

# FEBRUARY 2021

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FINANCED BY FIRST HORIZON BANK

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

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

The six-month outlook projects an “increase” in production, capacity utilization, volume of new orders, growth rate of orders, volume of shipments, and average employee workweek. The outlook is split between “increase” and “no change” for unfilled orders, delivery time, finished goods inventories, prices paid for raw materials, prices received for finished goods, wages and

benefits, number of employees, and capital expenditures. (January's six-month outlook was mostly split between "increase" and "no change" across all categories but there were more solid forecasted "increases" for prices paid for raw materials, number of employees, and capital expenditures).

Manufacturer comments indicate that while commercial aviation is still not in a position to recover, private aircraft sales are continuing to increase causing a boost in aircraft manufacturing.

## **RETAIL**

Knoxville area retailers indicated in the February 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". (This matches what retailers reported in last month's survey).

The month-over-month responses in the February survey indicated "no changes" in internet sales, number of employees (both full-time and part-time), average employee workweek, wages and benefits, selling prices, and capital expenditures. Responses were mixed for net sales revenue, input prices, and inventories. (Last month's responses were similar except wages and benefits and selling prices were evenly 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), average employee workweek, capital expenditures, and inventories. "Increases" are mostly forecasted for net sales revenue, wages and benefits, input prices, and selling prices. (The January survey's six-month outlook had similar forecasts except net sales revenue and average employee workweek were more mixed).

Retail comments indicate that restaurants are still struggling to find employees which suggests more people are starting to dine-in.

## **SERVICE**

Knoxville area service sector businesses reported in the February survey that their current level of general business activity is mostly mixed and company outlooks are mostly "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, and selling prices. Revenue, wages and benefits, and capital expenditures were split between "increase" and "no change". "Increases" were mostly reported for input prices. (This month's survey responses pretty much align with what we heard in last month's survey except input prices were almost evenly split between "increase" and "no change").

The six-month outlook shows most respondents estimating "increases" in revenue, input prices, and selling prices. The forecast for the number of full-time employees, average employee

workweek, wages and benefits, and capital expenditures is mostly split between “increase” and “no change”. There are “no changes” expected in the number of part-time employees. (January’s survey responses regarding the six-month outlook differed in that mostly “no changes” were anticipated for wages and benefits, average employee workweek, selling prices, and capital expenditures. Also, future input prices were almost evenly split between “increase” and “no change”).

Some service sector comments indicate that while things will slowly return to normal, robust growth is expected sometime in the spring. Labor rates are also expected to increase as many unskilled applicants are already expecting \$15 per hour.

## **PAYCHECK PROTECTION PROGRAM (PPP) LOANS – ROUND 2**

In addition to our regular monthly survey questions, we asked participants if they intended to apply for any PPP2 loans and if not, then why. Overall, 78% of respondents did not plan to apply for the second round of PPP loans.

All of the manufacturing respondents indicated that they were not applying for the PPP loan with half saying they did not need the funding while the other half said that the payback requirements were not favorable.

The retail sector was almost evenly split between those applying and those not applying. The retailers that are not applying indicated that they did not need the funding.

The majority of the service sector (82%) indicated that they were not applying for a PPP loan. Of those not applying for the loan, 44% said they did not need the funding, 33% said they did not qualify, and the rest said the payback requirements were not favorable.

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

If you are interested in being a participant in our monthly surveys, please register at the below link.

<https://www.knoxvillechamber.com/economic-outlook-survey-registration/>

## **LABOR MARKET INFORMATION**

January labor force data at the local level will not be released until mid-March.

Below is the December analysis from last month’s *ECO* report.

