



Tennessee Business Leaders Survey

Winter 2023 Results



THE UNIVERSITY OF
TENNESSEE
KNOXVILLE

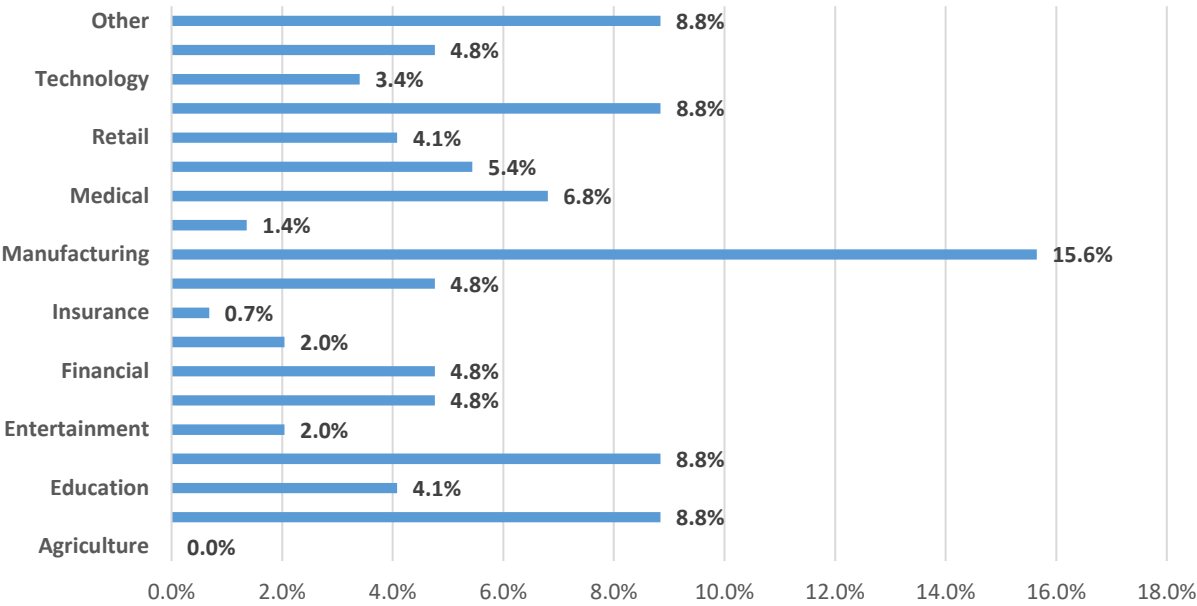
BOYD CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

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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 January 6 and January 26, 2023. 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.

