Tennessee Business Leaders Survey

Summer 2021 Results

THE UNIVERSITY OF TENNESSEE KNOXVILLE

BOYD CENTER FOR BUSINESS AND ECONOMIC RESEARCH

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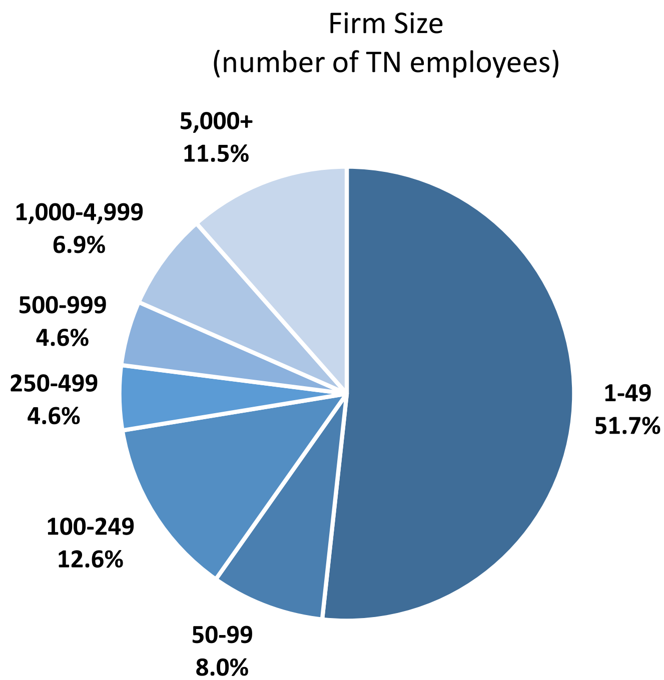
Introduction

Many business leaders from across Tennessee responded to the Boyd Center's semi-annual Business Leaders Survey, providing a unique perspective on Tennessee and the nation's economy. Responses were provided between August 9 and August 23, 2021. Respondents, nearly 60 percent of whom are CEOs or company owners, represent a broad sample of Tennessee's businesses, both by size and by industry. Responses were received from leaders across all industries, with about one-fifth from services, and one-sixth from manufacturing and firms ranging in size from less than 50 to over 5000 employees (see Figure 1). Business leaders have somewhat divergent views on economic issues, likely because they come from different industries and parts of the state; we summarize key themes that emerge.

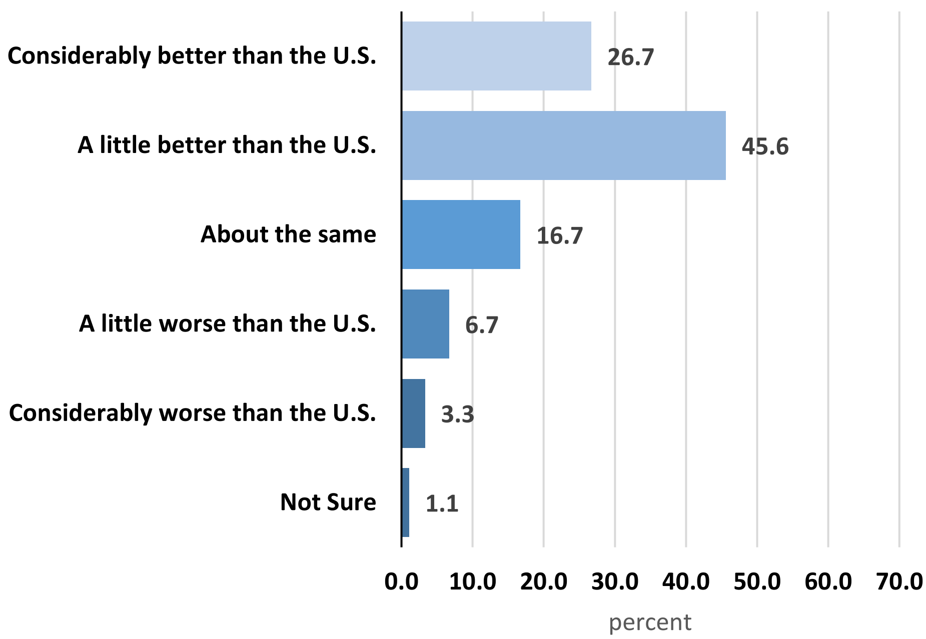
Figure 1: Respondents to the Boyd Center Business Leaders' Survey represent a broad sample of Tennessee businesses.



