

QUARTERLY INDICATORS

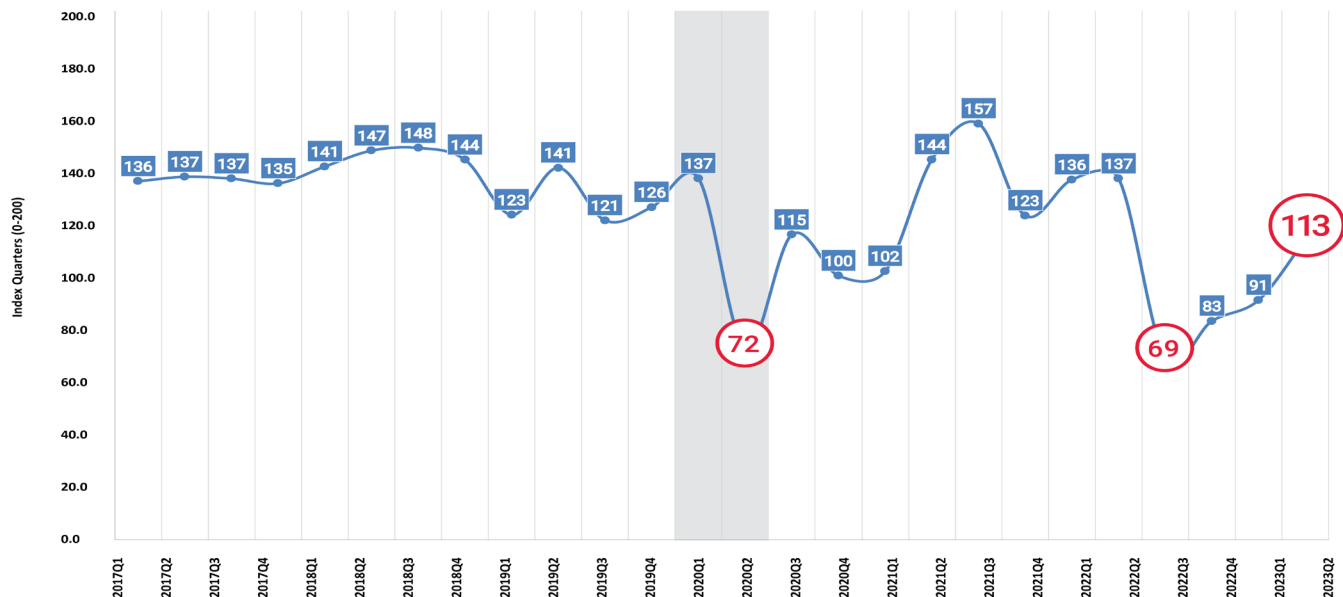
Southern Nevada Business Confidence Index



LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Second Quarter 2023

Local Businesses Express Optimism After Three Consecutive Quarters of Pessimism



Southern Nevada Business Confidence Index, Highlights

ECONOMIC EXPECTATIONS

o Local businesses' confidence increased to 113.4 in the second quarter, after spending three consecutive quarters below 100.

o Local business leaders, however, expressed continued pessimism on the U.S. economic outlook with a value of 47.9, in contrast to some optimism on the Nevada economic outlook with a value of 106.4.

EXPECTATIONS FOR HIRING

o The index value for expectations on hiring rebounded strongly, up by 48.9 percent quarter-over-quarter to a score of 114.6.

EXPECTATIONS FOR CAPITAL EXPENDITURE

o The index for expectation on capital expenditure jumped by 41.9 percent to 110.4 this quarter from its 13-year lowest level at 77.8 in 2023Q1, despite higher borrowing costs due to interest rate hikes.

EXPECTATIONS FOR HOME PRICES

o Despite ongoing optimism on local business conditions, the respondents projected a continued decrease in housing prices in the second quarter.

o Although the new home median price in Clark County increased by 5.6 percent year-over-year in February, the existing home median price plummeted by 8.7 percent over the same period, according to Home Builders

Research.