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

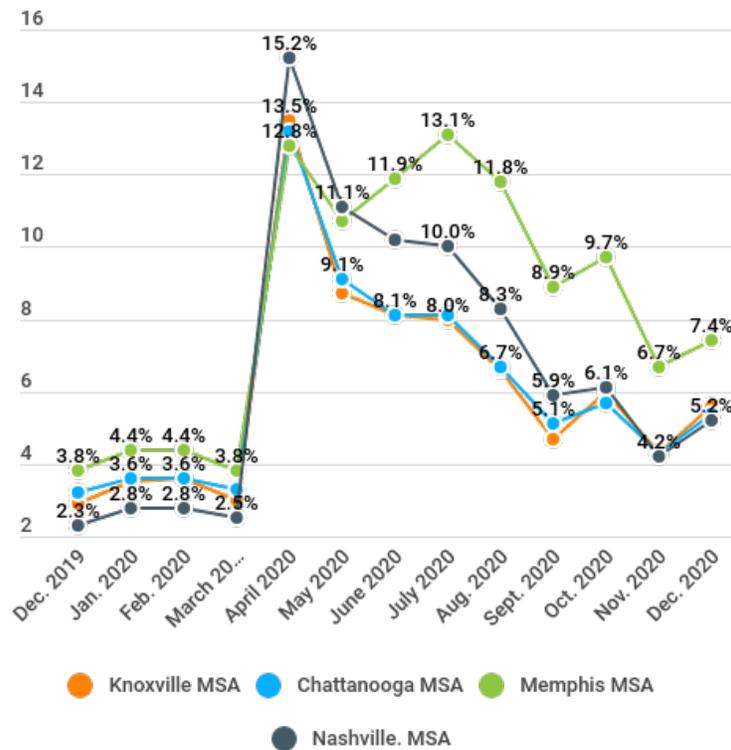
November and up from 3.1% in last December). The U.S. unemployment rate was 6.5% in December (up slightly from the 6.4% rate in November and up from the 3.4% unemployment rate recorded last December).

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), Knoxville 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

### JOB MARKET

For the month of January, there were 33,641 unique active job postings in the Knoxville MSA (up 5.2% from December and up 11.3% from last January). There were 20,514 unique active job postings in Knox County (up 3.5% from December and up 11.2% from this time last year).

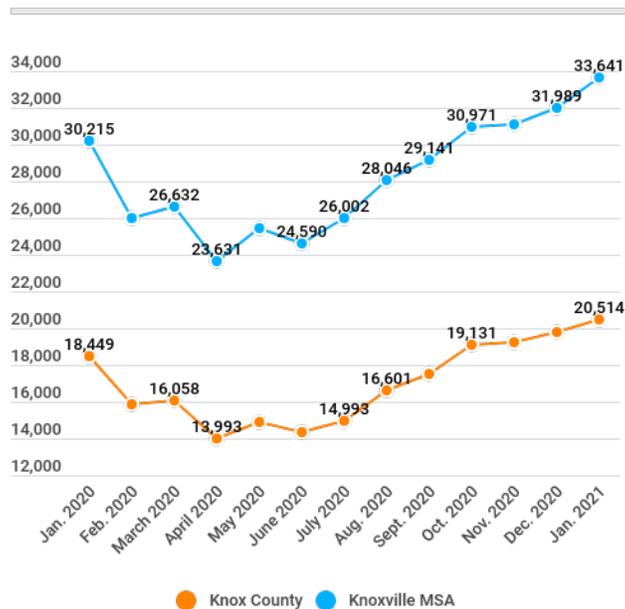
The Top 10 industries (by number of job postings) in the Knoxville MSA in January were –

### Top Ten Industries by Number of Postings

Industry	Number of Postings
 Administrative Support, Waste Management and Remediation Services	4,160
 Retail Trade	4,054
 Health Care and Social Assistance	3,994
 Transportation and Warehousing	3,363
 Professional, Scientific and Technical Services	2,384
 Accommodation and Food Services	2,177
 Manufacturing	1,463
 Finance and Insurance	739
 Educational Services	886
 Other Services	711

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

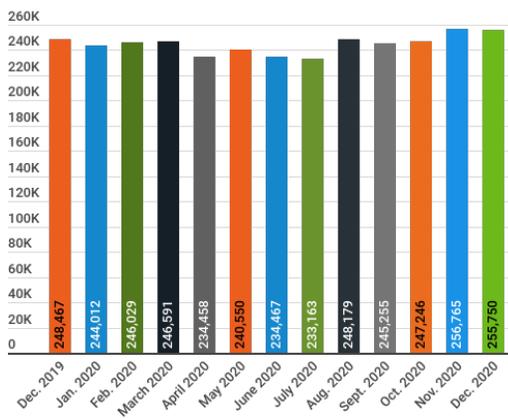
Each month, ADP, a large-scale payroll and human resources company releases their National Employment Report®, which provides a high-level look at month-over-month private-sector employment changes across the country.

The January report shows a gain of 174,000 in nonfarm private-sector employment (a significant increase from the 123,000 jobs loss reported in December). Midsized businesses (50-499 employees) posted the largest gain of 84,000 jobs. Small businesses (1-49 employees) gained 51,000 jobs and large firms (500+ employees) increased by 39,000 jobs.

