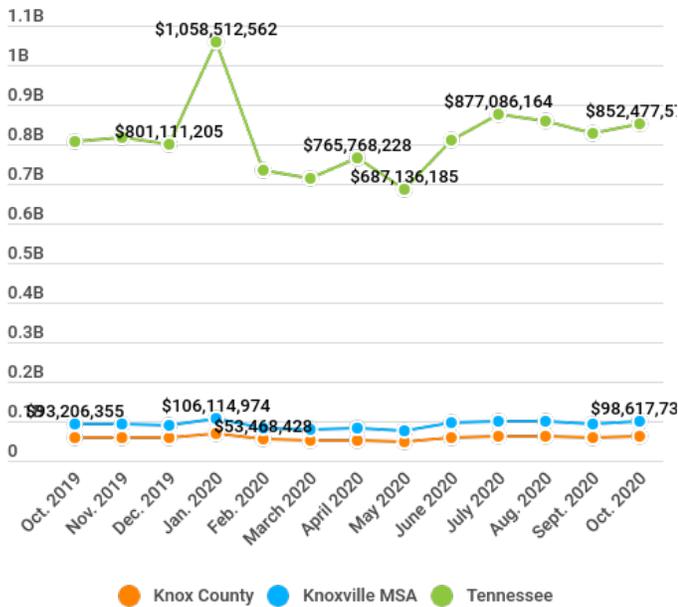
TENNESSEE STATE AND LOCAL SALES TAX COLLECTIONS

The nine-county Knoxville MSA region collected \$98.6 million in state sales taxes in October (up 4.1% from September and up 5.8% from last October) and Knox County collected \$60.97 million in October (up 4.0% from September and up 4.5% from last October). The state of Tennessee collected \$852.5 million in state sales taxes in October (up 3.1% from September and up 5.8% from last October).

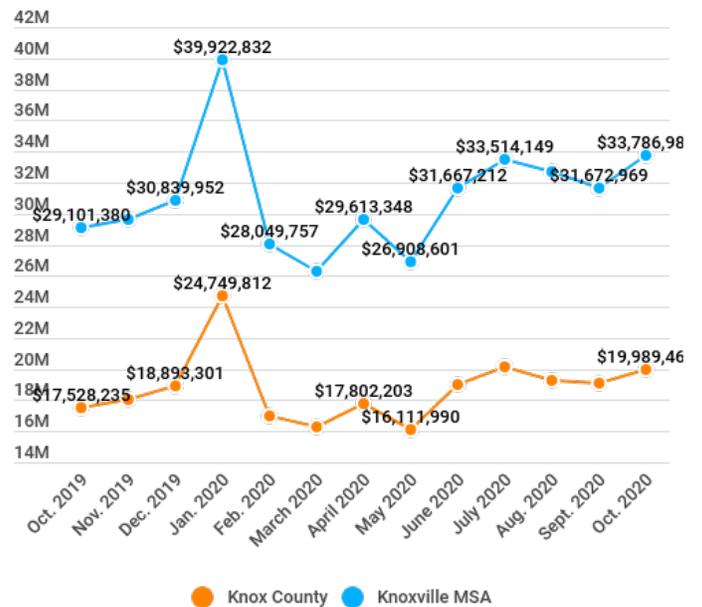
The Knoxville MSA collected \$33.8 million in local sales taxes (up 6.7% from September and up 16.1% from last October) and Knox County collected \$19.99 million (up 4.6% from September and up 14.0% from last October).

Sales Tax Revenue

State Sales Tax



Local Sales Tax



Source: Tennessee Department of Revenue

TENNESSEE INITIAL BUSINESS FILINGS

According to the *TN Quarterly Business and Economic Indicators Report* prepared by the Boyd Center for Business and Economic Research at the University of Tennessee, Knox County recorded 1,080 new business entity filings in the third quarter of 2020 (a 15.6% increase over the third quarter of 2019) and the state of Tennessee recorded 16,470 new business entity filings in the third quarter of 2020 (a significant 42.2% increase from a year ago).

