

THE TN QUARTERLY

BUSINESS AND ECONOMIC INDICATORS

TENNESSEE SECRETARY OF STATE
Tre Hargett

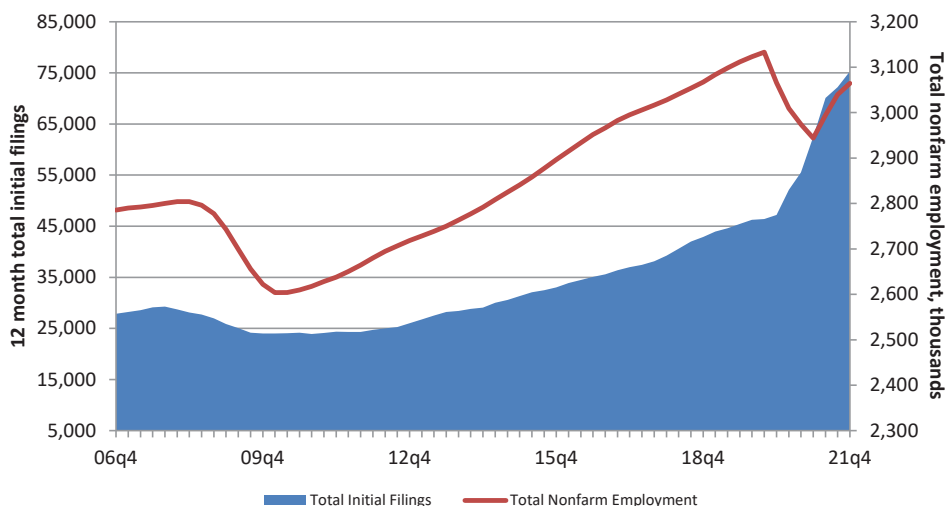
Business Filings Overview

Tennessee new business filings continued to expand in the fourth quarter of 2021 – in fact, the quarter marked 10 years of uninterrupted year-over-year quarterly growth for new business formation. New entity filings were well above their historic average for the fourth quarter, and rose by 22.2 percent compared to the same quarter last year. In contrast, the number of annual reports fell 22.1 percent, but this is compared to the elevated number of annual reports filed during the same quarter last year. The number of annual reports was in line with those registered in the fourth quarter of 2019. Business filings data are highly seasonal. For example, the number of fourth quarter renewals (i.e. annual reports) is generally lower than those from the third quarter. For this reason, we largely focus on year-over-year growth rates. Over the last twelve months, the state has recorded 75,300 new entity filings and 280,468 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

Q1 2022 vs Q4 2021



Q1 2022 vs Q1 2021



Q2 2022 vs Q1 2022



INDICATORS

Employment (SA)

(December 2021)

vs. prior month



vs. prior year



New Entity Filings

(2021 Q4)

vs. prior quarter



vs. prior year



Annual Report Filings

(2021 Q4)

vs. prior quarter



vs. prior year



Unemployment (SA)

(December 2021)

vs. prior month



vs. prior year



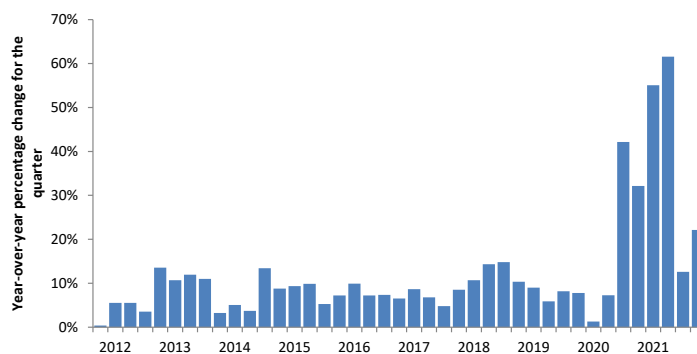
Continued gains in new entity filings suggest sustained economic growth for the state over the short term. Growth in new entity filings has historically been a good leading indicator for nonfarm employment, personal income, and total tax revenue growth in Tennessee. However, the pandemic and ensuing economic recovery have spurred an ever-evolving economic landscape that cannot be fully captured by a leading indicator, however encouraging.

Initial Filings

There were 17,117 new entity filings (i.e. initial filings) in the fourth quarter of 2021, representing a robust 22.2 percent increase over the same quarter last year. Tennessee new entity filings continue to show strong growth, as this marks the sixth consecutive quarter of double-digit filing gains. Furthermore, initial filings have now seen positive year-over-year growth in 40 consecutive quarters, (Figure 2).

