Economic Summary; Volume IV

Week of May 8, 2020

Tennessee Economy in General

The Tennessee economy is in phase one of the reopening and economic recovery. Nashville continued preparation for its reopening, which is slated to begin May 11. With every city and county in the state either having resumed or soon to resume face-to-face business, the ongoing question will be how quickly consumer confidence rebounds as the public wrestles with its tolerance for personal risk.

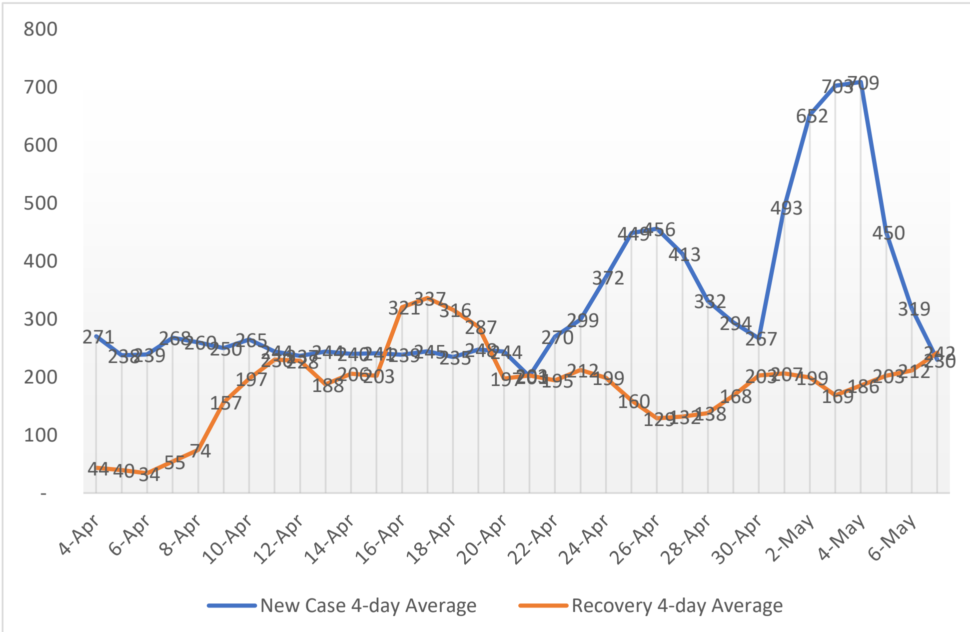
The Department of Labor and Workforce Development (Department) weekly unemployment claims data release showed another reduction in new claims. As Table 1 shows, new unemployment claims increased this week by 37,319 which is the lowest since the stay-at-home orders began. Over the last six weeks, new unemployment claims have totaled 474,580 in Tennessee. These new claims represent 14% of the potential 3.4-million-person labor force. For the six-week period ending May 2nd, 321,571 people continued to receive unemployment benefits.

Table 1: New Unemployment Claims by Week

Week Number	Week Ending Date	Number of New Claims Filed	Continued Claims
11	21-Mar-20	39,096	16,098
12	28-Mar-20	94,492	34,570
13	4-Apr-20	116,141	112,438
14	11-Apr-20	74,772	199,910
15	18-Apr-20	68,968	267,053
16	25-Apr-20	43,792	324,543
17	2-May-20	37,319	321,571
		474,580	

Finally, from a healthcare perspective, COVID-19 cases continued the negative turn with a dramatic increase. Much of this increase can be attributed to approximately 1,200 inmates and staff that tested positive at the Trousdale-Turner Correctional Center. According to statistics from the Tennessee Department of Health and COVID-19 Unified Command, the 7-day rolling total COVID-19 case data for period ending May 7 showed 3,730 total new cases and 1,643 recoveries. Over a 14-day period the state had 5,830 new cases and 2,590 recoveries. Chart 1 shows the 4-day moving averages of new cases and recoveries since April 4th. Averaging smooths anomaly events. As Chart 1 shows, new cases have, on average, exceeded recoveries over the previous 20 days.

Chart 1: 4-Day Average New Case and Recovery Data



Local Government Revenues and Budgeting

The municipal budget process is underway. The State did not have any additional relevant revenue information this week.

Property Tax

The CARES Act also allows borrowers with federally backed mortgages to request temporary loan forbearance for up to 180 days, with a potential 180-day extension. According to mortgage data company, Black Knight, as of April 30th more than 3.85 million homeowners are in forbearance programs. This represents 7.3% of active mortgages and nearly $841 billion in unpaid principal. The CARES Act required relief recipients to continue to submit property taxes and insurance payments to their escrow; however, to the extent the number of program participants represent the ongoing personal fiscal distress then this may be indicative of potential delinquent tax payments or possibly foreclosures. Property foreclosures and distress sales negatively influence future property values; however, as mentioned in prior summaries the multi-year reappraisal intervals help moderate the impact.

