

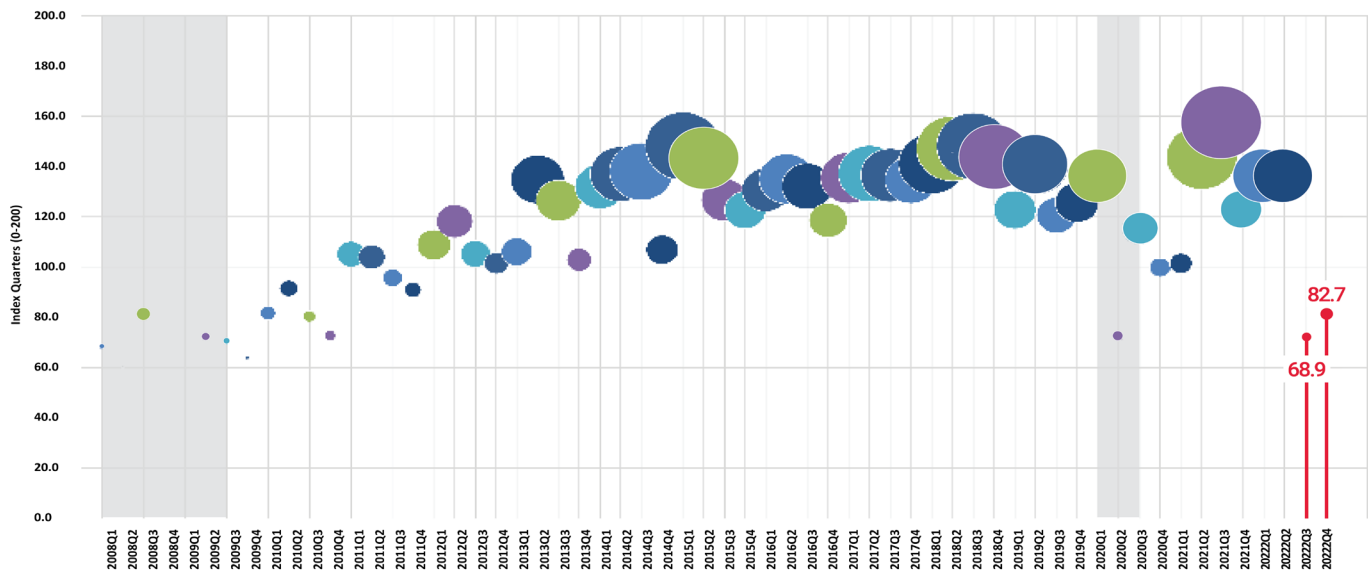
QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

UNLV | LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Fourth Quarter 2022

Local Businesses **Remain Pessimistic** for the Second Straight Quarter



Southern Nevada Business Confidence Index, Highlights

ECONOMIC EXPECTATIONS

o Local businesses' confidence remains pessimistic (below 100) for the second straight quarter at 82.7 in the fourth quarter of 2022.

o The index, nevertheless, increased by 19.9 percent quarter-over-quarter from a decade-low of 68.9 in the third quarter of 2022, indicating that some local business leaders believe that the local economy hit a low point last quarter.

EXPECTATIONS FOR HIRING

o Local businesses forecast that employment will decrease in the fourth quarter. Similar expectations were expressed by local business leaders last quarter as well, but the local labor market continues to experience a steady gain, albeit at a slower pace.

EXPECTATIONS FOR CAPITAL EXPENDITURE

o Notwithstanding rising borrowing costs amid interest rate hikes, the index for expectations on capital expenditure scored the highest among the five components at 97.2.

EXPECTATIONS FOR HOME PRICES

o The index value plummeted by 69.0 percent to 23.9 from last quarter's 77.3, which reflects rising mortgage rates and the Fed's warning about a potential price correction in the "red-hot" housing market.

