

FEBRUARY 2023



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

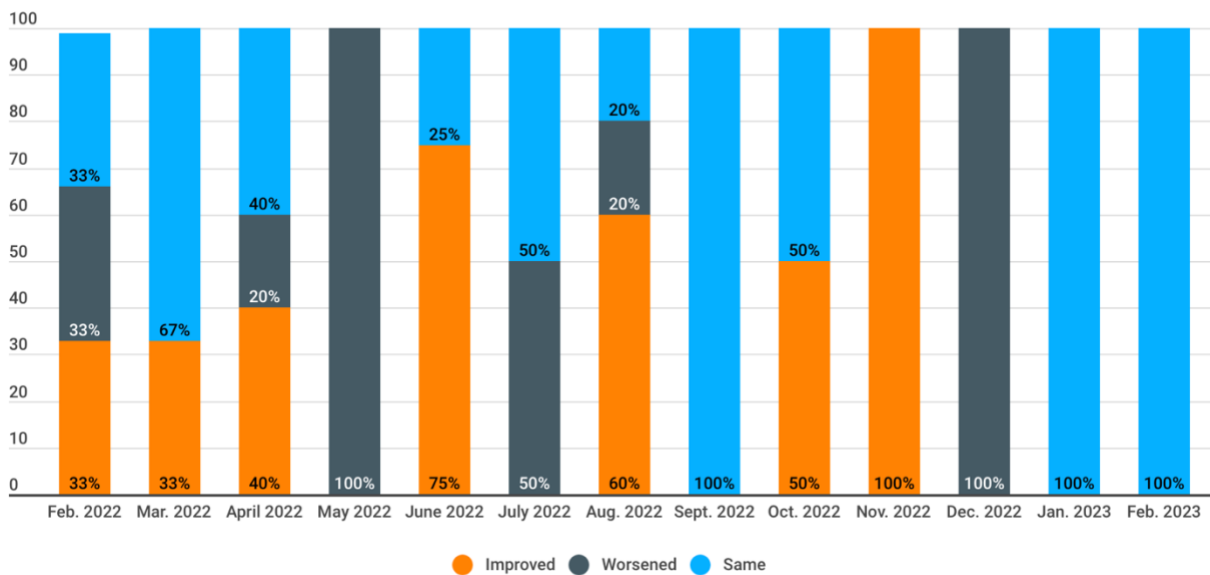
MANUFACTURING

Based on the response to the February survey, the level of general business activity and company outlooks are reported as “the same.” (The same was also reported in last month’s survey.)

The month-over-month responses in the February survey show “increases” in production, capacity utilization, volume of shipments, wages and benefits, number of employees, and capital expenditures. “No changes” are reported for volume of new orders, growth rate of orders, unfilled orders, delivery time, finished goods inventories, prices paid for raw materials, prices received for finished goods, and average employee workweek. (The month-over-month responses in the January survey showed “no changes” in the growth rate of orders, unfilled orders, delivery time, and average employee workweek. Production, capacity utilization, volume of new orders, volume of shipments, finished goods inventories, wages and benefits, number of employees, and capital expenditures were evenly split between “increase” and “no change.” Prices paid for raw materials and prices received for finished goods were evenly split between “increase” and “decrease.”)

The six-month outlook in February anticipates “increases” in production, capacity utilization, volume of new orders, volume of shipments, prices paid for raw materials, wages and benefits, number of employees, and capital expenditures. “No changes” are expected in the growth rate of orders, unfilled orders, delivery time, finished goods inventories, prices received for finished goods, and average employee workweek. (The six-month outlook in January anticipated “no changes” in production, volume of new orders, growth rate of orders, prices paid for raw materials, number of employees, and average employee workweek. “Increases” were expected in wages and benefits. Capacity utilization, volume of shipments, prices received for finished goods, and capital expenditures were split between “increase” and “no change.” Unfilled orders, delivery time, and finished goods inventories were split between “decrease” and “no change.”)

Manufacturing 13-Month Trend Evaluation of the Level of General Business Activity



RETAIL

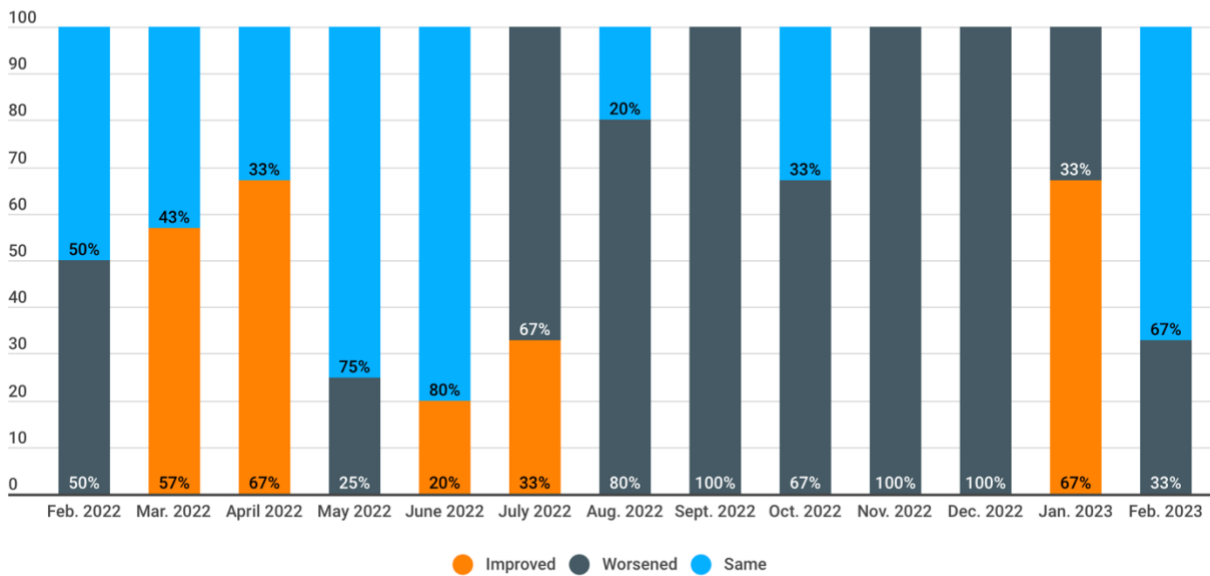
Knoxville area retailers indicated in the February survey that their current level of general business activity has mostly stayed “the same” from last month, while company outlooks are reported as mostly “worsened.” (The level of general business activity was reported as mostly “improved” and company outlooks were reported as “mixed” in the January survey.)

