

MARCH 2021



FINANCED BY FIRST HORIZON BANK

Welcome to the March 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 March survey, the current outlook has “improved” and the level of general business activity is split evenly 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, number of employees, and average employee workweek. Responses were evenly split between “increase” and “no change” in growth rate of orders, volume of shipments, delivery time, prices paid for raw materials, prices received for finished goods, wages and benefits, and capital expenditures. Unfilled orders were evenly split between “increase” and “decrease” and finished goods inventories were evenly split between “decrease” and “no change”. (February’s month-over-month responses were split across all the items except for prices paid for raw materials, wages and benefits, and average employee workweek which were all “no change”).

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

number of employees, and capital expenditures. “No change” is expected for finished goods inventories and wages and benefits. Future unfilled orders, delivery time, and average employee workweek are split between “decrease” and “no change”. (February’s six-month outlook was similar except there were no expected “decreases” at all for any of the items).

RETAIL

Knoxville area retailers indicated in the March survey that their evaluation of the level of general business activity and their company’s outlook is mostly “the same”. (Retailers were a little more mixed regarding their evaluation of the level of general business activity in last month’s survey).

The month-over-month responses in the March survey indicated mostly “increases” in net sales revenue, input prices, and wages and benefits. “No changes” were mostly reported in internet sales, number of part-time employees, average employee workweek, selling prices, and capital expenditures. Responses were mixed for number of full-time employees and inventories. (Last month’s responses were similar except wages and benefits were reported as “increasing” and responses were “mixed” for number of full-time employees, net sales revenue, input prices, and inventories).

The six-month outlook projects solid “increases” for number of full-time employees, wages and benefits, input prices, selling prices, and inventories. “No changes” are mostly predicted for net sales revenue, internet sales, number of part-time employees, average employee workweek, and capital expenditures.

(The February survey’s six-month outlook had similar forecasts except net sales revenue were projected to “increase” and “no changes” were expected for inventories).

Retail comments indicate that the additional unemployment benefits continue to hinder the hiring process.

SERVICE

Knoxville area service sector businesses reported in the March survey that their current level of general business activity is mostly mixed and company outlooks are mostly “the same”. (The service sector shared the same sentiment in last month’s survey).

The month-over-month responses showed there mostly has been “no change” in revenue, the number of employees (both full-time and part-time), average employee workweek, wages and benefits, and selling prices. “Increases” were mostly reported for input prices. Capital expenditures were mixed.

(This month’s survey responses match what we heard in last month’s survey).

The six-month outlook shows most respondents estimating mostly “increases” in input prices and capital expenditures. There are mostly “no changes” expected in number of part-time employees and average employee workweek. The forecast for revenue, the number of full-time employees, wages and benefits, and selling prices is mostly split between “increase” and “no change”. (February’s survey responses regarding the six-month outlook were the same except revenue and selling prices were expected to “increase”).

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 following link: <https://www.knoxvillechamber.com/ecoregistration/>

LABOR MARKET INFORMATION

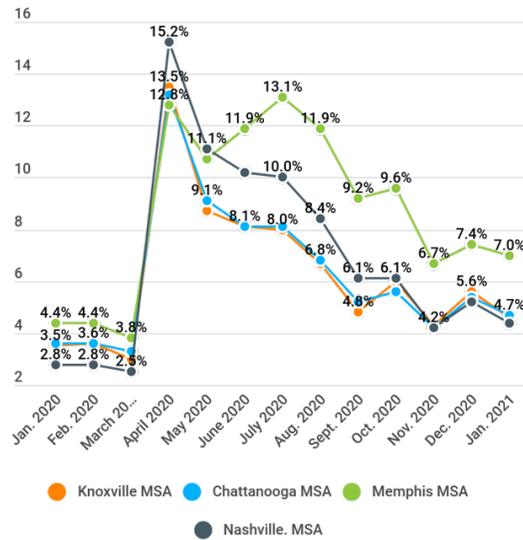
The Knoxville MSA’s unemployment rate in January was 4.6% (this is a decrease from December’s 5.6% rate and higher than the 3.5% rate from January 2020). Knox County’s unemployment rate in January was 4.2% (down from 5.2% in December and up from 3.1% in January 2020). Tennessee’s unemployment rate was 5.4% in January (down from 5.6% in December and up from 4.0% in last January). The U.S. unemployment rate was 6.8% in January (up slightly from the 6.5% rate in December and up from the 4.0% unemployment rate recorded last January).

