Economic Summary; Volume VI

Week of May 22, 2020

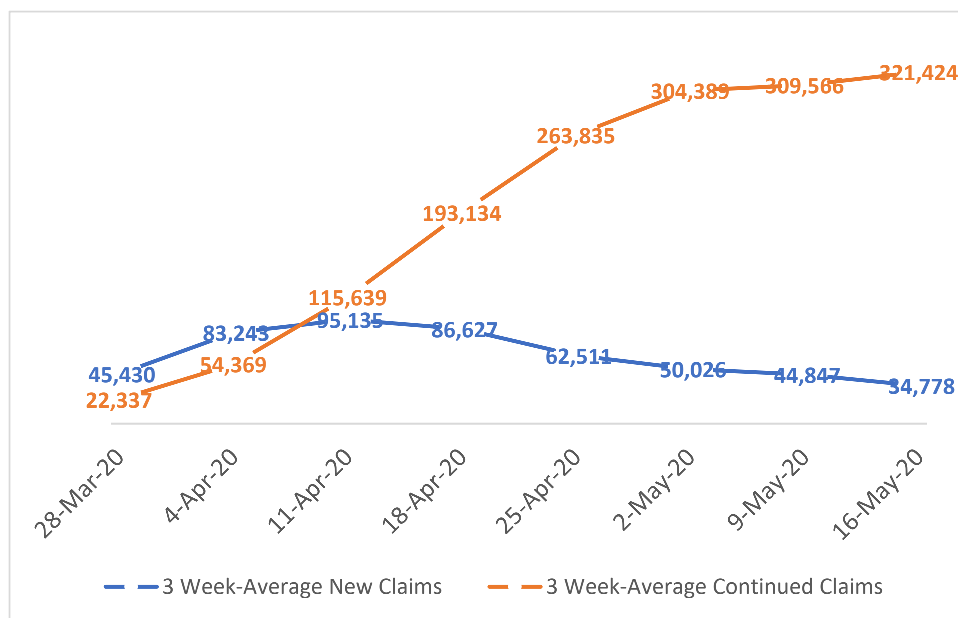
Tennessee Economy in General

The Tennessee Pledge continued to open wide swaths of the economy. Effective on May 22, most establishments began operating at full capacity. Nashville will expand to 75% in most establishments. Other governments and most businesses relaxed nearly all restrictions on consumer behavior. Consumers are now essentially free to engage in pre-COVID activities. Future summaries will attempt to measure activity adoption.

A study by Opportunity Insights at Harvard University suggested that Tennessee was not impacted as drastically as other states. Their data suggested that Tennessee consumer spending fell by less than 2% compared to more than 20% nationally. COVID cases and deaths were below the national average while testing was above the national average. In what appears to be a statistical oddity, Tennessee's 11.3 unemployment claims per 100 people is greater than the United States 7.45 despite most other public evidence suggesting US claims of 15 to 20 per 100 people.

