

Tennessee Secretary of State

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QUARTERLY BUSINESS AND ECONOMIC INDICATORS

Second Quarter 2014

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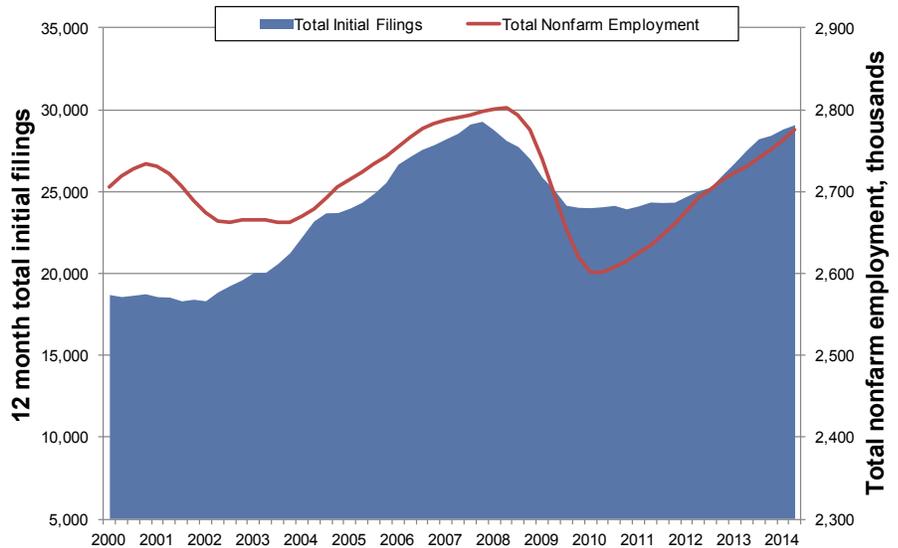


Business Filings Overview

Business filings grew in the second quarter of 2014. New entity filings and annual reports both increased in 2014Q2 as compared to 2013Q2. Initial trademark registrations shrank and dissolutions increased during this same period. Tennessee recorded 29,068 new entity filings and 200,975 annual reports over the last twelve months. As of July 1, 2014 there were 232,630 active entities in Tennessee, which was 3.0 percent higher than the number tallied in the previous quarter.

Growth in new business filings points to further improvements in Tennessee employment in the near term. Predictive models suggest that increases in new entity filings are a good leading indicator of total employment, personal income, and total tax revenue in Tennessee. New entity filings are up 3.7 percent compared to 2013Q2, suggesting that economic growth is primed to continue into the near future.

Figure 1: Tennessee Employment and New Entity Filings



Source: TN Business Filing Data and Bureau of Labor Statistics.

EMPLOYMENT FORECASTS

Q3 2014 vs Q2 2014 ▲

Q3 2014 vs Q3 2013 ▲

Q4 2014 vs Q4 2013 ▲

INDICATORS

Employment (SA)

