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### The TN Quarterly Business and Economic Indicators, Second Quarter 2021

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# THE TN QUARTERLY

## BUSINESS AND ECONOMIC INDICATORS

TENNESSEE SECRETARY OF STATE  
Tre Hargett

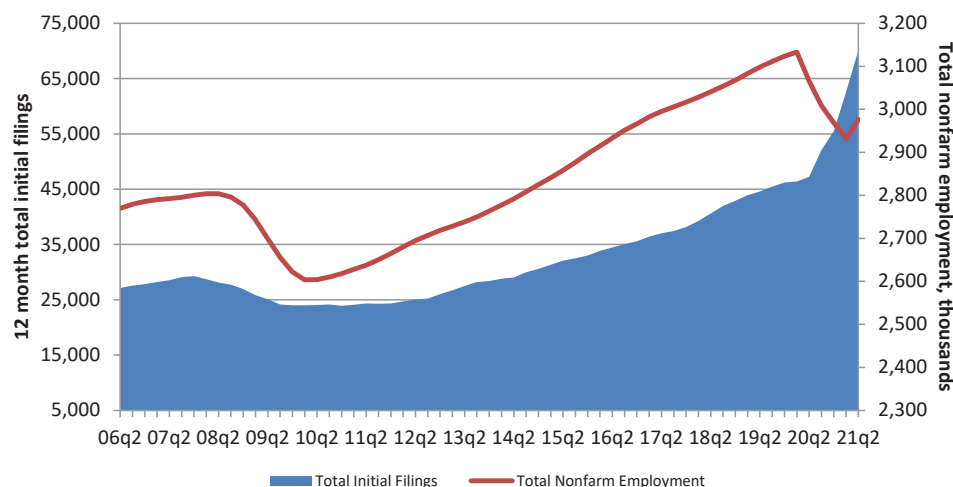
### Business Filings Overview

**Year-over-year growth in new business filings continued to reach new records in the second quarter of 2021.** Annual reports also saw strong gains in the second quarter, as compared to the depressed levels from the same quarter last year. During this same period, the number of dissolutions and initial assumed name registrations rose, while initial trademark registrations fell, though these represent a small share of Tennessee's quarterly business activity. Compared to the same quarter last year, new entity filings grew by a remarkable 61.6 percent, as more new business filings were registered this quarter than ever before. The previous record was set last quarter, so this marks two consecutive quarters of record-breaking filings. Annual reports also rose by 59.0 percent. Business filings data are highly seasonal. For example, the number of second quarter renewals (i.e. annual reports) is generally lower than those from the first quarter. For this reason, we largely focus on year-over-year growth rates. Over the last twelve months, the state has recorded 70,118 new entity filings and 291,588 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

Q3 2021 vs Q2 2021



Q3 2021 vs Q3 2020



Q4 2021 vs Q3 2021



### INDICATORS

#### Employment (SA)

(June 2021)

vs. prior month



vs. prior year



#### New Entity Filings

(2021 Q2)

vs. prior quarter



vs. prior year



#### Annual Report Filings

(2021 Q2)

vs. prior quarter



vs. prior year



#### Unemployment (SA)

(June 2021)

vs. prior month



vs. prior year



TABLE 1: BUSINESS FILINGS – QUARTERLY

	Current Quarter (2021 Q2)	% Change (year-over-year)	Running 12-Month Total
<u>Business Entity Initial Filings</u>			
Domestic For-Profit Corporations	1,675	20.2%	6,515
Domestic Nonprofit Corporations	982	21.5%	3,951
Domestic LLC	14,856	72.8%	50,541
Foreign Entities - Total	2,470	57.5%	9,111
Total Business Entity New Filings	19,983	61.6%	70,118
<u>Business Entity Annual Reports</u>			
Domestic For-Profit Corporations	15,129	41.5%	55,963
Domestic Nonprofit Corporations	11,005	48.8%	43,260
Domestic LLC	42,292	71.3%	135,158
Foreign Entities - Total	11,556	53.3%	56,546
Total Business Entity Annual Reports	79,982	59.0%	291,588
<u>Total Active Entities</u>	351,814	10.8%	-
<u>Other Business Filings</u>			
Dissolutions	2,367	8.8%	7,493
Initial Trademark Registrations	97	-17.8%	298
Initial Assumed Name Registrations	2,148	19.7%	7,984

**Robust growth in new entity filings suggests strong economic growth for Tennessee in the near term, though filing growth is likely inflated due to the pandemic and pandemic-related responses.** 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 has produced an ever-evolving and rapidly changing economic landscape that cannot be fully captured by a 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, and pandemic-related responses by consumers, businesses, and policymakers.