The report notes that some new business opportunities were presented by the COVID-19 pandemic such as enhanced cleaning services, mask making, and food delivery while many people who became unemployed decided to start their own business to take advantage of some of the evolving opportunities.

This very strong increase in entrepreneurship would indicate future positive economic growth in normal times but the report cautions that “the pandemic has produced an ever-evolving and rapidly changing economic landscape that cannot be captured by (any single) leading indicator.”

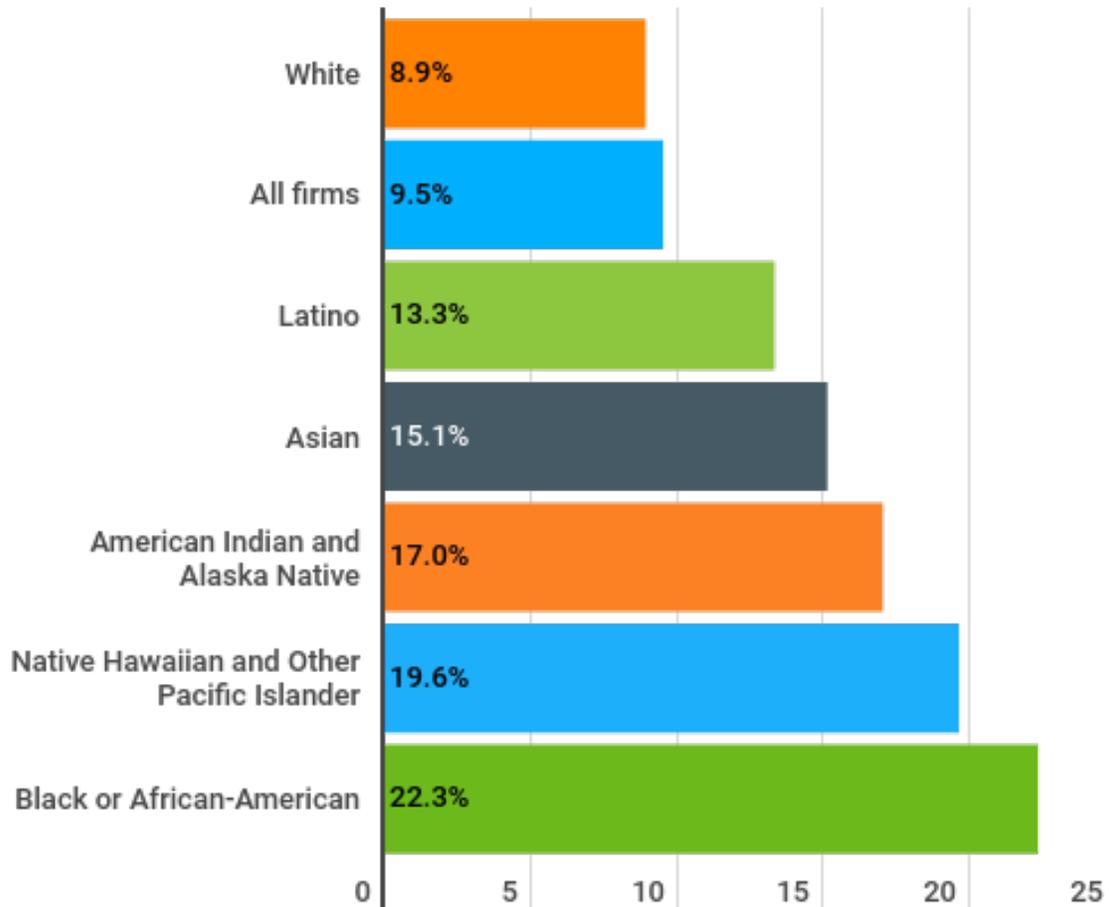
You can view the entire *Third Quarter 2020 TN Quarterly Business and Economic Indicators Report* [here](#).