The month-over-month responses in the February survey show mostly “no changes” in internet sales, number of full-time and part-time employees, average employee workweek, and capital expenditures. “Increases” are reported in wages and benefits, input prices, and inventories. “Decreases” are mostly reported for selling prices. Net sales revenue is “mixed.” (Month-over-month responses in the January survey showed mostly “increases” in net sales revenue, wages

and benefits, input prices, and capital expenditures. "No changes" were mostly reported for internet sales, number of full-time and part-time employees, and average employee workweek. "Decreases" were mostly reported for inventories and selling prices are "mixed.")

The six-month retail outlook in February projects mostly "increases" in the number of full-time employees, wages and benefits, input prices, and inventories. "No changes" are mostly expected in the number of part-time employees and average employee workweek. "Decreases" are mostly anticipated in internet sales and selling prices. Net sales revenue and capital expenditures are "mixed." (The six-month outlook in January projected mostly "no changes" in net sales revenue, internet sales, number of part-time employees, and average employee workweek. "Increases" were mostly anticipated in the number of full-time employees, wages and benefits, and input prices. Projected selling prices, capital expenditures, and inventories were all "mixed.")

Retail 13-Month Trend Evaluation of the Level of General Business Activity



SERVICE

Knoxville area service sector businesses report in the February survey that their evaluation of the level of general business activity and company outlooks are mostly "the same." (The same sentiment was reported in last month's survey.)

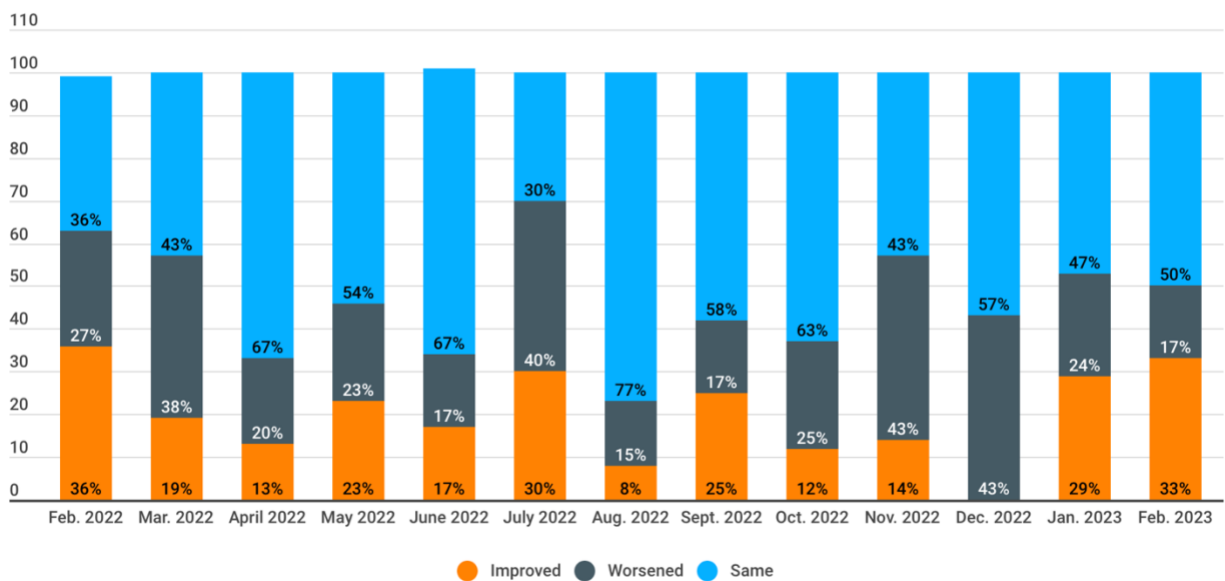
The month-over-month responses in the February survey show mostly "increases" in wages and benefits and input prices. "No changes" are mostly reported in the number of part-time employees, average employee workweek, and capital expenditures. The number of full-time employees and selling prices are evenly split between "increase" and "no change." Revenue is

“mixed.” (Month-over-month responses in January showed mostly “no changes” in the number of part-time employees, average employee workweek, wages and benefits, selling prices, and capital expenditures. Input prices were reported as “increased.” Revenue was nearly split between “increase” and “decrease.” The number of full-time employees was nearly split between “increase” and “no change.”)

The six-month outlook in February projects mostly “increases” in revenue and wages and benefits. “No changes” are mostly expected in the average employee workweek and capital expenditures. The number of full-time and part-time employees, input prices, and selling prices are evenly split between “increase” and “no change.” (The January survey’s six-month outlook showed mostly “increases” in revenue, number of full-time employees, wages and benefits, input prices, and selling prices. “No changes” were mostly expected in average employee workweek and capital expenditures. The number of part-time employees was nearly split between “increase” and “no change.”)