## Initial Filings

Tennessee recorded 19,983 new entity filings (i.e. initial filings) in the second quarter of 2021, representing an astounding 61.6 percent increase over the same quarter last year. This represents both the strongest year-over-year increase in new entity filings, and the highest number of new business filings on record (dating back to 1993). The previous records were set last quarter, so this represents two consecutive quarters of extremely strong growth in new business filings. Furthermore, initial filings have now seen positive year-over-year growth in 38 consecutive quarters, including four consecutive quarters with growth of 30

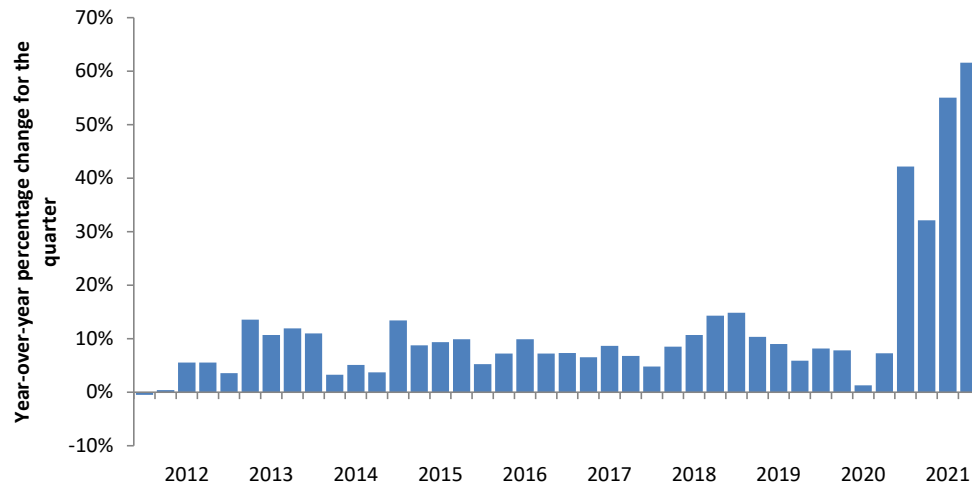
Table 2: Initial Filings among 4 Largest TN Counties, 2021 Q2

Rank	County	Current Period (2021 Q2)	% Change (year-over-year)
1	Shelby	4,118	20.4%
2	Davidson	3,418	21.0%
3	Knox	1,183	23.4%
4	Hamilton	1,047	18.4%
	Total	9,766	20.8%

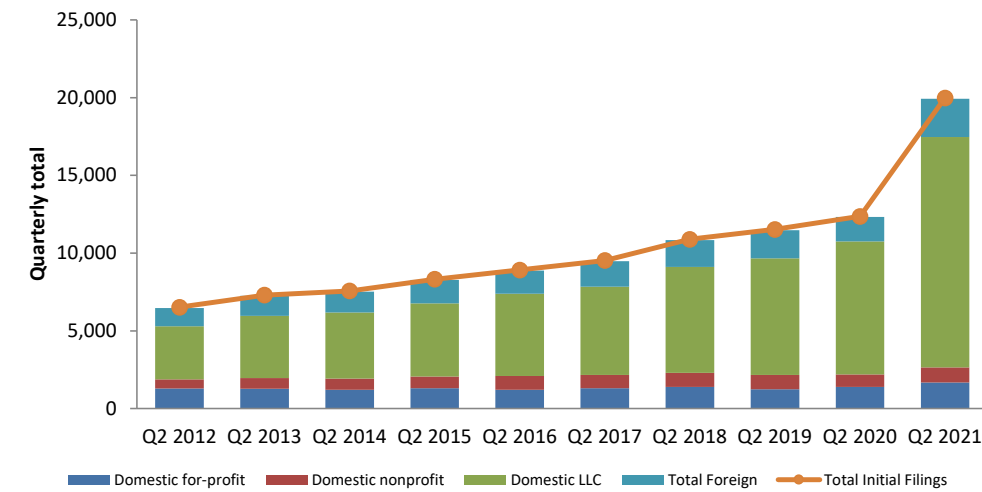
Source: Tennessee Business Filing Data.

