

THE TN QUARTERLY

BUSINESS AND ECONOMIC INDICATORS



BOYD CENTER FOR BUSINESS & ECONOMIC RESEARCH

TENNESSEE SECRETARY OF STATE
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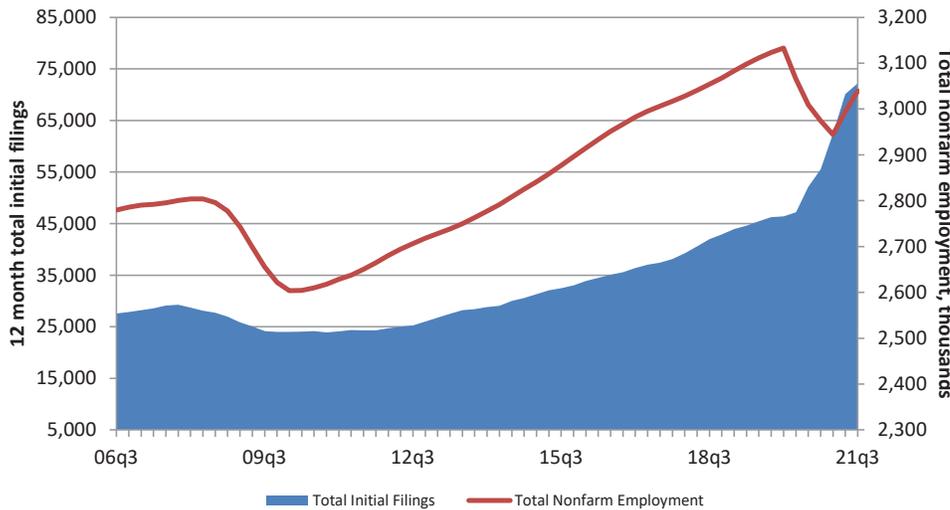
Business Filings Overview

Growth in Tennessee new business filings continues to show strength in the third quarter of 2021. By comparison, annual reports (i.e. renewals) fell in the third quarter but this is compared to the elevated number of annual reports filed during the same quarter last year. Currently, both new entity filings and annual reports are well above their historical averages for the third quarter. The third quarter saw very solid growth following four consecutive quarters of extraordinary increases. The number of dissolutions and initial assumed name registrations rose during the third quarter, while initial trademark registrations fell. Compared to the same quarter last year, new entity filings grew by 12.6 percent, and annual reports fell by 18.7 percent. Business filings data are highly seasonal. For example, the number of third quarter renewals is generally lower than those from the second quarter. For this reason, we largely focus on year-over-year growth rates. Over the last twelve months, the state has recorded 72,196 new entity filings and 284,839 annual reports.

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Figure 1: Tennessee Employment and New Entity Filings



Source: Tennessee Business Filing Data and Bureau of Labor Statistics.
Note: Nonfarm employment is measured as the 12-month rolling average.

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EMPLOYMENT FORECASTS

Q4 2021 vs Q3 2021 ↑

Q4 2021 vs Q4 2020 ↑

Q1 2022 vs Q4 2021 ↑

INDICATORS

Employment (SA)

(September 2021)

vs. prior month ↓

vs. prior year ↑

New Entity Filings

(2021 Q3)

vs. prior quarter ↓

vs. prior year ↑

Annual Report Filings

(2021 Q3)

vs. prior quarter ↓

vs. prior year ↓

Unemployment (SA)

(September 2021)