Sources: Tennessee Secretary of State; University of Tennessee Boyd Center for Business and Economic Research, Haslam College of Business

ACCESS TO CAPITAL

One of the most consistent obstacles for entrepreneurs of all shapes and sizes is access to capital. Whether it be an established entity looking to grow or an early-stage startup trying to enter a specific market, the accessibility of funding to assist their endeavors is problematic. The United States Census Bureau’s 2016 *Annual Survey of Entrepreneurs* found that almost 1 in every 10 entrepreneurs (9.5 percent) reported that their profits were negatively impacted by a lack of access to capital. Even more concerning is the recent *Tennessee Capital Assessment Report* from Launch Tennessee that identified 81 percent of survey respondents listed capital as a barrier to growth.

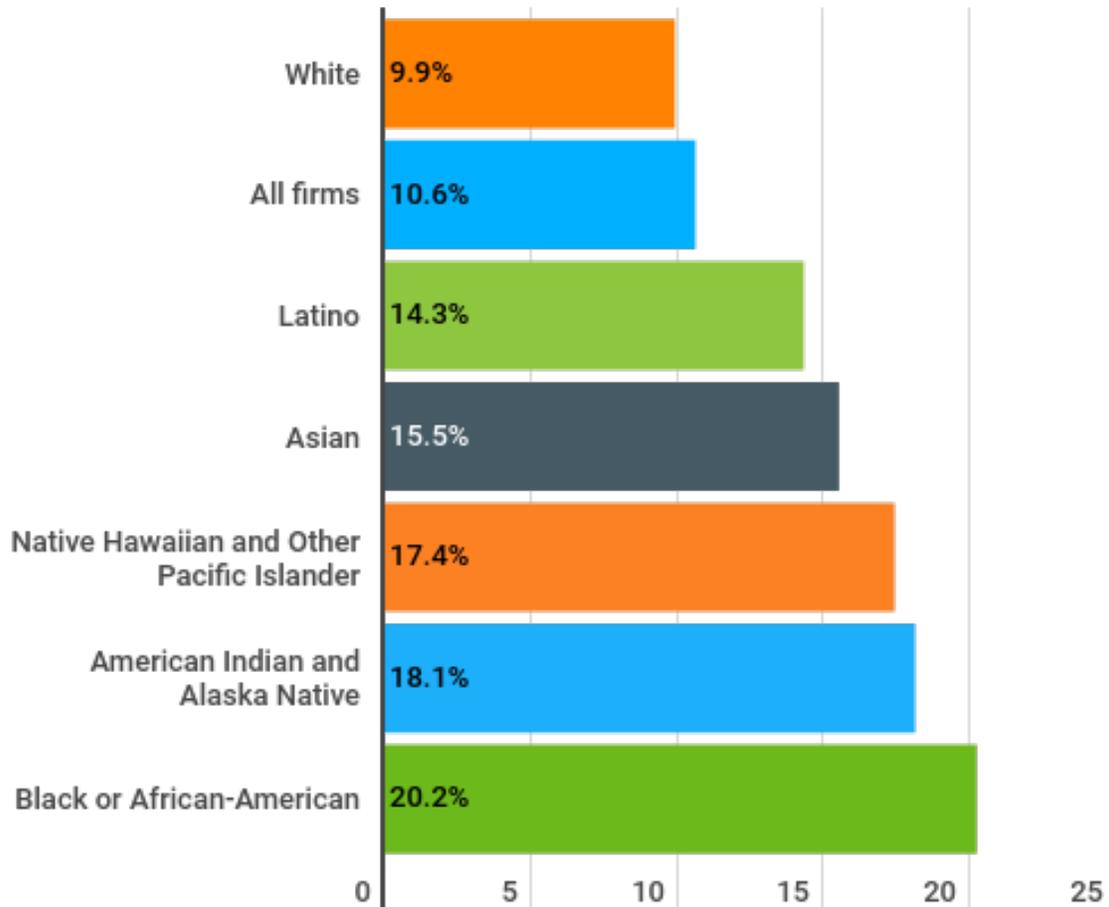
Percent of Entrepreneurs Reporting Profits Negatively Impacted by Lack of Access to Capital