percent or more (Figure 2). The Pandemic led to a dramatic increase in online sales, which led to a strong increase in the number of non-store retailers (e.g. online businesses) nationwide, as consumers shifted more towards online shopping. This increase in non-store retailers is likely explaining part of the increase in new entity filings. Furthermore, more new business opportunities are emerging throughout the state as vaccines are distributed and the economy continues to reopen and people seek to be more entrepreneurial.

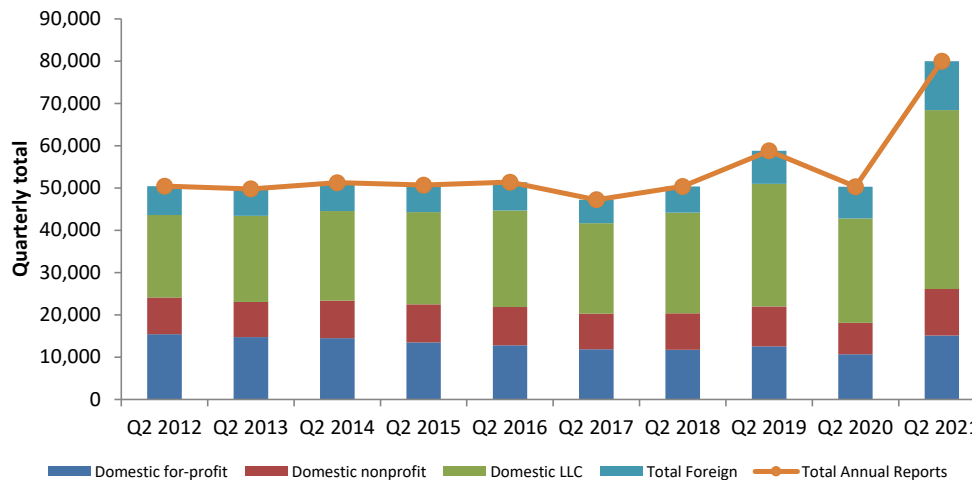
All four initial filing categories saw strong growth in the second quarter. New filings from domestic limited liability corporations (LLCs), which account for the majority of new entities in the state, shot up by 72.8 percent as compared to the second quarter of last year. New filings from foreign (non-Tennessee based) entities, which were down in the second quarter of 2020, grew by a robust

**Figure 2: Growth in Quarterly Initial Filings**

Source: Tennessee Business Filing Data.

**Figure 3: Initial Filings**

Source: Tennessee Business Filing Data.

**Figure 4: Annual Reports**

Source: Tennessee Business Filing Data.

57.5 percent in the second quarter of this year. Initial filings from domestic nonprofit corporations increased by 21.5 percent, and new filings from domestic for-profit corporations rose by 20.2 percent. Domestic firms accounted for 87.6 percent of all second quarter new entity filings, while foreign entities accounted for the remaining 12.4 percent.

There were 9,766 new entities registered among the four largest Tennessee counties –Shelby, Davidson, Knox, and Hamilton, representing a 20.8 percent increase over the same quarter last year (Table 2). Initial filings from these four counties accounted for 48.9 percent of the state’s new business filings in the second quarter, but they increased at a much slower pace than the other 91 counties in Tennessee. During this period, Shelby County saw the largest number of new filings (4,118) followed by Davidson County (3,418). Knox County saw the strongest rate of new filings growth among the top-four counties, as initial filings expanded by 23.4 percent between the second quarter of 2020 and the same quarter in 2021.