COMPANY'S POSITION AFTER THE COVID-19 RECESSION

o The majority of the respondents reported that their sales remain lower than before the COVID-19 recession. In contrast last quarter, the majority of the respondents reported that their sales remained higher compared to prior to the pandemic.

POTENTIAL RECESSION

o A majority of local businesses believe that the U.S. economy is already in a recession.

o Over 80 percent of respondents (83.9 percent) insisted that the Fed's actions to bring down inflation already caused or will cause a recession.

FULL REPORT BELOW

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the second quarter of 2022 shrank for the second straight quarter, down by 0.6 percent at an annual rate. The decrease in real GDP in the second quarter largely reflected reduced private inventory investment and residential fixed investment, which was partly offset by increased consumer spending on services. Consumers, however, cut their spending on goods amid high inflation. Despite the two consecutive quarters of decline in real GDP, U.S. nonfarm employment continued to post steady gains, but at a slower pace, adding 263,000 jobs in September after adding 315,000 and 537,000 jobs, respectively, in August and July. The U.S. unemployment rate in September also dropped to a 50-year low of 3.5 percent. Given this tighter-than-expected labor market, the Federal Reserve will likely move forward with another 75 basis-point increase in November to control inflation. Retail sales in August experienced a better-than-expected gain, up by 0.3 and 9.1 percent month-over-month and year-over-year, outpacing price increases. The consumer price index increased by 0.1 and 8.2 percent, respectively, from last month and last year, which was higher than expected despite the fall in gas prices.

Clark County recently displayed mixed economic signals. Seasonally adjusted employment experienced a weak gain of 900 jobs in August and the unemployment rate edged up to 5.4 percent. The total employment level, however, is fully recovered and currently surpasses the pre-pandemic peak in February 2020 by 7,800 jobs. The leisure and hospitality employment, remains 8.7 percent (25,700 jobs) lower than its pre-pandemic peak. Taxable sales and gaming revenue, which were boosted by the COVID-19 stimulus, seem to have normalized. That is, the year-over-year growth rates continued to decline for the last 7 months from 35.7 percent in December 2021 to 8.2 percent in July 2022. Gaming revenue year-over-year growth rates also posted weak readings of -3.4 and 3.1 percent, respectively, in July and August 2022. August total Harry Reid passengers decreased by 4.6 percent from last month after hitting record-high levels for two consecutive months. Visitor volume, nonetheless, still remains 12.6 percent lower than its pre-pandemic level in August 2019. The local housing market also cooled with a decreasing median price amid high mortgage rates.

The survey results conveyed in this report show continued pessimism on future local business conditions amid economic uncertainty. The local business confidence, however, increased slightly from last quarter, indicating that some local business leaders likely believe that the local economy will not be any worse in the coming quarter. This aligns with a recent slight rebound in national consumer confidence.

“Despite the two consecutive quarters of decline in real GDP, U.S. nonfarm employment continued to post steady gains, but at a slower pace, adding 263,000 jobs in September ...”

“Clark County recently displayed mixed economic signals.”

“The survey results conveyed in this report show continued pessimism on future local business conditions amid economic uncertainty.”

Southern Nevada Business Confidence Index

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), remained pessimistic (below 100) for the second straight quarter at 82.7 in the fourth quarter of 2022 (Figure 1). The index, nevertheless, increased by 19.9 percent quarter-over-quarter from a decade-low of 68.9 in the third quarter of 2022, indicating that some local business leaders believe that the local economy hit a low point last quarter. The index suggests that Southern Nevada will continue to experience a slowdown in economic activity in the fourth quarter amid economic uncertainty.

The index includes five components: business leaders' expectations of (i) general economic conditions in Nevada, as well as expectations for their own industry's (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditure. Index components all continued to remain below 100, which suggests that respondents, on average, feel more negative than positive about the five components. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 55.7, 84.5, 84.5, 91.4, and 97.2, respectively (Figure 2)¹.

“The Southern Nevada Business Confidence Index...remained pessimistic (below 100) for the second straight quarter at 82.7 in the fourth quarter of 2022.”