Service sector comments indicate that there is continued uncertainty with regard to rising interest rates, hiring qualified employees, the cost of goods, and changes in government regulations. Some nonprofits are struggling with access to capital and local public funding support.

Service 13-Month Trend Evaluation of the Level of General Business Activity



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

AUTOMATION IN LOCAL BUSINESSES

In addition to our regular monthly survey questions, we asked respondents if they have recently automated (e.g. by robots or other automated equipment) any of their business operations and if so, which operation and if no, why not.

The majority of survey participants (90%) responded that they have not recently automated any of their business operations. Almost half of those respondents (44%) indicated that the reason for not utilizing automation is due to the nature of their business (e.g. regulatory restrictions). Other reasons for not automating include technological capabilities and irrelevance to some operations such as professional relationship-related services.

All the respondents who did recently automate operations said that no jobs were eliminated. Respondents mentioned main manufacturing processes and front desk operations have been automated.

MCKINSEY GLOBAL INDUSTRIAL ROBOTICS SURVEY 2022 RESULTS

Results from the 2022 McKinsey Global Industrial Robotics Survey indicate that automated systems will account for 25% of industrial companies' capital spending over the next five years. Among the industries surveyed, 23% of the retail and consumer goods sector respondents plan to spend more than \$500 million on automation over the next five years. Sectors planning on spending \$100 million or more on automation include 38% of life sciences, healthcare, and pharmaceuticals, 30% of food and beverages, 27% of logistics and fulfillment, and 23% of automotive.

Some of the benefits of automation include output quality, efficiency, operational uptime, increased productivity, and safety. Routine activities such as picking, packing, sorting, movement from point to point, and quality assurance are already automated in various stages and will likely continue to see significant investment over the next coming years. However, other activities that require higher levels of human input such as assembly, stamping, surface treatment, and welding are less likely to be automated in the near term.

The adoption of automation also has some challenges (some real and some perceived) including the cost of robots, the elimination of jobs, technological readiness, fitting robotics into existing spaces, the potential inability of machines to interface with products, vulnerability to cyberattacks, and finding "holistic, end-to-end solution providers across geographies for the scope of robotics technologies of interest to them (respondents)." The report notes that automation typically does not eliminate jobs but rather leads to changes in workplace roles. Robotics and automation providers will need to help industries to build the capabilities required to automate at scale or provide support for this effort.

You can read the McKinsey report findings [here](#).

LABOR MARKET INFORMATION

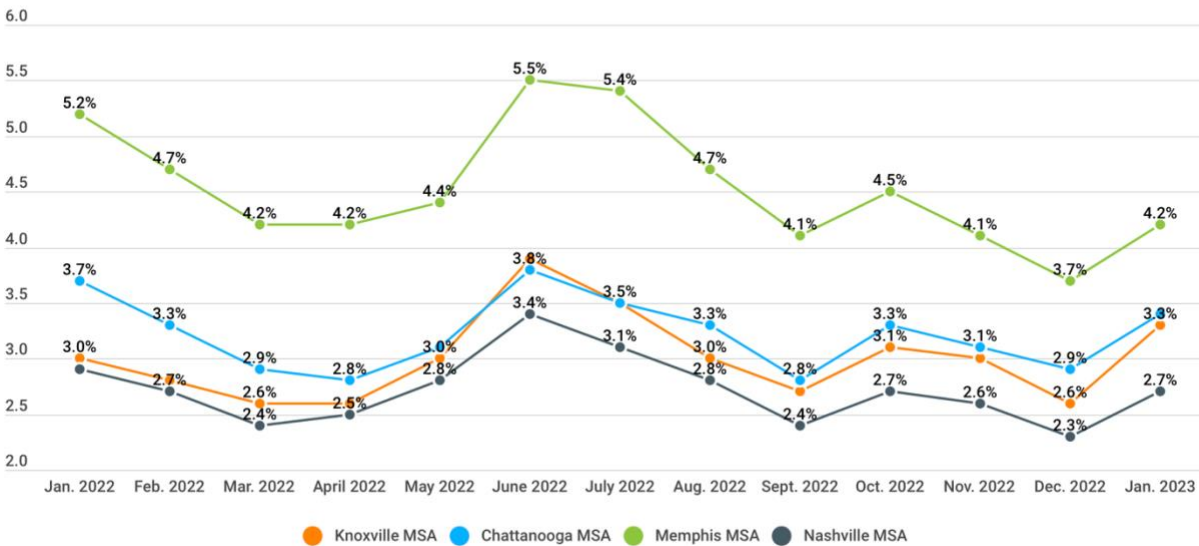
The Knoxville MSA’s unemployment rate in January was 3.3% (up from 2.6% in December and up from the 3.0% rate in January 2022.) Knox County’s unemployment rate in January was 3.0% (up from 2.4% in December and up from 2.8% in January 2022.) Tennessee’s unemployment rate was 3.5% in January (up from 2.9% in December and down from 3.7% in last January.) The U.S. unemployment rate was 3.9% in January (up from 3.3% in December and down from the 4.4% unemployment rate recorded last January.)

The size of the total labor force slightly increased from December to January at the local, state, and national levels. The Knoxville MSA’s labor force increased 0.1% from 436,643 in December to 437,294 in January. Knox County’s labor force was statistically unchanged, but still slightly increased from 249,013 in December to 249,079 in January. Tennessee’s labor force increased 1.4% from 3,286,597 in December to 3,332,947 in January. The national labor force increased 0.5% from 164,224,000 in December to 165,070,000 in January.