## Annual Reports and Dissolutions

There were 79,982 annual reports (i.e. renewals) filed in the second quarter of 2021, representing a 59.0 percent increase over the same quarter last year. This is the highest number of annual reports registered in the second quarter of any year dating back to 1993. Domestic LLCs, which were down by 14.7 percent in the second quarter of last year, saw a strong rebound this year, growing by 71.3

percent in the second quarter of 2021. Renewals of foreign entities grew by 53.3 percent, those from domestic nonprofit corporations grew by 48.8 percent, and annual reports from domestic for-profit corporations increased by 41.5 percent. In the first quarter of 2021, domestic firms accounted for 85.6 percent of all annual reports, and foreign entities accounted for the remaining 14.4 percent.

There were 2,367 dissolutions filed in the second quarter of 2021, representing an 8.8 percent increase over the same quarter last year. This is not indicative of any underlying economic trends as this represents a very small number of dissolutions for a three-month period. The majority of dissolutions typically occur in the third quarter of each year when entities are administratively closed for failing to file their annual report.

## Tennessee Economic Indicators

**The Tennessee economy continues to rebound from the pandemic recession.** In June, nonfarm employment grew by 0.7 percent, representing an increase of 22,100 jobs over the previous month (Table 3). The state lost nearly 400 thousand jobs in the spring of 2020 due to the COVID-19 pandemic. Since then, the Tennessee economy has added 315.1 thousand jobs back to payrolls, as a result, there are still 64,700 thousand fewer workers on payrolls today than there were during the pre-pandemic peak of February 2020 (Figure 5). The state saw a strong rebound in job growth over the summer of 2020, adding a combined 161.7 thousand workers back to payrolls in

**TABLE 3: TENNESSEE DATA**

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (millions of dollars) [2021 Q1]	402,100	74.3%	18.4%
Total tax revenue (millions of dollars) - monthly [2021-June]	1,856	-	20.9%
Sales tax revenue (millions of dollars) - monthly [2021-June]	992	-	22.6%
Franchise & excise tax revenue (millions of dollars) - monthly [2021-June]	584	-	45.1%
Total nonfarm employment (in thousands) - monthly [2021-June]	3,089	0.7%	5.2%
Manufacturing employment (in thousands) - monthly [2021-June]	347	0.2%	6.3%
Leisure and hospitality employment (in thousands) - monthly [2021-June]	308	0.9%	13.9%
Unemployment rate (%)			
	June 2021	May 2021	
	Rate	Rate	Change
	4.9	5.0	-0.1
		June 2020	
		Rate	Change
		9.3	-4.4

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.

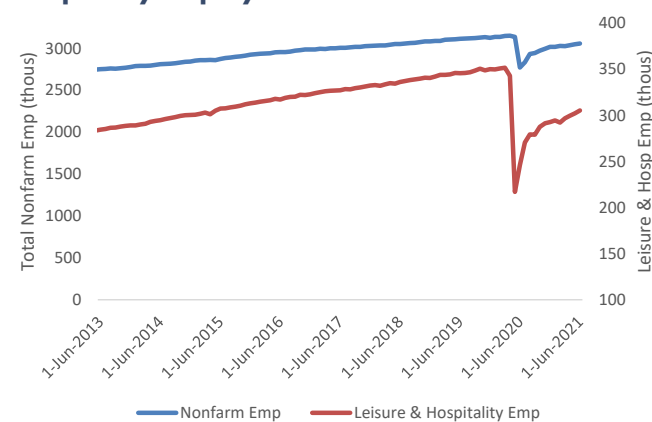
Note: Month-to-month growth rates are informative if the underlying data are seasonally adjusted, but can be misleading otherwise. For this reason, month-to-month growth rates are excluded for any non-seasonally adjusted data.

