

Economics Group

Special Commentary

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The Volunteer State Grapples with COVID-19

The Coronavirus Crisis Has Challenged Many of the State’s Economic Engines

The COVID-19 pandemic halted Tennessee’s decade-long expansion this spring. While the state’s economy has begun to recover, it has not been smooth sailing. Along with many other Southern states, Tennessee faced a surge in COVID-19 case growth through the summer, as the re-opening of the economy mixed with hot, humid weather, encouraging people to spend more time indoors and helping further the spread. This rise in new cases slowed the state’s recovery. The number of daily new cases has since receded, however, particularly in hard-hit metro areas.

COVID-19 has presented unprecedented challenges for the state’s service economy, particularly restaurants and entertainment. This has been a significant setback for the state’s two largest cities, Nashville and Memphis, which rely more on these close contact businesses. Nashville in particular has struggled, with many of the region’s marquee industries—leisure & hospitality, health care and education—facing unique pressures from the COVID crisis. While it will be difficult to quickly restore the level of growth seen pre-pandemic, the area’s manufacturing and logistics industries should serve as a point of strength. Moreover, Nashville, and Tennessee as a whole, remain competitive destinations for businesses and individuals looking to relocate to the South.

Through August, employers in the state added back 231,000 of the 403,000 jobs lost in March and April. Leisure & hospitality accounted for the bulk of the swing, as employment in the sector fell precipitously in March and April before picking up through the summer. The sector has added back 95,000 jobs so far, but actually lost jobs in August and remains 18% below its February peak. Manufacturing saw the second largest employment decline, in part due to temporary shutdowns at major auto plants, which rippled through the auto supply chain. Although many of the layoffs did prove temporary, employment in the manufacturing sector remains 9% below its February level. More broadly, the state’s labor market continues to improve. Employers added 23,000 jobs in August, after adding a net total of just 400 the month before. The unemployment rate fell 1.2 percentage points to 8.5%, compared to a peak of 15.5% in April and 3.4% in August of last year.

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Figure 1

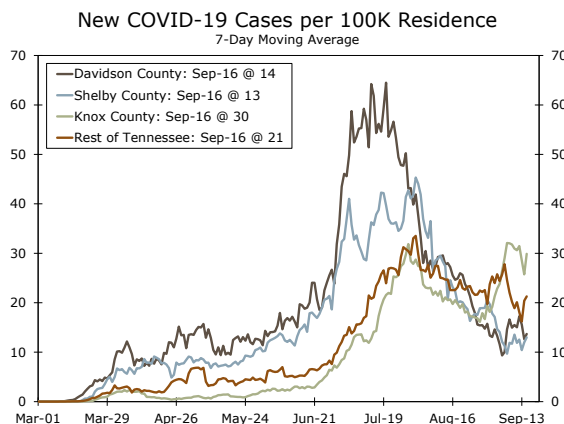
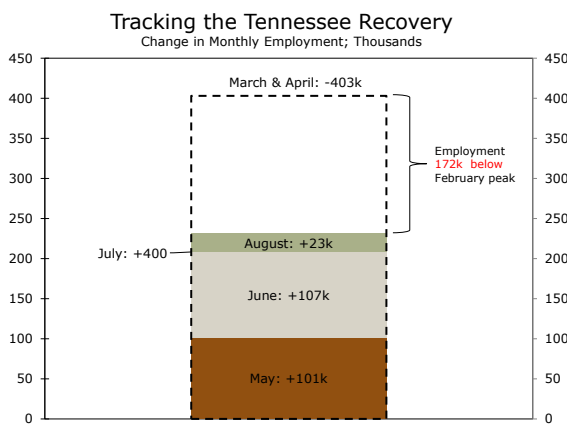


Figure 2



Source: New York Times, U.S. Department of Labor and Wells Fargo Securities



The economic fallout from COVID-19 has hit Nashville hard.