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

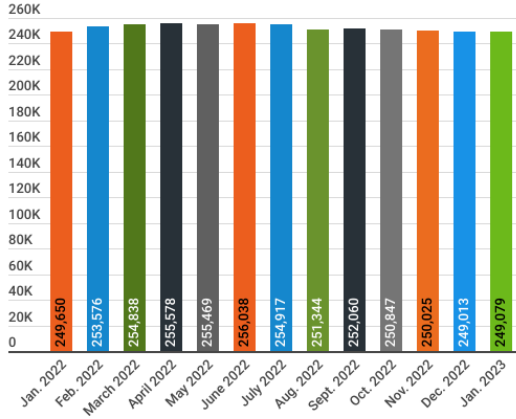
Unemployment Rates - Tennessee MSA

13-Month Trending Comparison

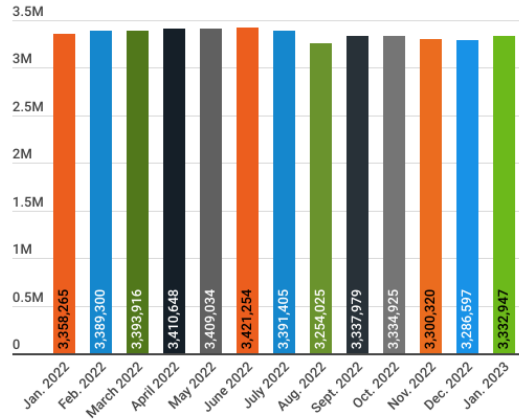


Resident Labor Force

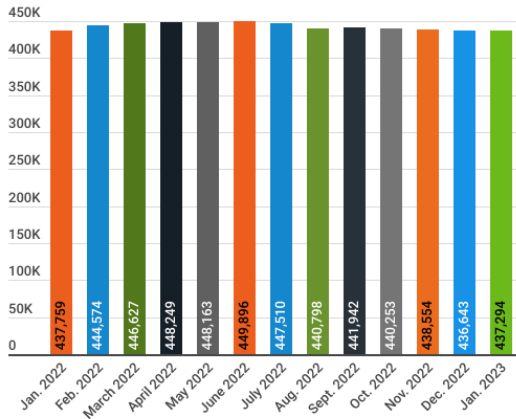
Knox County



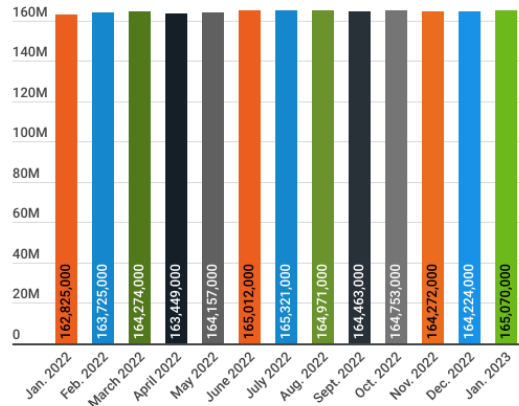
Tennessee



Knoxville MSA



United States













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

JOB MARKET

For the month of January, there were 10,279 unique active job postings in the Knoxville MSA (up 29% from December and up 3.2% from last January.) There were 6,973 unique active job postings in Knox County (up 30.5% from December and up 1.6% 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
	Health Care and Social Assistance	1,551
	Administrative Support, Waste Management and Remediation Services	1,221
	Retail Trade	1,008
	Accommodation and Food Services	591
	Manufacturing	578
	Professional, Scientific and Technical Services	573
	Educational Services	412
	Construction	284
	Wholesale Trade	264
	Transportation and Warehousing	219

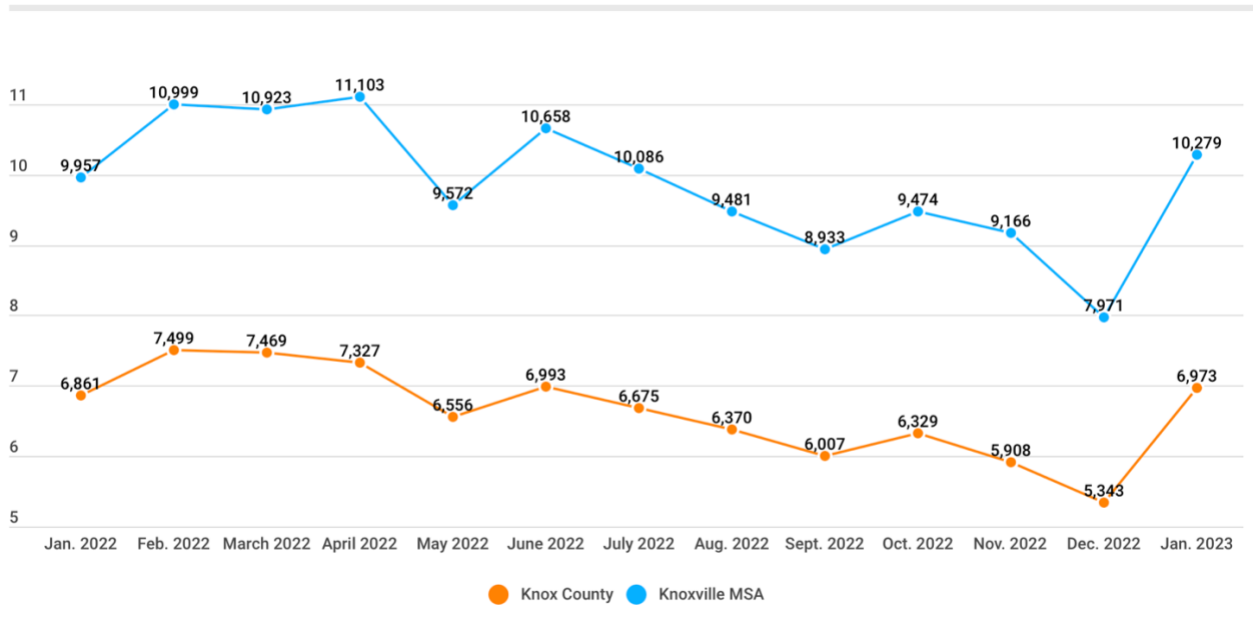
The Top 10 occupations (by number of job postings) in the Knoxville MSA in January were –