May and June. However, monthly job gains have been much slower ever since, as average monthly job gains have fallen to roughly 12,800 per month over the last twelve months (July 2020 through June 2021). This would normally be strong economic growth, but means it will still take roughly six more months to reach pre-pandemic employment levels. In June, employment in the leisure and hospitality sector, one of the hardest hit by the pandemic, grew by 0.9 percent compared to the month prior, representing an additional 2,800 jobs. As of June, leisure and hospitality employment levels are still 43,600 below their pre-pandemic peak (Figure 5). The Tennessee unemployment rate quickly retreated from its Spring-2020 peak of 15.8 percent, and now sits at 4.9 percent as of June 2021. By comparison, the national unemployment rate, which rose to 14.8 percent in April 2020, has since fallen to 5.9 percent as of June 2021 (Figure 6).

In the first quarter of 2021, nominal personal income was \$402.1 billion, representing a sharp 74.3 percent annualized increase as compared to the previous quarter. This increase was driven by the American Rescue Plan Act, which went into effect in March 2021, and provided a number of relief measures, including additional stimulus checks and extensions to federal unemployment insurance programs. As a result, federal transfer payments, a component of personal income, grew by an annual rate of 584.3 percent in the first quarter. We should expect to see a drop in personal income over the ensuing quarters as the effects of fiscal stimulus through the American Rescue Plan Act moderate.

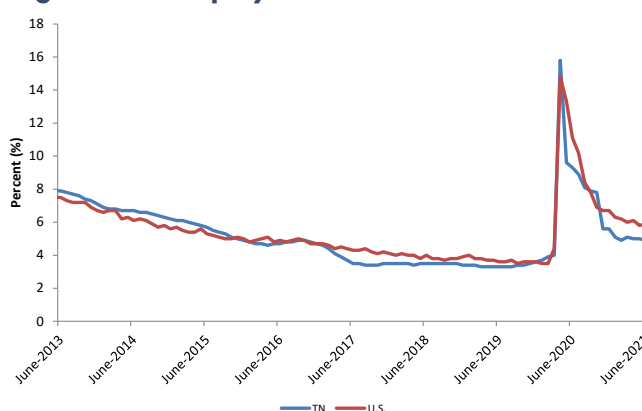
In June 2021, Tennessee tax revenues rose by 20.9 percent as compared to the same month last year, and for the fiscal year-to-date (August 2020 through June 2021), tax revenues are up 18.6 percent. Strong revenue growth was driven by a number of pandemic-related factors. First, June 2021 tax collections are being compared to the depressed collections from June 2020, when the state economy was just starting to reopen. Second, tax collections from last June were further distorted due to state policy decisions to extend tax-payment deadlines for select tax categories in order to help relieve fiscal pressures during the pandemic. These changes include postponements for franchise and excise and Hall income tax payments until July 15, 2020, both of which reduced revenue collections from June of last year. Finally, the rapid vaccine rollout, decline in COVID-19 cases (though rising again at this point), and significant disbursements of federal stimulus have led to an increase in consumer spending and economic activity. As a result, franchise and excise tax collections grew by 45.1 percent and sales tax revenues rose by 22.6 percent as compared to the same month last year. Strong sales tax collections have also been driven by recently implemented legislative changes requiring marketplace facilitators (e.g. eBay and Amazon) to collect sales tax on online transactions on their platforms.

**Figure 5: TN Nonfarm Employment and Leisure and Hospitality Employment Levels**



Source: Bureau of Labor Statistics.

**Figure 6: Unemployment Rate**



Source: Bureau of Labor Statistics.

## National Economic Indicators

**The U.S. economy continues to see strong growth in the second quarter of 2021.** In the second quarter, inflation-adjusted gross domestic product (real GDP) advanced at an annual rate of 6.5 percent as compared to the previous quarter, and as a result, real GDP has finally surpassed its pre-pandemic peak level from the fourth quarter of 2019. Strong growth was driven by consumer spending, which accounts for more than two-thirds of U.S. economic activity, and advanced by 11.8 percent in the second quarter. However, GDP growth was moderated by reductions in investment spending as well as supply chain disruptions and labor shortages. The waning effects of fiscal stimulus through the American Rescue Plan also led to a second quarter reduction in government spending, which put a drag on GDP growth. The fading effects of the American Rescue Plan also led to a correction in personal income growth, which fell by an annual rate of 22.0 percent in the second quarter of 2021. This was due to a 73.1 percent reduction in transfer payments, which were elevated in the first quarter when