The size of the total labor force has decreased locally, statewide, and nationally in January from December. The Knoxville MSA’s labor force decreased by 4% (from 449,666 to 431,693), Knox County’s labor force decreased by 4% (from 255,750 to 245,486), and Tennessee’s labor force decreased by 0.6% (from 3,324,493 to 3,306,113), and the national labor force decreased by 0.5% (from 160,017,000 to 159,234,000).

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

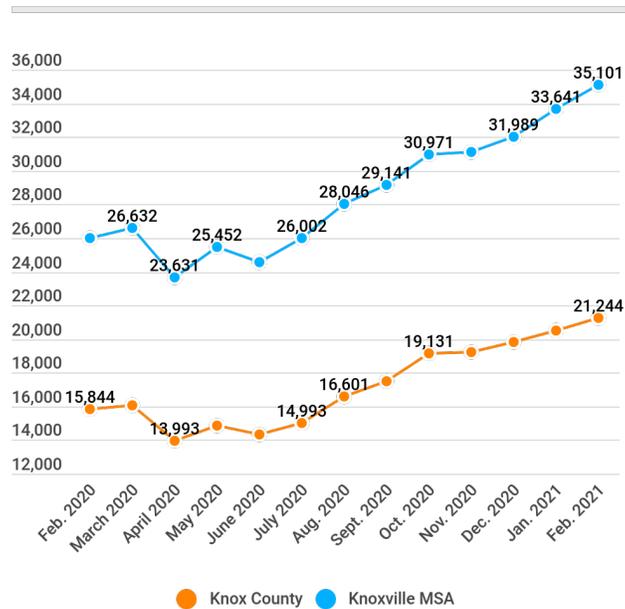
For the month of February, there were 35,101 unique active job postings in the Knoxville MSA (up 4.3% from January and up 34.9% from last February). There were 21,244 unique active job postings in Knox County (up 3.6% from January and up 34.1% from this time last year).

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

Industry	Number of Postings
Administrative Support, Waste Management and Remediation Services	4,623
Retail Trade	4,154
Health Care and Social Assistance	4,097
Transportation and Warehousing	3,347
Professional, Scientific and Technical Services	2,429
Accommodation and Food Services	2,175
Manufacturing	1,507
Educational Services	822
Other Services	822
Finance and Insurance	799

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®

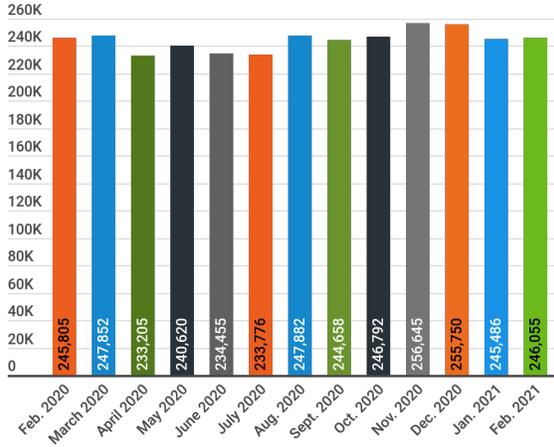
Each month, ADP, a large-scale payroll and human resources company releases their National Employment Report®, which provides a high-level look at month-over-month private-sector employment changes across the country.

The February report shows a gain of 117,000 in nonfarm private-sector employment (a significant decrease from the 174,000 jobs gain reported in January). Midsized businesses (50-499 employees) posted the largest gain of 57,000 jobs. Small businesses (1-49 employees) gained 32,000 jobs and large firms (500+ employees) increased by 28,000 jobs.

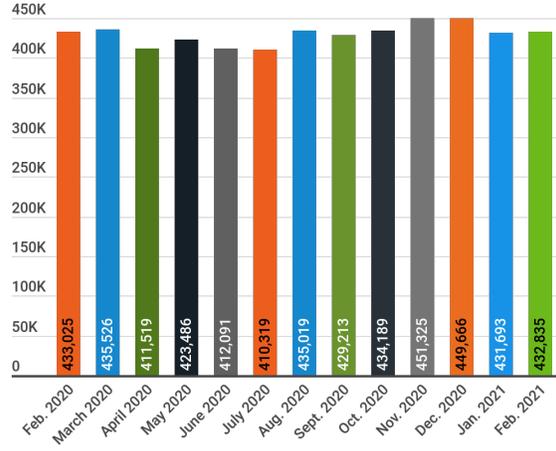
ADP's Small Business Report, which further synthesizes the small business landscape, shows that the 32,000 jobs gain was driven mostly by the "Very Small" businesses (1-19 employees) which increased by 21,000 jobs, while "Other Small" businesses (20-49 employees) increased by 12,000 jobs.