Top Ten Occupations by Number of Postings

	Occupation	Number of Postings
	Registered Nurses	796
	Retail Salespersons	282
	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	244
	Heavy and Tractor-Trailer Truck Drivers	233
	First-Line Supervisors of Retail Workers	230
	Fast Food and Counter Workers	208
	Customer Service Representatives	175
	Laborers and Freight, Stock, and Material Movers, Hand	170
	Licensed Practical and Licensed Vocational Nurses	152
	Food Service Managers	150

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

Unique Active Job Postings



(Source: Lightcast – formerly Emsi Burning Glass)

ADP NATIONAL EMPLOYMENT REPORT®

Each month, ADP, a large-scale payroll and human resources company, in collaboration with the Stanford Digital Economy Lab, releases the 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 net gain of 242,000 in private-sector employment (up from the 106,000 net jobs gain in January.) Industry sectors showing positive job growth in February include Leisure and Hospitality (+83,000), Financial Activities (+62,000), Manufacturing (+43,000), Education and Health Services (+35,000), Other Services (+34,000), Natural Resources and Mining (+25,000), Information (+9,000), and Trade/Transportation/Utilities (+3,000). Industry sectors posting job losses in February include Professional and Business Services (-36,000) and Construction (-16,000).

By establishment size, large businesses (with 500+ employees) gained 160,000 jobs, mid-sized businesses (with 50-249 employees) gained 77,000 jobs, and mid-sized businesses (with 250-499 employees) gained 71,000 jobs. "Very Small" businesses (with 1-19 employees) lost 56,000 jobs and "Other Small" businesses (with 20-49 employees) lost 5,000 jobs.

(Source: ADP)

WORKER SHORTAGE UPDATE

The labor shortages are persisting longer than many economists expected. There continues to be high job demand and slower workforce growth resulting in fierce competition for talent and many open jobs going unfilled. According to the latest data from the U.S. Bureau of Labor Statistics (BLS), the nation had 10.8 million jobs to fill in January and only 6.4 million hires, meaning there are approximately two job openings for every unemployed person.

In January, the largest increases in U.S. job openings were in professional and business services (+95,000), wholesale trade (+50,000), other services (+43,000), and information (+35,000).

The largest decreases in job openings were in construction (-240,000), accommodation and food services (-204,000), financial activities (-151,000), and retail trade (-94,000).

It will take time for this mismatch between labor demand and supply to align. In the meantime, wages will continue to rise as businesses compete to attract talent. You can read the latest job openings summary from BLS [here](#).

CONSUMER PRICE INDEX (CPI - INFLATION RATES)

The national inflation rate from January 2022 to January 2023 is 6.4%. This is down from the 6.5% rate from December 2021 to December 2022. Last year, the national inflation rate was 7.5% from January 2021 to January 2022.

The January CPI report marks the seventh straight month that year-over-year inflation is below the June CPI peak high of 9.1%. While this continues to be an encouraging sign that runaway inflation may be winding down, high prices will likely linger longer.

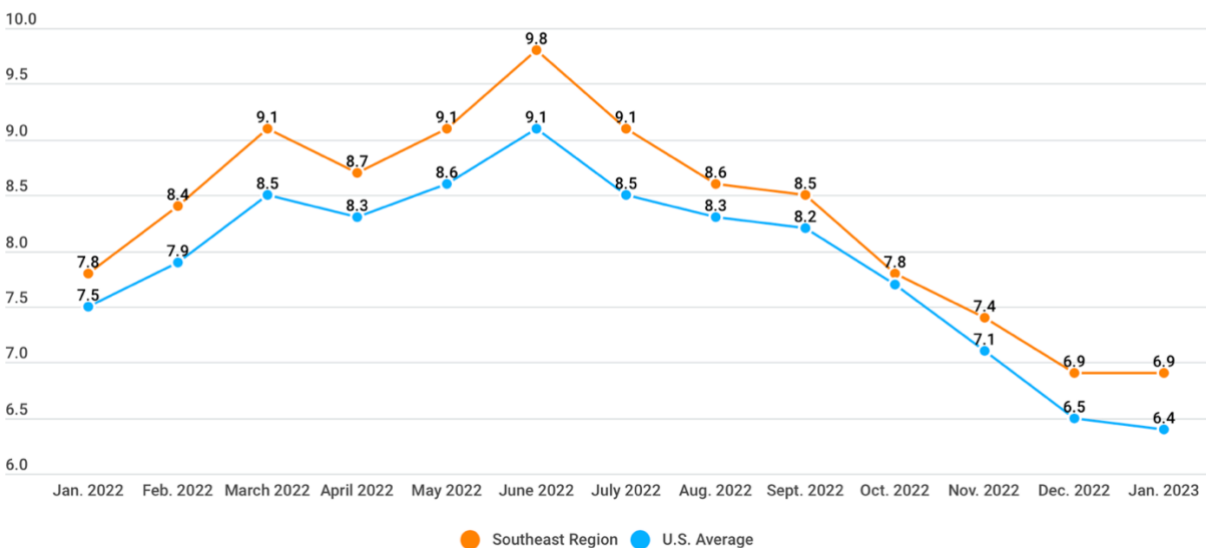
From a year ago, natural gas prices are up 26.7%, airline fares are up 25.6%, electricity costs are up 11.9%, groceries are up 11.3%, eating out prices are up 8.2%, housing prices are up 7.9%, new vehicle prices are up 5.8%, and gasoline prices are up 1.5%. Used car prices are down 11.6% from last year. You can read more [here](#).