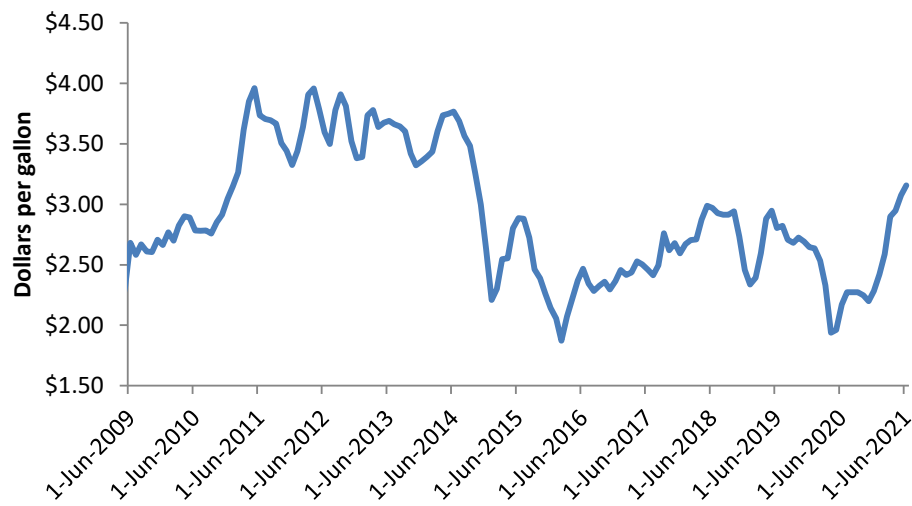
stimulus checks and enhanced unemployment insurance benefits were distributed throughout the nation.

The nation's labor market continues to recover, but employment levels are still well below the pre-pandemic peak. In June, nonfarm employment grew by 0.6 percent compared to the month prior, representing a net increase of 850 thousand jobs. This was the largest one-month jobs increase in 11 months, and over the last four months, the national economy has added nearly 2.5 million jobs back to payrolls. However, there are still roughly 6.8 million fewer jobs today than there were prior to the pandemic (February 2020). Job gains were strongest in the leisure and hospitality sector, where 343 thousand jobs were added back to payrolls as compared to the

previous month. However, leisure and hospitality employment is still down by 2.2 million compared to the pre-pandemic peak.

In the second quarter of 2021, light vehicle sales rose to 17.0 million units, representing a 0.9 percent increase compared to the previous quarter. Retail gasoline prices, which plummeted to \$1.94 per gallon in April 2020, have risen rapidly in recent months, and currently sit at \$3.16/gallon as of June 2021. This is the highest monthly gas price since October 2014 (see Figure 7). This uptick in prices is likely driven by both an increase in the demand for gasoline, as travel has picked back up, as well as reduced supply of gasoline, as producers dramatically cut back during the pandemic, and have yet to fully catch up to the renewed demand for oil and gasoline.

**Figure 7: 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 Q2]	20,552	-22.0%	1.0%
Real GDP (2012 billions of dollars) [2021 Q2]	19,358	6.5%	12.2%
Consumer price index (1982-84 = 1.00) [2021 Q2]	2.68	1.9%	4.6%
Light vehicle sales (millions) [2021 Q2]	17.00	0.9%	50.7%
Housing starts (millions) [2021 Q2]	1.57	-2.1%	45.1%
Federal funds rate (%) [2021 Q2]	0.07	-13.5%	15.4%
30-year fixed mortgage rate (%) [2021 Q2]	3.00	4.5%	-7.4%
S&P 500 stock index [2021 Q2]	4,183	8.3%	42.8%
Retail Gasoline Prices (dollars per gallon) - monthly [2021-June]	3.16	2.6%	45.5%
Total nonfarm employment (in thousands) - monthly [2021-June]	145,759	0.6%	5.7%

Unemployment rate (%)

June 2021		May 2021		June 2020	
Rate		Rate	Change	Rate	Change
5.9		5.8	0.1	11.1	-5.2

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.