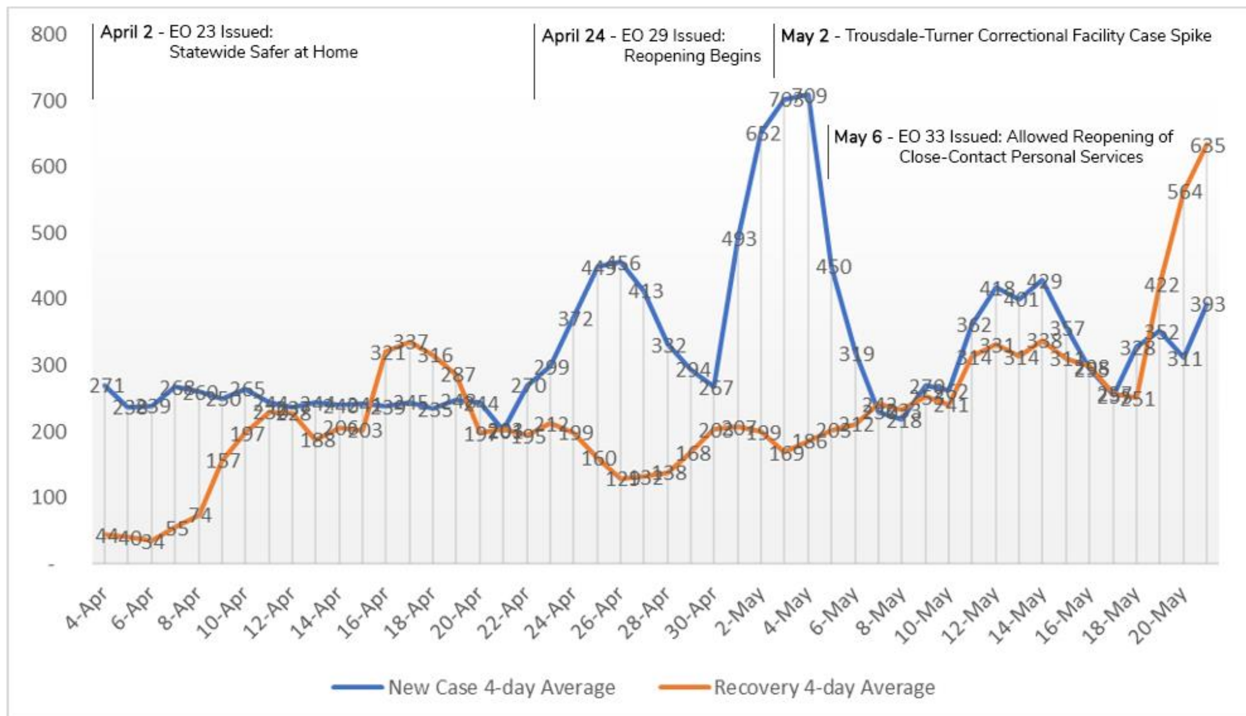
The immediate COVID-related job recissions appear to be slowing. The Tennessee Department of Labor and Workforce Development Weekly New Unemployment Claims release reported another reduction in new claims. New unemployment claims increased by 28,692 for the week of May 16 which is the lowest since the stay-at-home orders began. Total new unemployment claims rose to 532,580 since March 15. Continuing Claims fell by 10,608 to 314,487. As of May 16th, the state and federal government paid nearly $360 million for unemployment claims. Chart 1 shows that based on three-week moving averages the new claims are falling and continued claims are plateauing which suggests that the worst of the job losses is complete, but individuals may be having difficulty returning to the labor force.

Chart 1: Three-Week Moving Average New and Continued Claims



Finally, from a healthcare perspective, COVID-19 cases fell this week. According to statistics from the Tennessee Department of Health and COVID-19 Unified Command, the state confirmed 2,604 new cases and 2,098 recoveries during the 7-day period ending May 14. Over a 14-day period, the state confirmed 5,965 new cases and 3,543 recoveries, which were both 14-day rolling total increases over the week prior. Additionally, national data suggests Tennessee is truly a leader in testing. Since the beginning of March, more than 346,000 have been tested which is nearly 3.5% of the total tests administered in the United States which is greater than Tennessee's 2.1% share of the national population. Finally, Chart 2 shows that recoveries moved in a positive direction this week and, on average, exceeded new cases.

Chart 2: 4-Day Average New Case and Recovery Data with Key Dates



The University of Tennessee's CORE-19 team estimated that active cases fell to 6,457 as of May 21. This represents more than 1/3rd of original cases. Additionally, more than 360,000 tests were administered with a 5% positivity rate. According to the previously mentioned Opportunity Insights website, as of May 19 Tennessee tested more people and had fewer positive tests than the United States average.

Local Government Revenues and Budgeting

The state did not release any additional state sales or revenue data this week. Last week's collections summary remains an extremely valuable resource for budget planners. Pages 15 through 18 provide insight into statewide purchasing patterns. Some of these patterns as well as their impact on municipal budgets were discussed in the May 15 Economic Summary.