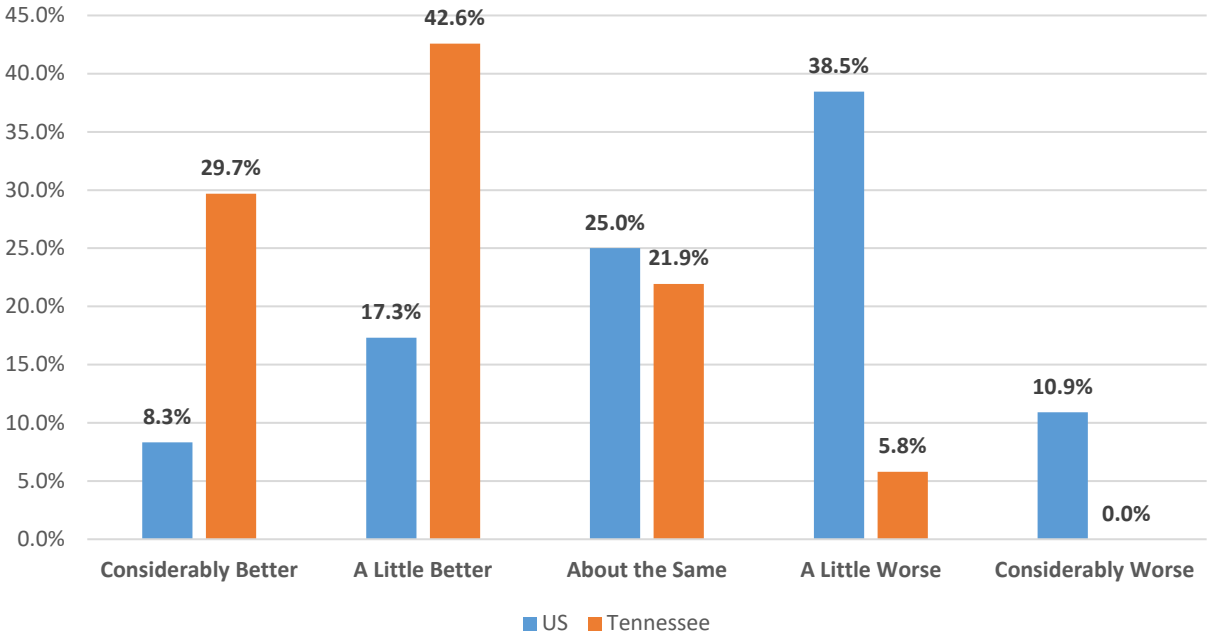


U.S. and Tennessee Economy

Business leaders are more likely to think the U.S. economy is worse right now than over the last year (43 percent) compared with those that think it is better (35 percent). Leaders do not believe that things will improve, with about half saying the economy will worsen over the next year and only one-quarter believing the economy will improve. However, 72 percent of respondents expect Tennessee’s economy to improve more rapidly than the national economy over the next year, with only 6 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 (80.4 percent) believe Tennessee is headed in the right direction, and 70.6 percent see Tennessee’s state government doing an excellent or good job of creating a solid business environment, compared with only about 4.6 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 (60 percent) strongly

led the responses with infrastructure development (49 percent) and technology infrastructure (45 percent) listed by a large share of respondents as well. More than a quarter of respondents listed business development incentives, while energy infrastructure and business income tax reform were listed by more than 20 percent of respondents.

Figure 2: A majority of Tennessee business leaders expect the Tennessee economy to be better than the national economy over the next 12 months.



Respondents were asked about their perspectives on inflation, the possibility of a recession, and interest rates. In response to inflation over the past year, many companies have offered higher wages (78 percent), charged higher prices (74 percent), and sought lower costs by looking for new supply chain opportunities (65 percent). Inflation has caused some companies to increase the use of artificial intelligence (44 percent) and reorganize their business (40 percent). Few have closed stores and offices (10 percent) or laid off employees (10 percent) in response to inflation (see Figure 3a).

Compared to this past summer, fewer leaders believe there is a high chance that the U.S. will fall into a recession in the next year. About 20 percent believe that there is less than a 25% chance while 43 percent believe there is a 26% to 50% chance. A quarter believes the chance is higher, but still below 75%. Few believe the chance is between 75 and 100% (see Figure 3b). A majority of respondents (85.8 percent) think that interest rates should stop rising in 2023. Only 3.4 percent of respondents believe rates should stop rising during the first half of 2024 and 5.4 percent believe they should stop rising sometime later.

Figure 3a: Companies have increased wages and charged higher prices over the past year due to inflation.