Figure 1

CBER's Southern Nevada Business Confidence Index

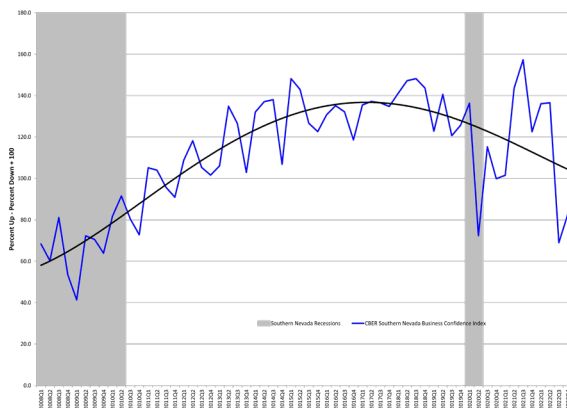
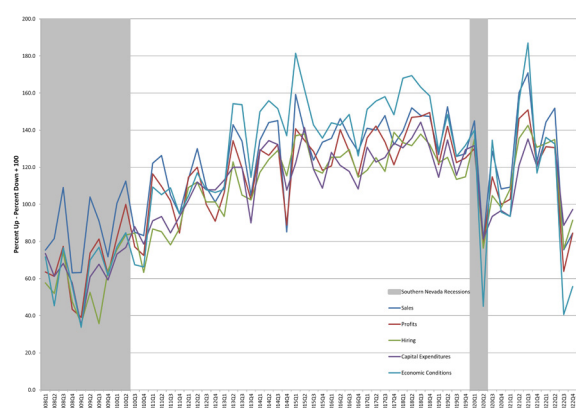


Figure 2

Components of CBER's Southern Nevada Business Confidence Index



Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders forecasted that both Nevada and U.S. economic conditions in the fourth quarter will worsen compared to the previous quarter, with values of 55.7 and 37.1, respectively (Figures 3 and 4). The index values for Nevada and U.S. economic conditions, however, lifted quarter-over-quarter from the lowest levels of 40.6 and 24.7 in a decade in the third-quarter 2022 survey. When asked about the U.S. economy, 12.9 percent forecasted a better economy, while 75.7 percent projected a worse economy. The remaining 11.4 percent expected no change. When asked the same question about the Nevada economy, 20.0 percent of respondents forecasted an improved economy, 15.7 percent projected no change, and 64.3 percent expected a worsening economy.

Expectations for Sales

Local business leaders continued to expect that sales will decline in the fourth quarter with a value of 84.5 (Figure 5). The index value, nonetheless, rebounded by 11.9 percent

“Southern Nevada business leaders forecasted that both Nevada and U.S. economic conditions in the fourth quarter will worsen compared to the previous quarter ...”

¹ Note: When reporting percentage responses, totals may not add to 100 because of rounding. The index equals the average of its five components. Each component is calculated as follows: add 100 to the difference between the percentages of positive and negative responses. Thus, for example, if the index for the Nevada economic conditions component equals 55.7, this means that 44.3 percent (100-55.7) more respondents endorsed a negative attitude (64.3 percent) than those with a positive attitude (20.0 percent).

from 75.5 in the third quarter. When asked about sales in their own industry, 31.0 percent of the respondents predicted an increase, 22.5 percent expected no change, and 46.5 percent projected a decrease.

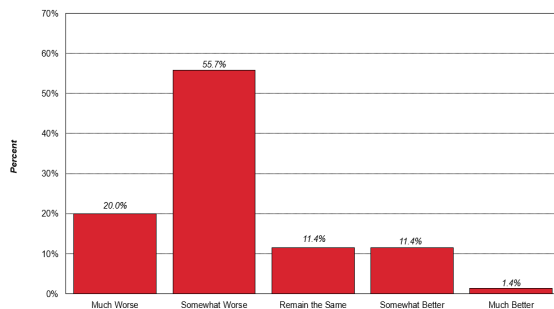
Expectations for Profits

Local businesses also expressed the same level of pessimism on profits, as with sales, with a value of 84.5 (Figure 6). When asked about profits, 31.0 percent of respondents expected increased profits in their industry, 22.5 percent predicted no change, and 46.5 percent forecasted decreased profits.