Resident Labor Force

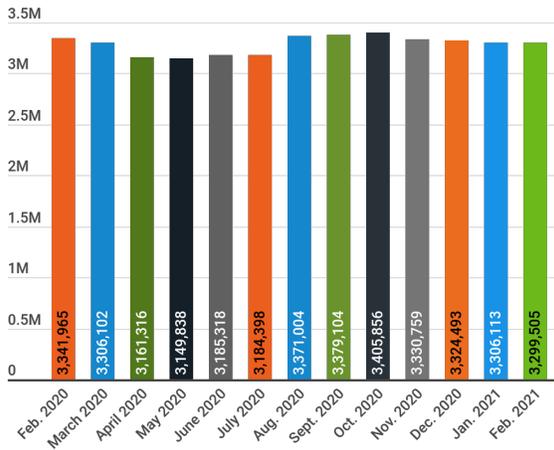
Knox County



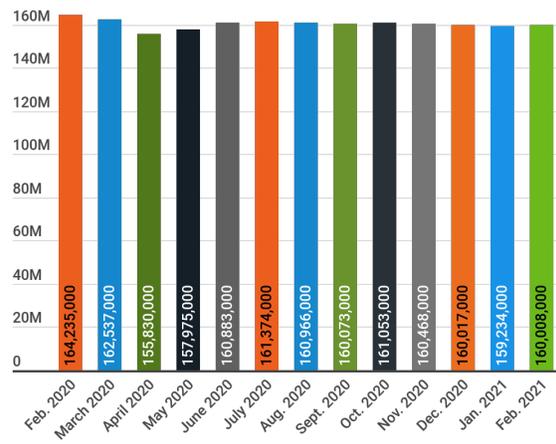
Knoxville MSA



Tennessee



United States



(Source: ADP)

HOW MANY JOBS IS THE U.S. LIKELY TO ADD THIS YEAR?

The Brookings Institution recently released an analysis that looked at the different factors which will determine the pace of employment gains in 2021.

According to the report, the consensus of most economic forecasters is that real GDP (Gross Domestic Product – the total value of all goods and services) will grow by 6% between the fourth quarter of 2020 and the fourth quarter of 2021. This strong GDP growth will be largely fueled by the \$1.9 trillion American Rescue Plan stimulus package and the increasing numbers of people getting the COVID-19 vaccinations.

If the GDP does grow by 6% as forecasted, employment gains over the next ten months could average between 700,000 to 1 million per month. The rationale behind this bullish employment growth projection is that the COVID-19 recession was very different from all previous economic recessions in that most of the 9.5 million jobs lost between February 2020 and February 2021 were ***“disproportionately low-wage, low-productivity jobs”***. These low-wage job losses have been unusually large relative to the GDP losses, so as these jobs are recovered, ***“there will likewise be an unusually large increase in employment relative to the gains in GDP”***.

In the post-COVID economy, some of the jobs that were lost during the pandemic may be permanently lost as many businesses “have learned new ways to operate” through technology, automation, or a complete rethinking of the way they do business. Some lost jobs may also take longer to return due to any COVID-related restrictions that may remain in place in some areas. The report notes that ***“not all the increase in GDP is likely to come from the reopening of suppressed sectors of the economy. Instead, some of it will reflect a more broad-based increase in demand stemming from the large amount of fiscal stimulus”***.

You can read the full Brookings analysis [here](#).