MOST IMPORTANT CHALLENGES

o Higher operating and/or production costs, marked by 31.1 percent of business leaders, were ranked as the most difficult challenge in Southern Nevada for the first time, displacing decreasing sales as the top concern.

o Finding qualified employees was continuously reported as the second most difficult challenge in Southern Nevada with 17.8 percent, which is lower than 20.9 and 27.5 percent, respectively from 2023Q1 and 2022Q4. This may signal that the labor shortage is loosening with increased reentry to the labor force.

POTENTIAL RECESSION

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

o Among those who predicted a recession in 2023, the majority (77.8 percent) forecasted a recession in the second half of 2023.

FULL REPORT BELOW

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the fourth quarter of 2022 expanded by an annual 2.6 percent. The increase in real GDP in the fourth quarter reflected increases in business inventories, government spending, and consumer spending on services, which were partly offset by decreases in business investment and consumer spending on goods. U.S. nonfarm employment in March added 236,000 jobs, the lowest gain since December 2020, but still much higher than the average gain of 163,000 in 2019. The U.S. unemployment rate in March ticked down to a low of 3.5 percent despite a higher labor-force participation rate. Although the most recent uptick in initial claims and reduction in job openings may signal some loosening of the labor market, the market still posts 1.7 jobs available per unemployed person, much higher than the historical average of 0.7 jobs per unemployed person since 2000. Despite the ongoing tight labor market, recent economic data indicate a U.S. economic slowdown. Retail sales in February increased by 5.4 percent, the lowest since December 2020 despite high inflation. Consumer sentiment also declined for the first time in four months with increasing concerns of a recession. In addition, the IMF projects that the World economy will experience the lowest growth since 1990 at around 3 percent over the next five years. The Federal Reserve raised interest rates by 25 percentage points to 4.75 to 5 percent to control inflation despite recent banking-risk concerns. The Fed will likely increase the federal funds rate by another 25 basis points in the rest of 2023.

Clark County recently displayed favorable economic signals. Seasonally adjusted employment experienced a sturdy gain of 5,800 jobs in February, but the unemployment rate edged up to 5.7 percent. Leisure and hospitality employment almost recovered from the COVID-19 recession, remaining only 0.7 percent lower than its pre-pandemic peak. As the tourism industry struggled from the Omicron variant in January and February 2022, the current tourism data also show strong year-over-year performance. That is, Harry Reid passengers, visitor volume, and gross gaming revenue soared by 24.9, 16.8, and 13.8 percent, respectively, from last year. The double-digit gains, nevertheless, will not likely continue in the upcoming March data as the local tourism industry posted a strong gain

“Despite the ongoing tight labor market, recent economic data indicate a U.S. economic slowdown.”

“Leisure and hospitality employment almost recovered from the COVID-19 recession, remaining only 0.7 percent lower than its pre-pandemic peak.”

with pent-up demand for travel in March 2022. Taxable sales in January also experienced a robust year-over-year gain of 11.4 percent. The local housing market continued to experience a decreasing median price partly due to higher mortgage rates.

The survey results conveyed in this report suggest optimism on future local business conditions despite the ongoing U.S. economic slowdown and uncertainty, which might reflect the strong local tourism industry. The local labor shortage also seems partially alleviated due to the reentry of workers into the labor force. Worsening U.S. economic conditions, however, can be a headwind for the local economy's expansion as local tourism largely hinges on domestic travelers.

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), increased to 113.4 in the second quarter, after three consecutive quarters of index values below 100 (Figure 1). That is, local businesses' confidence finally flipped to optimism about local business conditions this quarter after showing pessimism for the last three quarters. Local business leaders, however, expressed continued pessimism on the U.S. economic outlook.

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. All five index components – economic conditions, sales, profits, hiring, and capital expenditure exceeded 100, which suggests that respondents, on average, feel more positive than negative about these components. The last time all five measures exceeded 100 occurred in the second quarter of 2022. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 106.4, 122.9, 112.5, 114.6, and 110.4, respectively (Figure 2)¹.

“The survey results conveyed in this report suggest optimism on future local business conditions despite the ongoing U.S. economic slowdown and uncertainty, which might reflect the strong local tourism industry.”

“The Southern Nevada Business Confidence Index...increased to 113.4 in the second quarter, after three consecutive quarters of index values below 100.”