“Local businesses also expressed the same level of pessimism on profits, as with sales, with a value of 84.5 ...”

Figure 3

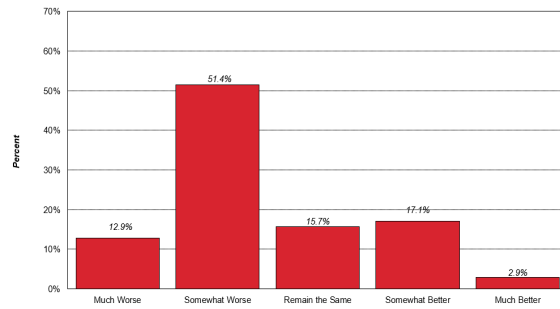
How do you think economic conditions in the United States will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 4

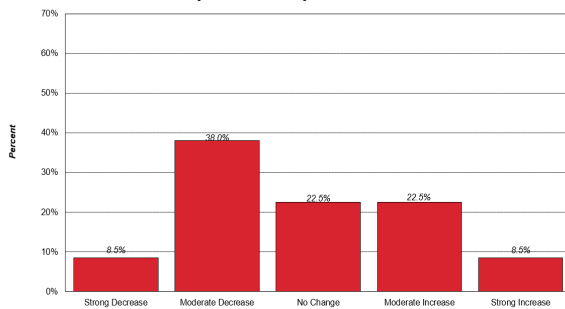
How do you think economic conditions in Nevada will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 5

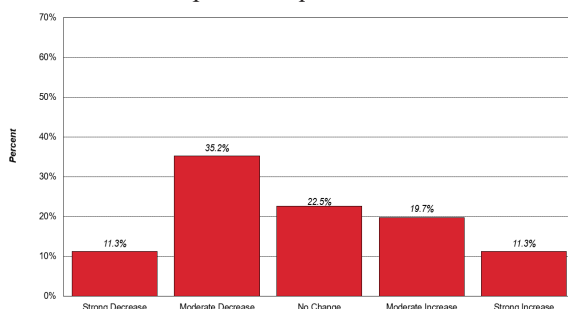
How do you think sales in your industry will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 6

How do you think profits in your industry will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Note: When reporting percentage responses, totals may not add to 100 because of rounding.

Expectations for Hiring

The index value for expectations on hiring remains below 100 with a score of 91.4 despite the robust labor market (Figure 7). Although local businesses expected a decrease in employment levels in their own industries last quarter, the local labor market experienced a steady gain, albeit at a slower pace. The information, professional and business services, and other services sectors posted two consecutive months of decline. When asked about hiring in their own industry, 25.7 percent expected an increase, 40.0 percent expected no change, and 34.3 percent projected a decrease.

Expectations for Capital Expenditure

Notwithstanding rising borrowing costs amid interest rate hikes, the index for expectations on capital expenditure scored the highest among the five components at 97.2. The index value still suggests marginal pessimism as it remains below 100 (Figure

“Notwithstanding rising borrowing costs amid interest rate hikes, the index for expectations on capital expenditure scored the highest among the five components at 97.2.”

8). That is, 26.8 percent of respondents forecasted increased capital expenditure in their industry, while 29.6 percent projected decreased capital spending. The remaining 43.7 percent expected no change.