vs. prior month ▼
 vs. prior year ▲

New Entity Filings

vs. prior quarter ▼
 vs. prior year ▲

Annual Report Filings

vs. prior quarter ▼
 vs. prior year ▲

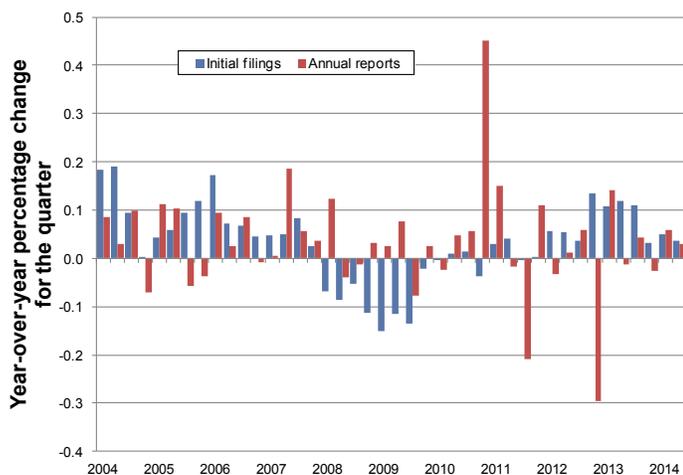
Unemployment

vs. prior month ▲
 vs. prior year ▼

Initial Filings

Tennessee registered 3.7 percent more new entity filings in the second quarter of 2014 as compared to 2013Q2. Initial filings have now posted positive year-over-year growth for eleven consecutive quarters. Filing gains have continued on the backs of domestic nonprofits, limited liability corporations (LLCs), and foreign entities, which have all experienced year-over-year gains. Conversely, new entity filings of domestic for-profit corporations have contracted by 5.2 percent. Roughly 82.0 percent of all new entity filings were from domestic firms while 18.0 percent were from foreign entities.

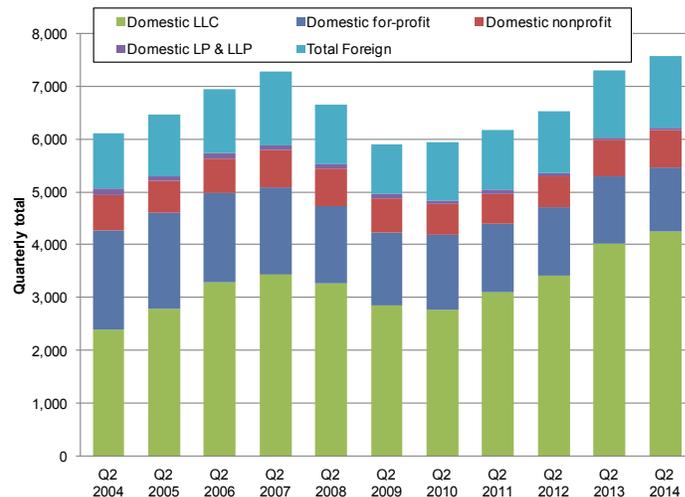
Figure 2: Initial Filings and Annual Reports



Source: TN Business Filing Data.

New entity filings were down 4.7 percent compared to the previous quarter, but this was mainly a story of seasonality as initial filings are consistently highest in the first quarter of each year.

Figure 3: Initial Filings



Source: TN Business Filing Data.

Annual Reports

Annual reports expanded (year-over-year) for the second consecutive quarter. During the second quarter of 2014 there were 51,233 annual reports filed, representing a 2.9 percent increase over 2013Q2. Roughly 87.0 percent of these renewals came from domestic firms, and 13.0 percent were registered by foreign entities.

