

JANUARY 2021



FINANCED BY FIRST HORIZON BANK

Welcome to the December 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 January survey, the current outlook and the level of general business activity was split between “improved” and “the same” in the Knoxville region’s manufacturing sector. The forecast for the next six months appears to be mixed.

The month-over-month responses showed “increases” in production, capacity utilization, volume of new orders, prices paid for raw materials, and number of employees. Responses were split between “increase” and “no change” for growth rate of orders, volume of shipments, wages and benefits, and capital expenditures. “No change” was reported for unfilled orders, delivery time, prices received for finished goods, and average employee workweek. Responses were split between “decrease” and “no change” for finished goods inventories. (December’s month-over-month responses differed in that “no changes” were reported for capacity utilization, prices paid for raw materials, wages and benefits, and number of employees).

The six-month outlook projects “increases” in prices paid for raw materials, number of employees, and capital expenditures. “No changes” are forecasted for unfilled orders, delivery time, prices received for finished goods, wages and benefits, and average employee workweek. The outlook is split between “increase” and “no change” for production, capacity utilization, volume of new orders, growth rate of orders, volume of shipments, and finished goods inventories. (December’s six-month outlook had expected “increases” in production, capacity utilization, volume of new orders, growth rate of orders, and volume of shipments while “no change” had been anticipated for finished goods inventories).

RETAIL

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

The month-over-month responses in the January survey were evenly split between “increase” and “decrease” for net sales revenue and inventories. Respondents were also evenly split between “increase” and “no change” for wages and benefits and selling prices. “Increases” were mostly reported for input prices while “no changes” were mostly reported for internet sales and capital expenditures. Number of employees (both full-time and part-time) and average employee workweek were mixed.

(These responses were similar to last month’s survey except input prices and capital expenditures were both split between “increase” and “no change”).

The six-month outlook projects mostly “no changes” for internet sales, number of employees (both full-time and part-time), and capital expenditures. “Increases” are mostly forecasted for wages and benefits, input prices, and selling prices. The future average employee workweek is evenly split between “increase” and “no change” while future inventories are evenly split between “increase” and “decrease”. The outlook for net sales revenue is mixed. (The December survey’s six-month outlook differed by forecasting mostly “no changes” in wages and benefits while input prices and selling prices were split between “increase” and “no change”).

SERVICE

Knoxville area service sector businesses reported in the January survey that their level of general business activity and company outlook are “the same” compared to the prior month.

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, selling prices, and capital expenditures. “Increases” were mostly reported for revenue. Input prices were split between “increase” and “no change”. (This month’s survey responses pretty much align with what we heard in last month’s survey except revenue was reported mostly as mixed).

The six-month outlook shows most respondents estimating “no changes” in the number of part-time employees, average employee workweek, wages and benefits, selling prices, and capital expenditures. Revenue is expected to “increase”. Input prices and the number of full-time employees are split between “increase” and “no change”. (December’s survey responses regarding the six-month outlook were similar but more mixed for revenue and capital expenditures).

OPPORTUNITIES AND CHALLENGES FOR 2021

In addition to the regular monthly questions, we asked January’s survey participants to tell us what they see as potential opportunities and challenges in the new year.

Potential opportunities in 2021 include: continued low interest rates to help boost both business expansion and more consumer spending, a strong real estate market, a renewed focus on infrastructure work, and increased vaccinations to help lift the COVID-19 restrictions thus allowing the economy to open up more for events, restaurants, and travel.

Potential challenges in 2021 include: continued COVID-19 restrictions if vaccinations are not administered to people more quickly, not being able to get in-person appointments for professional relationship-based

businesses, workforce availability (including finding qualified employees and competing with extended unemployment benefits and other social programs), and uncertainty regarding any changes to tax structure and regulatory environment.