Figure 1

CBER's Southern Nevada Business Confidence Index

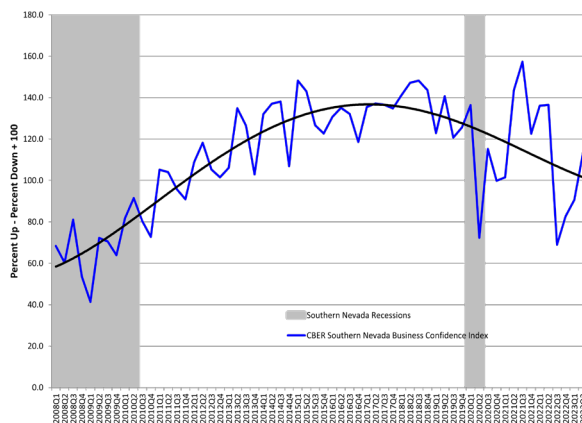
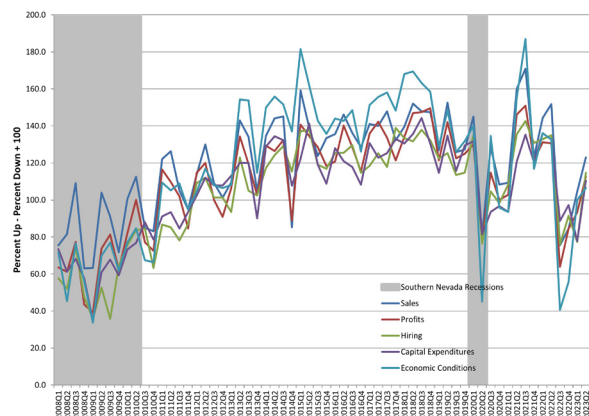


Figure 2

Components of CBER's Southern Nevada Business Confidence Index



Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders forecasted that Nevada economic conditions will improve, while U.S. economic conditions will continue to worsen in the second quarter compared to the previous quarter, with values of 106.4 and 47.9, respectively (Figures

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 106.4, this means that 6.4 percent (100+6.4) more respondents endorsed a positive attitude (44.7 percent) than those with a negative attitude (38.3 percent).

3 and 4). When asked about the U.S. economy, only 12.5 percent forecasted a better economy, while 64.6 percent projected a worse economy. The remaining 22.9 percent projected no change. When asked the same question about the Nevada economy, 44.7 percent of respondents forecasted an improved economy, 17.0 percent projected no change, and 38.3 percent expected a worsening economy.

Expectations for Sales

Local business leaders expressed the most optimism on sales with a value of 122.9 (Figure 5). The index value for expectations on sales was the only component that scored greater than 100 last quarter. When asked about sales in their own industry, 39.6 percent of the respondents predicted an increase, 43.8 percent expected no change, and 16.7 percent forecasted a decrease.

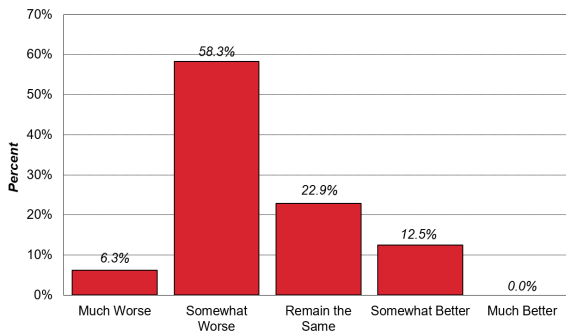
“Local business leaders expressed the most optimism on sales with a value of 122.9.”

Expectations for Profits

Local business leaders also expressed mild optimism on profits with a value of 112.5 (Figure 6). When asked about profits, 39.6 percent of respondents expected increased profits in their industry, 33.3 percent predicted no change, and 27.1 percent forecasted decreased profits.

