Economic Summary

Week of April 24, 2020

Tennessee Economy in General

On April 20, Governor Lee announced plans to allow the "stay-at-home" order to expire on April 30th, and to begin re-opening the Tennessee economy as early as April 27th. The announcement covered 89 of the 95 counties while the Administration committed to assist Shelby, Madison, Davidson, Hamilton, Knox and Sullivan counties with more specific and unique re-opening strategies.

The announcement of a re-opening is welcome news; however, consumer and business behavior post-reopening is currently an unknown. Economists suggest multiple months before normal business and consumer purchasing patterns return.

The retail industry continues to falter. According to the Tennessee Retail Association, some locally based retailers are reporting a nearly 80% decline in sales with non-grocery/food sales declining between 20% and 50%. While some of these purchases may have migrated toward internet-based sales and distribution platforms, the short and long-term impact on your Main Street businesses will be extraordinary.

New unemployment claims increased this week by 68,968. Over the last five weeks, new unemployment claims have totaled 393,469 in Tennessee. The Department of Labor and Workforce Development (Department) moved to a staggered claims processing schedule in order to meet demand. Claimants will now apply on different days depending on their social security number. A February report from the Department estimated a potential labor force of 3.4 million. The five weeks of new claims represented 11.6% of the potential labor force, and when added to the previous unemployment rate of 3.4% suggest a potential revised unemployment rate of 15%.

Employment generally influences income. According to the Department, the average annual wage for 2018 was $50,449 which, based on 52 weeks, is approximately $970 per week. As Table 1 estimates, the last five weeks of job reductions may have reduced Tennessee labor force earnings by approximately $1.1 billion. The weekly earnings loss assumed no new claims were re-hired, so Week 11's $37.9 million was added to Week 12's $91.7 million new claims. If none of the recent job losses are re-employed this week, then the most recent week's $381.7 million will be added to any additional losses for the week ended April 25.

Table 1: Estimated Earnings Loss based on New Unemployment Claims over Previous Five Weeks

Week Number	Week Ending Date	Number of New Claims Filed	Cumulative Estimated Lost Earnings*
11	21-Mar-20	39,096	$ 37,929,887
12	28-Mar-20	94,492	129,603,481
13	4-Apr-20	116,141	242,280,352
14	11-Apr-20	74,772	314,822,134
15	18-Apr-20	68,968	381,733,030
		393,469	$ 1,106,368,884

* - Based on Department of Labor & Workfoce Development $970 per week average wage

The Governor released the Tennessee Pledge Guidelines for Reopening Tennessee Responsibly on April 24th. The report estimated $870 million in lost retail sales for the month of March, and "significantly greater" loss for April. If we assume that the April loss is simply equal to the March loss then the total retail sales loss for two months would be $1.74 billion. If those sales were taxed at the 7% state rate then state sales tax revenues would fall by nearly $122 million. At an estimated weighted average local option rate of 2.4% the estimated local option sales tax loss would be nearly $42 million for the months of March and April.

Finally, from a healthcare perspective, COVID-19 cases began trending in a positive direction but took an abrupt turn at the end of the week. According to statistics from the Tennessee Department of Health and COVID-19 Unified Command, over the 7 day period ending April 21, COVID-19 recoveries exceeded new cases; however, the most recent statistics for April 22 and 23 inverted this relationship as new cases on those two days far exceeded recoveries. Over the nine days ending April 23, total new cases were 2,389 while recoveries were 2,224.

Local Government Revenues and Budgeting

The Department of Finance and Administration (F&A) released the March revenue report this week. Counterintuitively, total collections exceeded budgeted expectations by nearly 5%. Commissioner Eley stated, "This monthly report clearly illustrates the inherent lag between reported tax receipts and that of actual economic activity, or lack thereof, which many Tennesseans are facing today. For instance, sales tax collections for the month of March represent February consumer activity. The eventual impacts of COVID-19 on tax revenues are unavoidable and will begin to appear in the coming months." This statement underscored the challenges facing local government budget preparation as the next revenue report will not be available for four weeks.

The main local government revenue sources continue to face headwinds. Since the property tax is less likely to face near-term disruptions and current statewide data does not exist, this report will focus on the second largest revenue source for most cities and towns – the sales tax.

State level sales tax data is not necessarily representative of cities and towns, individually; however, the data may provide insight into collective circumstances. While the F&A report noted that March sales tax collections were 2.3% higher than last March's collections and the fiscal-to-date growth rate of nearly 6.3% is nearly 4% higher than budgeted, current indications such as the aforementioned Tennessee Retail Association commentary and the F&A Commissioner's own comments project bleaker months in the near-term future. As previously discussed, cities and towns with substantial brick-and-mortar (B&M) sales should plan for extremely low collections for the balance of this current fiscal year.

Logically, the state does not weigh each month's collections equally. Historical patterns suggest that certain months (such as December) account for a larger portion of the annual collections. The Department of Finance and Administration created a monthly distribution of estimated state revenues for FY2019-2020. This distribution may influence projections for the balance of this fiscal year as well as projections for the upcoming fiscal year.