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

LABOR MARKET INFORMATION

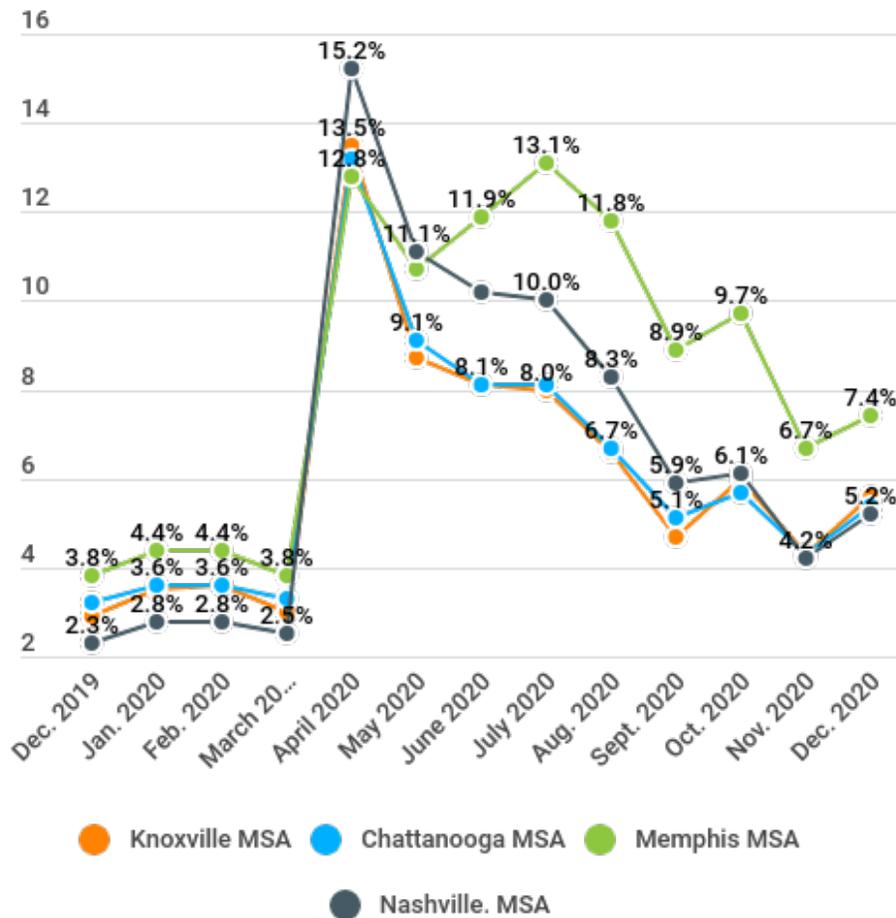
The Knoxville MSA's unemployment rate in December was 5.6% (this is an increase from last month's 4.3% rate and higher than the 2.9% rate from December 2019). Knox County's unemployment rate in December was 5.2% (up from 4.1% in November and up from 2.5% in December 2019). Tennessee's unemployment rate was 6.2% in December (up from 5.0% in November and up from 3.1% in last December). The U.S. unemployment rate was 6.5% in December (up slightly from the 6.4% rate in November and up from the 3.4% unemployment rate recorded last December).

The size of the total labor force has slightly decreased locally, statewide, and nationally in December from November. The Knoxville MSA's labor force decreased by 0.4% (from 451,628 to 449,666), Knox County's labor force decreased by 0.4% (from 256,765 to 255,750), and Tennessee's labor force decreased by 0.4% (from 3,450,249 to 3,435,147), and the national labor force decreased by 0.3% (from 160,468,000 to 160,017,000).

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

COVID-19 RELIEF - UNEMPLOYMENT BENEFITS AND SMALL BUSINESS RELIEF EXTENSIONS

The \$900 billion COVID-19 relief bill that was passed by Congress in late December included among other things, an extra \$300 added to the extended weekly unemployment benefits and \$325 billion in aid for struggling small businesses.

The bill included \$284 billion for first and second forgivable Paycheck Protection Program (PPP) loans and \$20 billion to provide Economic Injury Disaster Loans (EIDL) to businesses located in low-income communities. There is also \$15 billion in dedicated funding for shuttered live venues, independent movie theaters, and cultural institutions. An additional \$12 billion is set aside to help businesses located in low-income and minority communities.

This second round of PPP loans (many are calling PPP2) are similar to the first round except Section 501(c)(6) not-for-profit organizations are now eligible to apply. Previous PPP recipients can apply for a PPP2 loan of up to \$2 million provided that they have 300 or less employees, exhausted or will fully use the amount of their first PPP loan, and can show a gross revenue decline of 25% in any quarter of 2020 compared with the same quarter in 2019. The new bill ensures that business expenses paid using forgivable PPP loans in both rounds are tax deductible. Any businesses that returned all or part of a previous PPP loan may reapply for PPP2. Businesses with 500 or fewer employees that are eligible for other SBA 7(a) loans, not-for-profits (including churches), accommodation and food services businesses (NAICS codes starting with 72) that have fewer than 300 employees per physical location, sole proprietors, independent contractors, and eligible self-employed individuals are also permitted to apply for PPP2.

You can read a more in-depth analysis of the extended PPP provisions and related tax deductibility of PPP expenses in the *Journal of Accountancy* by the American Institute of Certified Public Accountants (AICPA) [here](#).

JOB MARKET

For the month of November, there were 31,124 unique active job postings in the Knoxville MSA (up 0.5% from October and up 6.4% from last November). There were 19,212 unique active job postings in Knox County (up 0.4% from October and up 7.7% from this time last year).