To bring down inflation, the Federal Reserve has increased its benchmark interest rate several times this year. Higher interest rates mean higher borrowing costs throughout the economy. The Fed needs to be careful to not slow the economy down to the point that it triggers a recession.

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 6.9% for the January 2022 to January 2023 period. This is unchanged from the December 2021 to December 2022 period. Last year, the rate was 7.8% for January 2021 to January 2022.

Inflation Rates

Consumer Price Index - All Items



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

HOUSING MARKET

Home sales in the Knoxville area increased 1.8% from December to January to a seasonally adjusted annual rate (SAAR) of 18,783. Conversely, home sales in Knox County decreased 8.5% from the previous month to a seasonally adjusted annual rate (SAAR) of 6,802. Compared to the previous year, home sales were down 23.6% in the Knoxville area and 33% in Knox County.

Nationally, existing-home sales decreased in January for the 12th consecutive month to a seasonally adjusted annual rate of 4.00 million — down 0.7% from the previous month and 36.9% from a year ago. Home sales in the South increased 1.1% from the previous month but were down 36.6% from a year ago.

The median home sales price in the Knoxville area was \$316,000 in January, an increase of 6.3% from one year ago. Knox County's median home sale price was \$338,810 – up 9.29% from one year ago.

Eighteen percent of homes sold for over-asking price in January, down from 23% the previous month. 7% of homes sold for at least \$10,000 over asking and 2.5% sold for at least \$25,000 over asking. New construction (i.e., "Never Occupied," "To Be Built," "Under Construction," or "Under Roof") represented 12.6% of total home sales.

Active inventory in the Knoxville area continued to fall throughout January after reaching a seasonal peak last fall. Overall, active listings are up 100.5% year-over-year but remain around 40% below pre-pandemic levels. Inventory in Knox County was up 105% year-over-year in January. Half of homes sold in the Knoxville area were on the market for 25 days or less, up from 16 days the previous month.

Months of inventory, or the number of months it would take to exhaust active listings at the current sales rate, was 1.91 months.

Knoxville's **rental market** continued to outpace the U.S. average in terms of both rent growth and occupancy in January, as prolonged under-building over the past decade continues to place upward pressure on housing costs. Effective rents in the Knoxville metro area were up 12.72% year-over-year in January 2023, outpacing the 4.99% growth nationally. Rent growth over the past year was highest among Class A units (17.07%) and lowest among Class C units (6.84%). Knoxville's rental occupancy rate remains among the highest in the nation at 96.5%, compared to 94.8% nationally. The occupancy rate was 95.9% for Class A, 96.1% for Class B, and 97.8% for Class C.

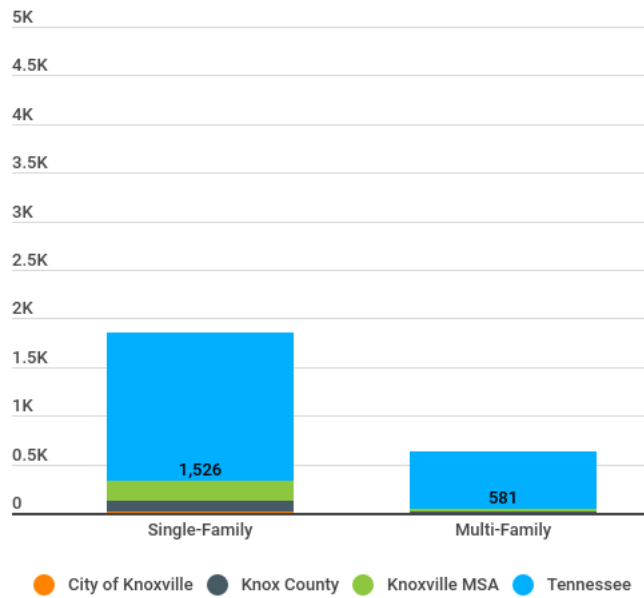
According to Hancen Sale, Governmental Affairs and Policy Director at the Knoxville Area Association of Realtors®, "The pace of home sales increased for the second consecutive month in January, largely due to a brief decline in mortgage rates. Overall demand, however, remains significantly below 2022 levels and the sharp increase in rates over the last few weeks suggests home sales are likely to remain sluggish in the coming months. As of now, there are no

	Knoxville Area						Knox County						
	Jan. 2022	Feb. 2022	March 2022	April 2022	May 2022	June 2022	July 2022	Aug. 2022	Sept. 2022	Oct. 2022	Nov. 2022	Dec. 2022	Jan. 2023
Active Listings Inventory	328	343	427	478	-	-	-	-	-	-	-	-	-
Median Home Sales Price	\$300,000	\$310,000	\$326,000	\$340,000	\$346,000	\$358,875	\$350,000	\$349,925	\$335,625	\$331,815	\$333,613	\$329,750	\$338,810
Months Inventory	0.00	0.00	0.00	0.00	0.70	0.86	-	-	-	-	-	-	-
Absorption Rates	221%	162%	123%	135%	-	-	-	-	-	-	-	-	-

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

Residential Building Permits

Dec. 2022



(Sources: U.S. Housing & Urban Development – _SOCDS – _State of the Cities Data Systems; U.S. Census Bureau – _Building Permits Survey)