Sales Taxes

As previously mentioned, Phase 1 of re-opening has begun in 93 counties and is scheduled to begin in Metro-Nashville and Memphis/Shelby County within a week.   This phase allows for restaurants to offer in-person dining at 50% capacity, retail establishments to offer 50% capacity, limited “close-contact” and lodging business operations, and adapted manufacturing and construction operations. While stores opening (access) is one leg of the stool, purchasing behavior (adoption) is another. It may take weeks to obtain reliable adoption data. In addition, it may take months or possibly years for adoption behavior to return to prior levels. Early indications are that most restaurants and retail establishments are serving much less than 50% of capacity. According to the Tennessee Department of Revenue, eating and drinking establishments and apparel establishments account for 14% of all retail sales. This summary will continue to monitor and report on retail sales behavior, but to the extent that these segments of the economy experience continued difficulty then recovery will be extremely limited.

State Shared Taxes and Other Transfers

The General Assembly will return to in late May for committee meetings and will reconvene floor sessions on June 1. Once reconvened, the General Assembly is expected to consider amendments to the budget passed in mid-March. This budget assumed a 0.25% growth rate for the upcoming fiscal year, but it passed at a time when the future was uncertain. Since its passage, retail sales plummeted, business activity dropped, and fuel consumption fell dramatically due to COVID related consumer behavior and actions by businesses and governments. A revised budget will likely need to account for the actual experience.

By June 1, the General Assembly will have the benefit of several months of economic experience, which may necessitate reductions to spending levels for State departments and programs. In addition, the General Assembly is expected to consider legislation prioritizing and guiding the expenditure of federal funds under the CARES Act, legislation warranted to respond to COVID-19 or to adjust to new normal, legislation extending or waiving statutory or regulatory deadlines and requirements and any other legislation deemed a priority.

To the extent the state budget revises the revenue assumption downward to reflect economic conditions, then state revenues shared with local government will be revised downward as well. Also, the state may need to tap reserves in order to fund the current year's budget which would impact potential supplemental appropriations for local governments.

Macro-economic Commentary

Job losses continued to mount this week. The April unemployment rate surged to a record 14.7%. Total non-farm payroll employment fell by 20.5 million. Eighteen million one-hundred thousand persons reported being temporarily unemployed. Additionally, average wages increased. The average hourly earnings of all employees on private non-farm payrolls increased by $1.34 to $30.01, or nearly five percent. The report suggested the increase is likely due to the substantial lower-paid worker job losses, as nearly half of all the employment reductions occurred in leisure, hospitality, or retail.

The Department of Labor reported nearly 3.2 million additional new claims for the week ending May 2. This was nearly 700,000 less than the prior week, but each of the previous two week claims reports were revised upward. Over the last six weeks more than 33 million Americans have lost their job. In a glimmer of positive news, the four-week moving average fell again from 5,035,000 to 4,173,500 marking two consecutive weeks of rolling average reductions suggesting a peak in new claims, and this comes at a time when states and businesses are relaxing restrictions and re-opening.

One likely wonders how 33 million people could file for unemployment benefits while non-farm payroll employment only fell by 20.5 million people. First Horizon Chief Economist Chris Low attributed the 13-million-person difference to either 1) Fraudulent claims, 2) Rehires, or 3) BLS survey error. Error and fraud of this magnitude would be extraordinary. Additionally, low, new unemployment claims data, and other reports suggest that massive rehiring has not yet occurred. The variance may be attributed to "interpretation" error. The Employment Situation Summary is a survey, and survey questions may be interpreted differently. One likely explanation is that respondents may not see a temporary furlough as unemployed. In addition, the BLS changed their face-to-face survey collection methodology due to COVID concerns which introduces another layer of collection risk.

Federal Reserve Board Chairman Jerome Powell spoke of the economic and employment outlooks in both the near and medium terms in last week's statement. Powell stated that it may take some time for us to get back to more normal level of employment and consumption. He warned that people may be reluctant to engage in normal patterns of spending and behavior. In addition, he also suggested that the Fed is beginning to pay attention to longer-term issues such as productive capacity and unnecessary business insolvencies. This means that if normal behaviors and consumption do not return immediately and businesses cannot rehire immediately, then employees begin to lose touch with the evolving labor market and requisite skills. If this occurs, then they may have difficulty restarting their career. Lack of employees reduces production, and lack of employment reduces income for consumption. This would create a wave of business insolvencies.

