



Tennessee Business Leaders Survey

Summer 2022 Results



THE UNIVERSITY OF
TENNESSEE
KNOXVILLE

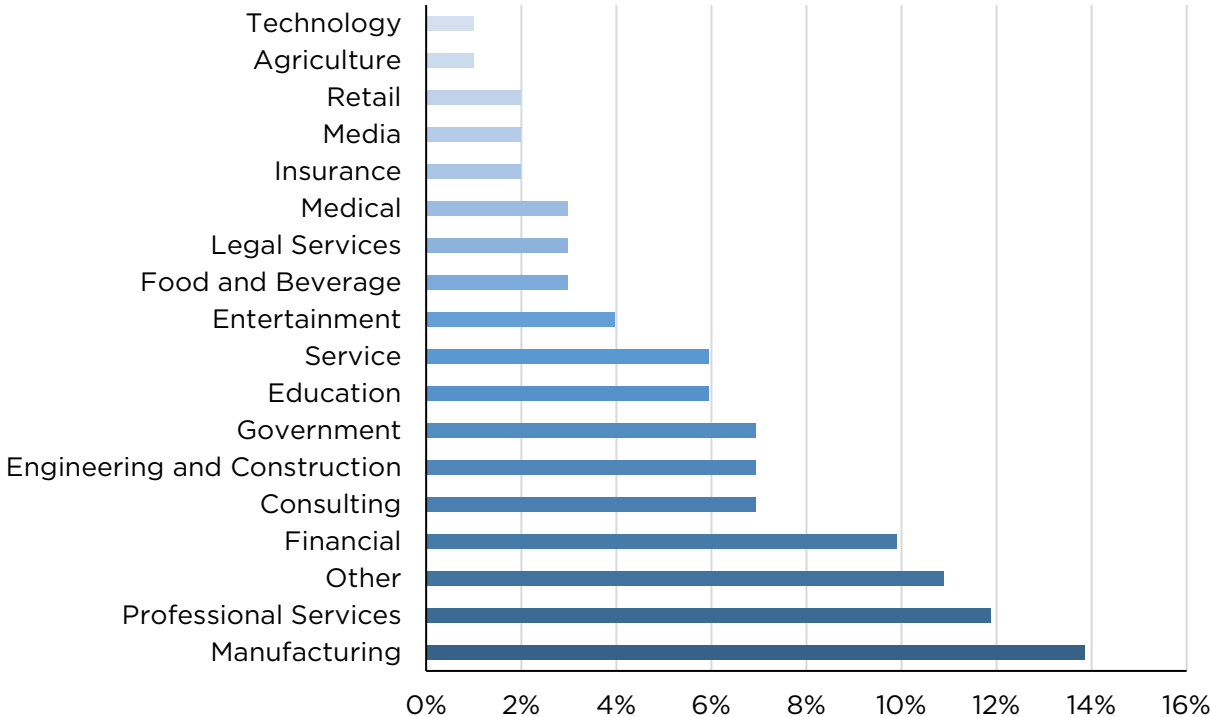
BOYD CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

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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 the Tennessee and U.S. economies. Responses were provided between August 2 and August 21, 2022. Respondents represent a broad sample of Tennessee’s businesses, both by size and by industry. Responses were received from firms ranging in size from less than 50 to over 5,000 employees with representation from leaders across all industries (see Figure 1). Business leaders have somewhat divergent views on economic issues, likely because they come from different industries and parts of the state. In this brief report, we summarize key themes that emerge from the survey data.