vs. prior month ↓

vs. prior year ↓

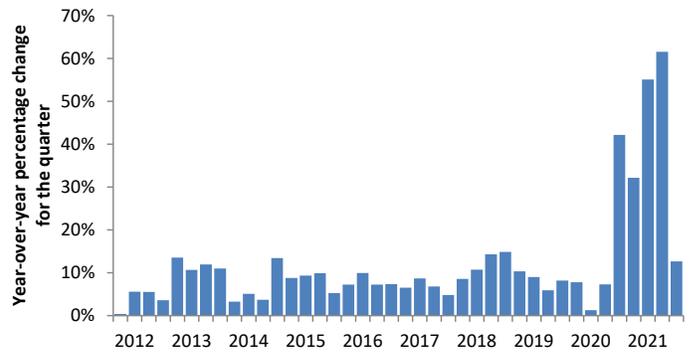
Growth in new entity filings suggests continued economic growth for Tennessee in the near term. Growth in new entity filings has historically been a good leading indicator for nonfarm employment, personal income, and total tax revenue growth in Tennessee. However, the pandemic and ensuing economic recovery have led to a rapidly changing economic landscape that cannot be fully captured by a single leading indicator. While the leading indicator is encouraging, economic growth will likely follow the trajectory of the virus and its variants, especially the highly transmissible delta variant, the distribution and take-up rates of vaccines, pandemic-related responses by households, businesses, and policymakers, as well as higher prices and supply chain disruptions, which may impede the economic recovery.

Initial Filings

Tennessee registered 18,548 new entity filings (i.e. initial filings) in the third quarter of 2021, representing a 12.6 percent increase over the same quarter last year. This represents a continuation of strong third quarter growth, as new filings grew by 42.2 percent in the third quarter last year. Furthermore, initial filings have now seen positive year-over-year growth in 39 consecutive quarters (Figure 2).

New filings from foreign (non-Tennessee based) entities saw the strongest rate of growth, increasing by 36.3 percent over the third quarter of last year. New filings from domestic limited liability

Figure 2: Growth in Quarterly Initial Filings



Source: Tennessee Business Filing Data.

corporations (LLCs), which account for the majority of new entities in the state, also grew by 13.9 percent. In contrast, initial filings from domestic for-profit corporations fell by 12.4 percent and new filings from domestic nonprofit corporations declined by 5.8 percent. Domestic firms accounted for 85.7 percent of all third quarter new entity filings, while foreign entities accounted for the remaining 14.3 percent.

There were 8,551 new entities registered among the four largest Tennessee counties –Shelby, Davidson, Knox, and Hamilton, representing a 7.4 percent drop compared to same quarter last year (Table 2). Reductions in new business filings in these counties was due to elevated filings in the third quarter of last year rather than a slowdown of business activity. Compared to the third quarter

TABLE 1: BUSINESS FILINGS – QUARTERLY

	Current Quarter (2021 Q3)	% Change (year-over-year)	Running 12-Month Total
Business Entity Initial Filings			
Domestic For-Profit Corporations	1,479	-12.4%	6,306
Domestic Nonprofit Corporations	999	-5.8%	3,890
Domestic LLC	13,416	13.9%	52,182
Foreign Entities - Total	2,654	36.3%	9,818
Total Business Entity New Filings	18,548	12.6%	72,196
Business Entity Annual Reports			
Domestic For-Profit Corporations	5,319	-29.2%	53,773
Domestic Nonprofit Corporations	6,269	-23.3%	41,353
Domestic LLC	13,296	-16.9%	132,468
Foreign Entities - Total	4,363	1.0%	56,572
Total Business Entity Annual Reports	29,247	-18.7%	284,839
Total Active Entities	329,895	11.2%	-
Other Business Filings			
Dissolutions	44,714	3048.9%	50,787
Initial Trademark Registrations	56	-26.3%	278
Initial Assumed Name Registrations	2,035	9.3%	8,157

Source: Tennessee Business Filing Data.

of 2019, new filings grew in all four counties. Initial filings from these four counties still accounted for 46.1 percent of the state’s new business filings in the third quarter. During this period, Shelby County saw the largest number of new filings (3,298) followed by Davidson County (3,179). Hamilton was the only county (of the four) to see filing gains, as new entity filings expanded by 8.3 percent between the third quarter of 2020 and the same quarter of 2021. Still, the other 91 counties experienced 38.1 percent growth in new entity filings, continuing the pattern of very strong growth in filings outside the core largest counties.

Annual Reports and Dissolutions

There were 29,247 annual reports (i.e. renewals) filed in the third quarter of 2021, representing an 18.7 percent drop compared to the elevated number of renewals in the third quarter of last year. The number of annual reports was unusually high in the third quarter of 2020. Compared to 2019 levels, annual reports rose by 51.3 percent in the third quarter of 2021. Further, the number of business renewals in the third quarter of this year are still well above the historic average of roughly 21,000 annual reports per third quarter over the last decade (2010 through 2019).