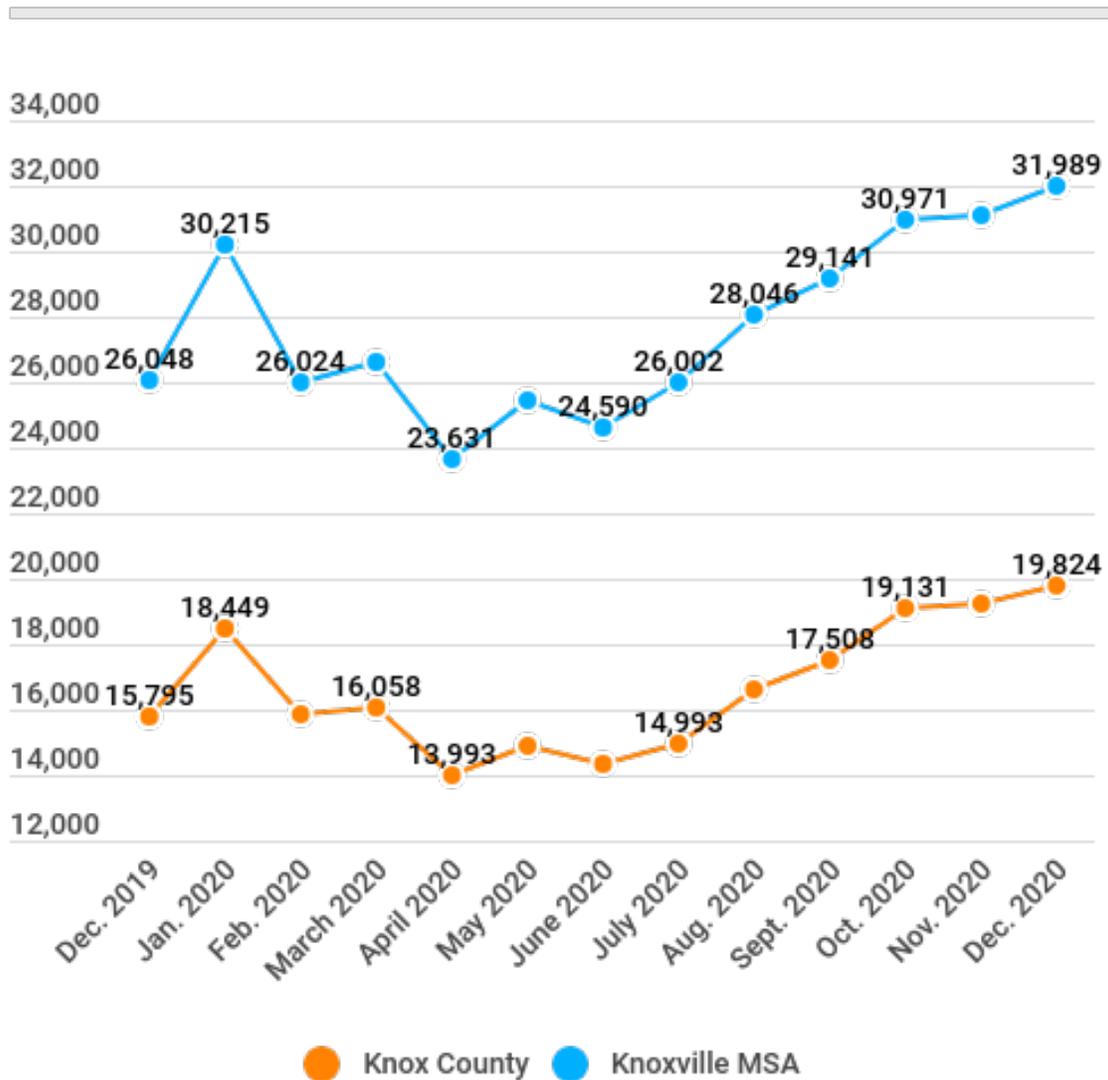
The Top 10 industries (by number of job postings) in the Knoxville MSA in November were:

Top Ten Industries by Number of Postings

	Industry	Number of Postings
	Administrative Support, Waste Management and Remediation Services	3,976
	Retail Trade	3,960
	Health Care and Social Assistance	3,844
	Transportation and Warehousing	2,948
	Professional, Scientific and Technical Services	2,296
	Accommodation and Food Services	2,186
	Manufacturing	1,294
	Finance and Insurance	804
	Educational Services	738
	Other Services	675

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®

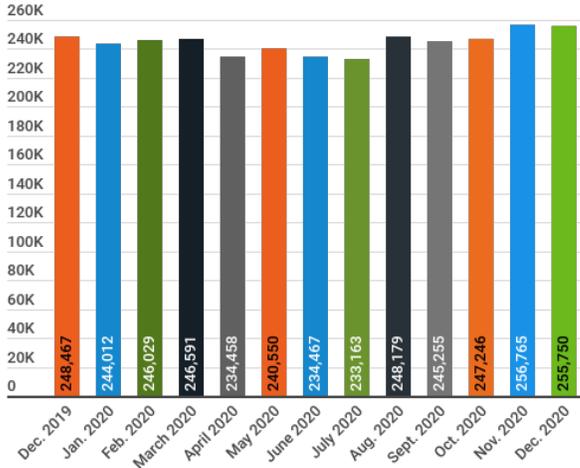
Each month, ADP, a large-scale payroll and human resources company releases their National Employment Report®, which provides a high-level look at month-over-month private-sector employment changes across the country.

The November report shows an increase of 307,000 in nonfarm private-sector employment (a lower increase than the 365,000 jobs gain reported in October). Midsized businesses (50-499 employees) led the way by adding 139,000 jobs in November (this gain is more than the 135,000 jobs added in October). Large firms (500+ employees) added 58,000 jobs in November (a much smaller gain than the 116,000 jobs gain reported in October). Small businesses (1-49 employees) added 110,000 jobs in November (4,000 less than the October gain of 114,000).