NATIONAL RETAIL SALES

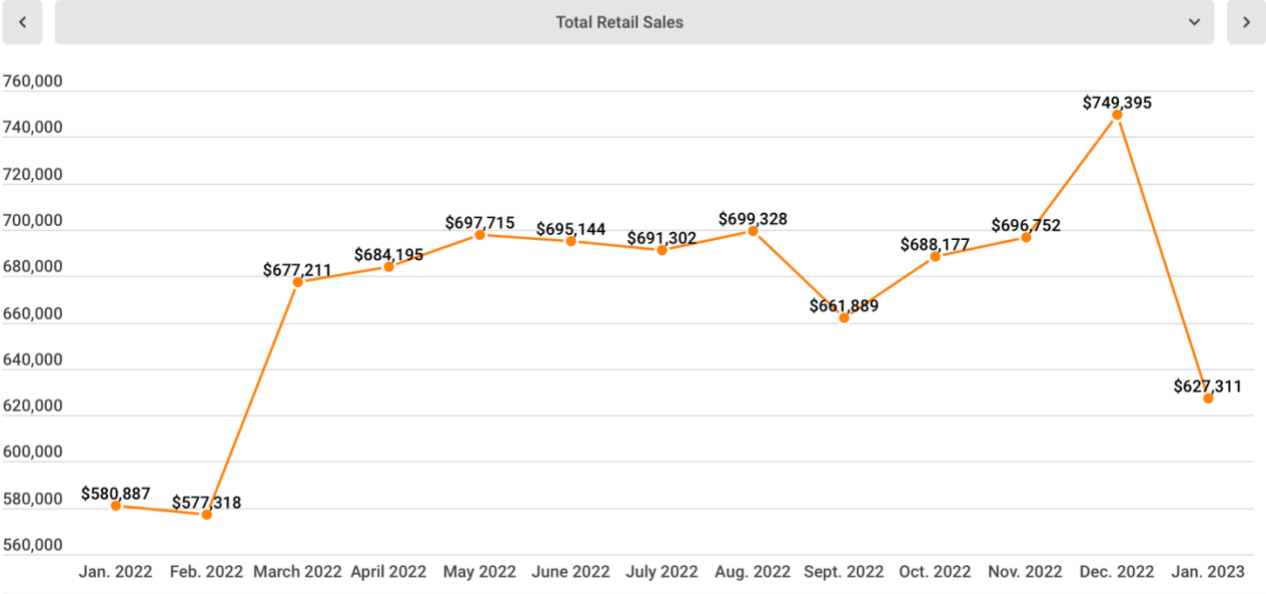
The total advance monthly retail sales estimate for January 2023 was \$627.311 billion (down 16.3% from December and up 8% from last January.)

The retail sectors that showed the greatest growth from last January were Food Services and Drinking Places (+31.3%), Non-store Retailers (+21.8%), Health and Personal Care Stores (+6.3%), Sporting Goods/Books/Hobby/Music Stores (+5.5%), Miscellaneous Stores (+4.8%), and Gasoline Stations (+4.5%).

Retail sectors that showed the greatest decline in sales from last January were Electronics and Appliance Stores (-8.3%), Building Materials Stores (-0.8%), and General Merchandise Stores (-0.8%).

National Retail Sales

in Millions of Dollars



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

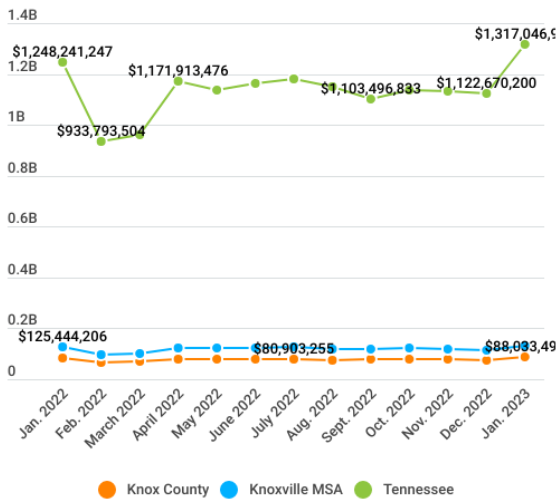
TENNESSEE STATE AND LOCAL SALES TAX COLLECTIONS

The Knoxville MSA region collected \$131.286 million in state sales taxes in January (up 14.6% from December and up 4.7% from last January) and Knox County collected \$88.033 million in January (up 17.5% from December and up 6.2% from last January.) The state of Tennessee collected \$1.317 billion in state sales taxes in January (up 17.3% from December and up 5.5% from last January.)

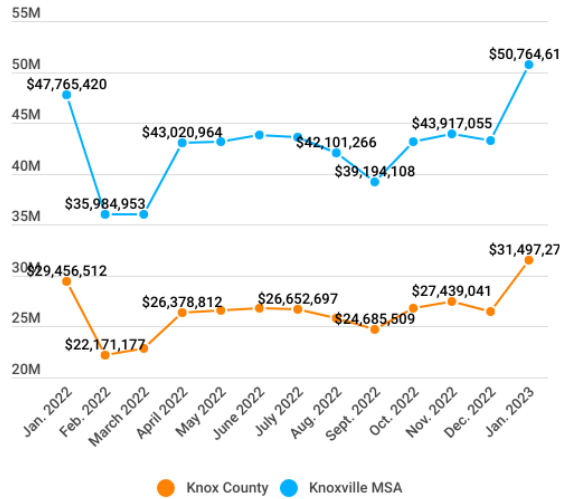
The Knoxville MSA collected \$50.765 million in local sales taxes in January (up 17.4% from December and up 6.3% from last January) and Knox County collected \$31.497 million (up 18.8% from December and up 6.9% from last January.)

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

In this section of ECO, we 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.