Property Taxes

As discussed in prior summaries, property reappraisals occur in Tennessee counties every four to six years. The multi-year cycles help moderate the impact of anomalies. Appraisals conducted this year

reflect the value of property as of January 1, 2020 which would compare to the property value from four, five, or six years ago.

The multi-year cycle may also lead to confusion. The value of property has likely grown during the four to six-year cycle. This growth might seem counterintuitive to property owners during an economic downturn and may increase value appeals more than in prior reappraisal cycles. The Boards of Equalization should prepare for this increase prior to the June 1 deadline, and local officials may wish to estimate higher-than-normal appeals success rates out of caution. Successful appeals would potentially reduce revenues or require a higher certified tax rate to maintain 2019's revenue level on existing property.

Table 1 attempts to estimate the counties and therefore cities in those counties that are most susceptible to higher-than-average appeals. Sixteen counties reappraised property in 2020. Eleven of the sixteen counties reappraised five years ago while five reappraised six years ago; therefore, every county will reappraise after potentially five years of growth. The 2019 APR Ratio measures the relationship between the appraised value and the market value. For example, an APR Ratio of 0.8829 suggests that the appraised value is approximately 11.7% less than market value. Potentially, existing property will appraise for 11.7% more in 2020. Counties with lower APR Ratios may be the most susceptible to higher-than-average appeals. Cities in these counties may wish to over-estimate successful appeals and thus potentially lower than anticipated property tax revenues for the upcoming year.

Table 1: Counties Conducting Property Reappraisal in 2020 with Current Ratios

	NEXT REAPP	LAST REAPP	2019 APR Ratio
ANDERSON	2020	2015	0.8829
BENTON	2020	2015	0.9158
CARROLL	2020	2015	0.9328
COCKE	2020	2015	0.8795
DECATUR	2020	2014	0.9126
DYER	2020	2014	0.8949
GRUNDY	2020	2014	0.961
HAMBLEN	2020	2015	0.8523
HENRY	2020	2015	0.897
HOUSTON	2020	2014	0.8776
LEWIS	2020	2015	0.8358
OVERTON	2020	2015	0.8615
ROANE	2020	2015	0.8949
TIPTON	2020	2014	0.8653
WARREN	2020	2015	0.8656
WHITE	2020	2015	0.8927

The US Census Bureau found that COVID-19 imposed a huge burden on residential housing construction. April building permits fell by 20%, single family housing starts fell by 30%, and completions were 12% below April of last year. The South was impacted less than other regions, and units under construction grew year over year. This data is not necessarily indicative of impending danger and may only be reflective of COVID-related work restrictions; however, each community should monitor housing starts and permits to determine the impact. Residential construction reductions likely precede value reductions.

Finally, mortgage delinquencies began to mount. Black Knight reported the single largest monthly increase in mortgage delinquencies on record. The U.S. delinquency rate rose to 6.45% which is nearly three times the previous single month record set in 2008. Late-stage delinquencies (more than 90 days) rose 14%. CoreLogic, a leading data analytics company, estimated a four-fold increase in late stage delinquencies by the second half of 2021. Tennessee was neither in the top nor bottom five of any of the reported metrics; however, state level data will not be available until June 8. Forbearance programs effectively halted foreclosures, but if employment does not return to prior levels then it may be difficult for borrowers to continue payments once the programs expire. Wide-spread foreclosures would reduce property values.

Macro-economic Commentary

A sharply divided United States House passed the HEROES Act. The prospects in the U.S. Senate appear unlikely and the President promised to veto. Wide-ranging, Senate floor comments suggested that while Congress may not appropriate additional money for local governments it may relax usage restrictions on the $2.4 billion from the CARES Act currently available for state and local governments. The state of Tennessee has not spent much of the CARES appropriation nor provided guidance for future usage.