New filings from domestic limited liability corporations (LLCs) saw the strongest rate of growth, advancing by 26.8 percent over the fourth quarter of last year. Initial filings from foreign (non-Tennessee based) entities also grew by a robust 23.5 percent. Filings from domestic for-profit and domestic nonprofit corporations increased by 1.8 percent and 1.2 percent respectively. Domestic firms accounted for 85.1 percent of all fourth quarter new entity filings, while foreign entities accounted for the remaining 14.9 percent.

Figure 2: Growth in Quarterly Initial Filings



Source: Tennessee Business Filing Data.

There were 7,612 new entities registered among the four largest Tennessee counties –Davidson, Shelby, Knox, and Hamilton, representing a 10.5 percent reduction as compared to same quarter last year (Table 2). The slowdown in new business filings was driven by higher than usual filings in the fourth quarter of last year as opposed to an overall slowdown in business activity. For context, when compared to the fourth quarter of 2019 (pre-pandemic), new filings expanded in all four of these counties. Initial filings from these four counties still accounted for 44.5 percent of the state's new business filings in the fourth quarter. During this period, Davidson County saw the most new filings (2,850) followed by Shelby County (2,802). However, these represented year-over-year reductions of 13.9 percent and 14.3 percent respectively. In contrast, Knox and Hamilton saw filing gains, with year-over-year growth of 0.7 percent and 2.8 percent respectively. New

TABLE 1: BUSINESS FILINGS – QUARTERLY

	Current Quarter (2021 Q4)	% Change (year-over-year)	Running 12-Month Total
Business Entity Initial Filings			
Domestic For-Profit Corporations	1,479	1.8%	6,332
Domestic Nonprofit Corporations	878	1.2%	3,900
Domestic LLC	12,202	26.8%	54,763
Foreign Entities - Total	2,558	23.5%	10,305
Total Business Entity New Filings	17,117	22.2%	75,300
Business Entity Annual Reports			
Domestic For-Profit Corporations	3,334	-22.8%	52,787
Domestic Nonprofit Corporations	4,557	-9.2%	40,890
Domestic LLC	4,425	-34.7%	130,110
Foreign Entities - Total	3,065	-15.6%	56,009
Total Business Entity Annual Reports	15,381	-22.1%	280,468
Total Active Entities	353,438	12.6%	-
Other Business Filings			
Dissolutions	2,144	96.3%	51,839
Initial Trademark Registrations	89	32.8%	300
Initial Assumed Name Registrations	1,857	5.3%	8,251

Source: Tennessee Business Filing Data.

entity filings in the other 91 counties grew at a much faster pace, expanding by an incredibly strong robust 72.7 percent as compared to the fourth quarter of last year. This marks a continuation of very strong new filings growth in the counties outside of the big four.

Annual Reports and Dissolutions

Tennessee recorded 15,381 annual reports (i.e. renewals) in the fourth quarter of 2021, representing a 22.1 percent reduction as compared to elevated renewals in the fourth quarter of 2020. Annual reports among all business structures fell in the fourth quarter of 2021. Renewals among domestic LLCs decreased by 34.7 percent and those from domestic for-profit corporations shrunk by 22.8 percent as compared to the fourth quarter of 2020. Annual reports from foreign entities declined by 15.6 percent, and renewals from domestic nonprofit corporations shrunk by 9.2 percent. However, as noted earlier, this is compared to an elevated rate of renewals in the fourth quarter of last year. The number of fourth renewals seen this year is more in line with those seen in the fourth quarter of 2019 (see Figure 4). In the fourth quarter of 2021, domestic firms accounted for 80.1 percent of all annual reports, and foreign entities accounted for the remaining 19.9 percent.

There were 2,144 dissolutions filed in the fourth quarter of 2021, representing a 96.3 percent increase as compared to the historically low level of dissolutions in the same quarter last year. Nonetheless, this is still 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 dissolved for failing to file their annual report.

Tennessee Economic Indicators

Tennessee continues to see strong economic gains. In December, nonfarm employment rose by 0.5 percent, representing a net increase of 14,500 jobs compared to the previous month. Nonfarm employment in Tennessee is nearing pre-pandemic levels. Since the spring of 2020, the state has added 353 thousand workers back to payrolls, and there are roughly 27,000 fewer workers in Tennessee than there were prior to the pandemic. The Tennessee unemployment rate continues to trend downward and now sits at 3.8 percent as of December 2021. This is slightly below the national unemployment rate of 3.9 percent (Figure 5).