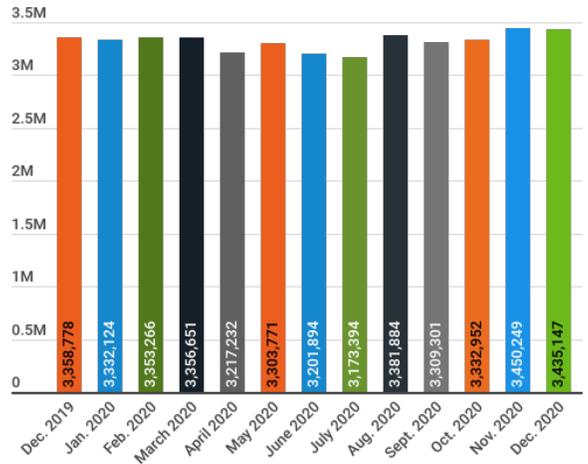
ADP's Small Business Report, which further synthesizes the small business landscape, shows that most of the 110,000 jobs gain came from the "Very Small" businesses (1-19 employees) accounting for 60,000 of the added jobs. The remainder of the job gains came from the small businesses that employ 20-49.

Resident Labor Force

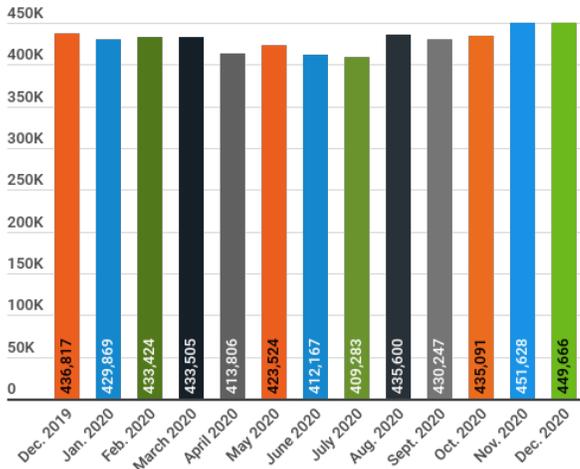
Knox County



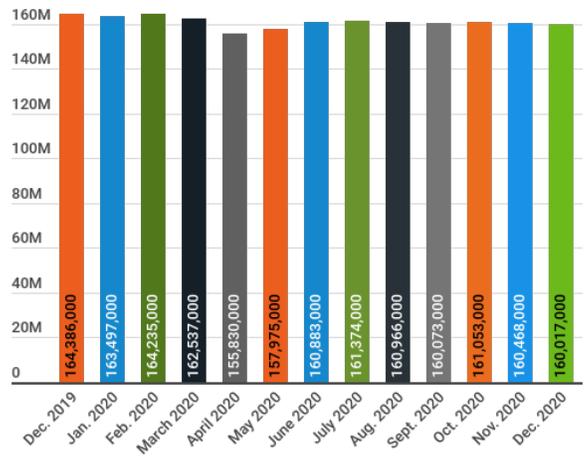
Tennessee



Knoxville MSA



United States



Source: ADP

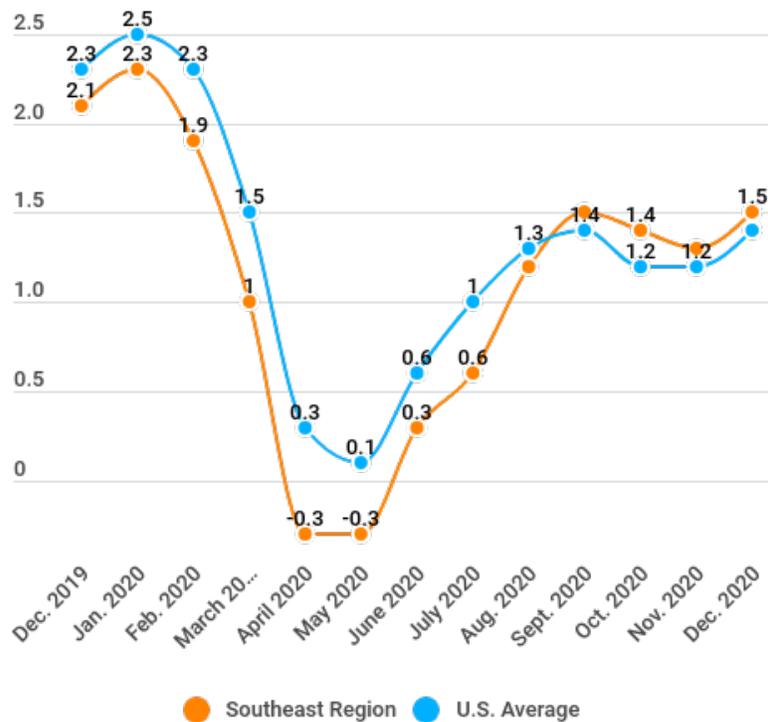
CONSUMER PRICE INDEX (INFLATION RATES)

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

December’s existing-home sales in the Knoxville area were up 5% from November and up 31% from one year ago. Home sales in Knox County were up 8% from the prior month and up 27% from one year ago. Nationally, existing-home sales increased 0.7% to a seasonally-adjusted annual rate of 6.76 million in December — up 22.2% from a year ago. Home sales in the South similarly increased 1.1% from the prior month, up 20.7% from December 2019.

Nationally, existing-home sales totaled 5.64 million in 2020 — up 5.6% from 2019 and the most since before the Great Recession.

The median home sales price in the Knoxville area was \$241,000 in December — down 1.6% from November but up 15% from one year ago. Knox County’s median home sales price was \$249,000 in November – down 4.2% from the prior month and up 11% from last December.