Business renewals among foreign entities grew by 1.0 percent as compared to the third quarter of last year, while all other business structure types saw a decline in renewals. Renewals from domestic for-profit corporations fell by 29.2 percent, those from domestic nonprofits declined by 23.3 percent, and those from domestic LLCs were down by 16.9 percent. However, as noted earlier, this is compared to an abnormally high rate of renewals in the third quarter of last year. When compared to the third quarter of 2019 instead, all forms of business structures saw growth in business renewals. In the third quarter of 2021, domestic firms accounted for 85.1 percent of all annual reports, and foreign entities accounted for the remaining 14.9 percent.

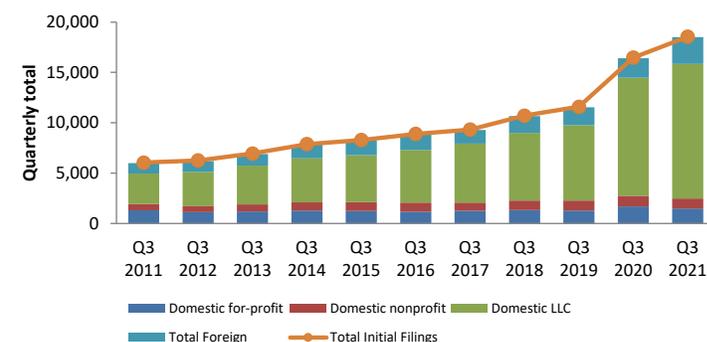
There were 44,714 dissolutions filed in the third quarter of 2021, representing a 31-fold (3,048.9 percent) increase as compared to the same quarter last year. The majority of dissolutions typically occur in the third quarter of each year, as entities are administratively closed on August 1 of each year for failing to file their annual report. However, the number of dissolutions was atypically low last year as the state pushed the date back to October in order to provide greater flexibility to businesses during the initial phase of the pandemic. Thus, comparing this quarter’s dissolution count with those from the third quarter last year provides little insight. More informatively, the number of dissolutions filed in the third quarter of 2021 grew by a worryingly high 46.1 percent as compared to the same quarter from two years ago. It is likely that the pandemic

Table 2: Initial Filings among 4 Largest TN Counties, 2021 Q3

Rank	County	Current Period (2021 Q3)	% Change (year-over-year)
1	Shelby	3,298	-15.7%
2	Davidson	3,179	-3.8%
3	Knox	1,061	-1.8%
4	Hamilton	1,013	8.3%
Total		8,551	-7.4%

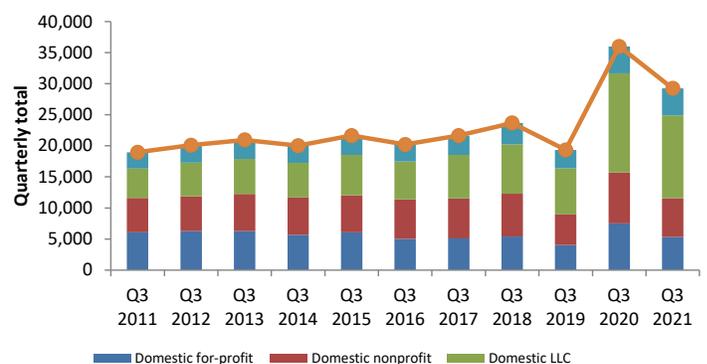
Source: Tennessee Business Filing Data.

Figure 3: Initial Filings



Source: Tennessee Business Filing Data.

Figure 4: Annual Reports



Source: Tennessee Business Filing Data.

led to a larger than usual increase in business closures, which were finally captured in the data this quarter, but also in the number of business openings as measured by the initial filings.