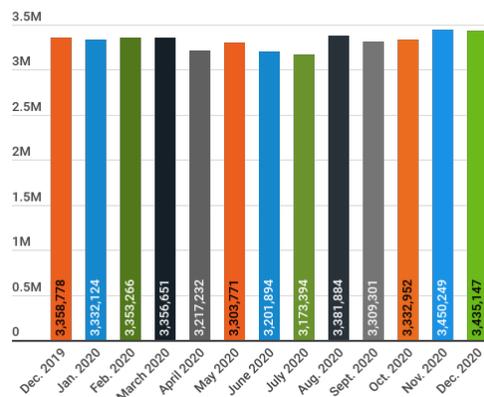
ADP’s Small Business Report, which further synthesizes the small business landscape, shows that the 51,000 jobs gain was almost evenly split between the “Very Small” businesses (1-19 employees) which increased by 26,000 jobs and “Other Small” businesses (20-49 employees) which increased by 25,000 jobs.

## Resident Labor Force

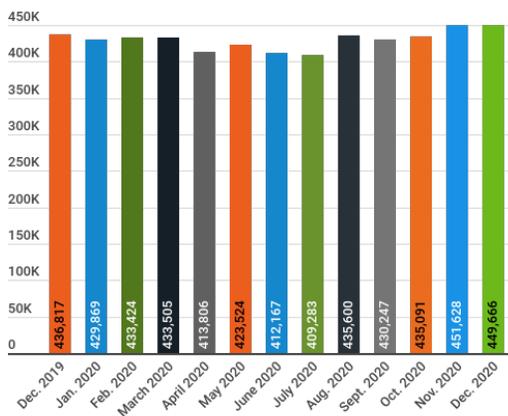
### Knox County



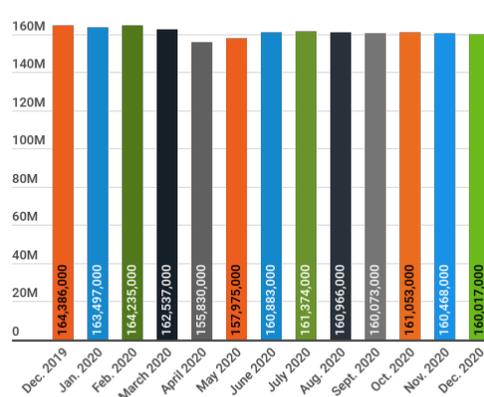
### Tennessee



### Knoxville MSA



### United States



Source: ADP

## **THE FUTURE OF WORK AFTER COVID-19**

On February 26, it was announced that we had convinced CGI, one of the world's largest IT and business consulting firms, to develop a new "IT delivery center" in the Knoxville area. Once at capacity, the center will employ approximately 300 people in the areas of software development, cybersecurity, and data analysis with an average salary above \$60,000 per year.

Along with the jobs and capital investment that this project will produce, it also has the underlying benefit of better positioning the region for the changing occupational environment that will occur in a post-pandemic world. Recently, the McKinsey Global Institute released [\*The Future of Work After COVID-19\*](#) report, and it closely aligns with our view of transformations within the employment situation that are being accelerated and our community's obligation to address these changes for its future prosperity.

While the Knoxville area has historically been driven by a machine- and government-powered economy, McKinsey indicates that the future lies in regions that are brain powered. The report points out that by 2030 U.S. jobs in the areas of health aides, techs, and care workers; health professionals; managers; and STEM professionals will increase between 0.1 percent and 2.7 percent. Meanwhile, employment in customer service and sales; food services; office support; and production and warehousing will decrease between 0.4 percent and 8.9 percent. Fortunately, the recruitment of CGI moves us one-step closer to becoming that brain-powered economy that will be prominent in less than decade.

This, however, also means that a significant number of our neighbors will have to transition to new careers. McKinsey indicates that "[t]he pandemic accelerated existing trends in remote work, e-commerce, and automation, with up to 25 percent more workers than previously estimated potentially needing to switch occupations." If we apply the aforementioned decreasing employment percentages to the Knoxville MSA, we will witness a cohort of unemployed people that will be in the range of approximately 1,000 and 4,000 within the next ten years. Ensuring that we can offer a plethora of "re-skilling" options for these individuals so that they can re-enter the workforce as well as grow the health-, management-, and STEM-related fields is a critical priority for us and our [Path to Prosperity](#) strategic vision.