Expectations for Home Prices

The respondents projected a continued decrease in housing prices in the fourth quarter with a value of 23.9 (Figure 9). The index value plummeted by 69.0 percent from last quarter's 77.3, which may reflect rising mortgage rates and the Fed's warning about a potential price correction in the "red-hot" housing market. The 30-year average mortgage rate continued to climb and reached 6.7 percent as of October 5th, the highest level since 2006 just before the housing bubble burst. The recent hikes in mortgage rates cooled the local housing market, resulting in a recent decrease in the median home price and sales in Las Vegas with a relaxed home inventory. Las Vegas had 11,157 active listings in home inventory in September, three times more than the extremely tight level of 3,713 in February 2022. When asked about expectations on home prices, only 5.6 percent of the respondents expected increases in home prices in Southern Nevada, 12.7 percent forecasted no change, and a large majority of 81.7 percent predicted decreases in home prices.

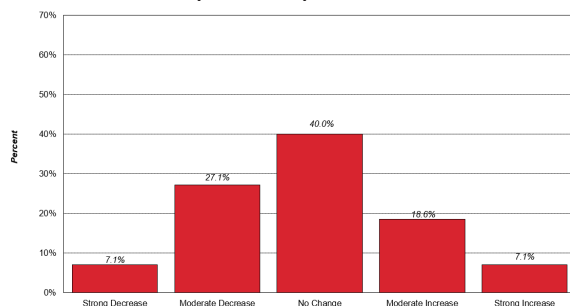
"The index value plummeted by 69.0 percent from last quarter's 77.3, which may reflect rising mortgage rates and the Fed's warning about a potential price correction in the "red-hot" housing market."

Expectations for Construction Activity

The index value for expectations on construction activity also declined by 12.4 percent quarter-over-quarter from 80.4 to 70.4, which likely reflects the current bleak outlook on future housing markets (Figure 10). When asked about expectations on

Figure 7

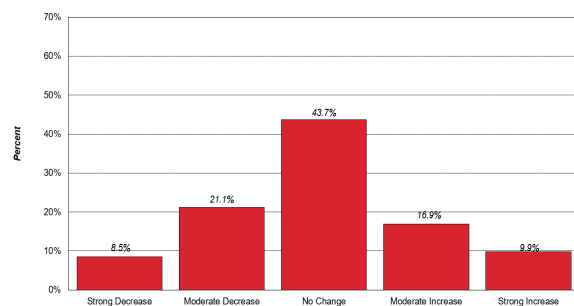
How do you think hiring in your industry will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 8

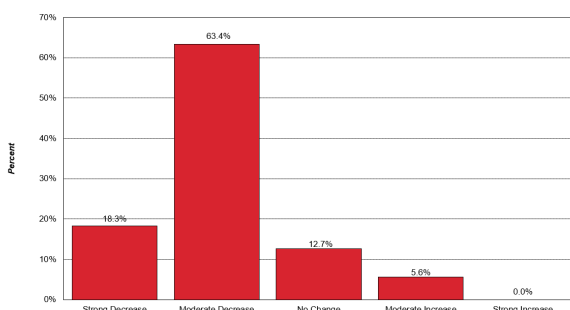
How do you think capital expenditure in your industry will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 9

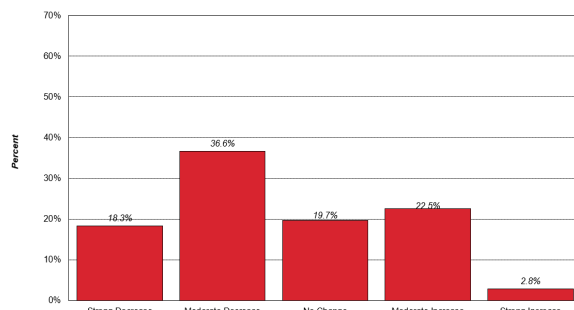
How do you think home prices in Southern Nevada will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 10

How do you think construction activity in Southern Nevada will change in the 4th quarter of 2022 compared to the previous quarter?



CBER Business Confidence Index Survey

Note: When reporting percentage responses, totals may not add to 100 because of rounding.

construction, 25.4 percent of the respondents expected more construction activity, 19.7 percent projected no change, and 54.9 percent forecasted less construction activity in the fourth quarter compared to the third quarter.