The Federal Reserve released the *Financial Stability Report* which assesses the resilience of the US financial system. The report proposed that the cumulative actions of the Fed and the elected federal leaders "contributed to improved conditions that should boost the economic recovery when social distancing and other public health measures are able to subside", but near-term risk remains high and the COVID-related shocks created potentially long-lasting fragility. Asset price stability is subject to continued tranquility. The high level of business-sector debt is likely to amplify the adverse effects of the COVID outbreak as earnings declines will imply lower interest coverage ratios (earnings to interest expense) and could lead to more corporate defaults.

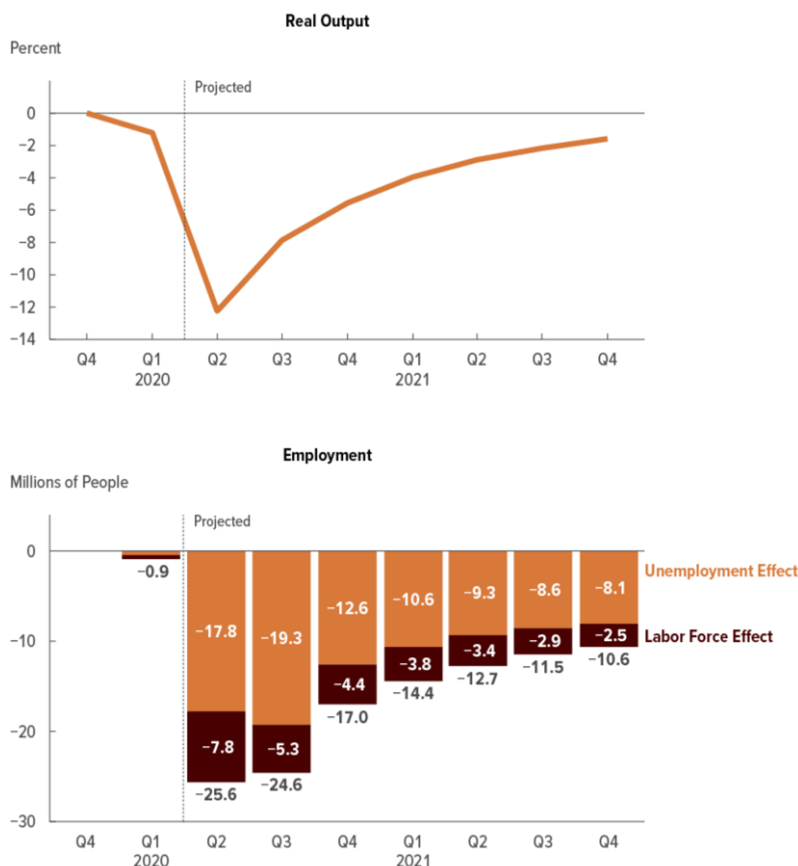
The University of Michigan Survey of Consumers revealed conflicting information. The current index of consumer sentiment increased slightly from 71.8 to 73.6 as the CARES relief checks and price discounting improved current attitudes; however, the index of consumer expectations fell from 70.1 to 67.7 as future inflation expectations rose and the anticipation of near-term economic recovery fell. In a subsequent statement, the author suggested that consumers use a combination of two independent mental faculties to make decisions – cognitive and emotional – and that no decision is possible based on one as decision confidence can only be obtained by utilizing both. He further stated that the COVID pandemic may modify the emotional portion of decision making in a manner that changes consumer behavior and decision-making in the long-term. For example, not only will air travel, mass transportation, and concert attendance be impacted but the emotional faculty may also cause disruptions to job and location decisions. Consumers may place additional emotional weight on healthcare availability, population density, and educational opportunity rather than income and wealth.