The public debt of the United States is increasing at unprecedented levels. The US Treasury Department (Treasury) announced it will need to borrow $3 trillion from April through June to cover the Federal government's expenses with $4.5 trillion in total new borrowing for the current fiscal year ending September 30. For historical reference, this year's new debt will be three times last year's borrowing, and this new $4.5 trillion Federal borrowing would equal new debt incurred from 1991 through 2005.

The total projected US Government debt outstanding will likely exceed $26 trillion by the end of the current federal fiscal year. This total would be more than $80,000 per person in the United States, or approximately 250% of the annual per capita income. As Table 2 shows, the average annual growth rate of the federal debt has grown at two and a half times the average annual revenue growth over the last 20 years. In addition, new debt has exceeded new revenue each of the last 20 years.

Table 2: Comparison of US Government Debt Outstanding and US Government Total Revenues from FY2000 to FY2019

Date	Debt Dollar Amount	Annual Debt Increase	7.6%	Total Federal Revenues	Annual Revenue Increase	2.9%
9/30/2019	22,719,401,753,434	1,203,343,570,254	5.6%	3,462,200,000,000	132,300,000,000	4.0%
9/30/2018	21,516,058,183,180	1,271,158,167,127	6.3%	3,329,900,000,000	13,700,000,000	0.4%
9/30/2017	20,244,900,016,054	671,455,302,117	3.4%	3,316,200,000,000	48,200,000,000	1.5%
9/30/2016	19,573,444,713,937	1,422,827,047,452	7.8%	3,268,000,000,000	18,100,000,000	0.6%
9/30/2015	18,150,617,666,484	326,546,285,751	1.8%	3,249,900,000,000	228,400,000,000	7.6%
9/30/2014	17,824,071,380,734	1,085,887,854,037	6.5%	3,021,500,000,000	246,400,000,000	8.9%
9/30/2013	16,738,183,526,697	671,942,119,312	4.2%	2,775,100,000,000	325,100,000,000	13.3%
9/30/2012	16,066,241,407,386	1,275,901,078,829	8.6%	2,450,000,000,000	146,500,000,000	6.4%
9/30/2011	14,790,340,328,557	1,228,717,297,665	9.1%	2,303,500,000,000	140,800,000,000	6.5%
9/30/2010	13,561,623,030,892	1,651,794,027,380	13.9%	2,162,700,000,000	57,700,000,000	2.7%
9/30/2009	11,909,829,003,512	1,885,104,106,599	18.8%	2,105,000,000,000	(419,000,000,000)	-16.6%
9/30/2008	10,024,724,896,912	1,017,071,524,650	11.3%	2,524,000,000,000	(44,000,000,000)	-1.7%
9/30/2007	9,007,653,372,262	500,679,473,047	5.9%	2,568,000,000,000	161,100,000,000	6.7%
9/30/2006	8,506,973,899,215	574,264,237,492	7.2%	2,406,900,000,000	253,300,000,000	11.8%
9/30/2005	7,932,709,661,724	553,656,965,393	7.5%	2,153,600,000,000	273,500,000,000	14.5%
9/30/2004	7,379,052,696,330	595,821,633,587	8.8%	1,880,100,000,000	97,800,000,000	5.5%
9/30/2003	6,783,231,062,744	554,995,097,146	8.9%	1,782,300,000,000	(70,800,000,000)	-3.8%
9/30/2002	6,228,235,965,597	420,772,553,397	7.2%	1,853,100,000,000	(138,000,000,000)	-6.9%
9/30/2001	5,807,463,412,200	133,285,202,313	2.3%	1,991,100,000,000	(34,100,000,000)	-1.7%
9/30/2000	5,674,178,209,887			2,025,200,000,000		
SOURCE: TreasuryDirect.gov and CBO January 2020 Economic Outlook						

Debt financing for current operations expenses, or things that cannot be depreciated and used over multiple years, produces a crowding-out effect as the future interest expense reduces free cash flow availability to fund ongoing operations. In addition, eventually debt must be repaid.

Finally, there was no additional information about whether local governments will receive new state or federal funding to offset COVID related impacts. Congressional Democrats are drafting legislation to appropriate $750 billion in aid to state and local governments as well as direct support to Americans. The prospects in the Senate appear uncertain. In addition, the state has not decided how it will distribute the majority of the $2.4 billion it received from the CARES Act to offset costs associated with the response COVID-19. Despite repeated efforts, the funds allocated under the CARES Act may not be utilized to offset lost state or local revenues. Further, this Act required that any unobligated funds be returned to the federal government.