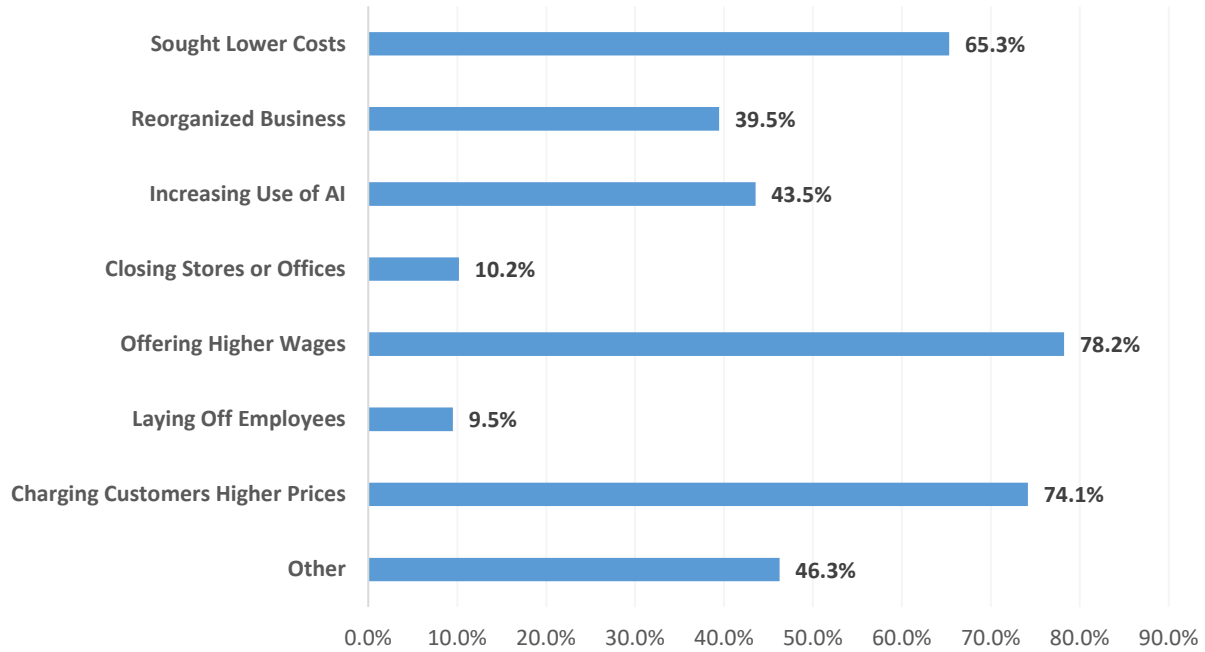
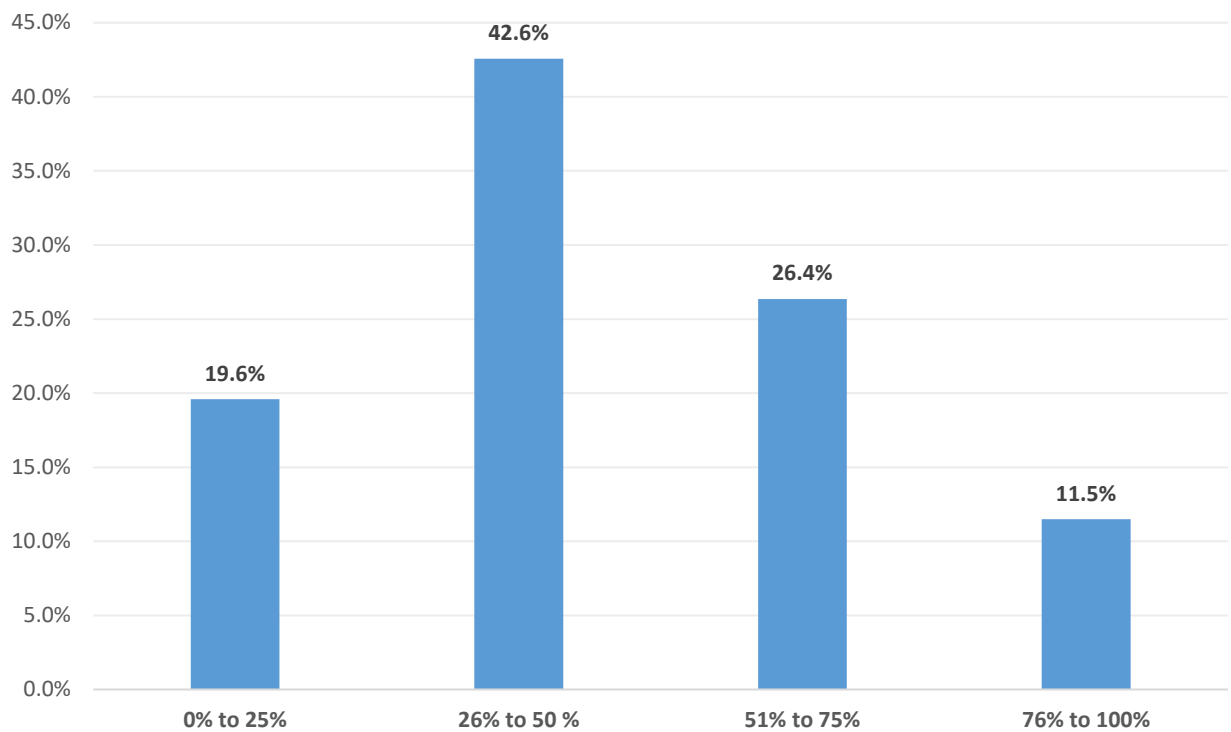


Figure 3b: Many leaders believe there is less than a 50% chance the U.S. economy will fall into a recession this year.