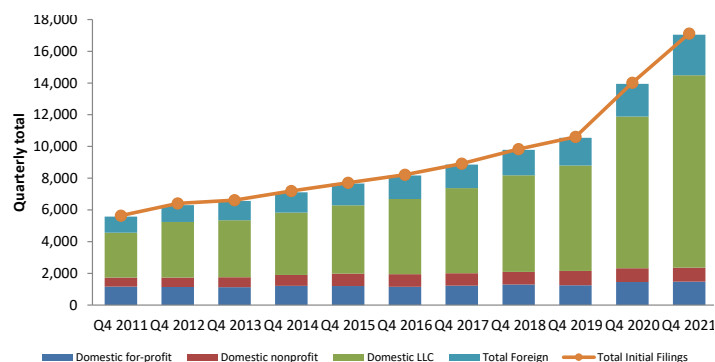
In the third quarter of 2021, nominal personal income was \$373.9 billion, representing an annualized increase of 3.7 percent as compared to the second quarter. In December 2021, Tennessee tax revenues rose by a robust 24.2 percent compared to the same month last year, and tax revenues are up 21.8 percent for the

Table 2: Initial Filings among 4 Largest TN Counties, 2021 Q4

Rank	County	Current Period	% Change (year-over-year)
1	Davidson	2,850	-13.9%
2	Shelby	2,802	-14.3%
3	Knox	1,068	0.7%
4	Hamilton	892	2.8%
Total		7,612	-10.5%

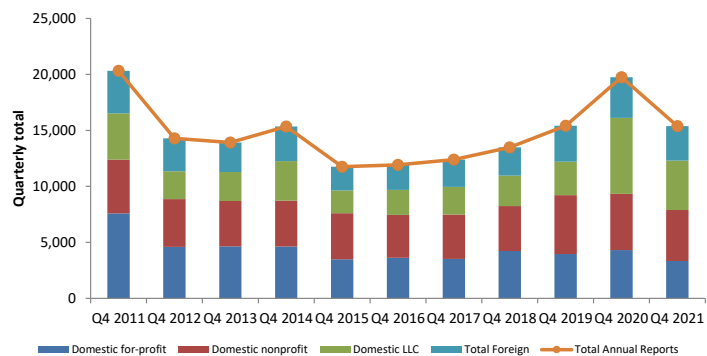
Source: Tennessee Business Filing Data.

Figure 3: Initial Filings



Source: Tennessee Business Filing Data.

Figure 4: Annual Reports



Source: Tennessee Business Filing Data.

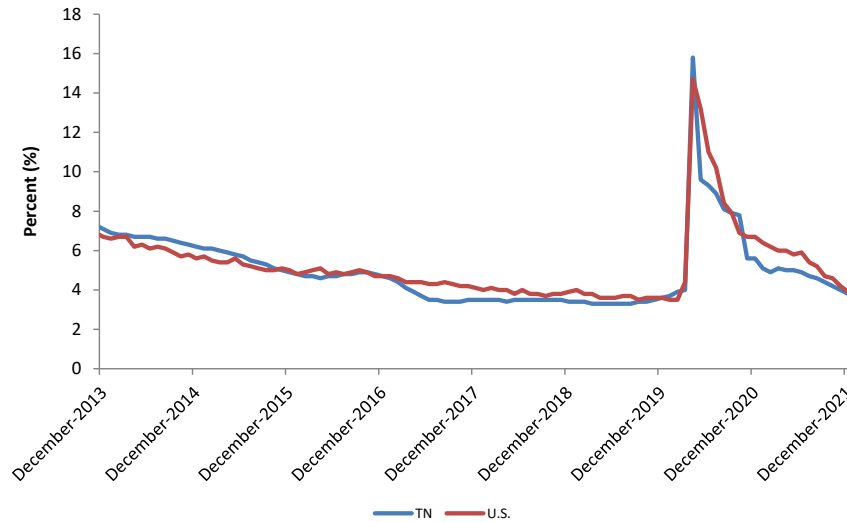
fiscal year-to-date (August 2021 through December 2021). Sales tax collections continue to show strength for a variety of reasons including a sustained surge in demand as the economy continues to recover from the pandemic and legislative changes requiring marketplace facilitators, such as eBay and Amazon, to collect the sales tax on online purchases. In addition, consumers may have shifted some of their holiday purchases to November this year (corresponding to December collections) due to media reports of ongoing supply chain issues. December tax collections will not be available until early February.

National Economic Indicators

U.S. economic growth rebounded in the fourth quarter of 2021. In the fourth quarter, inflation-adjusted gross domestic product (real GDP) expanded at an annual rate of 6.9 percent as compared to the more moderate rate of 2.3 percent growth in the previous quarter. Strong GDP growth in the fourth quarter was driven by consumer spending and increased

business investment. For the year as a whole, real GDP advanced by 5.7 percent, marking the fastest rate of economic growth since the early-1980s. Personal income grew by an annualized rate of 2.1 percent in the fourth quarter of 2021 (as compared to the previous quarter). In December, nonfarm employment grew by 0.1 percent compared to the month prior, representing a net increase of 199 thousand jobs. The national labor market continues to recover from the pandemic-induced

Figure 5: Unemployment Rate



Source: Bureau of Labor Statistics.

