

Nashville Economy Shines in People and Productivity

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With the backdrop of a slowing U.S. economy, growth in most of the 150 largest cities is expected to lose pace. But Nashville will be among the national leaders, continuing to grow at a healthy clip.

OUR EXPERTS



GERALD COHEN
CHIEF ECONOMIST
*Kenan Institute of
Private Enterprise*

Gerald provides strategic vision and leadership of the translational economic research and policy initiatives at the Institute.

He has worked in both the public and private

sectors focusing on the intersection between financial markets and economic fundamentals. During the Obama Administration, Gerald was Deputy Assistant Secretary for Macroeconomic Analysis at the U.S. Department of Treasury where he helped formulate and evaluate the impact of policy proposals on the U.S. economy. Prior to Treasury, he co-managed a global macro fund at Ziff Brothers Investments.

Gerald holds a bachelor's of science from the Massachusetts Institute of Technology and a Ph.D. in Economics from Harvard University and is a contributing author to "30-Second Money" as well as a co-author of "Political Cycles and the Macroeconomy."



JEFF KORZENIK
CHIEF ECONOMIST
*Fifth Third
Commercial Bank*

In this role, Jeff provides research and analysis that impacts the Bank's key markets, providing insight to business leaders and policymakers throughout the country.

He is an award-winning

author whose writings have been featured in the Wall Street Journal, Harvard Business Review, Newsweek and many other national and regional publications, and Jeff has appeared regularly on CNBC, Bloomberg and Fox Business News. Policymakers have sought his expertise on a variety of topics leading to his testifying before state legislatures and on Capitol Hill.

His groundbreaking book, "Untapped Talent: How Second Chance Hiring Works for Your Business and the Community" (HarperCollins Leadership, April 2021), shares the business case and best practices of hiring people with criminal records. He was elected to membership in the Council on Criminal Justice in recognition of his work on the intersection of the justice system and the labor market.

Jeff is a graduate of Princeton University with an A.B. in Economics and a Certificate of Proficiency in Near Eastern Studies.

Empowering American Cities is a collaboration between Fifth Third Bank, one of the nation's largest regional banks, and the Kenan Institute of Private Enterprise at the University of North Carolina at Chapel Hill, a university-based think tank. The institute uses proprietary statistical techniques to analyze data for microeconomies. They combine these techniques with Fifth Third's in-depth local knowledge to generate insights to support sustained business growth beyond traditional banking solutions.

"Since 1858, we have been helping individuals, families, businesses and communities grow through smart financial services that improve lives," said David Briggs, Tennessee regional president for Fifth Third Bank. "With a commitment to taking care of our customers, employees, communities and shareholders, our goal is not only to be the nation's highest-performing regional bank, but to be the bank people most value and trust."

The Nashville Business Journal recently hosted a midyear economic update tailored to business leaders looking to grow their operations to empower them with local and national economic insights in late June. Jeff Korzenik, chief economist for Fifth Third Commercial Bank, and Gerald Cohen, chief economist for the Kenan Institute, provided exclusive data to better understand the keys to local economic health and the reasons why some cities thrive while others fall behind.

Business leaders in attendance had the opportunity to explore the economic landscape of Tennessee and gain real-time insights into the current trajectory of the state.

Nashville Mayor Freddie O'Connell gave welcoming remarks calling the topic of empowering cities "timely" as Nashville's growth is related to the city's empowerment.

"We can shape Nashville into an even better success story," O'Connell said.

O'Connell gave a snapshot of Nashville's growth over the past decade.

"Airport passengers at Nashville International Airport have doubled in the past 10 years," he said. "We had 22 million last year."

O'Connell reported that "68% of the Nashville skyline has been constructed in the past decade."

"We are building a new stadium and have multiple multibillion-dollar projects simultaneously coming out of the ground," O'Connell said. "We have 13,225 hotel rooms in the development pipeline. Tourists spent \$10 billion in our city in 2023."

Nashville is a beneficiary of innovation and migration, factors that have spurred the city to outpace the rest of

the country in many growth categories.

