

5 WAYS TO MEASURE PROSPERITY IN TENNESSEE

What Common Economic Indicators Do and Don't Tell Us

KEY TAKEAWAYS

- Economic growth is important for [thriving communities](#) and a prosperous Tennessee.
- There are many ways to measure growth and prosperity, and no single metric tells the whole story. It takes a combination of economic indicators to get the full picture.
- The five metrics discussed here measure different aspects of the economy, and each has pros and cons.

Tennessee's economy frequently tops the list of concerns for politicians and voters alike. However, different metrics may paint very different pictures of the health of our economy and the prosperity of Tennesseans.

Many Ways to Measure the Economy

There are many ways to measure growth and prosperity, and no single metric tells the whole story. For example, Tennessee's record low unemployment rate in 2019 was below the national average. However, the share of working-age Tennesseans in the labor force was also consistently below the national average – in part, due to poorer health and lower levels of [education](#). (1)

Focusing on just one metric could cause us to overlook information with major implications for Tennessee's long-term prosperity and the financial security of its citizens.

The 5 Metrics We'll Examine

This report focuses on five common metrics that policymakers and the media use to evaluate Tennessee's economy. They include (click each link for a deeper dive):

- [Unemployment](#)
- [Labor force participation](#)
- [Gross domestic product](#)
- [Personal and household income](#)
- [Poverty](#)

3 Key Aspects of Each Metric

As we look at each metric, we'll examine what (if anything) it tells us about:

- 1) The overall state of Tennessee's economy.
- 2) Tennessee's workforce and its productivity.
- 3) The economic security of individual Tennesseans and their families.

Types of Economic Indicators

Economists often categorize metrics based whether they signal changes in the overall economy before, during, or after the fact.

- **Leading Indicators** usually change ahead of the overall economy and help predict future economic shifts (although those predictions do not always come true). Retail sales and the stock market are examples of leading indicators.
- **Coincident Indicators** change at about the same time as the overall economy and describe the current state of the economy. Personal income is an example of a coincident indicator.
- **Lagging Indicators** usually begin to change after the overall economy and can help confirm predictions about economic patterns. Unemployment rates and price inflation are examples of lagging indicators.

What Does “The Economy” Even Mean?

In the simplest terms, the economy consists of people exchanging items of value. For example, an employer gives you money in exchange for your work. You give other people money in exchange for goods and services like food, housing, and transportation. Businesses use the money they get from you to pay their employees, get more customers, create new/better products, and hire more people. The economy is, in short, a cycle. (2)

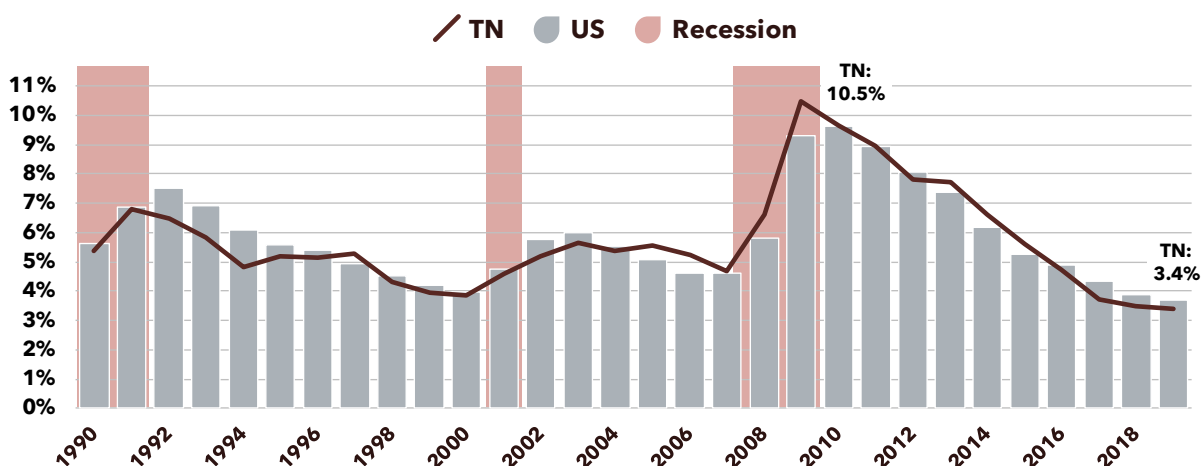
In practice, the economy is much more complicated. Competition, investment, regulations, taxes, trade, population trends, technological innovations, and many other factors affect how and to what extent people engage in economic activity.