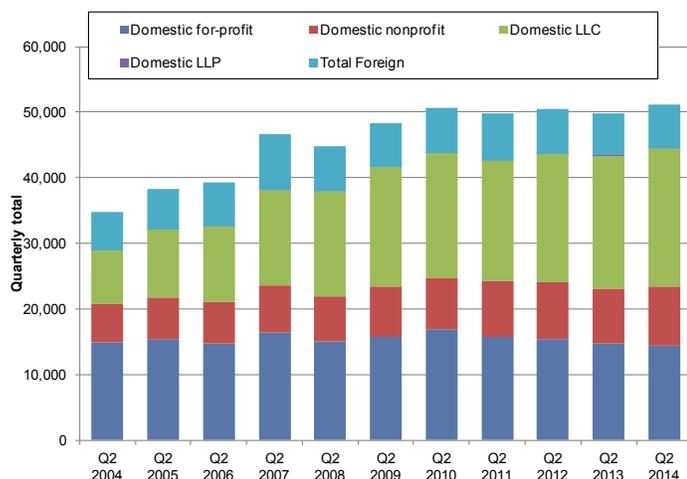
TABLE 1: BUSINESS FILINGS – QUARTERLY

| | Current Quarter (2014 Q2) | % Change (over last quarter) | % Change (year-over-year) |
|--|------------------------------|---------------------------------|------------------------------|
| Business Entity Initial Filings | | | |
| Domestic For-Profit Corporations | 1,212 | -10.3 | -5.2 |
| Domestic Nonprofit Corporations | 711 | 0.0 | 3.9 |
| Domestic LLC | 4,257 | -7.1 | 6.2 |
| Foreign Entities - Total | 1,350 | 9.0 | 6.0 |
| Total Business Entity New Filings | 7,569 | -4.7 | 3.7 |
| Business Entity Annual Reports | | | |
| Domestic For-Profit Corporations | 14,466 | -53.5 | -1.9 |
| Domestic Nonprofit Corporations | 8,880 | -50.0 | 6.7 |
| Domestic LLC | 21,122 | -46.0 | 4.1 |
| Domestic LLP | 71 | -43.2 | 1.4 |
| Foreign Entities - Total | 6,694 | -75.0 | 5.3 |
| Total Business Entity Annual Reports | 51,233 | -55.4 | 2.9 |
| Other Business Filings | | | |
| Dissolutions | 1,522 | -19.8 | 13.9 |
| Initial Trademark Registrations | 178 | 5.3 | -14.0 |
| Initial Assumed Name Registrations | 917 | 2.1 | -1.7 |

Source: TN Business Filing Data

Domestic for-profit corporations showed a year-over-year decline, while nonprofits, LLCs, limited liability partnerships (LLPs), and foreign entities all expanded. Compared to the previous quarter annual reports of all kinds were down significantly, but as with initial filings, this was largely due to seasonality.

Figure 4: Annual Reports



Source: TN Business Filing Data.

Dissolutions

Dissolution filings increased by 13.9 percent in the second quarter of 2014. Specifically, there were 1,522 dissolutions filed in 2014Q2 compared to only 1,336 during the second quarter of 2013.

While it is always better to observe falling dissolutions, increases are not necessarily an indication of a weakening economy as dissolution filings often lag behind the physical business dissolution. Further, dissolutions can be higher as some of the many firms started in good times fail. As a result of the fiscal year schedule used by most Tennessee entities, the majority of dissolutions are not registered with the state until the third quarter of each year regardless of when the business actually dissolved.

Tennessee Economic Indicators

Current economic data show signs of a continued recovery in Tennessee. Year-over-year growth in personal income was 2.9 percent and sales tax revenues have increased by 3.5 percent over 2013Q2. Overall, tax revenue collections were down slightly (0.5 percent,) mainly due to the underperformance of the franchise and excise (F&E) tax, which is 2.8 percent below last year's second quarter collections. Compared to the previous quarter, F&E collections are up a whopping 128.1 percent, but this is simply a byproduct of the corporate tax payment schedule and is not indicative of a positive turnaround in collections.

In the Tennessee labor market, nonfarm employment increased by 2.0 percent or 53.6 thousand jobs compared to June 2013, and manufacturing employment continues its slow upward trend (year-over-year). Preliminary unemployment figures peg Tennessee's unemployment rate at 6.6 percent in June 2014. This compares favorably to the 8.4 percent unemployment rate registered one year ago but is 0.2 percentage points higher than May's unemployment

TABLE 2: TENNESSEE DATA

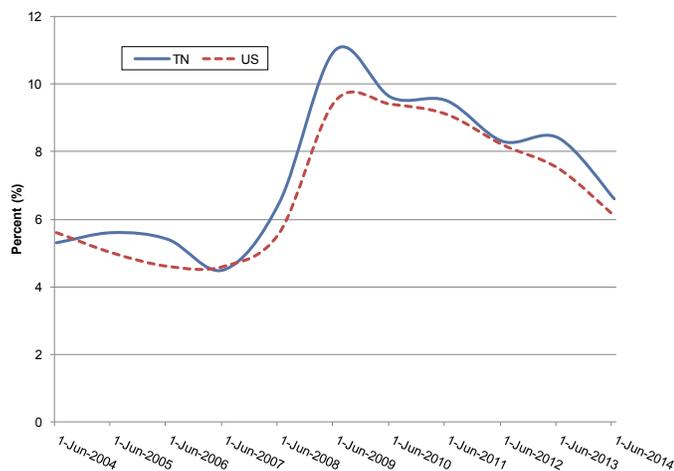
| | Current Period ^a | % Change (over last period) | % Change (year-over-year) |
|--|-----------------------------|--------------------------------|------------------------------|
| Personal income (millions of dollars) [2014Q1] | 260,296 | 0.8 | 2.9 |
| Total tax revenue (millions of dollars) [2014Q2] | 3,590 | 30.1 | -0.5 |
| Sales tax revenue (millions of dollars) [2014Q2] | 1,858 | 1.5 | 3.5 |
| Franchise & excise tax revenue (millions of dollars) [2014Q2] | 835 | 128.1 | -2.8 |
| Total nonfarm employment (in thousands) - monthly monthly [2014-June] | 2,799 | -0.1 | 2.0 |
| Manufacturing employment (in thousands) - monthly monthly [2014-June] | 323 | -0.1 | 1.4 |
| Mining, logging, & construction employment (in thousands) - monthly monthly [2014-June] | 113 | -2.1 | 4.9 |
| Unemployment Rate (%) | | | |
| June 2014 | May 2014 | | June 2013 |
| Rate | Rate | Change | Rate |
| 6.6 | 6.4 | 0.2 | 8.4 |
| | | | -1.8 |