(Source: Brookings Institution)

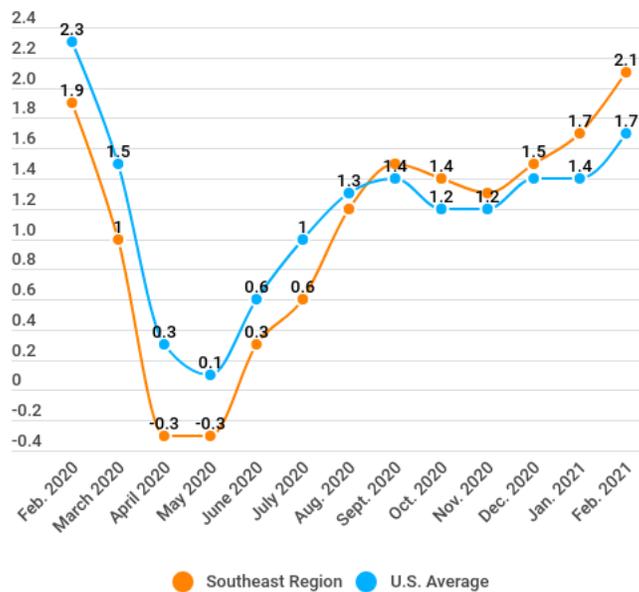
CONSUMER PRICE INDEX (INFLATION RATES)

The national inflation rate from February 2020 to February 2021 is 1.7%. This rate is slightly higher than the 1.4% rate for January 2020 to January 2021. Last year, the national inflation rate was 2.3% for February 2019 to February 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 2.1% for the February 2020 to February 2021 period. This rate is up from the 1.7% rate in the January 2020 to January 2021 period. Last year, the rate was 1.9% for February 2019 to February 2020.

Inflation Rates

Consumer Price Index - All Items



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

HOUSING MARKET

February's existing-home sales in the Knoxville area were down 7.6% from January, an expected seasonal decline but up 14.5% from one year ago. Home sales in Knox County were down 4.6% from January but up 16% from one year ago.

Nationally, existing-home sales increased to a seasonally-adjusted annual rate of 6.22 million in February — down 6.6% from the prior month, but up 9.1% from a year ago. Home sales in the South similarly declined 6.1% from the prior month, but up 9.9% from the same time a year ago.

The median home sales price in the Knoxville area was \$246,575 in February — up from January and 20.3% from one year ago. Knoxville’s median home sales price was \$260,000 in February — up 4% from the previous month and 19.8% from last January.

Housing inventories remain tight nationally, regionally, and locally. For the fifth consecutive month, inventory in the Knoxville area declined with active listings down 56% compared to the 2020.

Months of inventory, the number of months it would take to exhaust active listings at the current sales rate, increased slightly to 1.08 months in February. The absorption rate, or the percentage of inventory sold per month, declined to 93% — up 60% from February 2020.

According to Hancen Sale, Governmental Affairs and Policy Director at the Knoxville Area Association of Realtors®, ***“February’s housing market data presents a mixed view. While home sales declined this month — which is attributable to the historic low inventory — the housing market is still performing well with strong year-over-year growth. As vaccines become more widely available in the coming months, I hope to see more existing homes on the market — though that will not solve the broader supply issue. With mortgage rates just above 3%, housing demand this Spring is likely to remain strong. Ultimately, supply is the primary constraint right now”.***

Also of note, the Knoxville Area Association of Realtors® recently commissioned a scientific poll of registered voters in Knoxville County in which more than 1 in 3 (or 34%) indicated housing affordability in the Knoxville area was a “very or fairly big problem”, while 28% said the same about the availability of housing. The poll consisted of more than 400 respondents and the margin of error was ± 4.9 percentage points.

Knoxville Area Housing Market

Knoxville Area

	Feb. 2020	March 2020	April 2020	May 2020	June 2020	July 2020
Homes Sold	1,170	1,590	1,450	1,470	1,960	2,300
Active Listings Inventory	3,560	3,950	4,070	4,060	3,710	3,600
Median Home Sales Price	\$205,000	\$210,000	\$215,000	\$212,000	\$225,000	\$235,000
Months Inventory	3.01	3.37	2.56	2.8	2.53	1.83
Absorption Rates	33%	30%	39%	36%	40%	55%