## Estimated Change in Share of Total Employment, Post COVID Scenario

Based on Occupational Category



Source: McKinsey Global Institute

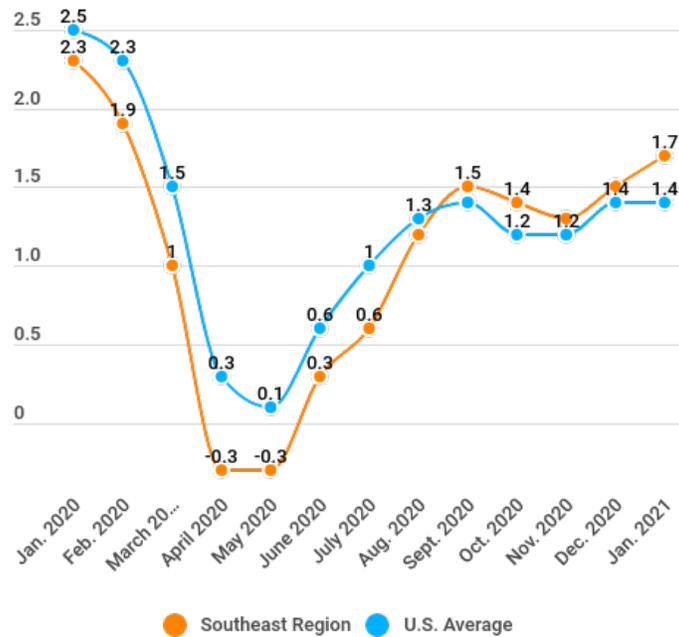
### CONSUMER PRICE INDEX (INFLATION RATES)

The national inflation rate from January 2020 to January 2021 is 1.4%. This rate is unchanged from the December 2019 to December 2020 period. Nationally, the inflation rate has been hovering in the range of 1.2% to 1.4% since August 2020.

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 1.7% for the January 2020 to January 2021 period. This rate is up from the 1.5% rate in the December 2019 to December 2020 period. The South Region's B/C class inflation rate has been within the range of 1.2% to 1.7% since August 2020.

## Inflation Rates

Consumer Price Index - All Items



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

## HOUSING MARKET

January's existing-home sales in the Knoxville area were down 24.6% from December, an expected seasonal decline, but up 22% from one year ago. Home sales in Knox County were down 25% from December but up 13% from one year ago.

Nationally, existing-home sales increased to a seasonally-adjusted annual rate of 6.69 million in January — up 0.6% from the prior month and 23.7% from a year ago. Home sales in the South similarly increased 3.2% from the prior month, up 25.1% from January 2019.

The median home sales price in the Knoxville area was \$239,075 in January — down from December but up 19.5% from one year ago. Knox County's median home sales price was \$245,500 in January — down from the prior month and up 14.2% from last January.

Housing inventories remain tight nationally, regionally, and locally. Inventory in the Knoxville area is at a historic low with active listings down 46.7% compared to the 2020.

Months of inventory, the number of months it would take to exhaust active listings at the current sales rate, declined to 0.98 in January. The absorption rate, or the percentage of inventory sold per month, increased to 102%.

According to Hancen Sale, Governmental Affairs and Policy Director at the Knoxville Area Association of Realtors®, “Home sales in January experienced yet another month of strong year-over-year growth. While the outlook remains positive, Knoxville’s dwindling housing supply will be a defining challenge for the housing market this year. Buyers should expect home prices to rise throughout the year, and homeowners are likely to see continued equity gains. However, for Knoxville and the broader East Tennessee region to remain affordable and continue attracting new talent and investment, meeting the rising demand for housing will be critical”.

### Knoxville Area Housing Market

#### Knoxville Area

	Jan. 2020	Feb. 2020	March 2020	April 2020	May 2020	June 2020
Homes Sold	1,180	1,170	1,590	1,460	1,470	1,970
Active Listings Inventory	3,510	3,550	3,950	4,080	4,070	3,710
Median Home Sales Price	\$200,000	\$205,000	\$210,000	\$215,000	\$212,000	\$225,000
Months Inventory	2.39	3	3.37	2.56	2.79	2.52
Absorption Rates	42%	33%	30%	39%	36%	40%