Tennessee Economic Indicators

The Tennessee economy continues to rebound but a number of headwinds, including the resurgence of COVID-19 and supply chain issues have stymied the strong recovery. In September, nonfarm employment fell by 0.2 percent, representing a loss of 5,200 jobs as compared to the

month prior. In the 18 months since the start of the pandemic, this is only the third time that nonfarm employment shrank in Tennessee. More importantly however, nonfarm employment still grew by 3.2 percent as compared to the same month last year, representing a net increase of over 96,000 jobs from September 2020 to September 2021. Since the spring of 2020, the state has added 319.8 thousand workers back to payrolls, but there are still 60,000 fewer workers in Tennessee than there were prior to the pandemic. The Tennessee unemployment rate continues to fall from its Spring-2020 peak of 15.8 percent, and now sits at 4.4 percent as of September 2021. By comparison, the national unemployment rate, which rose to 14.8 percent in April 2020, is down to 4.8 percent (Figure 5).

In the second quarter of 2021, nominal personal income was \$369.9 billion, representing a large 26.7 percent annualized drop as compared to the first quarter. Personal income levels were exceptionally high in the first quarter of 2021 due to the American Rescue Plan, which provided additional stimulus checks and an expansion of unemployment and SNAP benefits, among a number of other relief efforts. Thus, the second quarter drop in personal income was due to a reduction in second quarter transfer payments as stimulus checks, which were distributed in the first quarter, were not distributed in the second quarter as well. We should expect another reduction in the third quarter due to the expiration of enhanced unemployment insurance benefits.

In September 2021, Tennessee tax revenues rose by 20.2 percent as compared to the same month last year, and for the fiscal year-to-date (August 2021 through September 2021), tax revenues are up 21.1 percent. Strong revenue growth was likely driven by back-to-school shopping as well as recently implemented legislative changes requiring marketplace facilitators (e.g. eBay and Amazon) to collect sales tax on online transactions on their platforms. Furthermore, as consumers shift back towards pre-pandemic spending behaviors, there has been a large increase in gasoline and mixed drink tax revenues, both of which were severely depressed during the initial phase of the pandemic.

National Economic Indicators

U.S. economic growth slows but remains positive in the third quarter of 2021. In the third quarter, inflation-adjusted gross domestic product (real GDP) advanced at an annual rate of 2.0 percent as compared to the previous quarter. Real GDP grew by more than 6 percent in each of the previous two quarters, so this marks a large pullback in the economic recovery. The slowdown was likely driven by number of factors including a surge in COVID-19 cases, the wind-down of fiscal stimulus (through the American Rescue Plan), higher prices, and a buildup of supply chain issues. The moderating effects of the American Rescue Plan can also be seen in the personal income data, which grew by a weak annualized rate

TABLE 3: TENNESSEE DATA

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (millions of dollars) [2021 Q2]	369,916	-26.7%	1.6%
Total tax revenue (millions of dollars) - monthly [2021-September]	1,907	-	20.2%
Sales tax revenue (millions of dollars) - monthly [2021-September]	995	-	20.4%
Franchise & excise tax revenue (millions of dollars) - monthly [2021-September]	634	-	26.9%
Total nonfarm employment (in thousands) - monthly [2021-September]	3,094	-0.2%	3.2%
Manufacturing employment (in thousands) - monthly [2021-September]	347	-0.8%	2.7%
Leisure and hospitality employment (in thousands) - monthly [2021-September]	316	0.4%	9.8%

Unemployment rate (%)					
September 2021		August 2021		September 2020	
Rate	Change	Rate	Change	Rate	Change
4.4	-	4.6	-0.2	7.3	-3.5

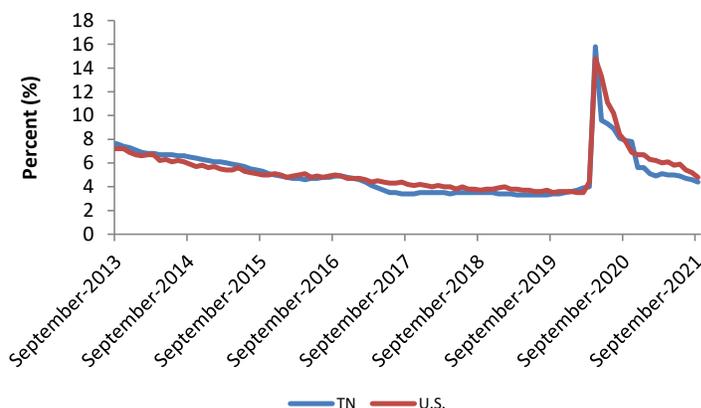
Sources in order as metrics appear and dates in brackets indicate most recent data available at time of publication: Bureau of Economic Analysis, IHS, U.S. Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, Bureau of Labor Statistics.