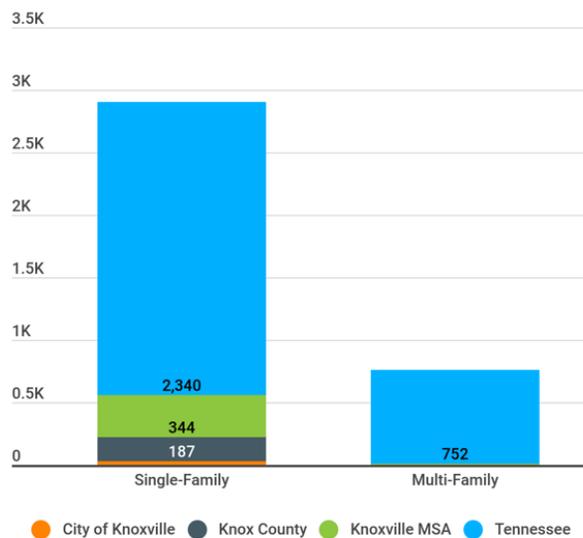
Knox County

	Feb. 2020	March 2020	April 2020	May 2020	June 2020	July 2020
Homes Sold	480	688	612	678	873	994
Active Listings Inventory	1,070	1,210	1,230	1,180	1,050	1,020
Median Home Sales Price	\$217,000	\$225,000	\$235,000	\$230,000	\$245,000	\$250,000
Months Inventory	2.17	2.53	1.79	1.93	1.55	1.17
Absorption Rates	46%	40%	56%	52%	64%	85%

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

Residential Building Permits

Jan. 2021



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

THE METRO AREA IMPACT OF HOME BUILDING IN KNOX COUNTY

At the request of the [Home Builders Association of Greater Knoxville \(HBAGK\)](#), the [National Association of Home Builders \(NAHB\)](#) Housing Policy Department recently produced two reports showing the economic impact of building 100 single-family homes in Knox County. The first report shows the income, jobs, and taxes generated in the area and the second report compares the costs to revenue impacts on local governments. You can read the general summaries [here](#).

Home building generates substantial local economic activity, including new income and jobs for residents, and additional revenue for local governments. The National Association of Home Builders has developed a model to estimate these economic benefits. The model captures the one-time effects of the construction activity itself (Phase I), the ripple impact that occurs when income earned from construction activity is spent and recycles in the local economy (Phase II), and the ongoing impact that results from new homes becoming occupied by residents who pay taxes and buy locally produced goods and services (Phase III).

The estimated one-year metro area impacts (Phases I and II one-time effects of construction activity) of building 100 single-family homes in Knox County include: **\$30.8 million** in local income, **\$3.6 million** in taxes and other revenue for local governments, and **403** local jobs.

The additional, annually recurring impacts (Phase III – the annual spending of the new homeowners) of building 100 single-family homes in Knox County include: **\$4.0 million** in local income, **\$1.3 million** in taxes and other revenue for local governments, and **66** local jobs. You can read the full impact report [here](#).

Home building also typically imposes costs on local governments—such as the costs of providing primary and secondary education, police and fire protection, and water and sewer service. Not only do these services require annual expenditures for items such as teacher salaries, they typically also require capital investment in buildings, other structures, and equipment that local governments own and maintain. The second report estimates the costs—including current and capital expenses—that new homes impose on jurisdictions in the area and compares those costs to the revenue generated. The results are intended to answer the question of whether or not, from the standpoint of local governments in the area, residential development pays for itself.

In the first year, the 100 single-family homes built in Knox County result in an estimated: **\$4.2 million** in tax and other revenue for local governments, **\$290,000** in current expenditures by local government to provide public services to the net new households at current levels, and **\$3.9 million** in capital investment for new structures and equipment undertaken by local governments. The analysis assumes that local governments finance the capital investment by borrowing at the current municipal bond rate of 3.76 percent.

In a typical year after the first, the 100 single-family homes result in **\$1.3 million** in tax and other revenue for local governments, and **\$580,000** in local government expenditures needed to continue providing services at current levels.

The difference between government revenue and current expenditures is defined as an “operating surplus.” In this case, the operating surplus generated during the first year is large enough to service and pay off all debt incurred by investing in structures and equipment at the beginning of the first year by the end of the first year. After that, future operating surpluses will be available to finance other projects or reduce taxes. After 15 years, the homes will generate a cumulative **\$21.8 million in revenue** compared to **\$10.5 million in costs**, including annual current expenses, capital investment, and interest on debt. You can read the government costs report [here](#).

(Sources: National Association of Home Builders; Home Builders Association of Greater Knoxville)

NATIONAL RETAIL SALES

The total advance monthly retail sales estimate for February 2021 was \$491.4 billion (down 3.6% from January and up 2.1% from last February).