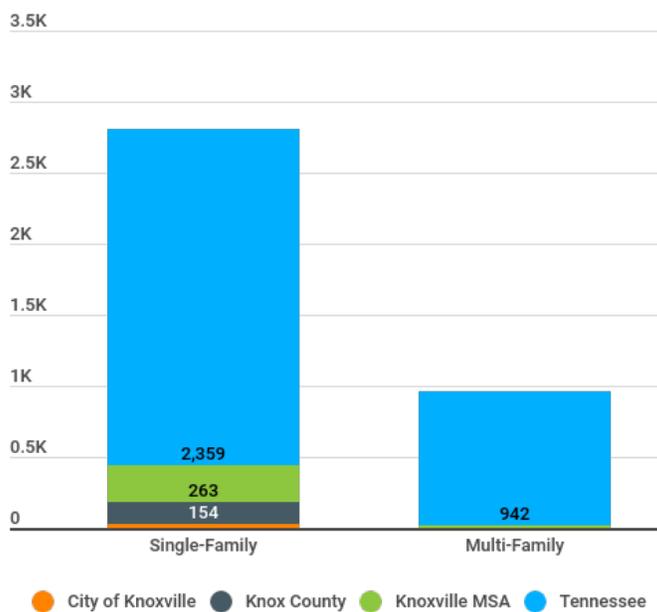
#### Knox County

	Jan. 2020	Feb. 2020	March 2020	April 2020	May 2020	June 2020
Homes Sold	495	481	682	613	676	868
Active Listings Inventory	1,050	1,050	1,190	1,210	1,160	1,040
Median Home Sales Price	\$215,000	\$217,000	\$225,000	\$235,000	\$230,000	\$245,000
Months Inventory	1.72	2.12	2.47	1.78	1.89	1.54
Absorption Rates	58%	47%	40%	56%	53%	65%

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

### Residential Building Permits

#### Dec. 2020



For full report data, click [HERE](#).

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

## **NATIONAL RETAIL SALES**

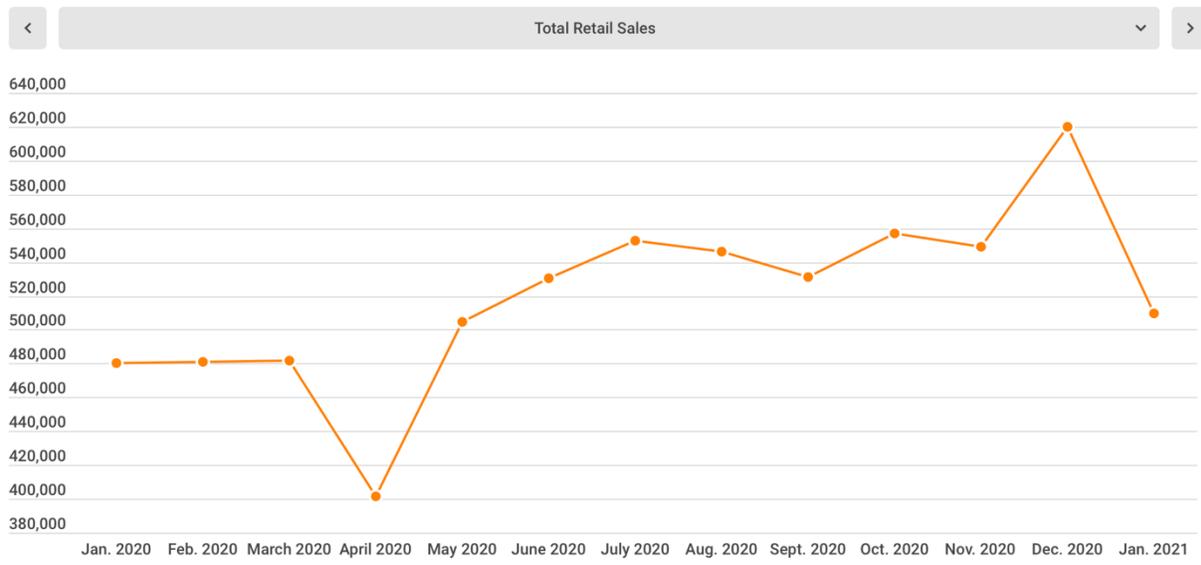
The total advance monthly retail sales estimate for January 2021 was \$509.8 billion (down 17.8% from December and up 6.2% from last January).

The retail sectors that showed the most growth from this time last year were Sporting Goods/Books/Hobby/Music Stores (+29.5%), Non-store Retailers (+25.6%), Building Materials (+17.9%), Furniture and Home Furnishings Stores (+15.7%), Miscellaneous Stores (+10.8%), and Motor Vehicle and Parts Sales (+10%).