Most Important Challenges

Economic uncertainty, marked by 32.3 percent of business leaders, was mentioned as the most difficult challenge in Southern Nevada this quarter (Figure 11). Finding qualified employees was reported as the second most difficult challenge in Southern Nevada in the fourth quarter with 27.4 percent despite reduced hiring projections. In the previous quarter, finding qualified workers was mentioned as the most difficult challenge for the third consecutive quarter with 34.4 percent, while economic uncertainty was identified as the second most important challenge with 31.2 percent. Higher operating and/or production costs continued to be referred to as the third most difficult challenge with 16.1 percent. No one mentioned the Coronavirus (COVID-19) as the most important challenge for the second straight quarter.

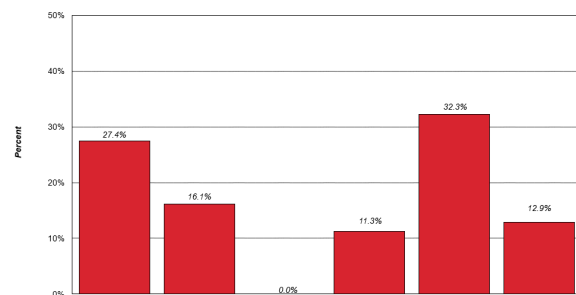
“Economic uncertainty, marked by 32.3 percent of business leaders, was mentioned as the most difficult challenge in Southern Nevada this quarter.”

Responses of National Fiscal and Monetary Policies

Local business leaders rated current national fiscal and monetary policies as somewhat weak (Figures 12 and 13). When asked about the rate of current national monetary policy, more than half of respondents (54.8 percent) reported that the monetary response is “too/relatively weak” despite the three in a row 75 basis points federal funds rate hikes. 17.7 percent reported it is “too/relatively strong.” The remaining 27.4 percent reported that it is “just about right.” When asked about the rate of current national fiscal policy implemented by the Congress and the Administration, 72.6 percent of respondents answered that the fiscal policy response was “too/relatively weak,” 8.1 percent reported “just about right,” and 19.4 percent reported “too/relatively strong.”

Figure 11

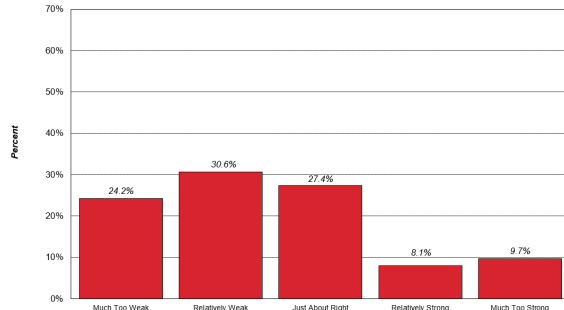
What is the most important challenge that you face in your business today?



CBER Business Confidence Index Survey

Figure 12

Rating the response of national monetary policy to the COVID-19 recession

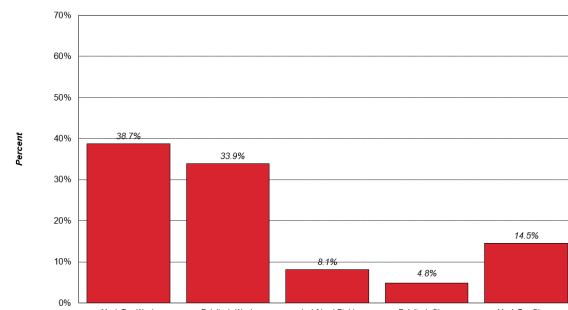


CBER Business Confidence Index Survey

Note: When reporting percentage responses, totals may not add to 100 because of rounding.

Figure 13

Rating the response of national fiscal policy To the COVID-19 recession



CBER Business Confidence Index Survey

Potential Economic Recession and the Fed's Policy to Reduce Inflation

The majority of local business leaders believe that the U.S. economy is currently experiencing a recession (Figure 14), although economists suggest that the U.S. economy is not likely in recession despite two consecutive quarters of contractions in real GDP. When asked about the next recession, 45.9 percent of respondents assumed that the national economy is already in recession, 16.4 percent predicted a recession sometime in the rest of 2022, 31.1 percent forecasted sometime in 2023, and the remaining 6.6 percent

“The majority of local business leaders believe that the U.S. economy is currently experiencing a recession ...”

forecasted sometime in 2024 or later.