Figure 3

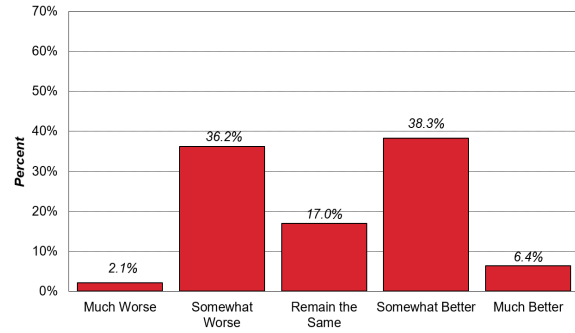
How do you think economic conditions in the United States will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 4

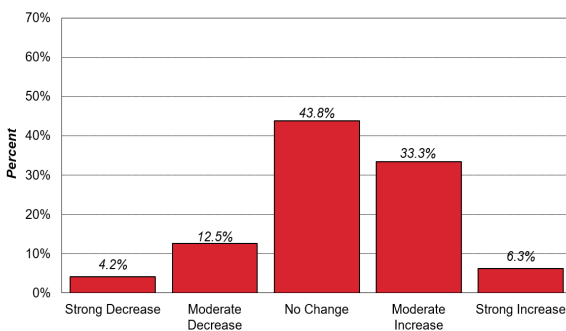
How do you think economic conditions in Nevada will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 5

How do you think sales in your industry will change in the 2nd quarter of 2023 compared to the previous quarter?

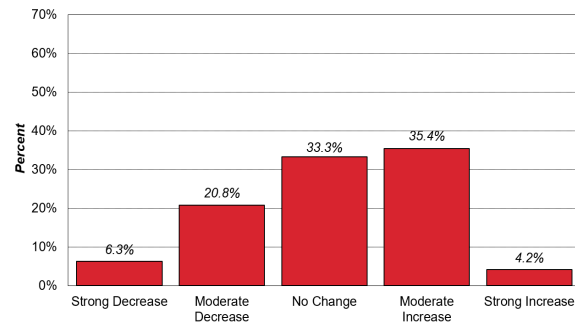


CBER Business Confidence Index Survey

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

Figure 6

How do you think profits in your industry will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Expectations for Hiring

The index value for expectations on hiring rebounded strongly, up by 48.9 percent quarter-over-quarter to a score of 114.6 (Figure 7). When asked about hiring in their own industry, 27.1 percent expected an increase, 60.4 percent expected no change, and 12.5

percent projected a decrease.

Expectations for Capital Expenditure

The index for expectation on capital expenditure jumped by 41.9 percent to 110.4 this quarter from its 13-year lowest level at 77.8 in 2023Q1, despite higher borrowing costs due to interest rate hikes (Figure 8). That is, 29.2 percent of respondents forecasted increased capital expenditure in their industry, while 18.8 percent projected decreased capital spending. The remaining 52.1 percent expected no change.

Expectations for Home Prices

Despite ongoing optimism on the local business conditions, the respondents projected a continued decrease in housing prices in the second quarter with a value of 68.8 (Figure 9). The index value, however, continued to post an upward trend, up by 71.9 percent from last quarter's 40.0. Las Vegas house prices have declined since June 2022 due to rising mortgage rates. Although the new home median price in Clark County increased by 5.6 percent year-over-year in February, the existing home median price dropped by 8.7 percent over the same period according to Home Builders Research. The 30-year average mortgage rate currently remains high at over 6 percent. When asked about expectations on home prices, 22.9 percent of the respondents expected increases in home prices in Southern Nevada, 22.9 percent forecasted no change, and a large majority of 54.2 percent predicted decreases in home prices.

Expectations for Construction Activity

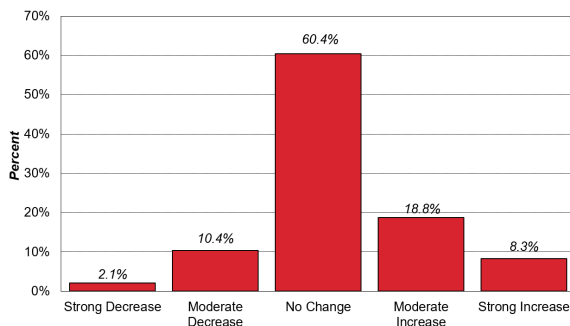
Local business leaders predicted an increase in construction activity in Southern Nevada with a value of 106.3 despite the continued bleak outlook for the future housing markets (Figure 10). When asked about expectations on construction, 43.8 percent of the

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“Las Vegas house prices have declined since June 2022 due to rising mortgage rates.”