TABLE 3: TENNESSEE DATA

	Current Period	% Change (over last period)	% Change (year-over-year)
Personal income (millions of dollars) [2021 Q3]	373,875	3.7%	6.6%
Total tax revenue (millions of dollars) - monthly [2021-December]	1,872	-	24.2%
Sales tax revenue (millions of dollars) - monthly [2021-December]	1,063	-	24.5%
Franchise & excise tax revenue (millions of dollars) - monthly [2021-December]	546	-	30.0%
Total nonfarm employment (in thousands) - monthly [2021-December]	3,127	0.5%	3.2%
Manufacturing employment (in thousands) - monthly [2021-December]	353	0.1%	2.6%
Leisure and hospitality employment (in thousands) - monthly [2021-December]	327	1.3%	11.0%
Unemployment rate (%)			
	December 2021	November 2021	December 2020
	Rate	Rate Change	Rate Change
	3.8	4.0 -0.2	5.6 -1.8

Sources in order as metrics appear and dates in parenthesis indicate most recent data available at time of publication: Bureau of Economic Analysis, Tennessee Department of Revenue, and Bureau of Labor Statistics.

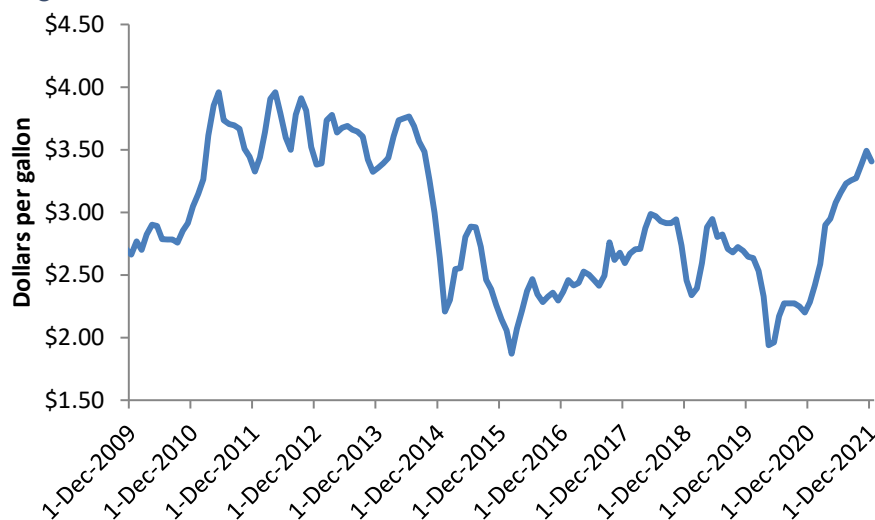
Note: Month-to-month growth rates are informative if the underlying data are seasonally adjusted, but can be misleading otherwise. For this reason, month-to-month growth rates are excluded for any non-seasonally adjusted data.

employment losses in the spring of 2020, but there are still roughly 3.6 million fewer jobs today than there were prior to the pandemic.

Inflation, as measured by the consumer price index (CPI) remains elevated. As of the fourth quarter of 2021, the CPI is up 6.7 percent as compared to the same quarter last year. This is more than three-times higher than the Federal Reserve's

average target rate of around 2 percent. In the fourth quarter of 2021, light vehicle sales fell by 3.6 percent (as compared to the previous quarter) to an annualized 12.9 million units, as higher prices and persistent supply chain issues put downward pressure on vehicle sales. Retail gasoline prices remain elevated, and currently sit at \$3.41/gallon as of December 2021. This represents a 49.1 percent increase over the same month last year.

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 Q4]	20,904	2.1%	7.0%
Real GDP (2012 billions of dollars) [2021 Q4]	19,806	6.9%	5.5%
Consumer price index (1982-84 = 1.00) [2021 Q4]	2.78	1.9%	6.7%
Light vehicle sales (millions) [2021 Q4]	12.86	-3.6%	-20.6%
Housing starts (millions) [2021 Q4]	1.60	2.4%	1.6%
Federal funds rate (%) [2021 Q4]	0.09	0.0%	0.0%
30-year fixed mortgage rate (%) [2021 Q4]	3.08	7.7%	11.5%
S&P 500 stock index [2021 Q4]	4,601	4.1%	29.4%
Retail Gasoline Prices (dollars per gallon) - monthly [2021-December]	3.41	-2.4%	49.1%
Total nonfarm employment (in thousands) - monthly [2021-December]	148,951	0.1%	4.5%
Unemployment rate (%)			
December 2021		November 2021	
Rate	3.9	Rate	4.2
		Change	-0.3
		December 2020	
		Rate	6.7
		Change	-2.8

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