



Tennessee Business Leaders Survey

Winter 2022 Results



THE UNIVERSITY OF
TENNESSEE
KNOXVILLE

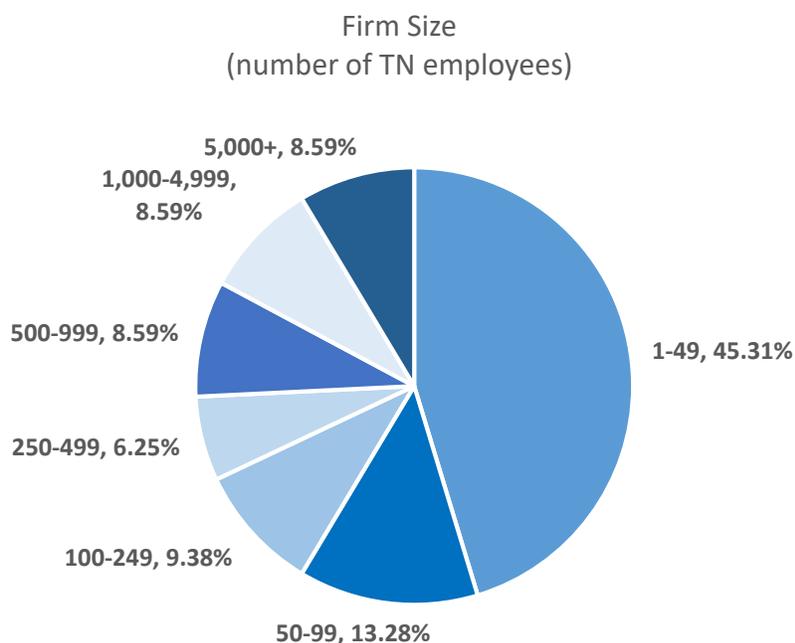
BOYD CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

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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 economies. Responses were provided between January 10 and January 31, 2022. 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 the services sector and one-eighth each from the manufacturing and finance sectors 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.

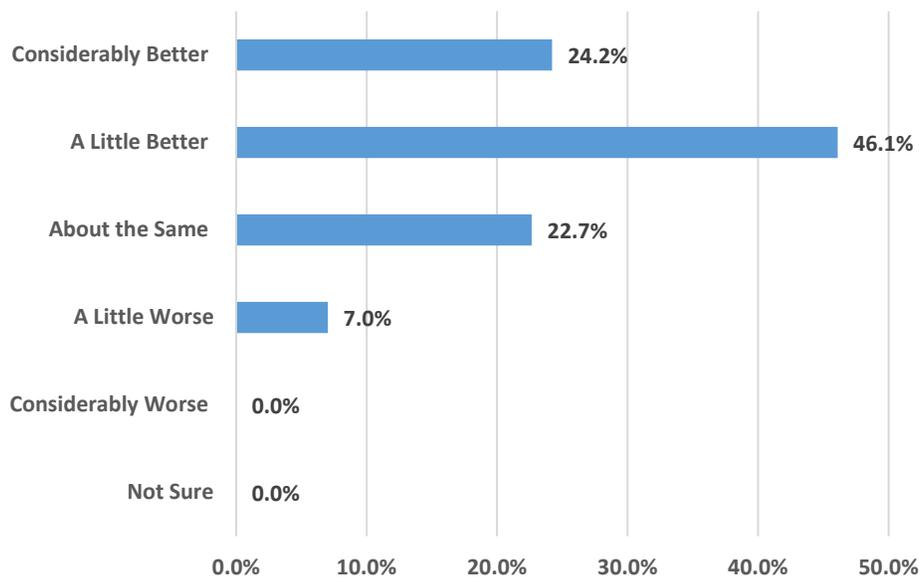


U.S. and Tennessee Economy

Business leaders are somewhat more likely to think the U.S. economy is worse right now than over the last year (44 percent) compared with those that think it is better (38 percent). The Omicron COVID-19 variant may be a reason for thinking the U.S. economy is not better, but percentages are similar of people thinking that 2022 as a whole will be worse than in 2021. East and West Tennessee respondents were much more positive about the U.S. economy than those from the middle of the state. About seven-tenths of respondents expect Tennessee’s economy to be better than the national economy over the next year, with only 7 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. Again, East Tennessee respondents were even more positive on the state’s relative strength.