Housing inventories remain tight nationally, regionally, and locally. In the Knoxville area, 50% of homes sold in December 2020 were under contract within 8 days after going on the market.

Total housing inventory in the Knoxville area declined 34% in 2020. Months of inventory, the number of months it would take to exhaust active listings at the current sales rate, declined to 1.24 in December — a 24-month low. The absorption rate, or the percentage of inventory sold per month, increased to 81 percent.

According to Hancen Sale, Governmental Affairs and Policy Director at the Knoxville Area Association of Realtors®, *“There is no doubt 2020 was a tremendous year for the Knoxville housing market. Home sales reached a record high with strong year-over-year growth. Homeowners saw huge equity gains and, in all likelihood, more gains are ahead. With many workers expected to continue working remotely for at least the next few months and interest rates projected to stay around 3%, demand is likely to remain strong. The challenge for Knoxville in 2021 is inventory. Addressing the growing supply constraints will prove consequential for Knoxville’s affordability and ability to attract new talent and investment.”*

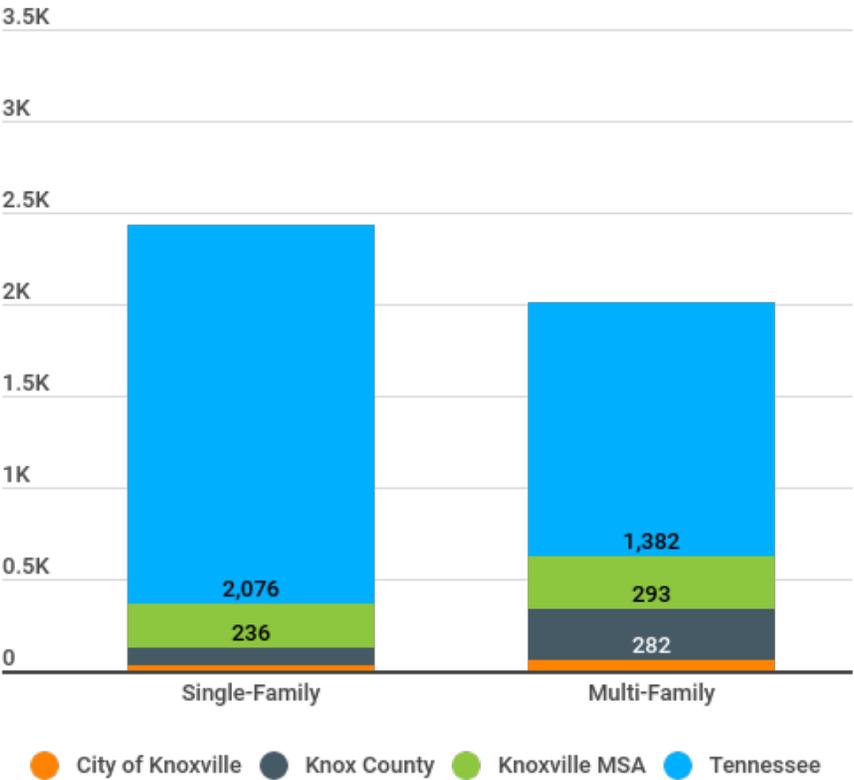
Knoxville Area

	Jan. 2020	Feb. 2020	March 2020	April 2020	May 2020	June 2020
Homes Sold	1,130	1,130	1,520	1,410	1,410	1,890
Active Listings Inventory	3,330	3,350	3,730	3,870	3,850	3,510
Median Home Sales Price	\$200,000	\$205,000	\$210,000	\$215,000	\$215,000	\$227,000
Months Inventory	2.37	2.97	3.32	2.46	2.74	2.48
Absorption Rates	42%	34%	30%	39%	37%	40%

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

Residential Building Permits

Nov. 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).

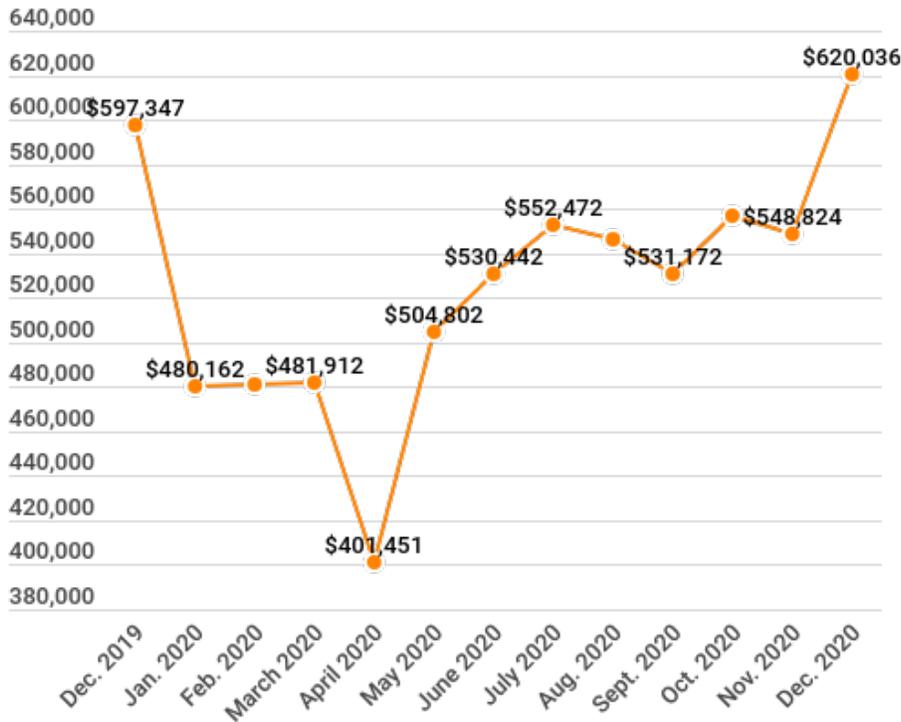
The retail sectors that showed the most growth from this time last year were Non-store Retailers (+30.6%), Sporting Goods/Books/Hobby/Music Stores (+22.9%), Building Materials (+18.6%), Motor Vehicle and Parts Sales (+10.4%), and Food and Beverage Stores (+9.0%).