The Highlights

Below we provide the key takeaways of our analysis of each metric.

Figure 1. Tennessee’s Unemployment Rate Reached an Historic Low in 2019

Annual Unemployment Rate (1990-2019)



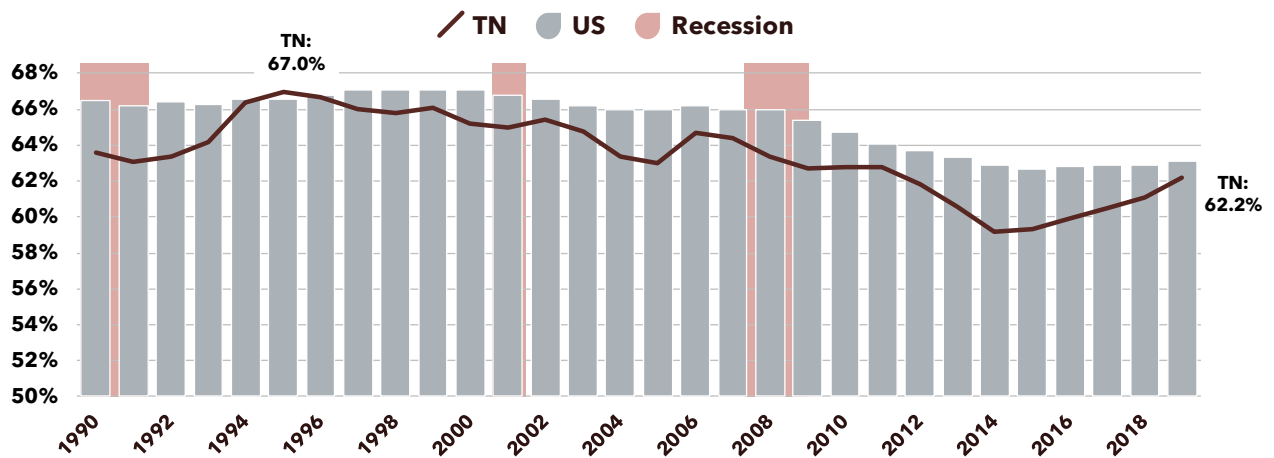
Source: U.S. Bureau of Labor Statistics via the Federal Reserve Bank of St. Louis (3) (4)

Unemployment

- The [unemployment rate](#) measures the percent of the labor force without a job. It is one of the most common metrics used to describe the economy and labor market.
- Tennessee’s unemployment levels reached historic lows in 2019 and were better than the national average (**Figure 1**).
- The unemployment rate can serve as a proxy for general economic conditions.
- It does not, however, tell us about the size, productivity, or participation of Tennessee’s potential pool of workers and can obscure disparities between groups within an area.

Figure 2. The Gap Between Tennessee’s Labor Force Participation and the National Average Has Narrowed in Recent Years

Labor Force Participation Rate (1990-2019)



Source: U.S. Bureau of Labor Statistics via Federal Reserve Bank of St. Louis (5) (6)