Good business investment and strong government leadership are the primary reasons that Tennessee will grow faster than the nation. Separately, the vast majority (75 percent) believe Tennessee is headed in the right direction, and 67 percent see Tennessee’s state government doing an excellent or good job of creating a solid business environment, compared with only 13 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 (66 percent) and technology infrastructure (52 percent) strongly lead the responses. Physical infrastructure (42 percent) and economic development incentives (30 percent) are also listed by a notable share of respondents. Sales tax reform was listed by only about one in seven and business tax reform by less than one in 10. 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: Seventy percent 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 and likely very important to respondents’ views on the overall economy. More than one-half believe the inflation is here to stay, much greater than those who view it as transitory (see Figure 3) and more than during the Fall 2021 survey. Middle Tennessee respondents were more likely to say that inflation is here to stay, perhaps explaining why they are somewhat less positive about the economy. One-half of companies expect to reflect higher inflation in wages, though thirty percent are uncertain at this point (see Figure 4). Only one in seven clearly do not expect to include the higher inflation in wages. Again, the percent believing the inflation will be reflected in higher wages has risen since the Fall 2021 survey. East Tennessee respondents were more likely to say that they expect wages to rise because of inflation. More than 40 percent of all respondents expect to increase prices for their consumers in response to higher inflation (more than during the Fall 2021 survey), though the percent is much lower in West Tennessee. Few expect to reduce employment, but other options, such as business reorganization or some type of automation are expected by many (see Figure 5).

Sixty percent of respondents do not believe that reducing fiscal and monetary stimulus will lead to a recession, with only 10 percent believing that it will. About 30 percent are uncertain. Business leaders have very different views about when interest rates should start rising, with about one-third believing during the first half of 2022 and one-fourth believing rates will be increased during the second half of 2022. One-fourth believe that the increase should be later in 2023 or beyond (see Figure 6).

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

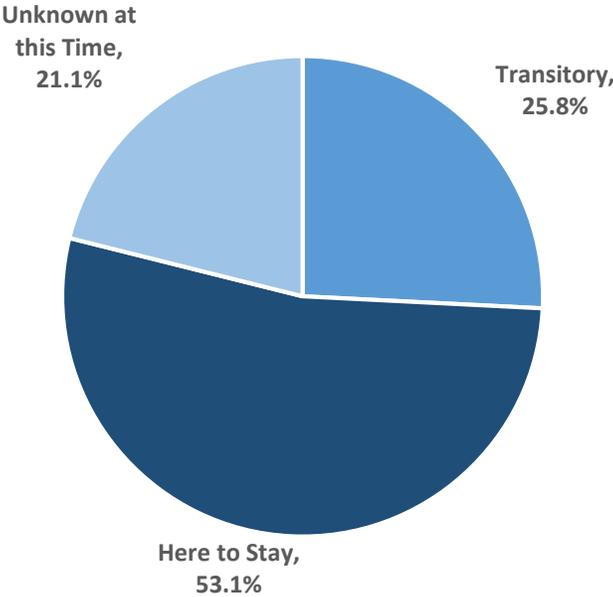


Figure 4: Nearly half expect to reflect higher inflation in wages, while only one-fifth do not.

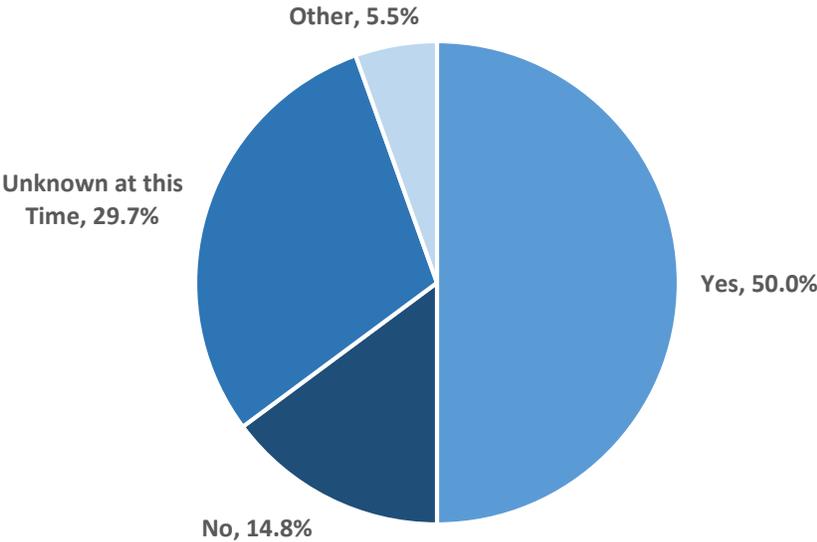


Figure 5: Many companies expect to pass some rising costs into higher prices, but some will respond in other ways as well.

