



## Economic Summary; Volume VIII

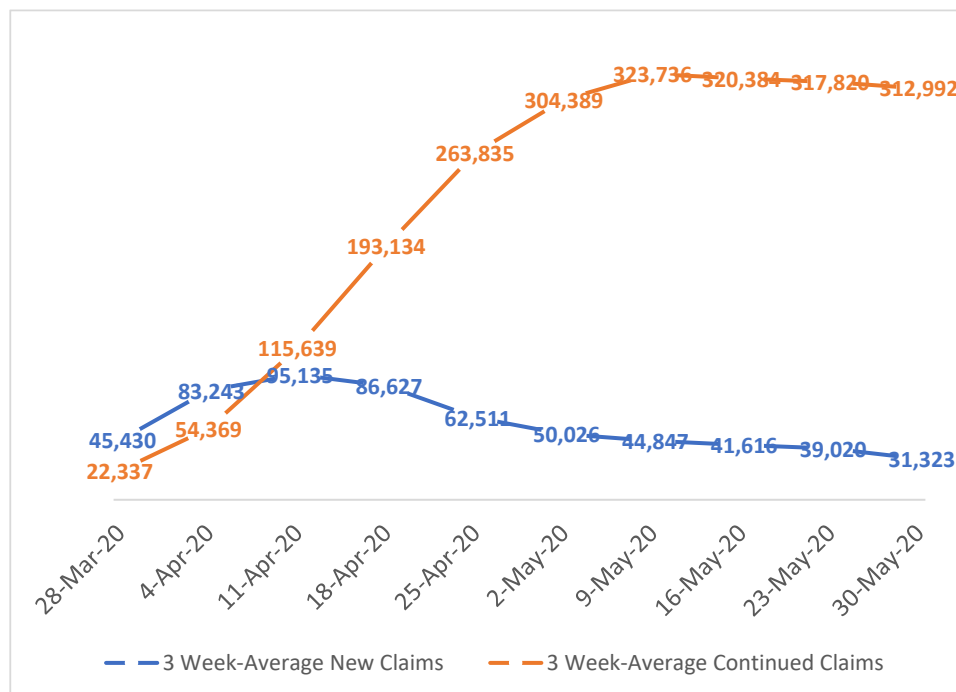
Week of June 5, 2020

### Tennessee Economy in General

The legislature continued finalizing the 111<sup>th</sup> General Assembly this week. Commissioner Eley presented a budget overview painting a bleak picture of the upcoming fiscal year. The Administration proposed an additional \$284 million in recurring expenditure reductions on top of the nearly \$400 million reductions the legislature approved in mid-March. They hope to achieve these savings through a combination of “efficiencies”, capital expenditure reductions and bond issuances, and employee buy-outs. The Administration stated that departments will be asked to reduce expenditures by 12% and conduct a thoughtful review of business practices but did not detail the reductions. The state will press forward with many enacted but delayed commitments. The annual BEP Growth, the full pension funding, the June \$325 million rainy day fund deposit, the August sales tax holiday, and the January full repeal of the Hall Income tax will proceed as scheduled this upcoming fiscal year. With more than \$4 billion in reserves, the Administration stated they anticipated cash on hand to cover the potential shortfalls.

The Tennessee Department of Labor and Workforce Development Weekly [New Unemployment Claims reported another week over week reduction](#) in new claims. New unemployment claims increased by 22,784 for the week of May 30 compared to 26,041 for the week prior. Chart 1 shows that average Continuing Claims fell again as many began to return to the traditional labor market.

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



[County level employment information for April suggested](#) that COVID impacted each county differently. More than one-fifth of the workforce was displaced in thirteen counties while three counties still had