^a Periods are quarters unless otherwise noted.

Sources in order as metrics appear and dates in parenthesis indicate most recent data available at time of publication: Bureau of Economic Analysis [2014Q1], Tennessee Department of Revenue [2014Q2], Bureau of Labor Statistics [2014-June].

figure. Tennessee’s unemployment rate remains slightly above the U.S. average of 6.1 percent (Figure 5).

Figure 5: Unemployment Rate



Source: Bureau of Labor Statistics.

National Economic Indicators

The national economy continues to recover but hits a snag in 2014Q1. Year-over-year growth in real GDP hit 1.9 percent in the second quarter of 2014, and real GDP grew by 1.0 percent over the previous quarter. U.S. personal income growth accelerated to 3.6 percent, which is slightly faster than in Tennessee. Total nonfarm

employment grew by 1.8 percent in the U.S., which is slightly slower than the employment growth registered in Tennessee.

Light vehicle sales continue to improve and have finally caught up with the pre-recession sales figure of 16.5 million units which prevailed in 2006. The S&P 500 has maintained its upward trend, growing by 3.6 percent since last quarter, and up 18.0 percent over last year. Housing starts are beginning to pick up again, with 1.1 million new houses (annualized rate) recorded in 2014Q2. This is only the second quarter in the last six years to register housing starts in excess of one million units. However, housing starts are still a long way from their pre-recession peak level of 2.1 million units in 2006Q1, a figure they may not reach for many years (Figure 6).

Figure 6: U.S. Housing Starts



Sources: IHS Global Insights

TABLE 3: NATIONAL DATA

| | Current Period ^a | % Change (over last period) | % Change (year-over-year) |
|---|-----------------------------|--------------------------------|------------------------------|
| Personal income (billions of dollars) [2014Q1] | 14,361 | 0.8 | 3.6 |
| Real GDP (2009 billions of dollars) [2014Q2] | 15,974 | 1.0 | 1.9 |
| Consumer price index (1982-84 = 1.00) [2014Q2] | 2.37 | 0.8 | 2.1 |
| Light vehicle sales (millions) [2014Q2] | 16.46 | 5.6 | 6.4 |
| Housing starts (millions) [2014Q2] | 1.05 | 13.1 | 20.5 |
| Federal funds rate (%) [2014Q2] | 0.09 | 25.5 | -21.9 |
| 30-year fixed mortgage rate (%) [2014Q2] | 4.23 | -2.9 | 14.8 |
| S&P 500 stock index [2014Q2] | 1,900 | 3.6 | 18.0 |
| Total nonfarm employment (in thousands) - monthly [2014-June] | 138,780 | 0.2 | 1.8 |

Unemployment Rate (%)

| June 2014 | | May 2014 | | June 2013 | |
|-----------|--|----------|--------|-----------|--------|
| Rate | | Rate | Change | Rate | Change |
| 6.1 | | 6.3 | -0.2 | 7.5 | -1.4 |

^a Periods are quarters unless otherwise noted.

Sources in order as metrics appear and dates in brackets indicate most recent data available at time of publication: Bureau of Economic Analysis [2014Q1], IHS Global Insights [2014Q2], Bureau of Labor Statistics [2014-June].