Weekly new claims continued their decline but continued at unprecedented levels. The U.S Department of Labor reported another 2.4 million new weekly claims for the week ended May 16. The new claims were once again lower than prior weeks; however, nearly 40 million jobs disappeared over the last nine weeks, or one-quarter of the US labor force. The Department stated that the advance insured unemployment rate was 17.2% for the week ended May 9. The Wall Street Journal reported that

traditional metrics undercount the actual total as the claims totals exclude self-employed and "gig" workers which are receiving benefits through the pandemic unemployment assistance program. [Moody's Analytics offered additional suggestions about why official data undersells] the current state of the labor force. Non-sampling error and the unique impact of COVID dramatically impact the unemployment rate and claims. The report suggests that both 1) the number of employees considered employed but absent from work was greater than usual and 2) how impractical it was for people to actively search for work (a requirement of being counted) in a largely shut-down economy likely under-counted the unemployment rate by more than five percentage points. Accounting for the new claims data over the first three weeks of May, the adjusted measure of labor utilization suggests that more than one-third of the workforce has been damaged.

According to a May 2020 report, the Congressional Budget Office (CBO) projected a sharp contraction, long recovery, and enormous uncertainty. The independent, non-partisan office reported that output will begin to pick-up during 20Q3, but both the nearly 40% annualized GDP reduction and the 40 million lost jobs will take time to improve. As Chart 3 shows, CBO does not anticipate output or employment to return to 2019Q4 levels until 2022 at the earliest.

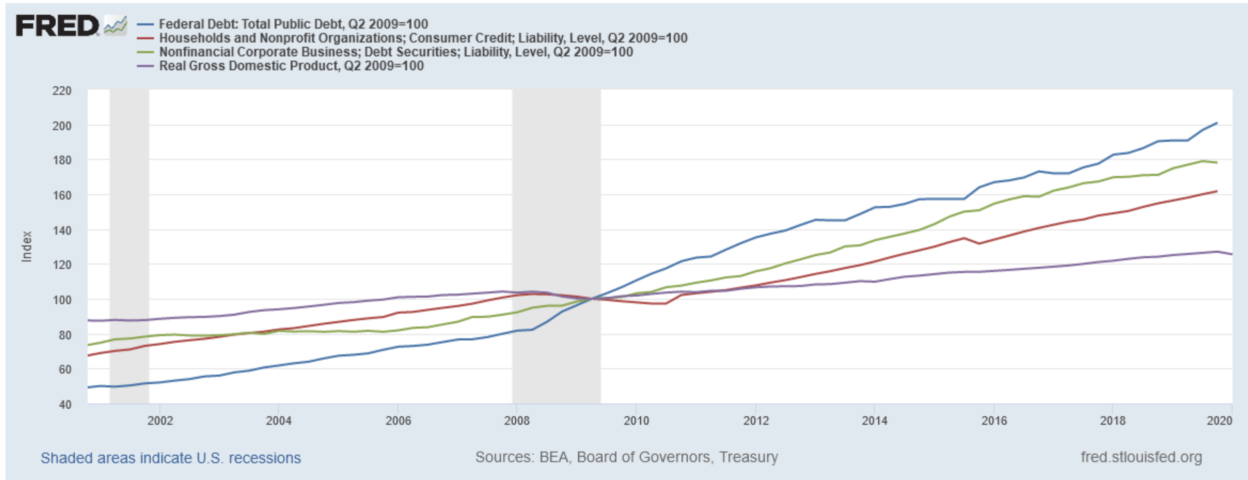
Chart 3: GDP and Employment Measure as a Difference from 19Q4



Deficit spending by the government, businesses, and consumers is supporting the economy. Chart 4 shows that since the recovery from the Great Recession began in 2009, Federal debt more than

doubled, corporate business debt increased by almost 80%, household debt increased by nearly 60%, all while GDP only increased by 20%.

Chart 4: Various Debt Measures As a % of Q2-2009



Long-run, massive increases in debt compared to GDP impacts growth and stability. Private debt purchasers could begin to view higher levels as increased risk which would drive up interest rates. The Crowding-out theory believes that higher interest rates may crowd-out private investment, reduce exports, and lead to higher taxes or expenditure reductions. Chart 5 shows that privately held federal debt as a % of GDP has increased to unprecedented levels.

Chart 5: Privately Held Federal Debt as % of GDP