The economic fallout from COVID-19 has hit Nashville hard. The metro area began the year well, but lost considerable momentum in March, when the state’s deadliest tornado in seven years ripped through Middle Tennessee. As residents were still picking up from the devastation, the first confirmed cases of COVID-19 began cropping up. Over the next several weeks, the city’s economy contracted sharply, as the city and state imposed a number of measures to slow the spread of the virus and consumer confidence cratered in the face of a rising number of cases across the country. The economic pain of the current crisis has been felt most acutely in industries that require a great deal of consumer contact. The leisure & hospitality sector, which includes bars, restaurants, hotels and entertainment and concert venues, is the clearest example of this. In March and April, employment in the sector fell by 160,000 jobs, with the state’s two largest cities accounting for nearly 60% of the decline. Nashville and Memphis both boast sizable hospitality industries that suffered under public health orders as well as declining tourism. The Nashville airport, which had seen some of the nation’s fastest passenger growth over the past few years, saw passenger throughput decline precipitously. As of July, total passengers year-to-date are running 53.8% behind last year. While passenger traffic has improved over the past several months, the potential for new outbreaks and restrictions continue threaten the nascent leisure & hospitality recovery.

Health care is another industry that has struggled amid the pandemic. Early public health measures prevented many non-emergency procedures and individuals have been more hesitant to undertake routine medical care. In the U.S. Census Bureau’s weekly Household Pulse Surveys from April 23 to August 31, nearly 40% of Tennessee respondents reported delaying medical care. This sizable drop in health care usage led to a cratering in health care and social assistance employment. Across the state, employment in the sector is still down 4% from February. The situation is even more dire in Nashville—a longtime hub of the private health-care industry—where employment in the sector remains down nearly 10% as of July.

While the leisure & hospitality and health care continue to face difficulties with the virus still prevalent, manufacturing, transportation and logistics—stalwarts of the Middle Tennessee economy—have been somewhat quicker to recover. With service spending still hampered by the pandemic, the nation’s consumers have spent more of their income on goods, reviving demand for durable and non-durable goods manufacturing. Auto sales have been a point of strength nationally, which bodes well for Greater Nashville, home to Nissan’s U.S. headquarters as well as a number of downstream auto producers.

COVID-19 has accelerated the switch to ecommerce. Sitting within 650 miles of more than half of the U.S. population, Nashville has become a popular destination for companies looking to improve their domestic supply chains. Amazon recently announced it would add 2,500 jobs in Nashville, in addition to the 5,000 jobs it is adding at its one million square-foot office tower under construction in Nashville Yards, effectively doubling down on the Music City for much of its East Coast logistics IT operation. Overall, the COVID-19 crisis has fallen particularly hard on Nashville. While some sectors may take time to adjust to the pandemic economy, the area and Tennessee as a whole should remain a destination for individuals and businesses taking part in the migration to the South that has helped fuel the state’s growth over the past decade.