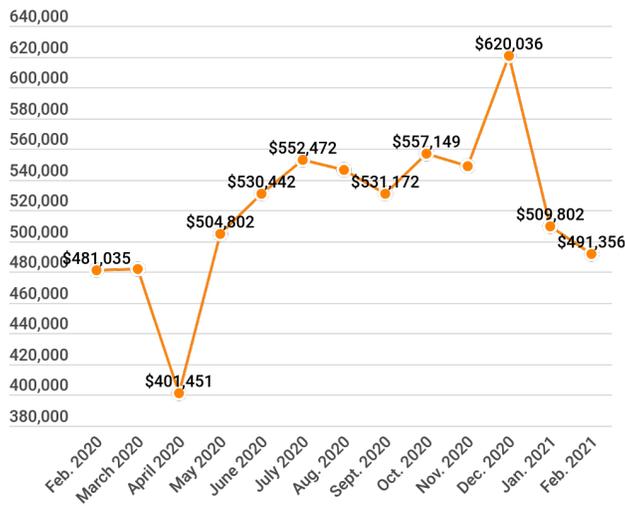
The retail sectors that showed the most growth from this time last year were Non-store Retailers (+27.9%), Sporting Goods/Books/Hobby/Music Stores (+15.3%), Building Materials (+12.3%), Furniture and Home Furnishings Stores (+6.5%), and Food and Beverage Stores (+5.5%).

The retail sectors that experienced the biggest declines in sales from last February were Food Services and Drinking Places (-21.3%), Clothing Stores (-16.1%), Electronics and Appliances (-7.2%), and Gasoline Stations (-5.2%).

National Retail Sales

in Millions of Dollars

Total Retail Sales



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

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

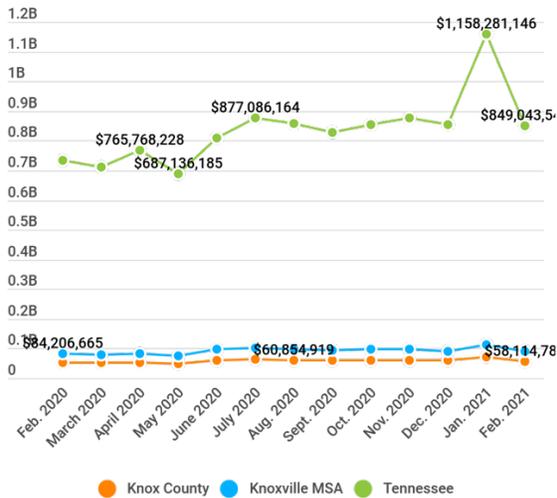
TENNESSEE STATE AND LOCAL SALES TAX COLLECTIONS

The nine-county Knoxville MSA region collected \$90.13 million in state sales taxes in February (down 20.8% from January and up 7.0% from last February) and Knox County collected \$58.1 million in February (down 20.7% from January and up 8.7% from last February). The state of Tennessee collected \$849 million in state sales taxes in February (down 26.7% from January and up 15.7% from last February).

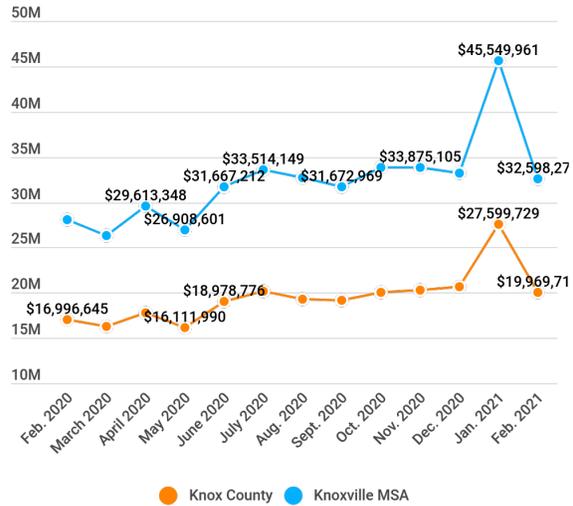
The Knoxville MSA collected \$32.6 million in local sales taxes in February (down 28.4% from January and up 16.2% from last February) and Knox County collected \$19.97 million (down 27.6% from January and up 17.5% from last February).

Sales Tax Revenue

State Sales Tax



Local Sales Tax



(Source: Tennessee Department of Revenue)

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.

