

November 2003

Update to the

**State of the Black Economy in Tennessee
2002 Report: Economic Trends,
Traits, and Forecasts**

Tennessee Valley Authority
Economic Development
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Introduction

Emerging from its recent downturn, Tennessee's economy is expected to add jobs, increase output, and improve incomes over the remainder of this decade. African-Americans will contribute to the state's economic upturn as consumers through their increasing share of the state's population and purchasing power and as entrepreneurs through the businesses they own and operate. This update to the 2002 report entitled *The State of the Black Economy in Tennessee* briefly considers these contributions by looking at recent growth in African-American population, purchasing power, and per capita income levels in Tennessee and the nation. It then reviews business traits of the state's African-American-owned firms and export opportunities open to them. Finally, it presents economic forecasts for the TVA region, of which Tennessee is a large part, and the nation.

Tennessee's African-American Consumers

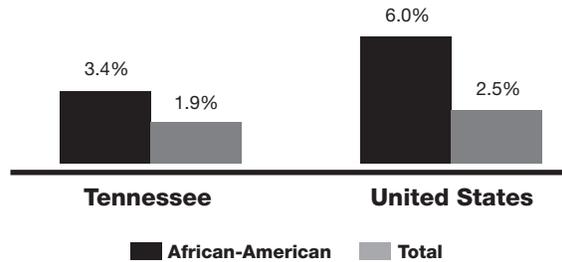
Consumers, as recipients of two-thirds of all items produced, are the backbone of an economy. In Tennessee and the nation, African-Americans make up an increasingly important part of each area's consumer group, both in terms of numbers and buying power.

According to the U.S. Census Bureau, African-Americans will make up an increasingly larger share of the U.S. population over time. That trend is evident in just the short time span between 2000 and 2002 in both Tennessee and the nation. Over that period, Tennessee's African-American population increased 1.5 percent more than the overall population. In the United States, the African-American population grew 3.5 percent more than the general population over the period, as Figure 1 shows.

Those increases in population, along with other factors, have translated into greater African-American buying power and heightened economic importance for this population group. Between 2000 and 2002, African-American purchasing power increased 9.0 percent in Tennessee, while the buying power of the overall population grew by 8.3 percent. In the nation, the disparity was even wider: a 9.7 percent increase for African-Americans versus an 8.6 percent increase for the general population (see Figure 2).

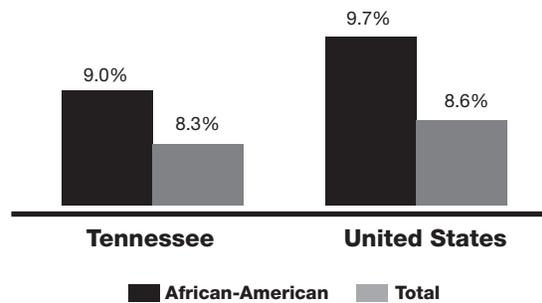
African-Americans moved closer to per capita income parity between 2000 and 2002. In the former year, African-American real (inflation-adjusted) per capita income was \$15,451. Although that number decreased \$10 over the following two years to \$15,441, overall per capita income fell even more, declining \$541. As a result, African-American per capita income increased from 66.2 percent of per capita income for the general population in 2000 to 67.7 percent in 2002 (see Figure 3).

Figure 1
Population Growth by Race
Percent change, 2000-2002



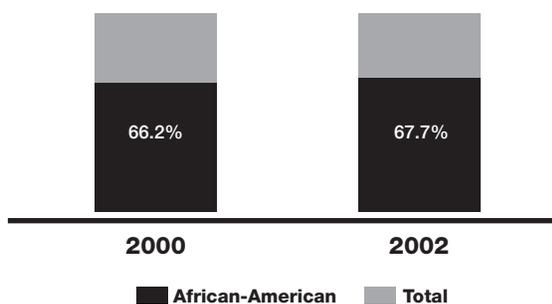
Data Source: U.S. Census Bureau; calculations by TVA

Figure 2
Increase in Purchasing Power by Race
Percent change, 2000-2002



Data Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia; calculations by TVA

Figure 3
African-American Per Capita Income as a Percentage of U.S. Per Capita Income
(2002 dollars)



Data Source: U.S. Census Bureau; calculations by TVA

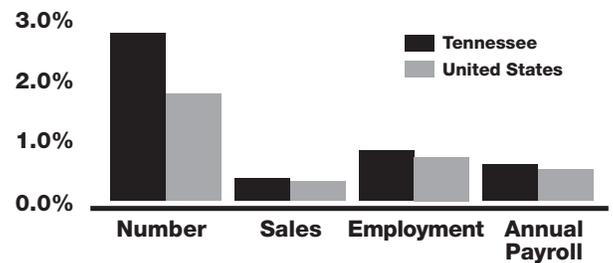
Tennessee's African-American-Owned Businesses

Tennessee's African-American-owned establishments with paid employees added \$1.3 billion in sales and receipts to the state's economy in 1997 (the latest data available) and employed close to 18,000 of Tennessee's residents. In percentage terms, African-American-owned businesses make up a larger share of firms, sales, employment, and payroll in Tennessee than in the U.S. (see Figure 4).