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Figure 3

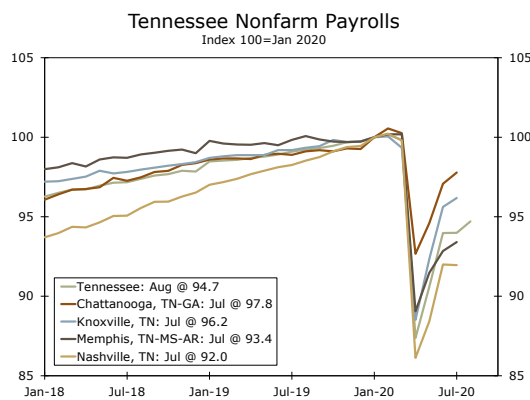
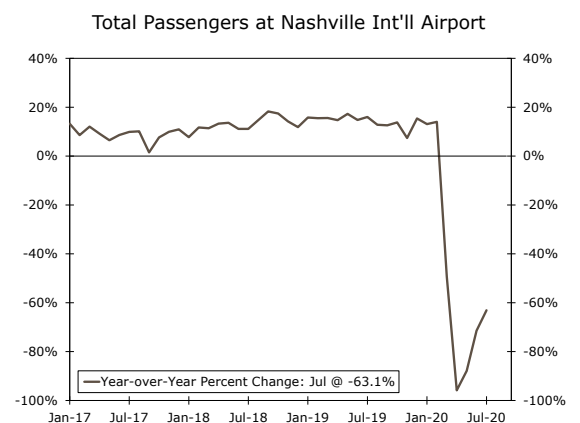
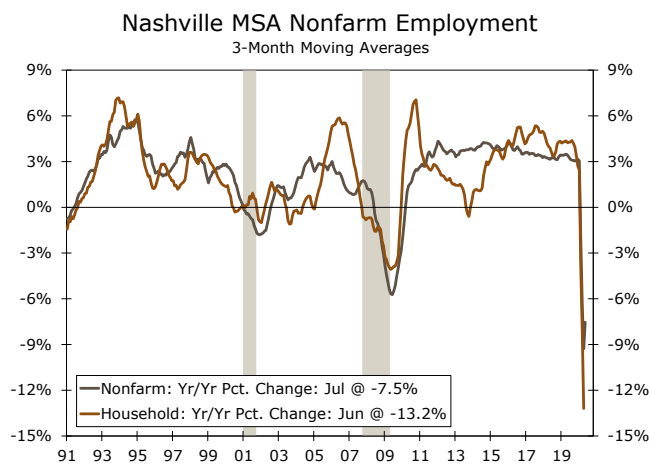
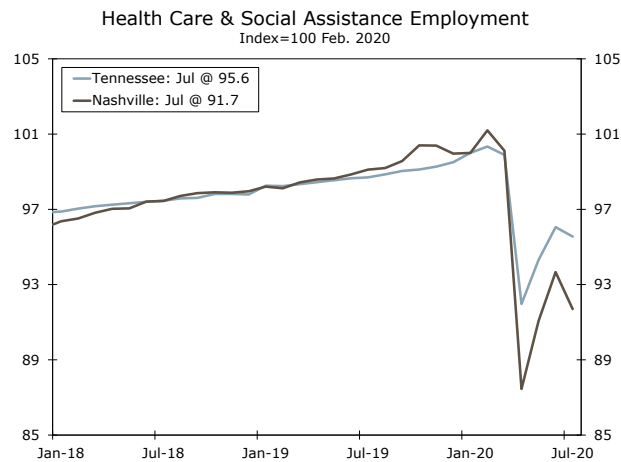
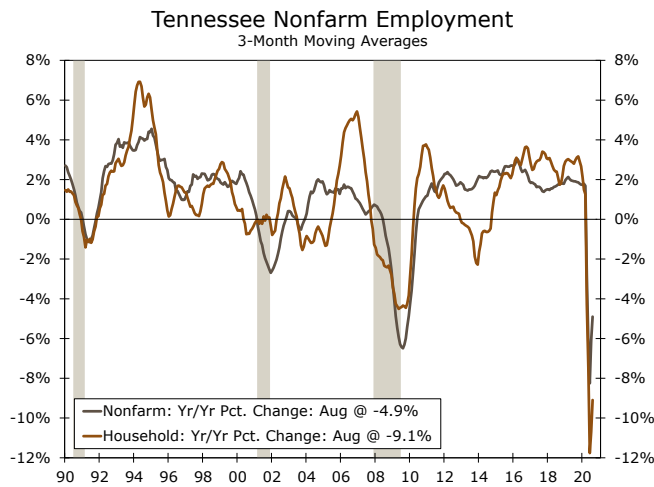


Figure 4

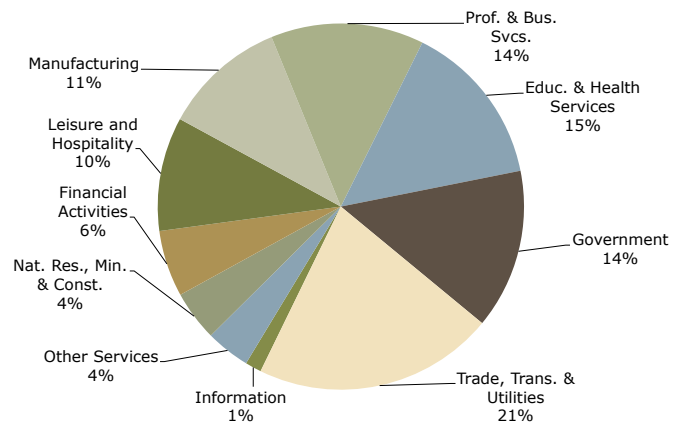


Source: U.S. Department of Labor, Nashville International Airport and Wells Fargo Securities