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

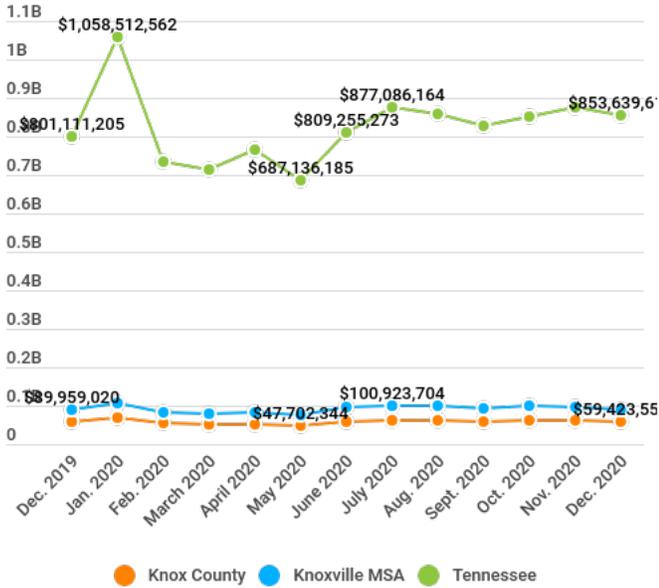
TENNESSEE STATE AND LOCAL SALES TAX COLLECTIONS

The nine-county Knoxville MSA region collected \$90.62 million in state sales taxes in December (down 6.4% from November and up 0.7% from last December) and Knox County collected \$59.42 million in December (down 2.6% from November and up 1.6% from last December). The state of Tennessee collected \$853.64 million in state sales taxes in December (down 2.5% from November and up 6.6% from last December).

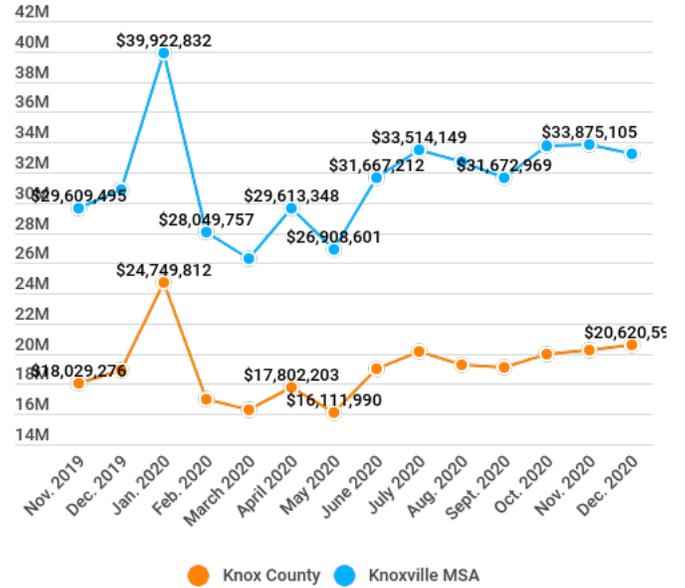
The Knoxville MSA collected \$33.2 million in local sales taxes in December (down 2% from November and up 7.7% from last December) and Knox County collected \$20.6 million (up 1.9% from November and up 9.1% from last December).