Tennessee's African-American-owned firms have made significant progress in terms of sales and employment growth, but due to a scarcity of capital and other constraints, their growth has lagged behind that of a typical Tennessee firm, as Figure 5 shows. In 1992, the average African-American-owned firm had receipts that were 22.6 percent of the average for a Tennessee business. In 1997, that percentage fell to 13.2 percent. Relative average employment also declined, though to a lesser extent: in 1992, the average African-American-owned firm's employment was 41.0 percent of the average for a Tennessee firm. In 1997, it was 28.7 percent of that average. Wages were a bright spot: in 1997 employees at African-American-owned firms earned 75 cents for every dollar earned by an employee of a firm in general, compared with a figure of 65 cents for every dollar in 1992.

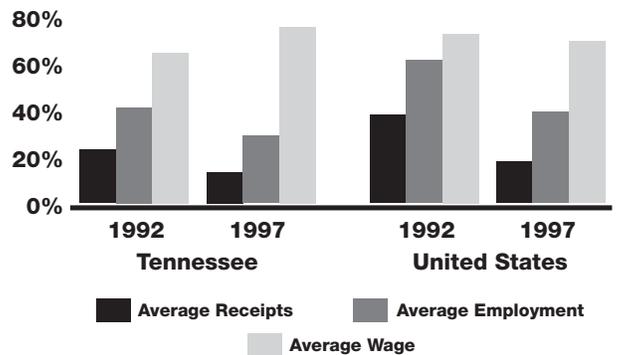
Tennessee is doing a booming business in exports. Between 1999 and 2002, Tennessee exports increased 17.8 percent, while those of the nation grew only 0.1 percent (see Figure 6). Unfortunately, most African-American-owned firms aren't benefiting from this boom market: according to the U.S. Department of Commerce, less than 13 percent of U.S. African-American-owned firms are involved in the export business at any level. In Tennessee, the smaller average size of those firms is probably not the main factor behind the low participation rate since 63 percent of Tennessee's exporters are small businesses (companies with fewer than 100 employees). Bottom line: the export market represents a huge opportunity for Tennessee's African-American firms.

Figure 4
African-American-Owned Firms Relative to All Tennessee and U.S. Firms, 1997
Percent of total businesses, sales, employment, and payroll



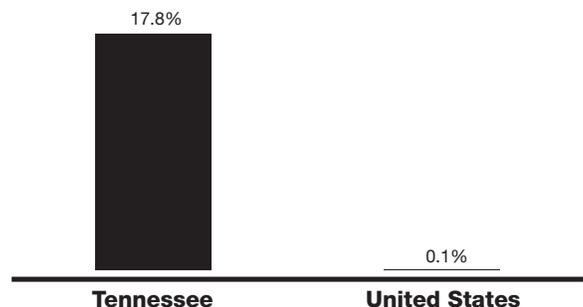
Data Source: U.S. Census Bureau; calculations by TVA

Figure 5
African-American-Owned Firms Relative to All Firms (Firms with Paid Employees)



Source: U.S. Census Bureau; calculations by TVA

Figure 6
Percent Change in Exports, 1999-2002, Tennessee and United States



Source: U.S. Department of Commerce

The Economic Outlook for the Tennessee Valley Authority Region and the Nation

By Juan Gonzalez, TVA Economic Forecasting Manager

The Regional Situation

The Tennessee Valley's economy, which went into a recession in 2000 that was earlier and deeper than that of the U.S., is currently outperforming the nation. The regional gross domestic product growth rate for 2003 is projected to be 3.1 percent, versus the national rate of 2.8 percent. The regional economy was hit harder by the economic slump than the national one due to its greater reliance on manufacturing (about 23 percent of regional gross domestic product is in manufacturing, compared with 16 percent for the nation). With manufacturing's improvement, the Valley's economy has also improved.

The region's industrial mix has strengthened its position when compared with the nation. The region has little industry related to the airline, dot-com, or telecom sectors, which have been the dogs of the recovery. Rather, the area has a large concentration in the automotive and auto parts, construction, and home goods-related industries, which have been doing well.