Tennessee Labor Market Conditions

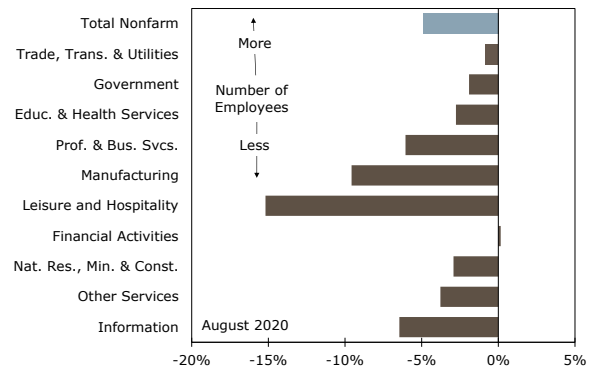


Tennessee Employment Composition



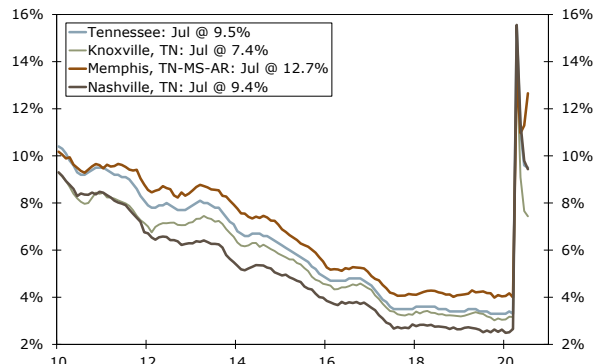
Tennessee Employment Growth By Industry

Year-over-Year Percent Change, 3-MMA



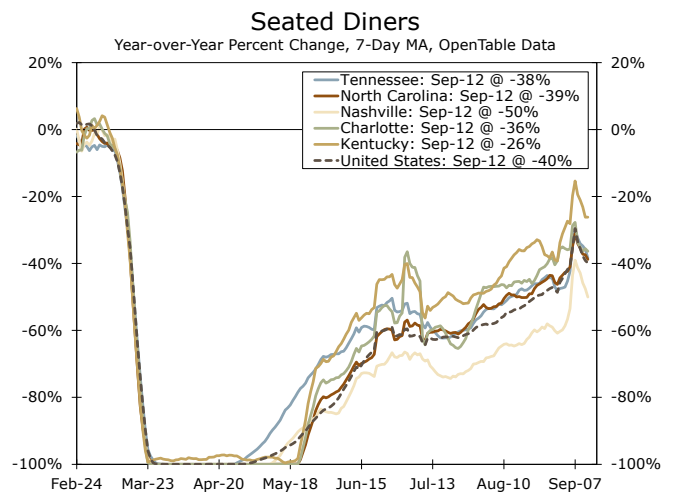
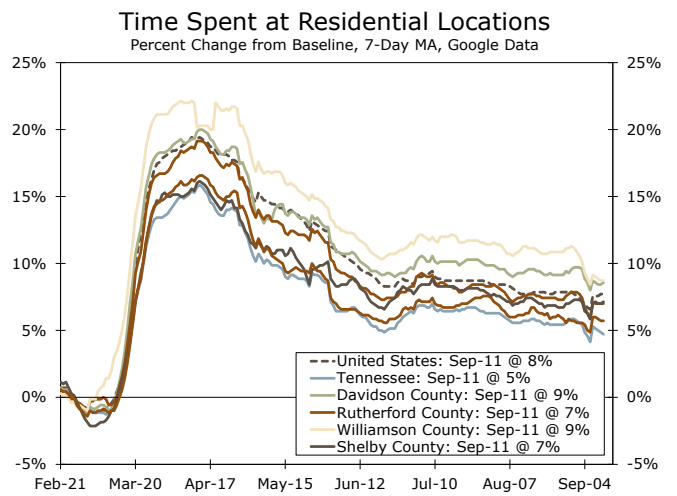
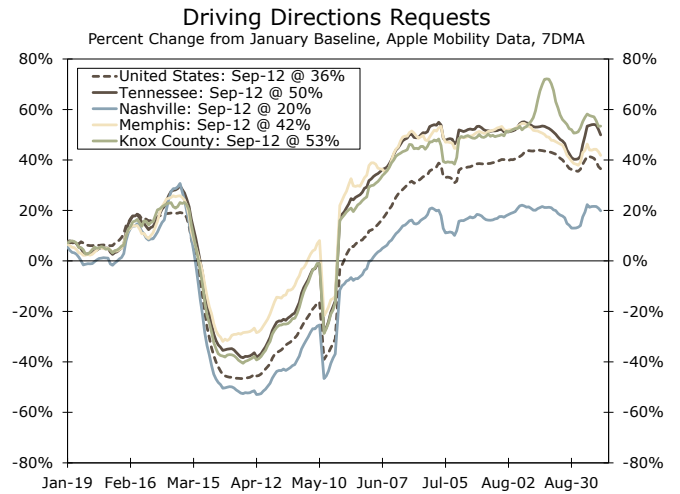
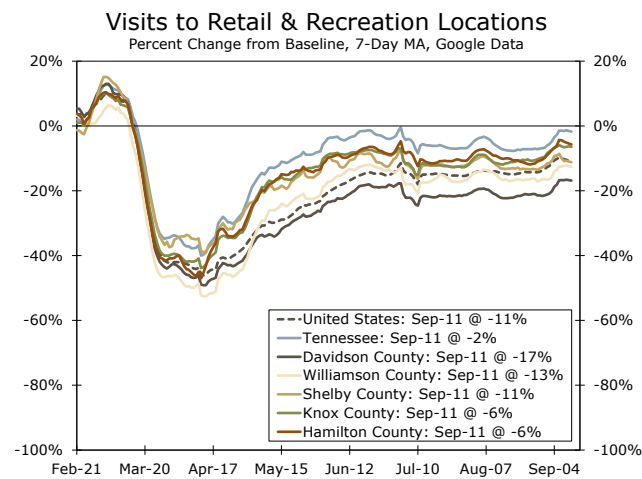