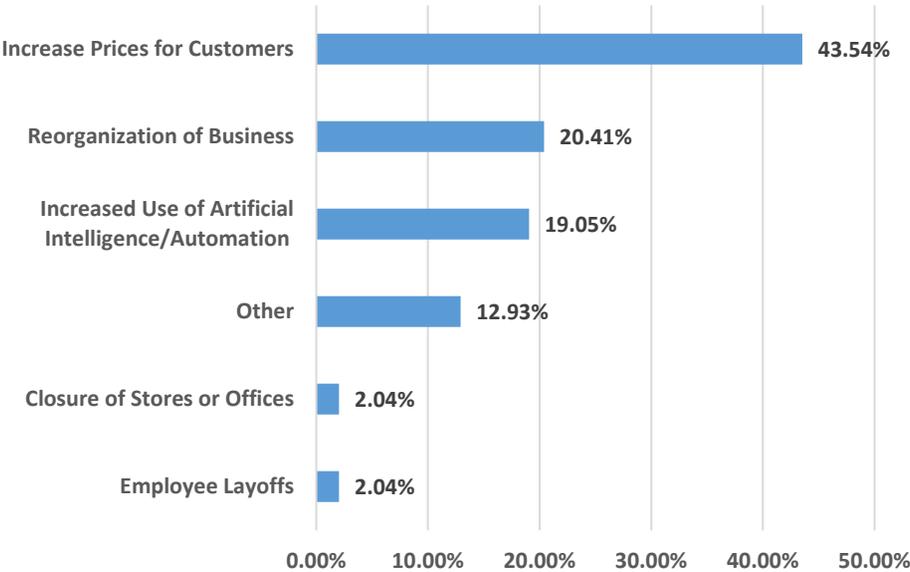
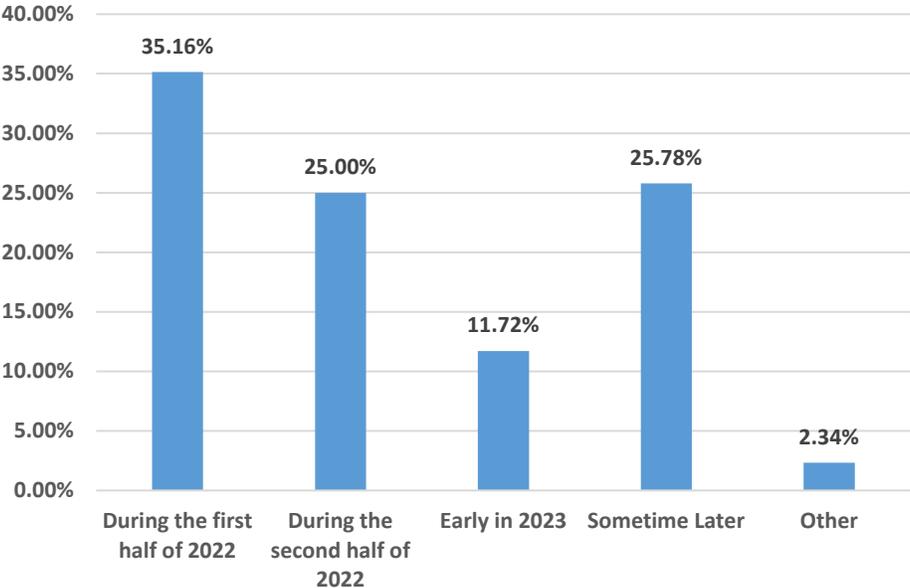


Figure 6: Many different views on when interest rates should rise.



Individual Company Performance

More than one-half of business leaders think the performance of their industry will be better over the next 12 months, with only 9 percent expecting their company to perform worse. Respondents were a little more likely to see better company revenue growth over the next year than higher employment or investment, but the differences are modest. Fewer than 5 percent see their company's employment falling this year. Leaders were much more likely to believe that better profits will come from stronger market demand than other factors, such as cost cutting. 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. Human resources and government regulation continue to be listed by the largest percentage of respondents, followed closely by adverse economic conditions. Rising supplier costs and higher health care costs were each listed as problems by about three-tenths of respondents.

Labor Force

Respondents were asked several questions about Tennessee's labor force. More than 7 out of 10 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, though West Tennessee respondents were slightly more likely to note the problem. More than one-half believe improved training and education is key to more an available labor force, and nearly one-fourth believe a smaller government safety net would help. Other than availability, work ethic, followed by technical skills and initiative were listed as big labor supply concerns. Problems with work ethic were listed by a higher percentage of Middle Tennessee respondents, and lack of technical skills by East Tennessee respondents. The percent indicating that retaining workers is a challenge continues to rise, and is notably higher in West Tennessee. Leaders had very different perspectives on what factors make it difficult to retain workers. Housing related issues (both the cost and availability) followed by 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 (16.3 percent) were also raised by a number of leaders. Cost of housing and child care were much more likely to be listed by Middle Tennessee leaders.