The industry that has helped the Valley's growth more than any other is its developing auto and light truck industry, which has assumed primary importance in the Valley's economy. The regional industry is in an enviable position at the geographic center of the part of the industry that is gaining market share. The Big Three automakers (GM, Ford, and Chrysler) are losing share to foreign nameplate producers. Toyota, for instance, has now passed Chrysler for the number-three slot. Although the Big Three will retain the title for light trucks, foreign nameplate producers are cutting into this market. Whereas only a few years ago the Big Three were the major players in the segment, foreign nameplate producers are making inroads

into it via new investments in light truck assembly plants, mostly in and around the Valley.

Both the Saturn and Nissan assembly plants near Nashville have seen strong sales increases as they have added new models to their production lines. Nissan has also just recently opened an assembly plant close to Jackson, Mississippi, supplied to an extent by its parts plant in Tennessee. Successful new plants in areas surrounding the Valley—such as the new Honda minivan plant in Lincoln, Alabama, which opened in the fall of 2001 and is already doubling capacity—have also helped the Valley's auto parts suppliers.

What had been missing from the Valley equation for stronger growth was renewed business investment that would lift the region's machinery and other capital equipment-related manufacturing. The recent growth in business investment, which is expected to continue, should propel the region's manufacturing and overall economy to notably faster-than-national growth next year. Regional gross domestic product growth is forecast to achieve a 5.7 percent rate in 2004, exceeding the nation's expected growth rate of 4.2 percent. After the boost from the resurgence of the manufacturing sector over the next couple of years moderates toward trend growth, the region's growth is expected to more closely follow national growth, which is expected to continue at a robust pace.

The National Situation

The signs of a marked acceleration in U.S. economic growth are now unmistakable. Although economic growth in general continued to be moderate, the recovery gained momentum over the summer. Demand picked up in the spring, and production began to respond over

the summer. Spending was strong in the summer quarter, and it appears to have continued the pace in September. All indicators have pointed to an improving manufacturing sector, and factory activity has picked up considerably since April.

The recovery that had been led by consumer spending has turned the corner and become broad-based. Demand had previously been met through productivity increases while businesses cut costs through layoffs and a general lack of investment. Business investment is now seeing sturdy growth and exports have generally improved, adding to overall demand.

The jobs picture, which has been the main missing piece for a broad-based recovery, also seems to be stabilizing. Layoff activity is abating, and data on payroll employment and continuing claims for unemployment insurance are signaling that more new jobs are being created as well. To paraphrase Economy.com, a major national forecast services company, Bob has been doing the job of three people but Bob is getting tired. Renewed job growth seems to be on the horizon.

Although there is always the chance that events, particularly noneconomic ones such as terrorist

activity, will derail the momentum gained over the summer, the most likely scenario is for strengthening economic growth through the rest of 2003 and vigorous growth in 2004. National gross domestic product (GDP), the sum dollar value of all goods and services produced in the U.S., is expected to rise at an accelerating rate, from a 2.8 percent rate of growth in 2003 to a 4.2 percent rate in 2004.

Given the increases in productivity that have occurred, the evidence is rising that the level of GDP that the nation can sustain for any given employment level is higher than previously thought. Therefore, GDP growth can continue to rise at a higher pace. Also, Europe and most of the rest of the world are behind the U.S. in terms of recovery, so world demand is about a year away from accelerating and adding impetus to the U.S. economy. Thus, national growth is expected to continue at a robust pace through the next couple of years.

The Tennessee economy is likely to be in the forefront of that growth, and African-Americans will be active and successful participants in the recovery through their roles as business owners and consumers.

One Source. Seven States.

TVA is the single source for everything businesses and industries need to know about locating or expanding their operations in the Tennessee Valley region.

For more than 70 years, TVA has been working to help generate economic prosperity in the Tennessee Valley. We do this by partnering with public and private organizations to attract a diverse set of major industries that have fostered a highly talented workforce. TVA can assist companies with site selection, relocation, development, recruitment, and information. Our economic development professionals will stay involved and offer assistance at every step in the development process. TVA can offer an integrated package of incentives tailored to meet any business's needs.

As a key component of its economic development agenda, TVA actively supports and encourages growth and innovation among all types of small businesses, especially minority- and women-owned firms. TVA fosters strategic partnerships and business support networks, and it offers financial and business assistance as well as an Online Business Resource Center featuring comprehensive tools and business resources. For more information, go to www.tva.com/econdev/obr.