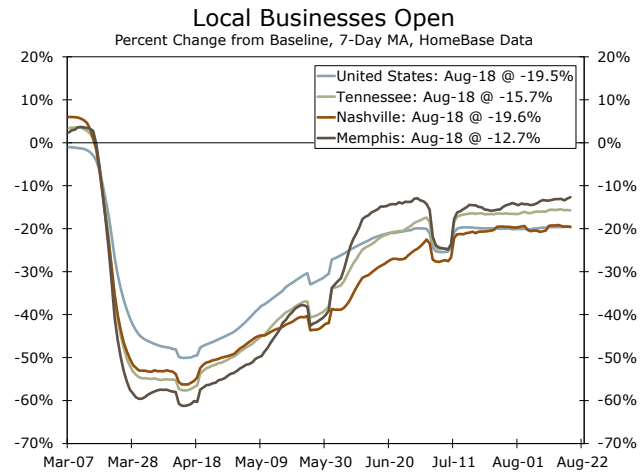
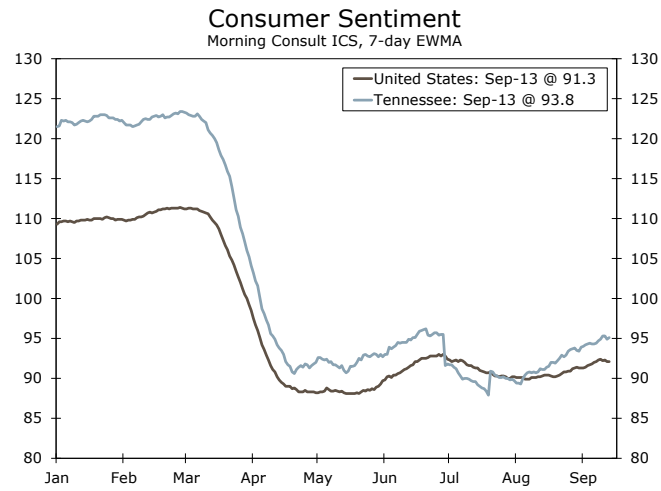
Tennessee Unemployment Rate

Seasonally Adjusted



Source: U.S. Department of Labor and Wells Fargo Securities

Tennessee High-Frequency Data



Source: Apple, Google, HomeBase, Morning Consult, OpenTable and Wells Fargo Securities

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