Source: Ewing Marion Kauffman Foundation

Even when capital is accessible, it can be cost prohibitive. The aforementioned *Annual Survey of Entrepreneurs* reported that almost 11 percent of firms have had their profits negatively impacted by the cost of capital. Black or African American (20.2 percent) and Latino (14.3 percent) entrepreneurs feel this pinch even more so than their White colleagues (9.9 percent) making it harder for traditionally disenfranchised business owners to grow jobs and create wealth.

Percent of Entrepreneurs Reporting Profits Negatively Impacted by the Cost of Capital



Source: Ewing Marion Kauffman Foundation

Using these numbers and others like them as a backdrop, we included the development of a regional access to capital strategy within our Path to Prosperity strategic vision. The goal of the strategy is to identify a set of recommendations that address the funding needs for the entire spectrum of regional entrepreneurs and small business owners whether they require a small microloan to secure operations or \$20 million in late-stage capital to make critical hires for significant growth. If successful, the regional access to capital strategy can be a catalyst for the Knoxville region strengthening its entrepreneurial and economic prowess.

MCGHEE TYSON AIRPORT (TYS) PASSENGER AND FREIGHT TRENDS

The Metropolitan Knoxville Airport Authority recorded 88,082 passengers in September (up 2.1% from August passenger traffic and down 58.5% from the 212,406 passengers recorded in September 2019).

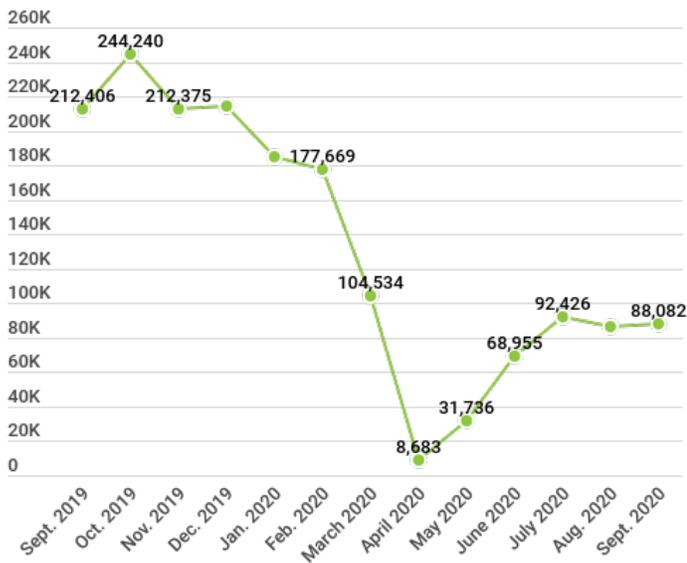
According to the Transportation Security Administration, passengers passing through TSA security checkpoints at airports throughout the country are down between 60% to 70% every day compared to last year. The daily average number of people passing through TSA checkpoints is around 834,000 so far this November compared to about 2 million people who pass through TSA checkpoints in a typical year. Though holiday travel has been strongly discouraged by health officials, the nation's TSA checkpoints hit the 1 million mark at least three times during the Thanksgiving holiday weekend – November 20th, 22nd, and 25th. Though even those numbers are still down from last year. You can see how far off the daily TSA checkpoint travel numbers are [here](#). Despite the Thanksgiving holiday air travel spike, the broader data still indicates that most people are still not comfortable flying while COVID-19 cases continue to surge along with hospitalizations and deaths.

The total freight recorded in September at TYS was 7,389,492 tons (up 5.4% from August and up 6.3% from last September).

Air Service

at McGhee-Tyson Airport

Passengers



Source: Metropolitan Knoxville Airport Authority

Freight