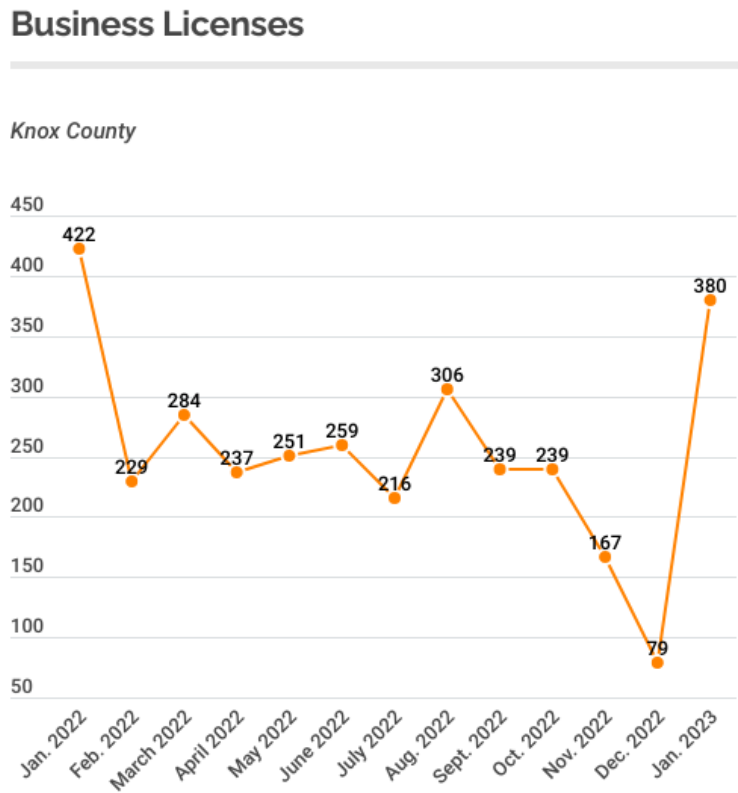
February 27, 2023 – **Apex Bank** is under contract to purchase the former Discovery office campus at 9721 Sherrill Boulevard in West Knoxville for an undisclosed amount. The closing date is March 31. The 33-acre campus includes the 155,500 square-foot, four-story office tower and 189,000 square-foot Knoxville Technical Center for a total of 344,500 square feet with several amenities including a wellness center, fitness center, cafeteria, and lake view. Apex Bank will move its corporate headquarters and national mortgage-servicing division from 430 Montbrook Lane to their new campus beginning April 1. The company will occupy 50,000 to 60,000 square feet of space and lease out the remaining space. You can read more [here](#) and [here](#).

KNOX COUNTY BUSINESS LICENSES

New business licenses issued in January 2023 by Knox County are down 10% from January 2022 and are down 22.4% from the pre-pandemic January 2019 count.

A total of 380 new business licenses were issued in January 2023 compared to 422 in January 2022 and 490 in January 2019. The top industry sectors for which business licenses were issued in January 2023 were services, non-classified establishments, retail, and construction.

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 178,026 passengers in January (down 12% from December's passenger traffic of 202,243 and up 30.5% from January 2022.) This month's passenger estimate is up 11.3% from pre-COVID January 2019.

The total freight recorded in January at TYS was 6,104,862 pounds (down 12.5% from December and up 4.4% from last January.)

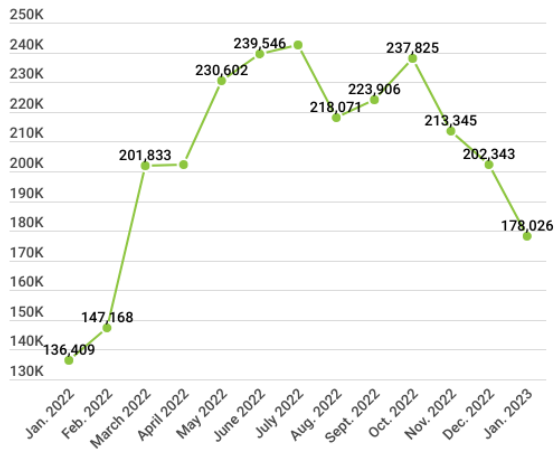
According to the Transportation Security Administration, the average daily number of passengers passing through the nation's TSA checkpoints in January was 1,953,172 (up 32.3% from the January 2022 daily passenger average of 1,476,875 and up 3.3% from the pre-COVID January 2019 average of 1,890,451.) You can view the daily TSA checkpoint travel numbers [here](#).

According to the [International Air Transport Association \(IATA\)](#), "The US domestic market continued its robust recovery in January. Domestic revenue passenger kilometers (RPKs) climbed 26.8% YoY and stood 3.1% above levels achieved in January 2019." You can read more [here](#).

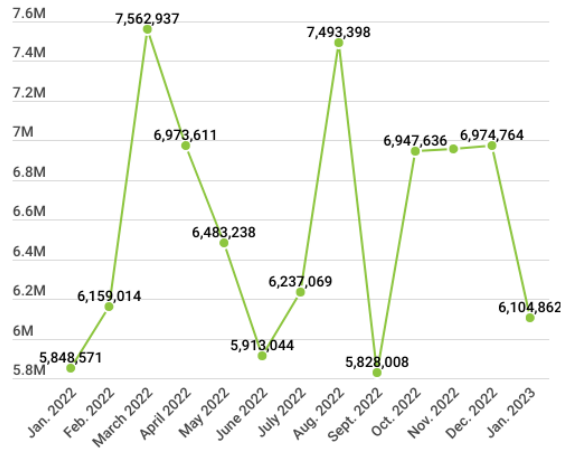
Air Service

at McGhee-Tyson Airport

Passengers



Freight



(Sources: Metropolitan Knoxville Airport Authority; U.S. Transportation Security Administration; International Air Transport Association)