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

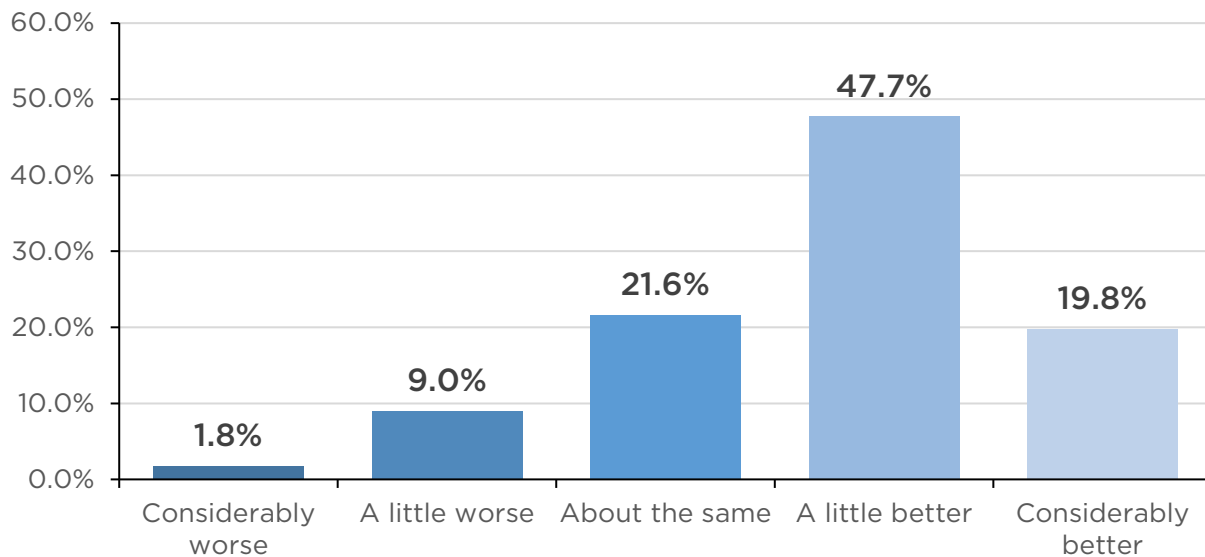


U.S. and Tennessee Economy

Business leaders are more likely to think the U.S. economy is worse right now than over the last year (51.8 percent) compared with those that think it is better (34.8 percent). Leaders do not believe that things will improve, with over half saying the economy will worsen over the next year and only a little over one-quarter believing the economy will improve. However, about two-thirds of respondents expect Tennessee’s economy to improve more rapidly than the national economy over the next year, with only 10.8 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, a majority (69.7 percent) believe Tennessee is headed in the right direction, and 72.5 percent see Tennessee’s state government doing an excellent or good job of creating a solid business environment, compared

with only about 8 percent seeing the state doing poorly. These demonstrate a consistently positive perspective on the state. Respondents were permitted to identify up to three areas where Tennessee could improve its business climate. Enhanced workforce development (65.7 percent) strongly led the responses with technology infrastructure (48.6 percent) and infrastructure development (46.7 percent) listed by a large share of respondents as well. A little less than a quarter of respondents listed business development incentives, while energy infrastructure was listed by 17.1 percent of respondents. West Tennesseans were most likely to see Tennessee as headed in the right direction and were more likely to say business investment was an important reason.

Figure 2: Two-thirds 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. A little over one-third believe that inflation is here to stay, which is slightly greater than those who are uncertain at this time (see Figure 3a). More than half of companies expect to reflect higher inflation in wages, though nearly 30 percent are uncertain at this point (see Figure 3b). Only a small share (11.9 percent) clearly do not expect to include the higher inflation in wages. Many respondents (62.4 percent) expect to increase prices for customers due to the rising costs associated with inflation. Few expect to reduce employment, but other options—such as business reorganization or some type of automation—are expected by many (see Figure 3c).

Business leaders have different views about whether the U.S. economy will fall into a recession this year. More than a half of all respondents believe that there is greater than a 50 percent chance of a recession while only 15.8 percent believe that the chances of a recession are between 0 and 25 percent (see Figure 3d). A majority of respondents (71.3 percent) think that interest rates should stop rising during the second half of 2022 or the first half of 2023. Only 8.9 percent of respondents believe rates should stop rising during the second half of 2023 and about one-fifth believe they should stop rising sometime after 2023 or some other time.

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

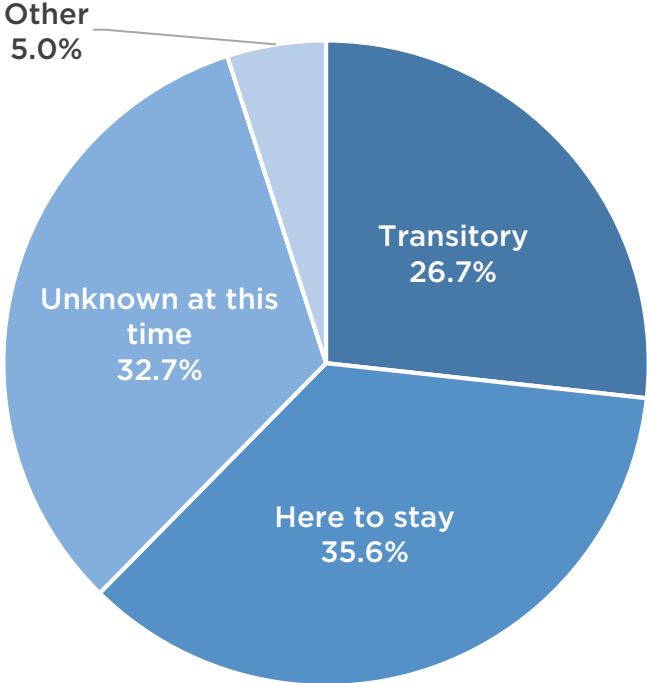


Figure 3b: More than half expect to reflect higher inflation in wages.