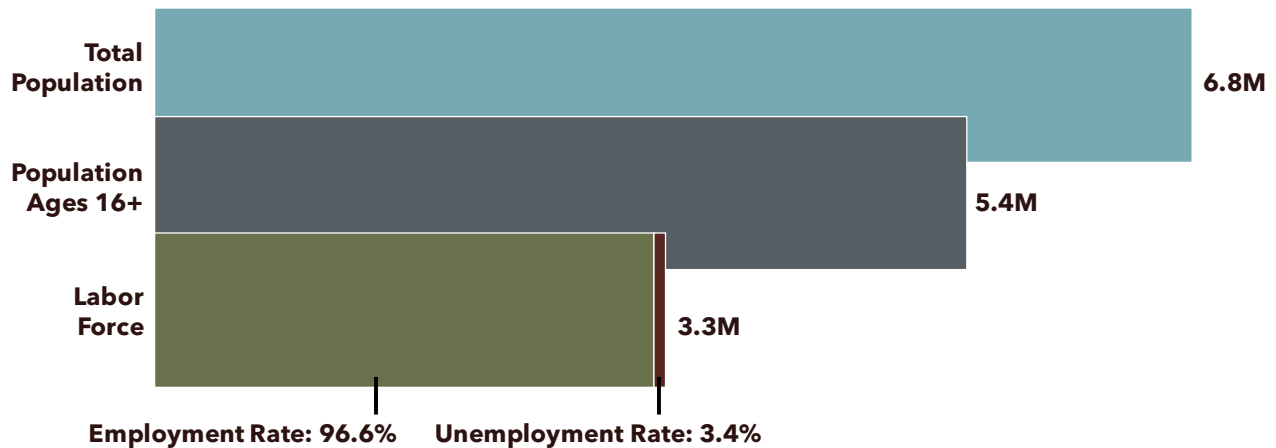
Labor Force Participation

- The [labor force participation rate](#) measures the share of a population age 16 and older that is working or actively looking for work. It is a common way to measure the health of the labor market.
- Tennessee’s labor force participation rate is consistently lower than the national average, but the gap has narrowed in recent years as the state’s rate has grown (**Figure 2**).
- The labor force participation sheds light on people’s willingness to work at any given time but show why some people aren’t working or seeking work. It can also obscure disparities among groups within an area.
- Labor force participation can fluctuate due to trends that are not necessarily tied to the health or distress of the broader economy.

Figure 3 displays the relationship between Tennessee’s population, labor force participation, and employment figures.

Figure 3. Tennessee’s Labor Force Does Not Include All Adults

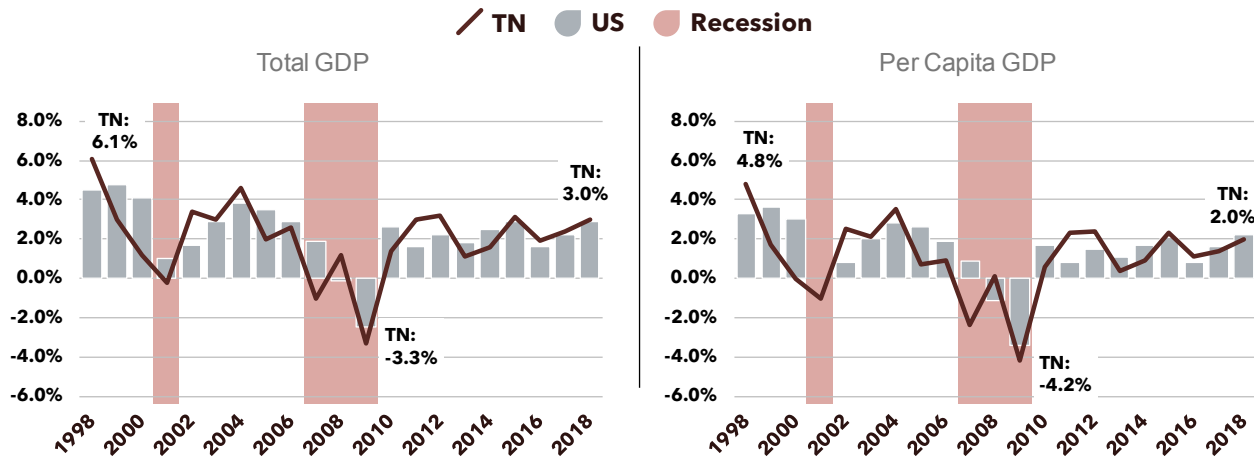
Tennessee Employment Statistics (2019)