"Over the past five years, Tennessee has been ranked as one of the fastest-growing economies of all 50 states," Briggs said. "It's been the No. 1 state for fiscal stability, a top state for businesses to operate – with

"Baby boomers are retiring and no longer producing goods and services but are still consuming them. The percentage of the working population is shrinking, which will continue to strain the economy,"

JEFF KORZENIK, Fifth Third Commercial Bank

the second lowest-taxed state per capita – and the lowest debt state in America. At the heart of this growth is Nashville."

THE U.S. ECONOMY

As Korzenik reflected on 2022's "widespread calls for a recession," he reported that the U.S. economy has shown unusual resilience amid rising interest rates.

"By 2023, we started to see some cracks and vulnerabilities in the U.S. economy," he said. "Even as employment growth continues, we don't believe we are out of the woods yet."

Korzenik credited the strength of the banking system as one of the "pillars of resilience." Similarly, the ratio of household debt payments as a percentage of household income presents a positive picture in aggregate, but Korzenik points to as a "growing divergence among homeowners who locked in historically low mortgage rates or paid off their homes and everyone else."

The unusual and continued strength of the labor markets, with more job openings than job seekers, puts the U.S. economy in an unusual position. Historically, the U.S. has had more job seekers than job openings. This is no longer the case as there are still more job openings than job seekers, but that gap is beginning to close.

Today, the U.S. has 8 million job openings, down from 12 million. At one time, the number of job seekers was under 6 million and now that number is closer to 7 million. This represents a shift in the U.S. economy but still means overall additions in payroll each month.

"As long as people who didn't have a paycheck, get a paycheck and spend that paycheck, it is pretty hard to have a recession," Korzenik said. "The U.S. is still adding about 200,000 jobs per month, which is a very sustainable level."

The tight labor market is leading to wage inflation of about 4% per year. Korzenik warns that the structural labor shortage is going to get worse because it is “baked into the demographics.”

“We have been warning about a labor shortage since 2017, and it is here,” Korzenik said. “Baby boomers are retiring and no longer producing goods and services but are still consuming them. The percentage of the working population is well below historic and even pre-COVID levels, and looks poised to shrink further. This would continue to strain the economy, slow growth and be somewhat inflationary. This is a fundamental challenge for businesses.”

Korzenik said the solution is to “get as many people off of the sidelines as possible and get them back into the labor force.”

“There are a lot of solutions out there, and we must embrace all of them,” he said. “From automation, to creating pathways for working parents and retirees to come back to work, we are going to need them all to sustain the labor market and continue to grow.”

Cities that can attract a workforce will have a decided advantage over those that don’t.

“We are coming into a critical period that will determine where the economy goes,” he said. “The Fed’s inflation victory has not yet been achieved. We are not there yet. We are close, but we are coming to a point of vulnerability at the national level.”

NASHVILLE ECONOMY

Each of the 150 largest Extended Metropolitan Areas, or EMAs, in the Empowering American Cities research has a unique economic outlook. Extracting data for each microeconomy paints an economic forecast that is different from the U.S. economy. GDP growth is the key indicator used to evaluate an EMA’s economic performance.

Most of the microeconomies in the United States are expected to see somewhat slower rates of growth than the previous year. Despite weaker growth, the data indicate that nearly all will expand in 2024. Any slowdown that occurs is expected to be felt unevenly throughout the country.

Variance is tremendous across the United States,” said Cohen, citing data for Peoria, Illinois, with a negative 1.6% annual growth rate for the 10 years ending with 2024. That compares with cities such as Austin, Texas, the fastest growing of all major cities, with a 6.1% annual rate for the same period. Comparatively, Cohen pointed to estimates that Nashville has grown at an annual rate of 4.3% over the past 10 years.

Embedded local growth characteristics are key indicators of an EMA’s economic health and measure potential for economic expansion using industrial productivity and the skill-level and age distribution of the workforce. An EMA’s industry mix and the



productivity of those industries are essential components of its embedded local growth characteristics.

“It’s all based on a city’s ability to add workers and make them more productive,” Cohen said. “Productivity is a crucial factor in determining a society’s standard of living.”