The retail sectors that experienced the biggest declines in sales from last January were Food Services and Drinking Places (-17%), Gasoline Stations (-11.4%), and Clothing Stores (-9.5%).

### **National Retail Sales**

*in Millions of Dollars*



For full report data, click [HERE](#).

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

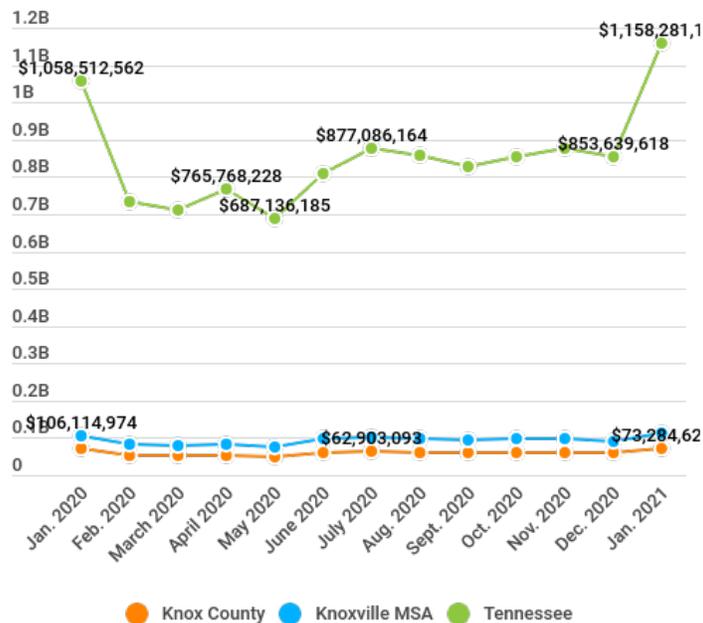
## TENNESSEE STATE AND LOCAL SALES TAX COLLECTIONS

The nine-county Knoxville MSA region collected \$113.86 million in state sales taxes in January (up 25.6% from December and up 7.3% from last January) and Knox County collected \$73.28 million in January (up 23.3% from December and up 4.0% from last January). The state of Tennessee collected \$1.158 billion in state sales taxes in January (up 35.7% from December and up 9.4% from last January).

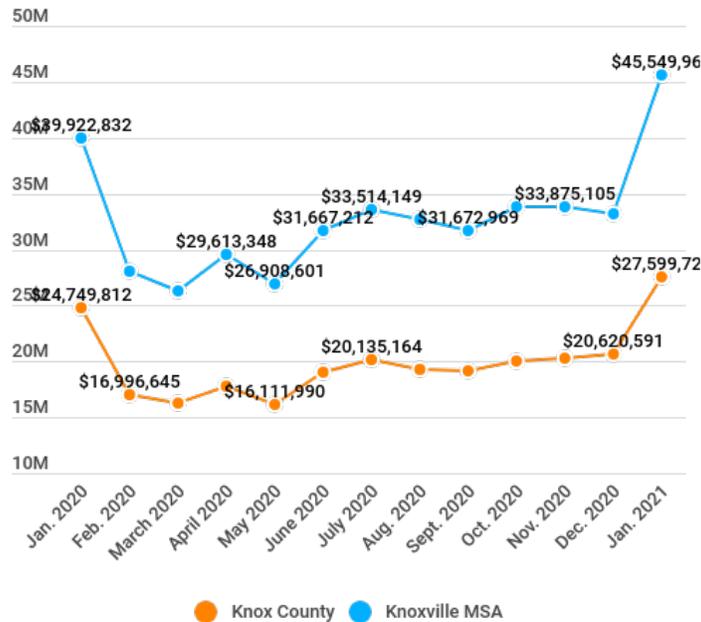
The Knoxville MSA collected \$45.5 million in local sales taxes in January (up 37.2% from December and up 14.1% from last January) and Knox County collected \$27.6 million (up 33.8% from December and up 11.5% from last January)

### Sales Tax Revenue

#### State Sales Tax



## Local Sales Tax



Source: Tennessee Department of Revenue

### **TENNESSEE BUSINESS LEADERS SURVEY, WINTER 2021**

Three-quarters of business leaders in East Tennessee expect the state’s economy to be better than the national economy over the next twelve months according to the results of the latest [Tennessee Business Leaders Survey](#) conducted between January 19 and February 1, 2021 by the University of Tennessee Boyd Center for Business and Economic Research. Statewide, the same sentiment among business leaders is 67%. Respondents generally attribute their positive expectations on the state’s economy to stronger business investment (47%) and better government leadership (19%) than at the national level. A vast majority (72% statewide and 82% in East Tennessee) think Tennessee is “headed in the right direction” and furthermore, 70% statewide and 82% in East Tennessee think Tennessee’s state government is doing a good to excellent job of “creating a good business environment”.