Source: U.S. Bureau of Labor Statistics (7) and the U.S. Census Bureau (8)

Figure 4. Tennessee’s Total GDP Grew Faster than Most Other States’ After the Great Recession

Annual Change in Inflation-Adjusted Gross Domestic Product (1988-2018)



Note: Data are based on real GDP in chained 2012 dollars.
Source: Bureau of Economic Analysis (9)

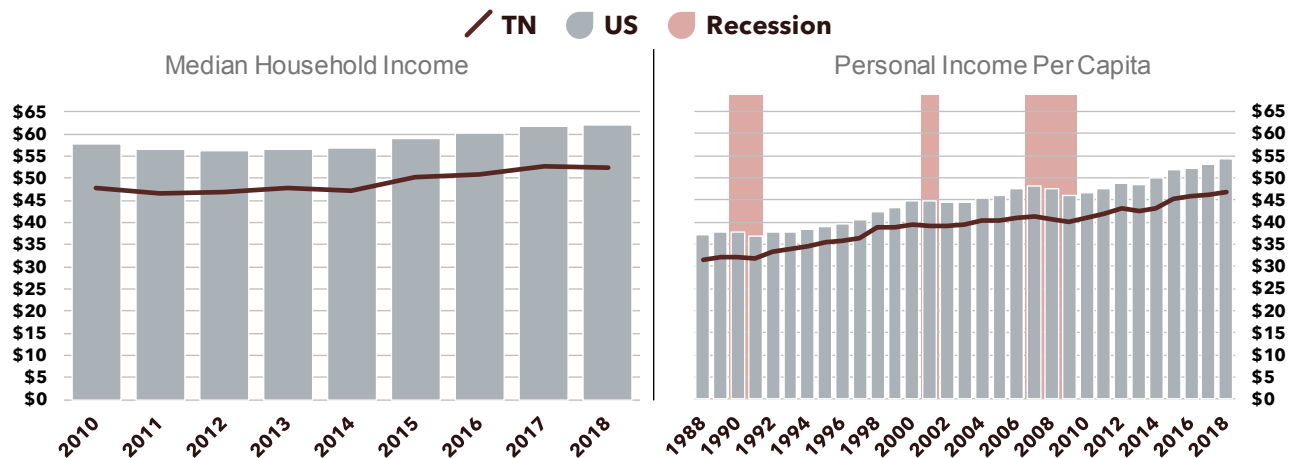
Gross Domestic Product

- Gross domestic product (GDP) estimates the total dollar value of all goods and services produced in an economy during a specific period.
- Tennessee’s GDP grew faster than most other states’ after the Great Recession but slower than during past recovery periods (**Figure 4**).

- GDP is calculated quarterly and provides a standardized way to track the overall size of an economy over time and across areas.
- While GDP provides valuable information about goods and services, it does not capture many important aspects of and contributions to economic well-being.