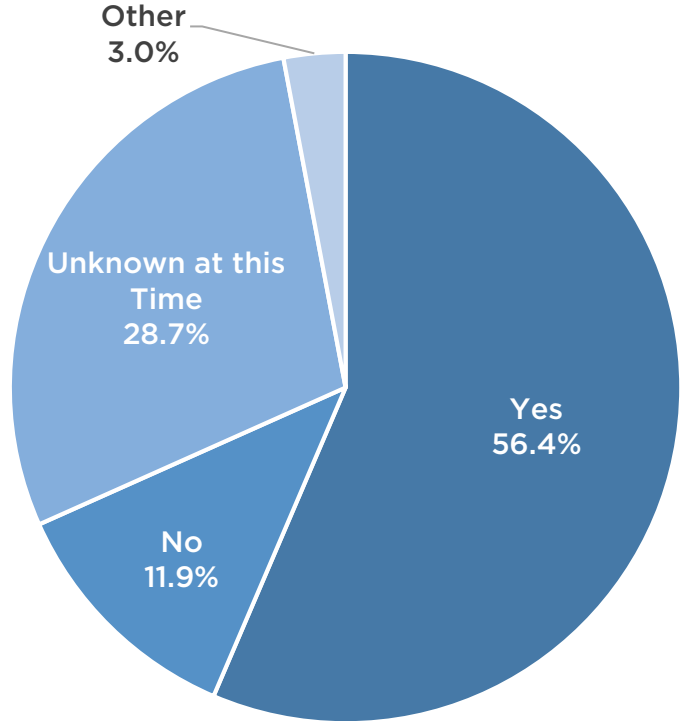


Figure 3c: Many companies expect to pass some rising costs into higher prices, but some will respond in other ways as well.