U.S. and Tennessee Economy

Interestingly, 40 percent see the U.S. economy as better than it was prior to COVID-19 and only 10 percent see it considerably worse. Leaders are somewhat optimistic that things will improve, with two-thirds saying the economy will be better over the next year and only a little over one-fifth believing the economy will worsen. About three-fourths of respondents expect Tennessee's economy to improve more rapidly than the national economy over the next year, with only 10 percent seeing the U.S. doing better (see Figure 2). The perspective on Tennessee's relative economic strength is very similar to that expressed in previous surveys. Good business investment and strong government leadership are the primary reasons that Tennessee will grow faster than the nation. Separately, the vast majority (73 percent) believe Tennessee is headed in the right direction, and 69 percent see Tennessee's state government doing an excellent or good job of creating a solid business environment, compared with only 16 percent seeing the state doing poorly. These demonstrate a consistent positive perspective on the state. Respondents were permitted to identify up to three areas where Tennessee could improve its business climate. Enhanced workforce development (77 percent) and technology infrastructure (67 percent) strongly lead the responses. Transportation infrastructure (40 percent) and economic development incentives are also listed by a large share of respondents (38 percent). Business income tax reform was listed by only about one in seven. East Tennesseans were most likely to see Tennessee as headed in the right direction and were more likely to say government leadership was an important reason.

Figure 2: Almost three-fourths of Tennessee business leaders expect the Tennessee economy to be better than the national economy over the next 12 months.



Respondents were asked their perspective on inflation, an issue receiving considerable attention around the country. Nearly one-half believe the inflation is here to stay, much greater than those who view it as transitory (see Figure 3). A considerable share is uncertain, consistent with the uncertainty seen broadly across the country. Almost half of companies expect to reflect higher inflation in wages, though one-third are uncertain at this point (see Figure 4). Only one in five clearly do not expect to include the higher inflation in wages. Almost 40 percent expect to increase prices in response to higher inflation. Few expect to reduce employment, but other options, such as business reorganization or some type of automation are expected by many (see Figure 5).

Two-thirds of respondents do not believe that reducing fiscal and monetary stimulus will lead to a recession, with only 14 percent believe that it will. Business leaders have very different views about when interest rates should start rising, with about one-half believing by the end of 2022 and one-third believing sometime after 2023 or some other time (see Figure 6).

Figure 3: Many more see inflation as here to stay versus those who think it is transitory.

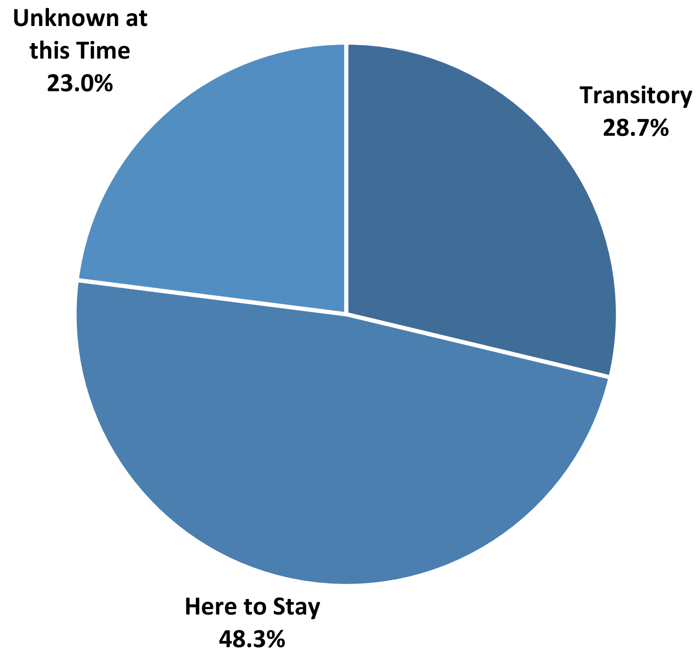


Figure 4: Nearly half expect to reflect higher inflation in wages, while only one-fifth do not.