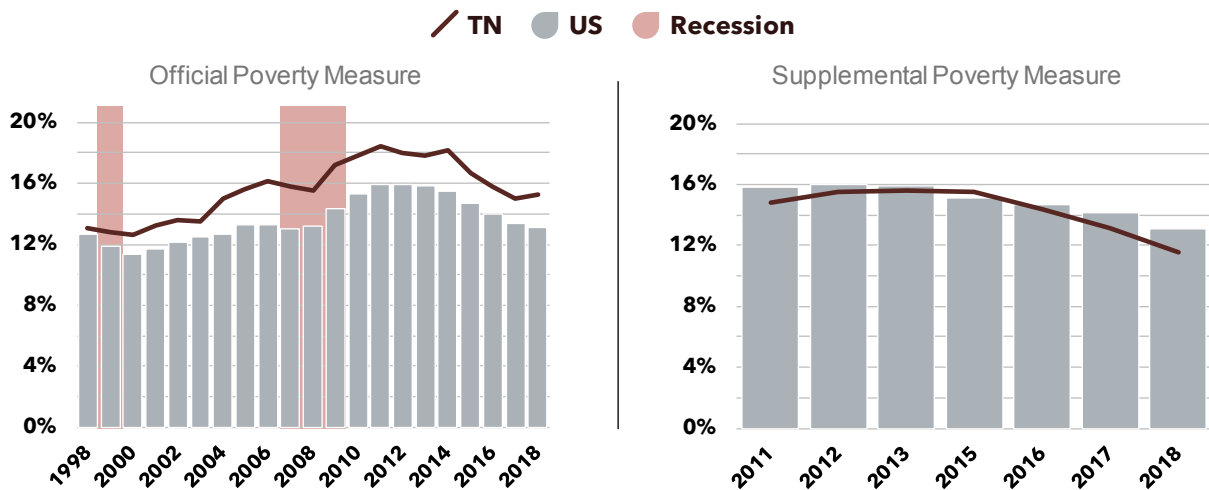
Figure 5. Tennesseans’ Incomes Reached Historic Highs in 2018 but Remained Below National Averages

Inflation-Adjusted Income (in thousands)



Note: Data are in 2018 CPI-U-RS adjusted dollars
 Source: U.S. Census Bureau and Bureau of Economic Analysis (10) (11) (12)

Figure 6. Tennessee’s Poverty Rates Have Trended Downward in Recent Years



Notes: State-level supplemental poverty measure rates were not published for 2014. The supplemental poverty measure represents a 3-year average (e.g. 2018 represents an average over 2016-2018).
 Source: U.S. Census Bureau (13) (14) (15)

Personal & Household Income

- [Household income and personal income](#) gauge the resources that Tennesseans have from wages and some (but not all) other sources of income.
- Measures of Tennesseans' income reached historic highs in 2018 but remained below the national average (**Figure 5**).
- Both metrics provide important information about many of the financial resources available to most Tennessee families, but topline figures can obscure disparities among groups.
- Neither measure is a comprehensive assessment of economic well-being because they do not account for wealth or some types of earnings and public assistance.

Poverty

- [Poverty rates](#) estimate the share of people with economic resources below certain thresholds for meeting basic needs. The official poverty measure is widely seen as flawed but is the most often used.
- In Tennessee, the official poverty measure is above the national average while the supplemental poverty measure is below the national average. Both rates have trended downward in recent years (**Figure 6**).
- Poverty data offer standard metrics of how many people find it hard to meet their needs across time periods, areas and demographics. However, topline rates can obscure disparities among groups.
- The official poverty rate does not count some resources that may help a family to meet basic needs and does not necessarily reflect those needs' current costs or how they vary across and within states.

Parting Words

There are many reasons for policymakers and citizens to care what these five metrics do and don't say about Tennessee's economy. For example, the economy affects [our state budget](#) – the foundation for state policymakers' goals for Tennessee. We also know that our prosperity and the health of our citizens have a [complex and mutually influential relationship](#). For instance, [Tennessee's high rates of chronic disease affect our workforce](#) and [impose a significant cost on our economy](#). Research also shows that [people with more income, wealth, education, and social standing tend to live longer, healthier lives](#).

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Contributing Staff

Mandy Pellegrin

Policy Director

Courtnee Melton, PhD

Policy Analyst

Sami Bhidya

Policy Intern

Laura Berlind

Executive Director

Brian Straessle

Director of External Affairs

BStraessle@SycamoreInstituteTN.org

The series of policy briefs summarized here cites each of the sources listed below at least once. For specific citations, please see the full briefs on [unemployment](#), [labor force participation](#), [GDP](#), [income](#), and [poverty](#).

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