Sales Tax Revenue

State Sales Tax



Local Sales Tax



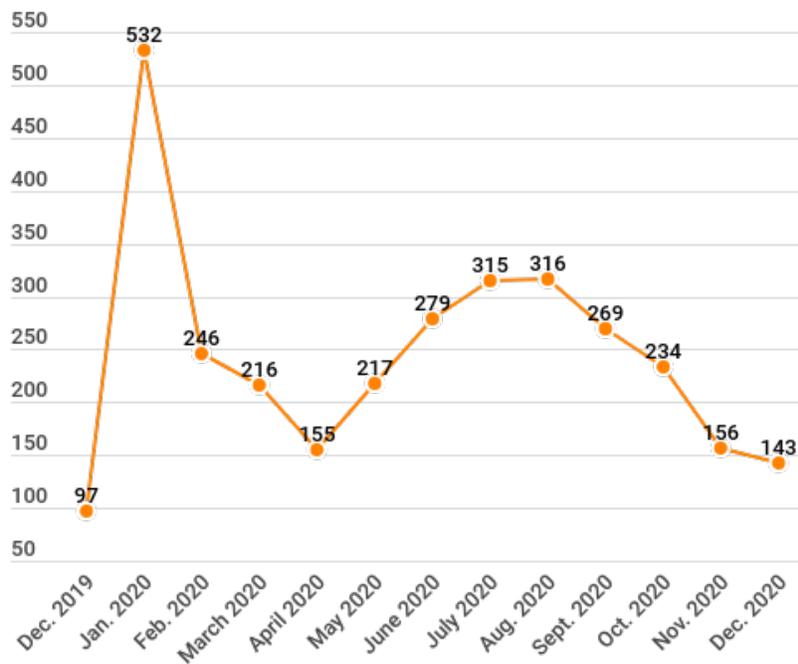
Source: Tennessee Department of Revenue

KNOX COUNTY BUSINESS LICENSES

New business licenses issued in December by Knox County are up 47.4% from last December. A total of 143 new business licenses were issued in December 2020 compared to 97 business licenses issued in December 2019. This could be further evidence that a few of the workers who were furloughed during the COVID-19 lockdown last spring may have decided to start their own business or turn their creativity into a new entrepreneurial venture as we have been hearing from other sources.

Business Licenses

Knox County



Source: Knox County Clerk

TECHSTARS ASSESSMENT OF THE ENTREPRENEURSHIP OF THE GREATER KNOXVILLE METROPOLITAN AREA

In May 2020, Techstars, a Boulder, CO-based global platform for investment and innovation, was commissioned to assess the greater Knoxville region's entrepreneurial ecosystem by University of Tennessee System President Randy Boyd, TVA President and CEO Jeff Lyash, and Oak Ridge National Laboratory Director Thomas Zacharia. The three area leaders noted that the Knoxville region "must compete nationally and internationally for the industries, jobs, and workforce that will allow the region to thrive." Techstars released their final assessment report at a virtual town hall on January 5 in which they outlined the Knoxville region's strengths and gaps that need to be addressed.

The report listed five items as **the region's strengths** – **1) large research institutions** that "collectively spend billions of dollars on cutting-edge research in many different fields", **2) an excellent quality of life**, **3) a low cost of living**, **4) a deep pool of technical talent** (particularly of technologists and operations specialists), and **5) existing support organizations for startups** (including the Knoxville Entrepreneur Center, the Anderson Center at University of Tennessee, Innovation Crossroads at Oak Ridge, and the Propel program at the Knoxville Chamber).

There were **six gaps identified that require improvement** – **1) perception of the region as not being a place for tech entrepreneurship** (most people unaware of all the tech companies and successes in the region – not enough storytelling), **2) access to capital** (there's a lack of early stage funding in the region and the report noted

that “during the last three years, the Knoxville metropolitan area had a smaller proportion of early stage equity investments – often referred to as “series A” or “series B” venture capital investments – than the average for the entire United States relative to its population size.”), **3) lack of support for growth-stage businesses** that have raised over \$1 million in funding or have grown to over 20 employees (these growing businesses that are past the startup phase need more middle range support or mentoring), **4) access to the large research institutions and local corporations** that have the potential to be great accelerators (local research institutions and corporate firms are of very high quality but are very difficult to engage with due to their mammoth sizes and siloed departments), **5) lack of diversity among technology entrepreneurs** (the report notes “the proportion of women and minority founders participating in programs for local technology entrepreneurs is not reflective of the demographics of the broader Knoxville metropolitan area.”), and **6) lack of shared data, metrics, and regular reporting** on the status of local tech entrepreneurship.

Regional partner organizations will be addressing these gaps in the following ways –

- **Perception issue** – The Innov865 Alliance plans to create and coordinate an ongoing public relations campaign to showcase regional successes. PYA has added an additional writer to teknovation.biz to help tell more of the community story. The Knoxville Entrepreneur Center (KEC) will continue its regional promotional efforts via its [“Made for Knoxville”](#) initiative and [“Startup Knox” podcasts](#).
- **Access to Capital** – Three Roots Capital will lead “a shared initiative to address capital” that includes expanding efforts like the [TennesSeed Fund](#) launched in 2019 and working closely with the Knoxville Chamber on its access to capital initiative. As a [Path to Prosperity](#) priority, the Knoxville Chamber aims to develop a regional access-to-capital strategy that increases the availability of usable capital across the spectrum of needs. Research shows that lack of access to capital has a greater negative impact on Black- and Hispanic-owned businesses. A holistic, collaborative strategy can have a positive influence on the economic mobility of those communities while building a more resilient, regional economy. To that end, the Knoxville Chamber is actively engaged with [100Knoxville](#), an initiative aimed at growing local, black-owned businesses by \$10 million in five years.
- **Support for Growth-Stage Businesses** – The Knoxville Entrepreneur Center (KEC) is covering several gaps through the [“Made for Knoxville”](#) initiative, collaborating with the City of Knoxville on launching the Mayor’s Entrepreneurship Council (modeled after the [Mayor’s Maker Council](#), the revamped [“Inflection Point”](#) initiative, and the [100Knoxville](#) initiative.
- **Access to the Large Research Institutions** – The Innov865 Alliance will identify and recruit “Navigators” to help connect entrepreneurs with Oak Ridge National Laboratory, TVA, University of Tennessee, and other regional assets.
- **Diversity** – Regional efforts like [100Knoxville](#) focused on underrepresented populations.
- **Shared Data and Metrics** – The Innov865 Alliance will develop a set of metrics to show progress and produce a report card that will be regularly updated and shared.