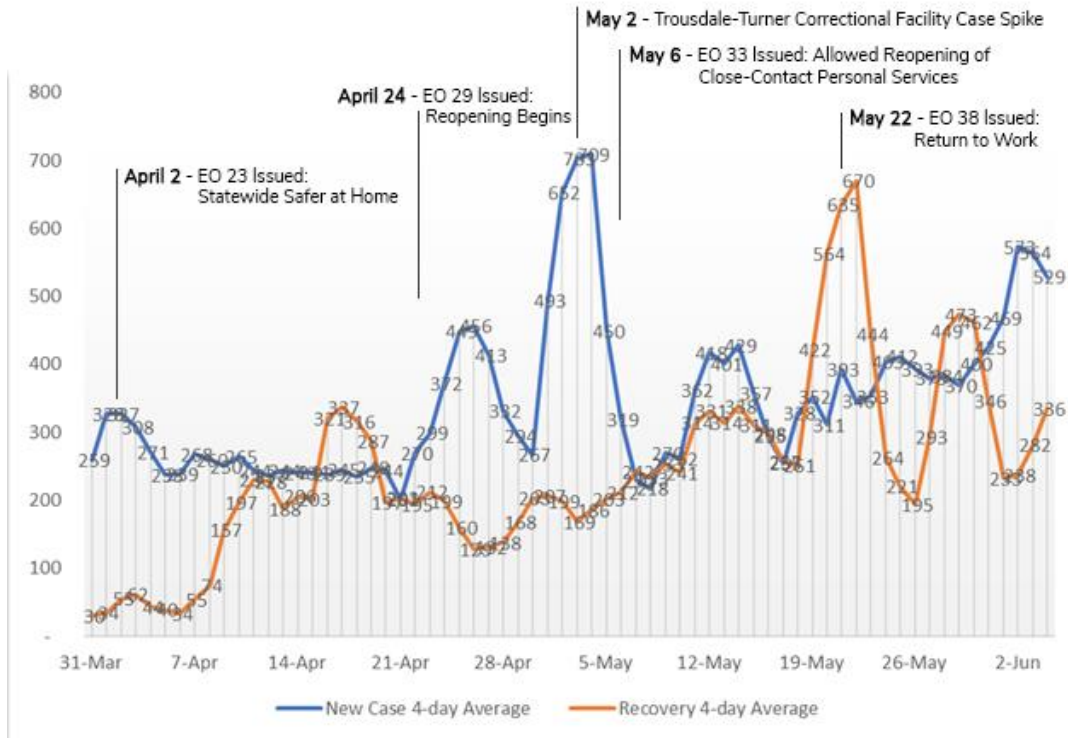
single digit unemployment and six additional counties less than 11% unemployment, or approximately only one-tenth of the workforce.

However, as discussed in the Macroeconomic section, the precise workforce displacement is not captured by this measure as so-called “gig-economy” or independent contractor workers fall into a different category that is measured in part by Pandemic Unemployment Assistance (PUA) claims. In Tennessee, [new PUA claims increased](#) by more than 50% from 4,040 to 6,135 for the week ending May 30. Continued PUA claims increased from 79,363 to 81,439. Other states have reported difficulty processing these claims due to inability to independently verify necessary information.

In a meeting of Senate Finance Ways and Means this week, the Commissioner of Finance and Administration noted the potential for an increase in TennCare enrollment. The Administration stated that the large numbers of unemployed may lead to additional applications for the public healthcare program. This may increase the Federally-subsidized program’s expenditures. The Commissioner stated that program reserves can likely cover the increase. However, if the economy does not recover quickly and workers experience long-term employment disruption then the state may need to dedicate additional revenues to the program or reduce benefits.

COVID-19 cases increased dramatically last week. According to [statistics from the Tennessee Department of Health and COVID-19 Unified Command](#), the state confirmed 3,441 new cases and 2,011 recoveries during the 7-day period ending May 14. Over a 14-day period, new cases exceeded new recoveries by nearly 40% (6,159 new cases vs 4,452 recoveries). Since the beginning of March, over 470,000 have been tested. The University of Tennessee’s [CORE-19 team estimated that active cases increased week over week](#) from 6,691 to a new all-time high of 8,115 which is approximately 1.2 per 1,000 Tennessee residents. In addition, the 7-day average positivity rate remained 6% as of June 4. Chart 2 shows that, controlling for the Trousdale-Turner case spike, the 4-day average new cases increased to their highest point since the pandemic began.

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



### Local Government Revenues and Budgeting

Most local governments are in the middle of the budget process. Many have likely passed the first budget reading. An upcoming TML survey will provide Tennessee’s cities and towns to speak with their own voices about how they are budgeting during these difficult and uncertain times. These results will be discussed next week.