Over 80 percent of respondents (83.9 percent) believe that the Fed's new policy to bring down inflation already caused or will cause a recession, while 16.1 percent projected no recession given the Fed's new policy to combat inflation (Figure 15). Among those who expected a recession, 38.5 percent thought that the Fed would reduce inflation, and the remaining 61.5 percent forecasted that the Fed would fail to reduce inflation. Among those who projected no recession (16.1 percent), half of the respondents anticipated that the Fed's new policy to bring down inflation would not work, while the other half predicted that the Fed would reduce inflation without causing a recession.

Company's Position after the COVID-19 Recession

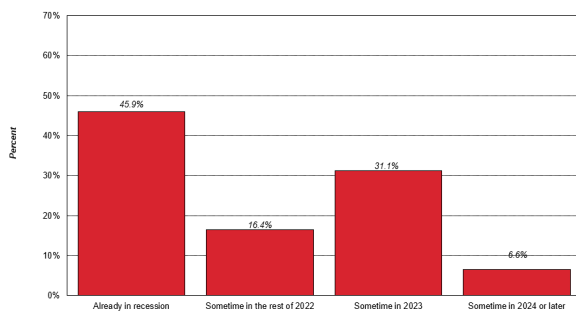
More local businesses reported that their levels of sales this quarter remain lower than levels before the COVID-19 recession (Figure 16). When asked about their level of sales compared to their pre-recession positions, 41.9 percent of respondents reported increased sales, 12.9 percent reported no change, and 45.2 percent reported decreased sales. Last quarter, 43.5 percent reported increased sales, 17.4 percent reported no change, and 39.1 percent reported decreased sales.

Respondents reported improved employment levels but still lower than the levels before the COVID-19 recession (Figure 17). When asked about employment, 21.3 percent of respondents reported an increase compared to pre-recession levels, while 36.1 percent reported a decrease. The remaining 42.6 percent reported no change in employment compared to the pre-recession levels. Last quarter, 19.1 percent reported an increase, 39.4 percent reported no change, and 41.5 percent reported a decrease.

"More local businesses reported that their levels of sales this quarter remain lower than levels before the COVID-19 recession."

Figure 14

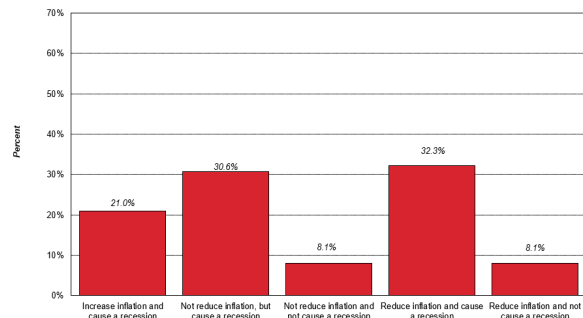
When do you believe that the next recession will occur in the national economy?



CBER Business Confidence Index Survey

Figure 15

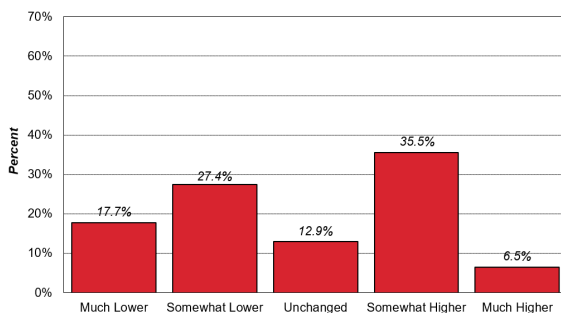
Given the Fed's new policy to bring down inflation, you expect that the Fed will