That is good news for the Nashville EMA, which far outpaces any other U.S. city in its two key industries of health care and leisure/hospitality.

“In fact, Nashville is roughly 30% more productive than the next city in those two industries,” Cohen said.

The downside to this statistic is that the health care and leisure/hospitality sectors are labor intensive in that the output produced per worker is less than that of other industries. Finance also is a large share of Nashville’s employment and has a higher leverage factor. In fact, finance and real estate are Nashville’s most productive industries. Education/health and leisure/hospitality are ranked No. 8 and No. 10 respectively.

In Nashville overall, 7% of the city’s employment produces 19% of its GDP, which is a leverage factor between 2.75 and 3. In the U.S., 6% of employment creates 21% of GDP, which is a leverage factor of 3.5%.

“The larger share of your labor force that is highly educated in high tech, the greater on average the productivity of your economy is,” Cohen said. “Nashville overachieves with high productivity in many sectors, which, combined with strong demographic and migration patterns, are favorable for future growth.”

Cohen lauded Nashville’s strong migration patterns with an average of 73 people moving to the area each day in 2023.

“Corporate relocations such as Nissan 15 years ago, Amazon logistics and Oracle will continue to uphold the productivity that comes innately in Nashville,” Cohen said.

Cities that are the beneficiaries of migration patterns are those most likely to continue to outpace the rest of the country. In fact, when compared among the fastest and slowest growing of the largest EMAs nationwide, Nashville ranks as the fourth fastest growing of the

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large EMAs in the United States.

“With the backdrop of the U.S. economy slowing, we expect most of our 150 largest cities to slow,” Cohen said. “But Nashville will be one of the faster-growing cities, still growing at quite a healthy clip, although more slowly than it has grown in the last 10 or so years.”

Nashville’s strong underlying fundamentals are expected to continue offsetting relatively soft cyclical supply- and demand-side factors such as high interest rates, elevated inflation, and slowing job and wage growth.

THE DISRUPTION OF AI

When it comes to increasing productivity, artificial intelligence could play a role.

“AI has the potential to be a transformational technology,” Cohen said. “It could lead to higher productivity, but it takes more time than you would expect. Sometimes the learning curve can be negative.”

Korzenik said society tends to overestimate the short-term impact of new technologies and underestimate the long-term impact.

“There are narrow applications where [AI] is already proving itself very well,” he said. “These technologies are very disruptive. At the macro level, there are winners and losers.”

One example Korzenik gave was the effect of widespread adoption of the internet on jobs in the travel industry.

“If you were a 50-year-old travel agent in 2005, your job got disrupted,” he said. Korzenik pointed out that the widespread adoption of smartphones has had a

lackluster effect on productivity overall because of this type of disruption creating economic winners as well as losers in the short term.

Cohen said the key is to know how to benefit from a new technology.

“Looking back at history, you see these disruptions, but they never created mass unemployment,” he said. “You have a set of people who are disrupted and a set of people who benefit. You want to be one of the people who knows how to harness this technology”

CHALLENGES AND OPPORTUNITIES

The need for more affordable housing in the Greater Nashville area was listed among key challenges for the city. The cost for many residents to commute great distances into the city for work diverts consumer spending from other goods and services. Opportunities for private-public partnerships were presented as one path to more affordable housing in and around Nashville.

Mayor O’Connell said one of the city’s charges will be to “ensure that we are maintaining a high quality of life and not letting cost of living get out of control.”

“We are clearly going to keep growing,” he said. “How we interact with our growth will be a determining factor.”

The Metro Council unanimously approved the “Choose How You Move” plan that is positioned to be a driving force in improving transportation in and around the city. The plan will now go to Nashville voters in November.

Choose How You Move is an all-access plan to improve sidewalks, signals, service and safety for Nashville’s transportation routes. Planned improvements include unprecedented advancements such as fiber-connected traffic signals and state-of-the-art transit stations.

“Transformational investments — such as those surrounding transportation — can attract more highly skilled workers and play a key role in economic growth,” Cohen said.

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Visit empoweringamericancities.com for information on upcoming events as well as economic data that will allow you to compare microeconomies across the country.

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