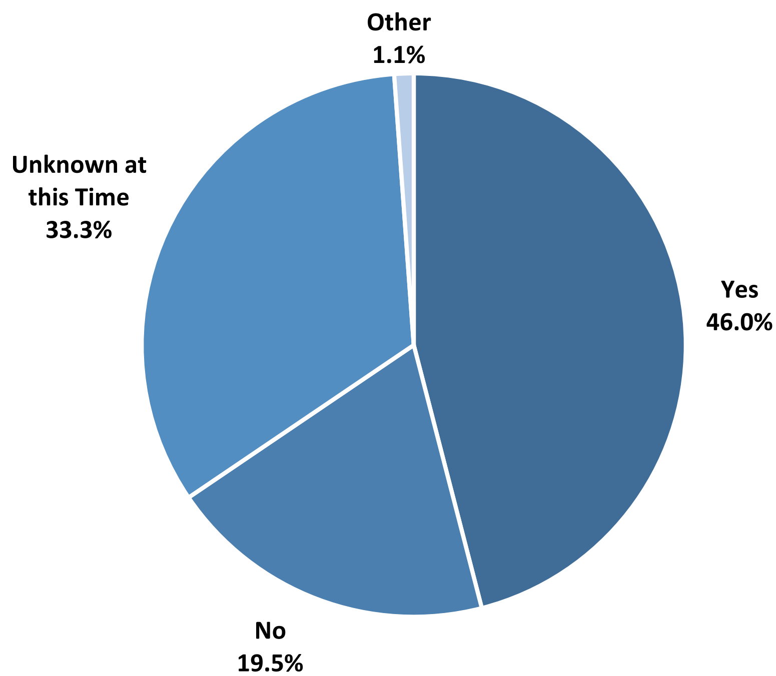


Figure 5: Many companies expect to pass some rising costs into higher prices, but some will respond in other ways as well.