### Macro-economic Commentary

In a [surprising report Friday](#), the May unemployment rate fell to 13.3%. The Bureau of Labor Statistics reported a 2.5 million employment increase, with massive increases in leisure and hospitality, construction, education and health services, and retail trade. The report also noted that government employment fell sharply. Month over month, the average work week (in hours) increased while the average hourly wage declined. This likely was a product of the types of jobs gained.

Weekly new unemployment claims continued at unprecedented levels. The [U.S Department of Labor reported another 1.9 million new weekly claims](#) for the week ended May 30. The total number of people claiming unemployment benefits for the week ending May 16 was just under 30 million. That total declined slightly from the week ending May 9, but the Pandemic Unemployment Assistance (PUA) program increased by nearly 3 million persons.

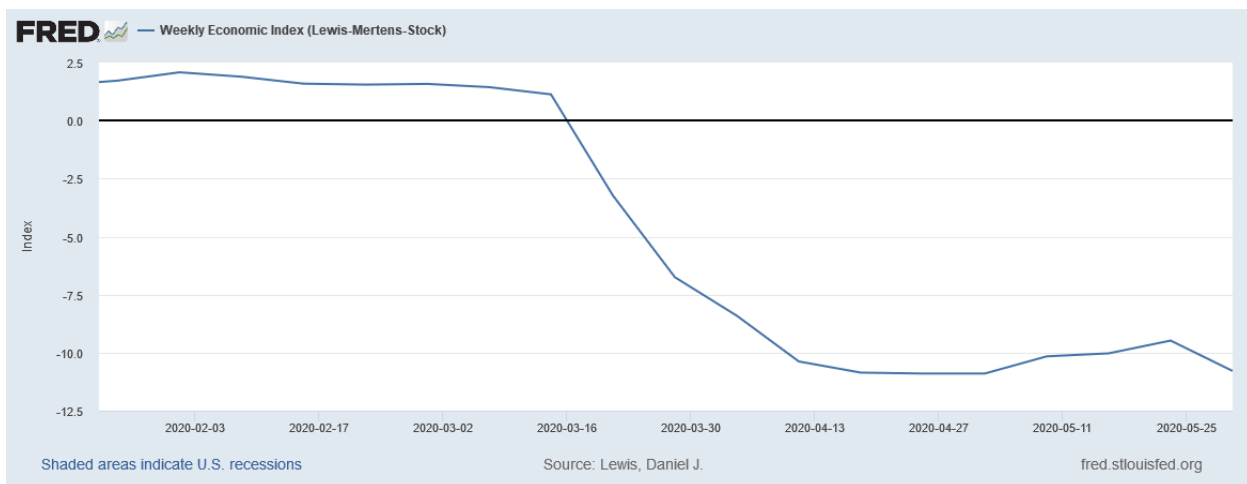
The PUA program was created to cover non-traditional workers such as business owners, self-employed workers, independent contractors, and those with a limited work history who are out of business or



have significantly reduced their services as a direct result of the pandemic. Since this program covers self-employed and independent contractors, many states reported slower PUA claims processing due to inability to obtain relevant cross-reference data in a timely manner. PUA enrollment may increase in the coming weeks.

The Weekly Economic Index (WEI) fell and nearly matched a historic low this week. The [Federal Reserve Bank of New York stated that the decline was driven](#) by falling retail sales and a decrease in consumer confidence. The WEI is a real-time estimate of the potential annualized GDP growth rate. Thus, as Chart X shows, last week's data series suggested that GDP will fall by 10.8% this year. A decline of that magnitude would exceed any reading post-1932.

**Chart X: Weekly Economic Index**



Understandably, COVID weighed heavily on international trade. Both United States [imports and exports fell by the largest amounts](#) in recorded history in April. April was the worst month for goods exports since September 2009, service exports since January 2012, and total imports since July 2010. As Chart X shows when adjusted for inflation (Consumer Price Index), the April 2020 seasonally adjusted exports were roughly equivalent to pre-February 2006 levels (absent a one-time reading in April 2009). As world economies re-open, businesses and governments anticipate trade to return and supply chain issues to alleviate.



**Chart X: Seasonally Adjusted Monthly U.S. Exports and Imports, Adjusted for Inflation**