When asked which priorities Tennessee should focus on to improve the business climate, the top five items both statewide and in East Tennessee were 1) technology infrastructure (high-speed internet, cellular connectivity); 2) infrastructure (roads, bridges, water, sewer); 3) business development incentives; 4) energy infrastructure (power generation and transmission, natural gas); and 5) business income tax reform. Interestingly, East Tennessee business leaders were the only ones to include education and workforce development in their selection of state priorities. The Knoxville Chamber is collaborating with several regional partners to address many of these issues including the [eKnox Task Force](#), legislative advocacy (read chamber [legislative agenda](#)), and [100Knoxville initiative](#).

You can access the interactive survey results [here](#).

Source: University of Tennessee Boyd Center for Business and Economic Research, Haslam College of Business

## **RECENT BUSINESS EXPANSIONS AND NEW BUSINESS ANNOUNCEMENTS IN THE KNOXVILLE REGION**

This is a new section we have added to *ECO* to share announcements of businesses that are expanding their existing operations or locating a new facility in the Knoxville region. If you would like to share your business expansion announcement with us, please send your info to [jriley@knoxvillechamber.com](mailto:jriley@knoxvillechamber.com).

New and existing industries continue to invest in the Knoxville region.

January 18, 2021 – [Innovate Manufacturing](#) announced a \$3 million expansion of their West Knox County facility, adding 50,000 SF and 90 new jobs. Innovate Manufacturing is a contract plastics manufacturer that specializes in injection molding, blow molding, and injection stretch molding primarily for hydration products.

February 3, 2021 – [Amazon](#) announced it would be building a new \$200 million, 634,000 SF fulfillment center in Alcoa and creating 800 new jobs.

February 17, 2021 - [Fort Sanders Regional Medical Center](#) completed a \$115 million expansion of a new critical care department with 72 rooms arranged into three intensive care units including cardiovascular, neurological, and medical-surgical care. State-of-the-art features include ICU telehealth technology and in-room dialysis. Last March, the hospital also opened a new emergency department.

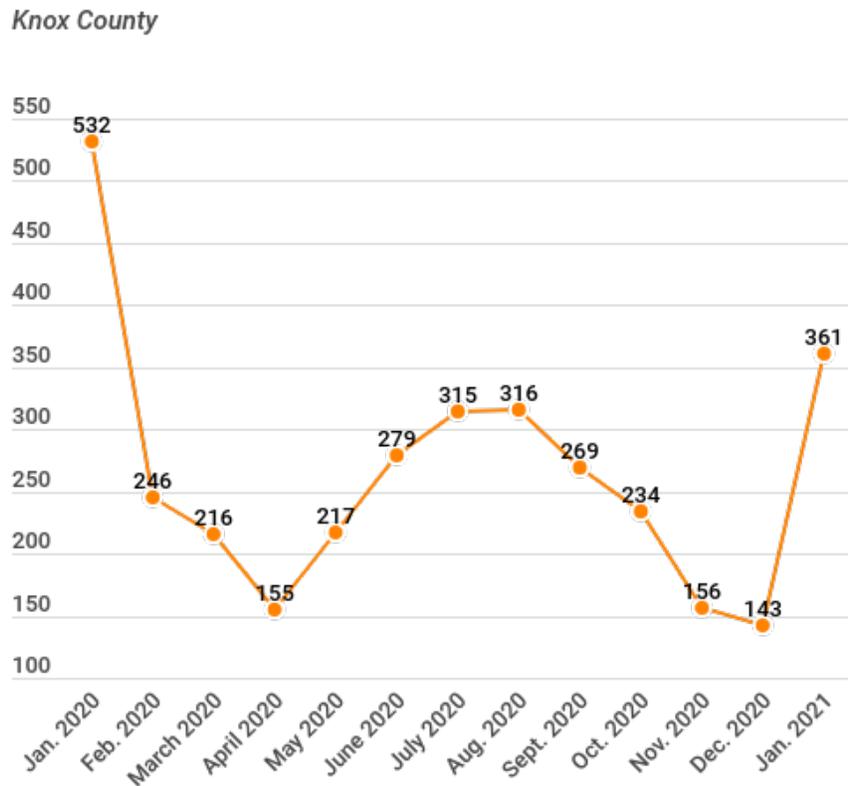
February 26, 2021 – [CGI, Inc.](#) announced it would be locating a \$27 million office/delivery center in or near the downtown Knoxville area with a commitment to hiring 300 employees by 2026. CGI is a global IT and business consulting firm with 400 locations worldwide, 76,000 consultants and professionals, 5,500 end-to-end services clients, and 50,000 clients through CGI's 170+ IP-based solutions. The new Knoxville delivery center will be CGI's eighth delivery center in the U.S.