As noted, the economic impact of the COVID virus could severely impact budgets this year and planning for next year. As discussed in the previous report, March retail sales fell 8.7%. Realistic scenarios suggest that the April report could show twice the March reduction, or 17.5%, since the March report only contained two weeks of "stay-at-home" orders and business closures. In addition, the May 1 phased-in economic reopening could potentially create a scenario where May and June retail sales resemble the month of March (an 8.7% yr over yr retail sales reduction).

Many local governments are attempting to determine a reasonable expectation for sales tax collections for the remainder of this fiscal year. As mentioned earlier in the summary, the Tennessee Pledge retail sales data suggest local option sales tax loss could be nearly $42 million for the months of March and April. While the following illustration should **not** be relied upon for budgeting purposes it illustrates the potential severity of the rapid downturn.

Sales Tax Illustration

If a city had collected the state's 6.3% growth in sales tax revenue over the first 8 months of the year then as Table 1 estimates, the recent COVID related economic disruption would reduce that year over year sales tax gain from 6.3% down to 0.4%. Note that due the accrual method, the sales and use revenues for March represent February consumer activity. So, July distributions would represent June activity.

Table 1: Illustration of Sales Tax Weighting for FY19-20

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
Sales Growth	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	-8.70%	-17.50%	-8.70%	-8.70%	
Sales Weight	8.50%	8.15%	8.10%	8.12%	8.13%	10.26%	7.20%	7.35%	8.60%	8.32%	8.56%	8.71%	
Growth Weight	0.54%	0.51%	0.51%	0.51%	0.51%	0.65%	0.45%	0.46%	-0.75%	-1.46%	-0.74%	-0.76%	**0.4%**

The most pressing question as local governments begin the budget process may be, "what is reasonable sales tax growth for next year?" Economists suggest a COVID-related economic impact for the remainder of 2020 then a return to "growth" beginning in 2021. To ease complexity, we will assume that, as people and businesses ease back into activity, the retail sales growth for the first 3 months of the upcoming fiscal year (July, August, and September) will be half as bad as the previous two months, or negative 4.35%, then 3 months of 0% year over year growth (or the same sales in December 2020 as in December

2019). If a city assumed 4% growth for the current fiscal year (ending June 30, 2020), then Table 2 illustrates that 3.5% growth is necessary for FY20-21 to simply meet the original FY19-20 budget numbers. For reference, the average annual sales tax growth since the recovery began in 2009 has been 4.7% with 3.9% average annual growth during the two fiscal years immediately following the last recession (FY09 to FY11).

Table 2: Estimated Indexed Growth in Sales and Use Tax from FY19 to FY21

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
FY19 Index Value	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	**100.00**
FY20 Original Budget	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
FY20 Original Index Value	104.00	104.00	104.00	104.00	104.00	104.00	104.00	104.00	104.00	104.00	104.00	104.00	**104.00**
FY20 Estimated Growth	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	-8.7%	-17.5%	-8.7%	-8.7%	
FY20 Estimated Index Value	106.30	106.30	106.30	106.30	106.30	106.30	106.30	106.30	91.30	82.50	91.30	91.30	**100.44**
FY21 Budget Growth	-4.35%	-4.35%	-4.35%	0.0%	0.0%	0.0%	2.2%	2.2%	16.4%	28.8%	16.4%	16.4%	
FY21 Budget Index Value	99.48	99.48	99.48	104.00	104.00	104.00	106.30	106.30	106.30	106.30	106.30	106.30	**104.00**
					FY21 Necessary Growth to Meet FY20 Value								
								3.5%					

Once again, cities should not rely on these examples for budgeting purposes as these are estimates based on anecdotal evidence and data is currently unavailable. The illustrations are only intended to show the impact of a single quarter of massive economic disruption as well as present a plausible scenario for a gradual phased-in resumption of economic activity. Each town and city's individual experience will be different based on their economic composition.

Macro-economic Commentary

Nationwide, over 27 million Americans applied for new unemployment claims over the last five weeks including 4.4 million new claims this week. 27 million claims represent nearly 16.5% of the estimated 164 million-person United States workforce. This suggests the unemployment rate may exceed 20% when the rate is released.

Congress passed another round of stimulus funding. The federal government provided $484 billion for small business-relief programs, additional assistance to hospitals, and an expansion of testing capacity nationwide. This round of funding did not include an appropriation for local governments. In addition, the state has not decided whether it will distribute any of the previously mentioned $2.4 billion from the CARES Act to local governments.

An economic oddity occurred this week. Oil future contract prices for May delivery fell into negative territory on Monday. Essentially this means that the overproduction and reduced demand for oil led to a supply glut and storage shortage. The contract holders essentially paid people to take future oil deliveries off their hands because it would cost them more to store the oil delivery than the price of the oil itself. Oil and gasoline prices are currently extremely volatile and demand for these products does not appear to be closely aligned to prices.

The Michigan consumer sentiment survey suggests expectations of an upswing in the economy. The April survey's index of consumer sentiment fell 17.3 points to 71.8, the current conditions index dropped by 29.4 points to 74.3, and finally the expectations index fell by 9.6 points to 70.1. The survey's chief economist stated that the gap between current conditions and expectations suggested that consumers anticipate an upswing. The public health ramifications from the phased re-opening of the economy will either affirm or diminish the consumer's expectations. According to the survey, if the re-opening leads to a second wave of infections and business closures then a re-imposition of restrictions may create a deeper and more lasting pessimism.