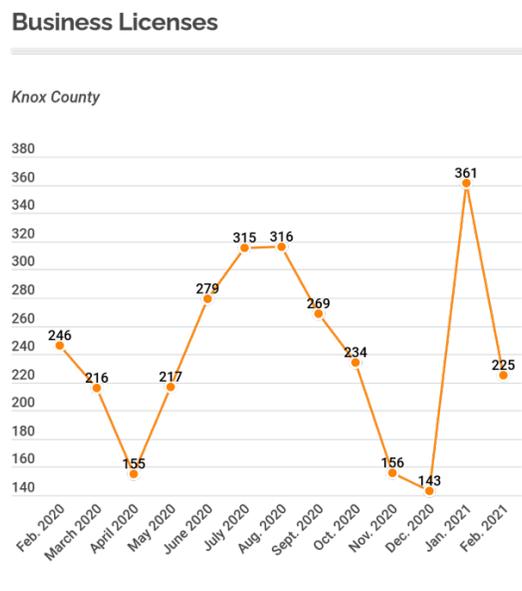
New and existing industries continue to invest in the Knoxville region.

March 12, 2021 – [Amazon](#) announced plans to open a new delivery station at the former Knoxville Center Mall site in 2022. The new delivery station will power Amazon’s last-mile delivery capabilities to speed up deliveries for Tennessee Valley customers. The station will create approximately 700 new jobs that will pay at least \$15 per hour. This is the second major Amazon announcement in the region after announcing a new fulfillment center that will create 800 new jobs in Alcoa last month.

KNOX COUNTY BUSINESS LICENSES

New business licenses issued in February by Knox County are down 8.5% from last February. A total of 225 new business licenses were issued in February 2021 compared to 246 business licenses issued in February 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.



(Source: Knox County Clerk)

MCGHEE TYSON AIRPORT (TYS) PASSENGER AND FREIGHT TRENDS

The Metropolitan Knoxville Airport Authority recorded 82,205 passengers in January (down 16% from December passenger traffic and down 55.6% from the 185,010 passengers recorded in January 2020).

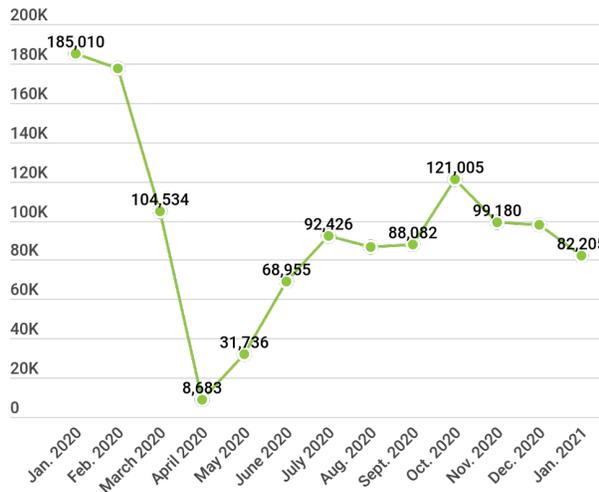
According to the Transportation Security Administration, the average daily number of passengers passing through the nation's TSA checkpoints in February was 873,084 (down 59.5% from the February 2020 daily passenger average of 2,158,174). Spoiler alert – it looks like March's average daily count will exceed 1.2 million. You can view the daily TSA checkpoint travel numbers [here](#).

The total freight recorded in January at TYS was 7,150,090 tons (down 13.9% from December and up 3.3% from last January).

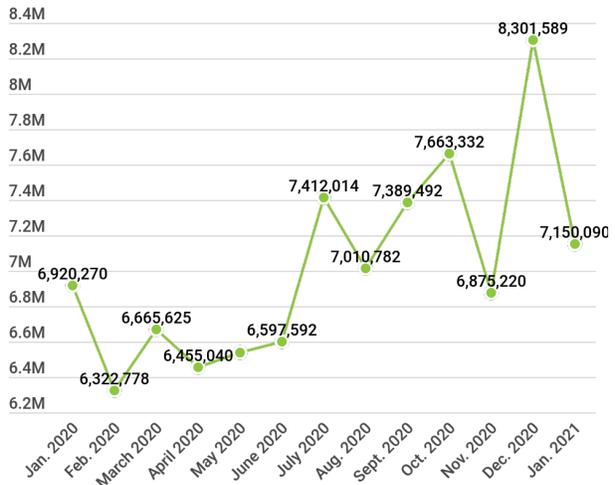
Air Service

at McGhee-Tyson Airport

Passengers



Freight



(Sources: Metropolitan Knoxville Airport Authority; U.S. Transportation Security Administration)