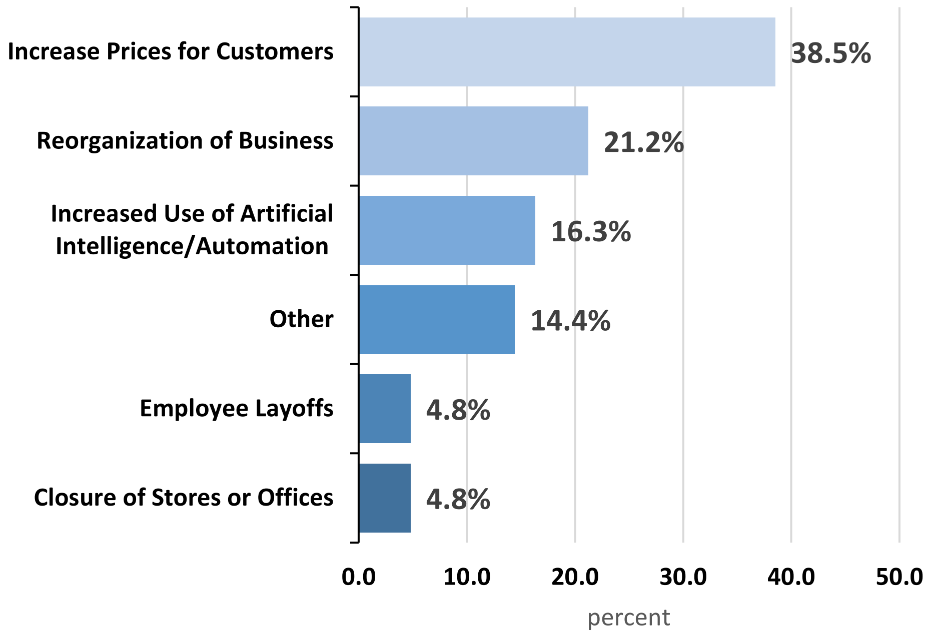
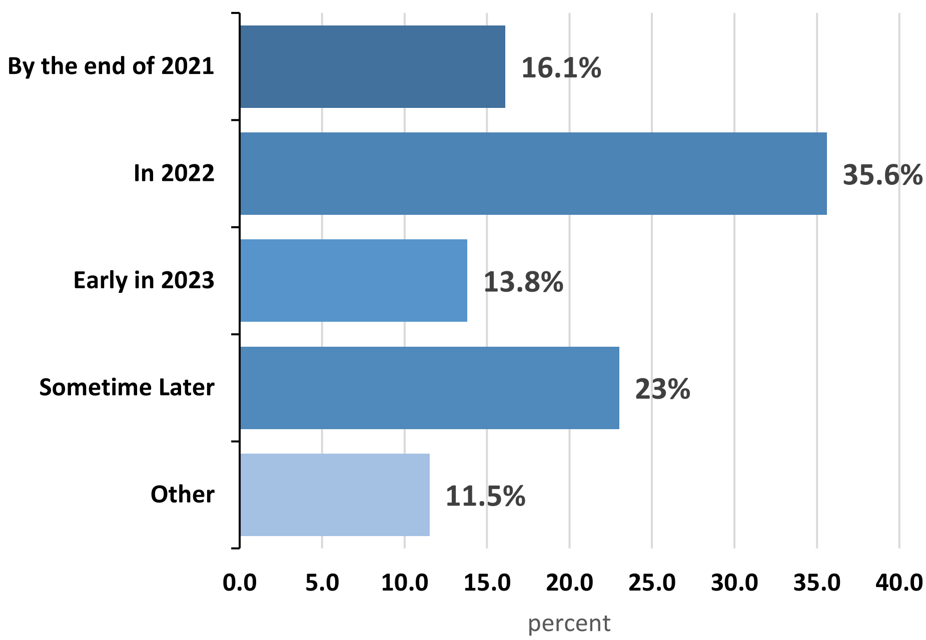


Figure 6: Many different views on when interest rates should rise.



Individual Company Performance

Business leaders are a little less optimistic about the performance of their industry than the overall state's economy over the next 12 months, with around 60 percent or less expecting their company to perform the same or modestly better than the overall economy over the next year, whether measured by revenue, profits, employment, or investment. About 10 percent see their company's employment falling this year. Stronger market demand is the primary hope by far for expecting greater profitability.

Respondents were asked about the challenges that their businesses face and were permitted to identify up to three. Adverse economic conditions, while still listed by a number of respondents (39 percent), is down notably from the 80 percent listed last year and is also lower than during the winter. Human resources and government regulation were each listed by a little less than one-half of respondents. Rising supplier costs was listed by more respondents this time, with a little more than one-fourth mentioning it.

Labor Force

Respondents were asked several questions about Tennessee's labor force. More than seven out of ten respondents reported that there is an insufficient supply of appropriately trained workers, a much higher percent than in earlier surveys. East, middle and west Tennesseans had very similar responses to this question, unlike previous surveys where middle Tennessee identified it as less of a problem. Other than availability, work ethic, followed by technical skills and initiative were listed as big labor supply concerns. Fifty-three percent indicated retaining workers is a challenge. Leaders had very different perspectives on what factors make it difficult to retain workers. Housing related issues (both the cost and availability) and child care issues (both availability and cost) were the predominant reasons why retaining workers is challenging. Quality of local schools (20.0 percent) and substance abuse issues (14.9 percent) were also raised by a number of leaders. Availability and cost of housing and child care were much more likely to be listed by middle Tennessee leaders.