In conclusion, the general consensus is that the Knoxville region has been performing “far below its actual potential” in the area of innovation. It should be the community’s goal to unlock the region’s full potential by fully supporting our startup and growth-stage businesses.

You can view the full Techstars report [here](#).

Sources: Techstars; teknovation.biz

SMALL BUSINESS INNOVATION RESEARCH (SBIR) AND SMALL BUSINESS TECHNOLOGY TRANSFER (STTR) FUNDING

The Small Business Innovation Research (SBIR) program is a federal funding program that awards grants or contracts to small businesses to conduct research and development (R&D). Recipient projects must meet specific R&D needs of the federal government and must have commercialization potential. The program is coordinated by the Small Business Administration (SBA).

The Small Business Technology Transfer (STTR) program is very similar to the SBIR program except that the STTR requires the small business to partner with a research institution which must be awarded a minimum of 30% of the total grant funds.

SBIR/STTR grants are awarded annually to nearly 5,000 startups and small businesses throughout the nation. In 2020, there were 17 SBIR awards in the state of Tennessee (of which 12 or 70% of the awards were in the Knoxville area). There were also four STTR grant recipients in Tennessee (all four of them were in the Knoxville area).

Below is a table showing the five-year history of SBIR/STTR awards in Tennessee and the Knoxville area:

SBIR and STTR Awards

	SBIR		STTR	
	Tennessee	Knoxville Area	Tennessee	Knoxville Area
2016	23	6	8	1
2017	31	7	9	3
2018	31	9	8	1
2019	52	18	9	2
2020	17	12	4	4

The SBIR grant recipients for 2020 in the Knoxville area are [Active Energy Systems, Inc.](#), [Analysis and Measurement Services Corp.](#), [CrossLink Composites, Inc.](#), [Millennitek, LLC](#), [MOBIUS PBC](#), [PhDs Co.](#), and [Ultrasonic Technology Solutions](#).

The Knoxville area STTR grant recipients for 2020 are [Carbon Rivers, LLC](#), [Cryomagnetics, Inc.](#), [INFISYS, Inc.](#), and [SkyNano Technologies, LLC](#).

In addition to the federal SBIR/STTR grants, Launch Tennessee (LaunchTN) has a grant-matching program for SBIR/STTR recipient businesses to further help entrepreneurs advance the commercialization of technology across the state. Requirements for receiving state matching funds are that the business be based in Tennessee for at least the next 24 months and commit to semi-annual reporting to LaunchTN and the State of Tennessee. Last year's state budget failed to include monies to fund the matching grant program. Due to its importance to our entrepreneurial ecosystem, we have prioritized its refunding within our legislative agenda which you can read [here](#).

Sources: *SBIR.gov*; *LaunchTN*

MCGHEE TYSON AIRPORT (TYS) PASSENGER AND FREIGHT TRENDS

The Metropolitan Knoxville Airport Authority recorded 99,180 passengers in November (down 18% from October passenger traffic and down 53.3% from the 212,375 passengers recorded in November 2019).

According to the Transportation Security Administration, the nation's TSA checkpoints exceeded the 1 million mark twelve times during the holidays (from December 18 through January 4) despite travel being discouraged by health officials. The average number of passengers since January 5 has dropped to 711,501 (down 63.7% from the 1.96 million average at this time last year). You can view the daily TSA checkpoint travel numbers [here](#).

The total freight recorded in November at TYS was 6,875,220 tons (down 10.3% from October and down 1.8% from last November).

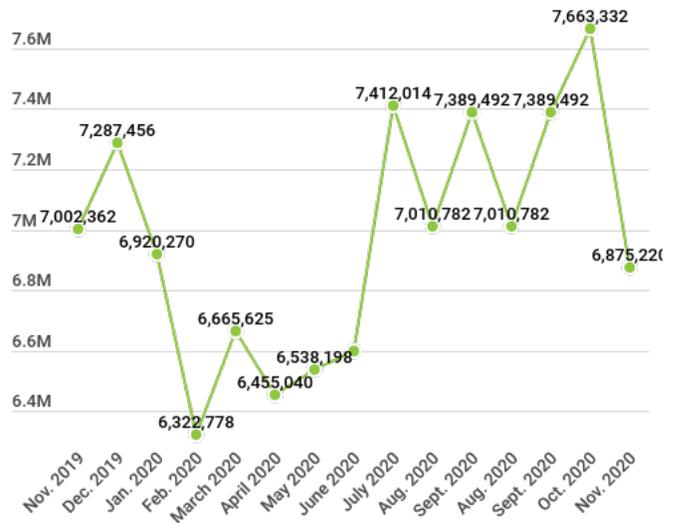
Air Service

at McGhee-Tyson Airport

Passengers



Freight



Source: Metropolitan Knoxville Airport Authority