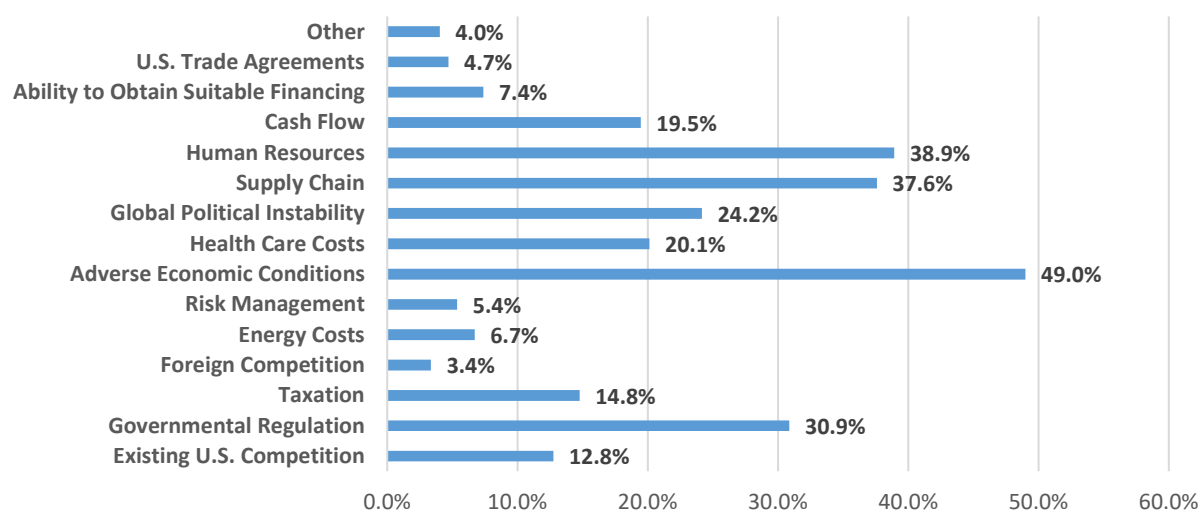


Individual Company Performance

Business leaders are more optimistic about revenue than profitability over the next 12 months. About 80 percent are expecting their revenues to grow while 41 percent expect profitability to grow. A vast majority of respondents believe that they will either maintain the same employment levels (52 percent) or experience moderate growth (39 percent) in employment. Similarly, they believe that capital expenditures will stay about the same (41 percent) or grow moderately (35 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 nearly half of all respondents, followed by human resources which was listed by 39 percent of respondents. Governmental regulation continues to be a problem listed by about a third of respondents, and supply chain issues were cited by 38 percent as well. Global political instability was listed by 24 percent of respondents, up from 16 percent this past summer.

Figure 4: Adverse economic conditions, human resources and supply chain were the top cited challenges for companies. (Respondents were able to select up to 3)



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. A little less 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) were the predominant reasons why retaining workers is challenging. The cost of childcare services and substance abuse issues were also raised by more than 20 percent of respondents. East Tennessee leaders are most concerned about the availability of housing while Middle and West Tennessee leaders are more concerned with the cost of housing.

Figure 5: Work ethic, initiative and technical skills are what business leaders most often found lacking in job applicants. (Respondents were able to select up to 3)

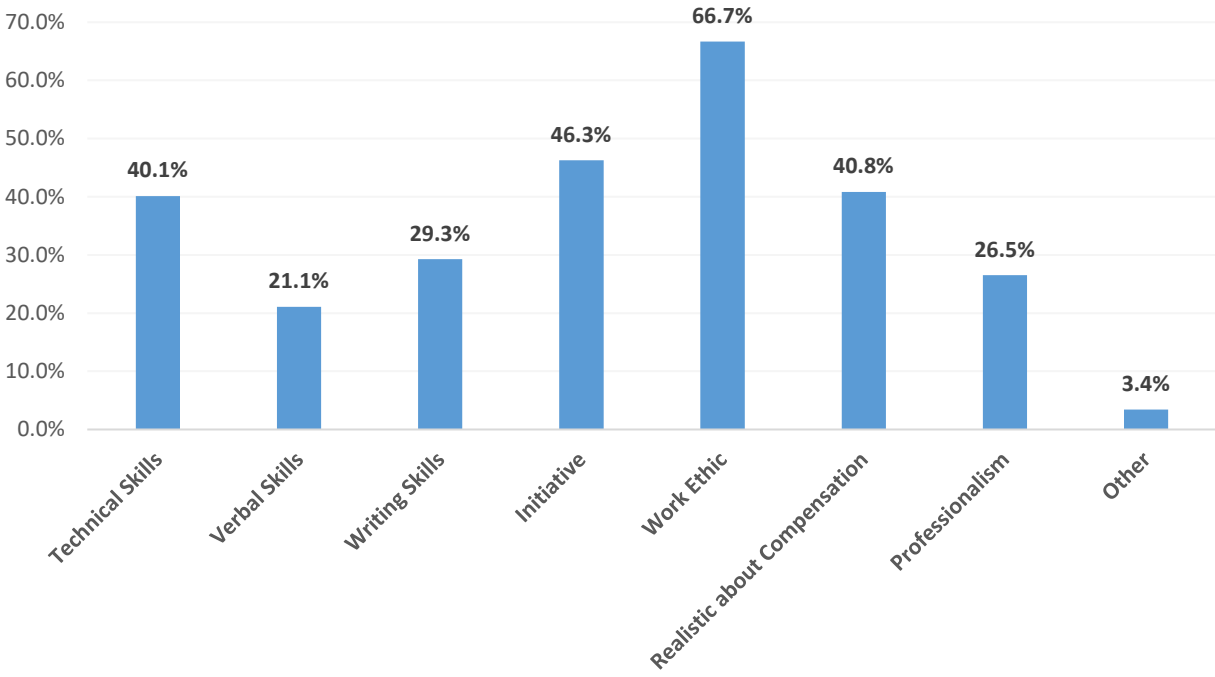


Figure 6: Business leaders overwhelmingly say Tennessee should improve training and education opportunities to expand the state’s supply of workers.