Note: Month-to-month growth rates are informative if the underlying data are seasonally adjusted, but can be misleading otherwise. For this reason, month-to-month growth rates are excluded for any non-seasonally adjusted data.

of 0.9 percent in the third quarter of 2021 (as compared to the previous quarter). This was due to a reduction in federal transfer payments, as enhanced unemployment insurance and other emergency benefits expired this quarter. In September, nonfarm employment grew by 0.1 percent compared to the month prior, corresponding to a disappointing net increase of 194 thousand jobs. In normal times, this would represent a strong month of employment gains, but while digging out of the trough of the pandemic-recession it is rather underwhelming. As a result, there are still nearly 5.0 million fewer jobs today than there were prior to the pandemic.

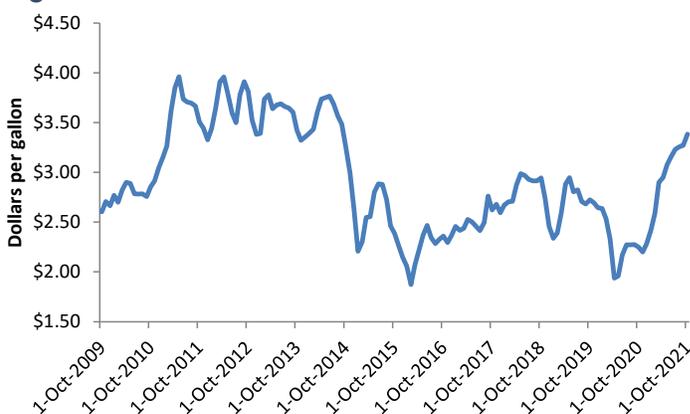
In the third quarter of 2021, light vehicle sales fell to an annualized 13.3 million units, representing a 21.3 percent drop compared to the previous quarter. A reduced supply of new vehicles due to semiconductor chip shortages coupled with higher vehicle prices has certainly put a drag on vehicle sales. Retail gasoline prices, which plummeted to \$1.94 per gallon in April 2020, have risen rapidly in recent months, and currently sit at \$3.27/gallon as of October 2021. This is the highest monthly gas price since September 2014 (see Figure 6). Increased gas prices are likely driven by both a surge in demand, as business and recreational travel have rebounded, coupled with a reduction in supply as oil production was cut dramatically during the pandemic and thus far producers have only gradually increased output during the current economic recovery.

Figure 5: Unemployment Rate



Source: Bureau of Labor Statistics.

Figure 6: Retail Gasoline Prices – All Grades



Source: U.S. Energy Information Administration.

TABLE 4: NATIONAL DATA

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (billions of dollars) [2021 Q3]	20,623	0.9%	4.3%
Real GDP (2012 billions of dollars) [2021 Q3]	19,465	2.0%	4.9%
Consumer price index (1982-84 = 1.00) [2021 Q3]	2.73	1.6%	5.3%
Light vehicle sales (millions) [2021 Q3]	13.30	-21.3%	-13.7%
Housing starts (millions) [2021 Q3]	1.58	-0.6%	9.6%
Federal funds rate (%) [2021 Q3]	0.09	28.6%	-3.6%
30-year fixed mortgage rate (%) [2021 Q3]	2.87	-4.3%	-2.6%
S&P 500 stock index [2021 Q3]	4,421	5.7%	33.1%
Retail Gasoline Prices (dollars per gallon) - monthly [2021-October]	3.27	0.5%	43.9%
Total nonfarm employment (in thousands) - monthly [2021-September]	147,553	0.1%	4.0%

Unemployment rate (%)

September 2021		August 2021		September 2020	
Rate	Change	Rate	Change	Rate	Change
4.8	-0.1	5.2	-0.4	7.8	-3.0

Sources in order as metrics appear and dates in brackets indicate most recent data available at time of publication: Bureau of Economic Analysis, IHS, U.S. Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, Bureau of Labor Statistics.