CBER Business Confidence Index Survey

Figure 16

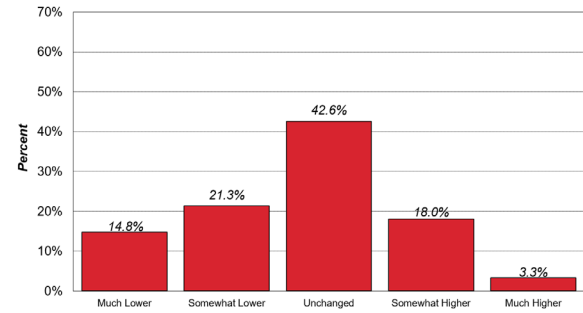
Comparing your company's position before COVID19 recession to where your sales levels are now?



CBER Business Confidence Index Survey

Figure 17

Comparing your company's position before COVID19 recession to where your employment levels are now?



CBER Business Confidence Index Survey

Note: When reporting percentage responses, totals may not add to 100 because of rounding.

Conclusion

The most recent CBER business survey suggests that local businesses continue to be pessimistic about the local economy in the fourth quarter of 2022 amid economic uncertainty and recession fears. A majority of local businesses believe that the U.S. economy is already in a recession. Local business leaders forecast that the local economic conditions will experience a downturn in the fourth quarter along with worsening U.S. economic conditions. As a result, respondents expressed a negative outlook on sales, profits, capital expenditure, and hiring in their industry. The respondents also anticipate a continued cooling of home prices and construction activity in the short term. Altogether, CBER concludes that the sentiment of the local economy will continue to struggle in the fourth quarter of 2022.

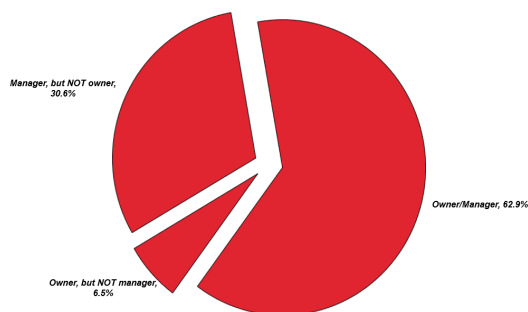
Center for Business and Economic Research

The views expressed are those of the authors and do not necessarily represent those of the University of Nevada, Las Vegas, or the Nevada System of Higher Education.

Please email us at CBER@UNLV.EDU for questions and concerns.

Figure 18

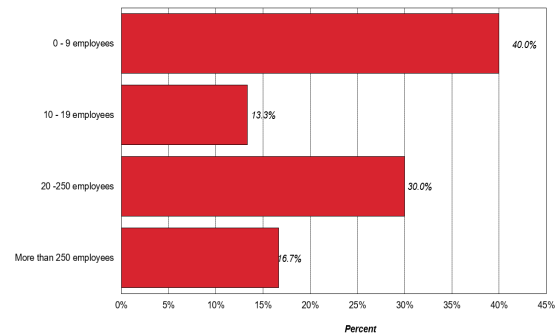
Which best describes your position
In your business?



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Figure 19

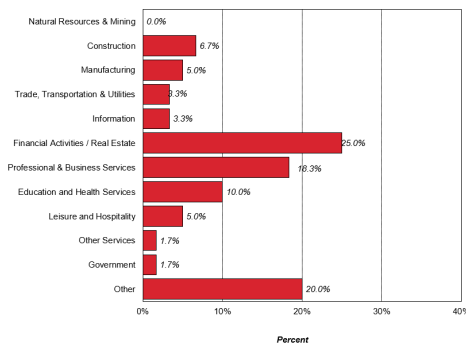
How many people, full time and part time, does
you business currently employ, NOT including
yourself?



CBER Business Confidence Index Survey

Figure 20

Business sectors reflected in survey



CBER Business Confidence Index Survey

Note: When reporting percentage responses, totals may not add to 100 because of rounding.