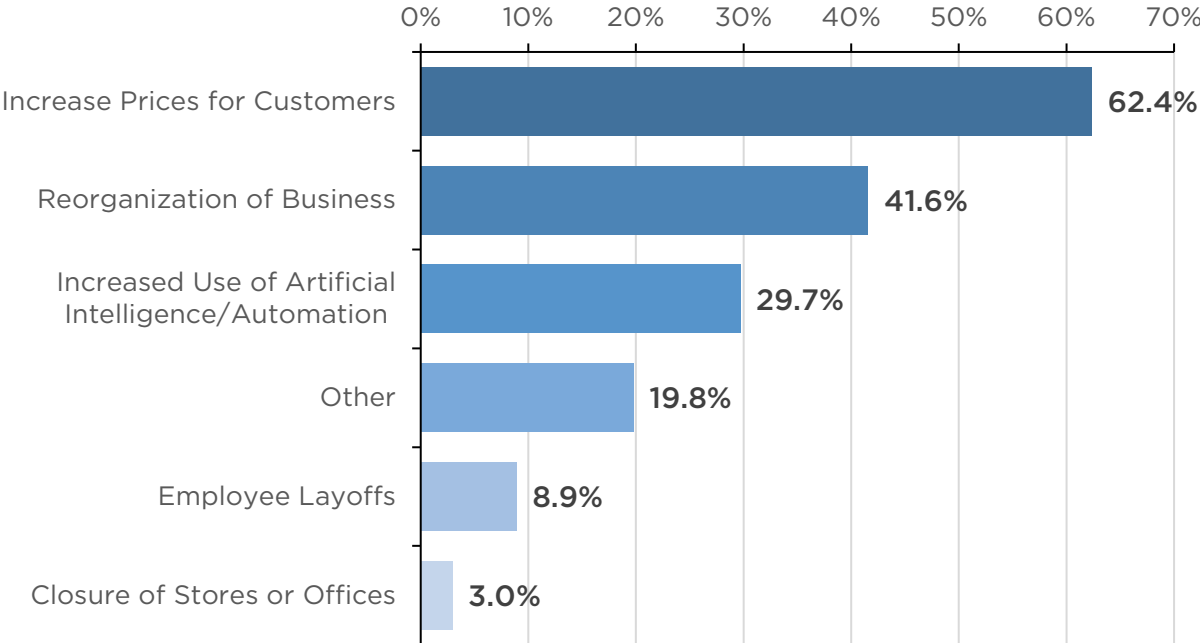
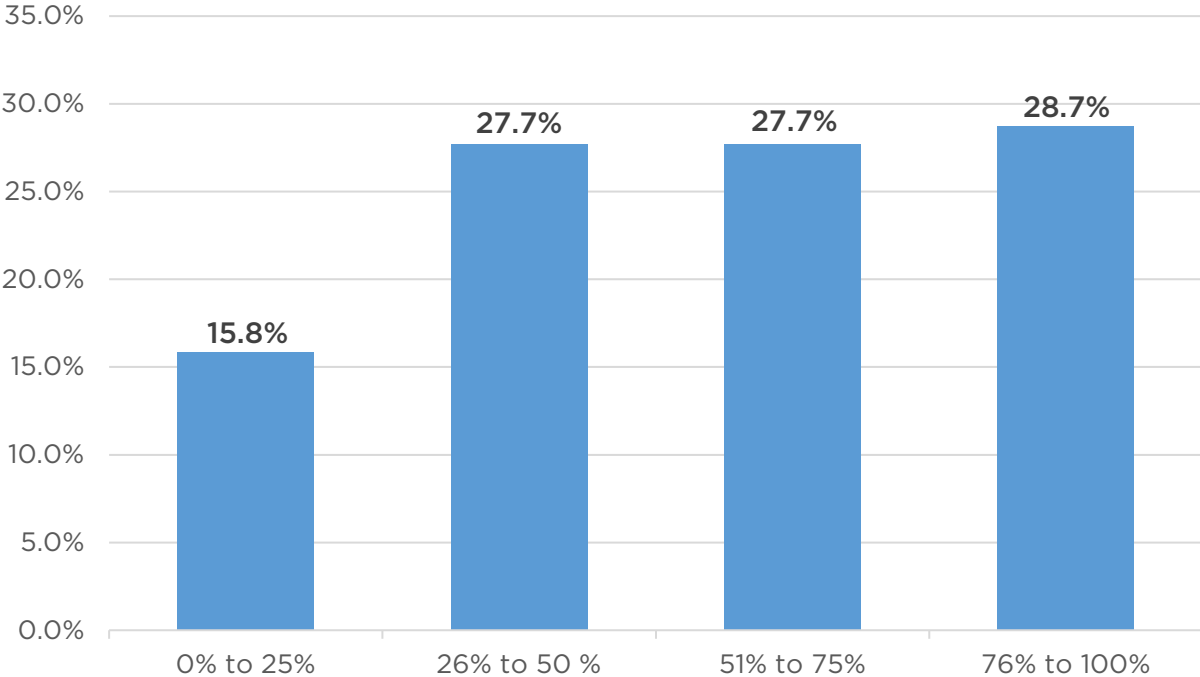


Figure 3d: Leaders have different views on whether the U.S. economy will fall into a recession this year.



Individual Company Performance

Many business leaders are optimistic about the performance of their industries over the next 12 months. About half are expecting their company to perform better than the last year, whether measured by revenue or profits. A vast majority of respondents believe that they will either maintain the same employment levels (45 percent) or experience moderate growth (42 percent) in employment. Similarly, they believe that capital expenditures will stay about the same (41 percent) or grow moderately (40 percent). 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 was listed by over half of all respondents, followed by human resources which was listed by 44 percent of respondents. Rising supplier costs and governmental regulation continue to be a problem, each listed by about one-third of respondents. Energy costs was listed by 21 percent of respondents, up from just 5.5 percent this past winter.

Labor Force

Respondents were asked several questions about Tennessee's labor force. Nearly seven out of ten respondents reported that there is an insufficient supply of appropriately trained workers. Many business leaders believe that improved training and education would help expand the supply of workers. Work ethic, initiative, and technical skills continue to be big labor supply concerns. Respondents also believe workers need to be more realistic about compensation. Again, more than half of all respondents 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 and substance abuse issues were also raised by nearly 23 percent of respondents. Middle Tennessee leaders are more concerned about the cost of housing while West Tennessee leaders are more concerned about the quality of local schools.