## **KNOX COUNTY BUSINESS LICENSES**

New business licenses issued in January by Knox County are down 32.1% from last January. A total of 361 new business licenses were issued in January 2021 compared to 532 business licenses issued in January 2020. This may be an indication that some prospective business owners are waiting to see if there are any changes to the regulatory, minimum wage, and tax policies under new federal leadership before launching a new business venture.

Below is a chart showing the 13-month trend of business licenses issued by Knox County.

## Business Licenses



Source: Knox County Clerk

### **MCGHEE TYSON AIRPORT (TYS) PASSENGER AND FREIGHT TRENDS**

The Metropolitan Knoxville Airport Authority recorded 97,903 passengers in December (down 1.3% from November passenger traffic and down 54.2% from the 213,993 passengers recorded in December 2019).

According to the Transportation Security Administration, the average daily number of passengers passing through the nation's TSA checkpoints in January was 761,233 (down 62% from the January 2020 daily passenger average of 1,997,751). You can view the daily TSA checkpoint travel numbers [here](#).

AeroTime Hub, an aviation trade source, reports that the International Air Transport Association (IATA) is forecasting "deeper losses" for the aviation industry in 2021. "This crisis is devastating and unrelenting. Airlines have cut costs by 45.8%, but revenues are down 60.9%. The result is that airlines will lose \$66 for every passenger carried this year for a total net loss of \$118.5

billion. This loss will be reduced sharply by \$80 billion in 2021. But the prospect of losing \$38.7 billion next year is nothing to celebrate," said Alexandre de Juniac, the Director-General and CEO of IATA.

IATA is projecting the global number of airline passengers to grow to 2.8 billion in 2021, which is 1 billion more than the rough year of 2020 but still 1.7 billion less than 2019 numbers.

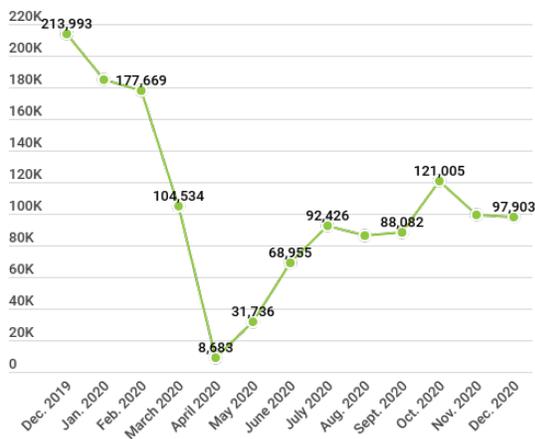
You can read the full article at AeroTime Hub [here](#).

The total freight recorded in December at TYS was 8,301,589 tons (up 20.7% from November and up 13.9% from last December).

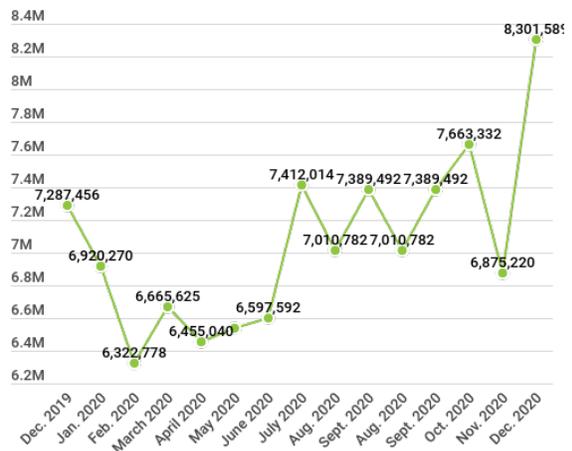
### Air Service

at McGhee-Tyson Airport

#### Passengers



#### Freight



Sources: Metropolitan Knoxville Airport Authority; U.S. Transportation Security Administration; AeroTime Hub