Figure 7

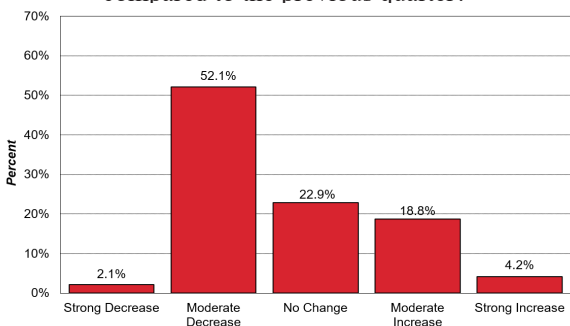
How do you think hiring in your industry will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 9

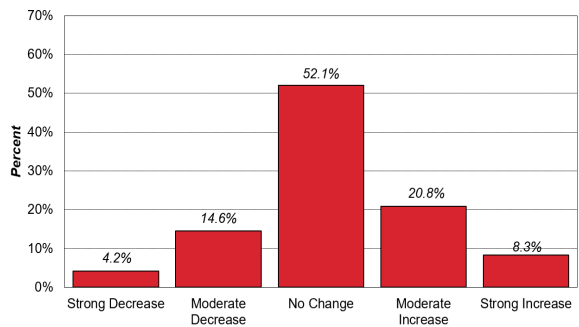
How do you think home prices in Southern Nevada will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 8

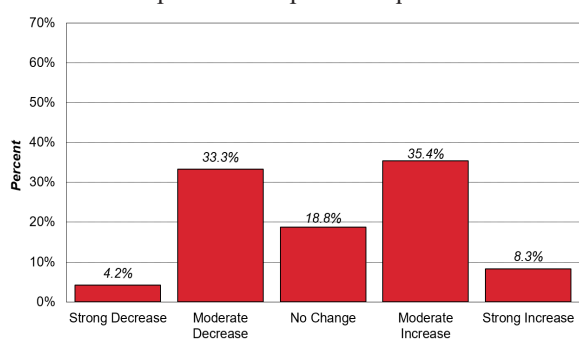
How do you think capital expenditure in your industry will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 10

How do you think construction activity in Southern Nevada will change in the 2nd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

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

respondents expected more construction activity, 18.8 percent projected no change, and 37.5 percent forecasted less construction activity in the second quarter compared to the first quarter of 2023.

Most Important Challenges

Higher operating and/or production costs, marked by 31.1 percent of business leaders, were ranked as the most difficult challenge in Southern Nevada for the first time (Figure 11). Decreasing sales was reported as the most difficult challenge that local businesses faced in the previous quarter, which likely reflected a higher proportion of responses from those in the financial activities and real estate sectors. Finding qualified employees was continuously reported as the second most difficult challenge in Southern Nevada with 17.8 percent, which is lower than 20.9 and 27.5 percent, respectively from 2023Q1 and 2022Q4. This may signal that the labor shortage is loosening with increased reentry to the labor force. Economic uncertainty continued to be identified as the third most important challenge this quarter with 15.6 percent.

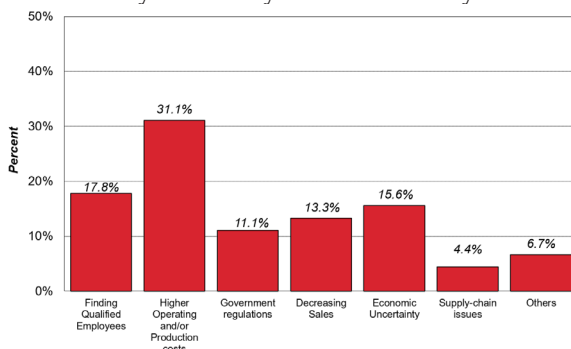
National Fiscal and Monetary Policies

Local business leaders rated current national fiscal and monetary policies as somewhat weak (Figures 12 and 13). When asked about current national monetary policy, 40.9 percent reported that the monetary response was “too/relatively weak,” while 25.0 percent reported it was “too/relatively strong.” The remaining 34.1 percent reported that it was “just about right.” When asked about current national fiscal policy implemented by the Congress and the Administration, 53.3 percent of respondents answered that the fiscal policy response was “too/relatively weak,” 24.4 percent reported “just about right,” and 22.2 percent reported “too/relatively strong.”

“Higher operating and/or production costs, marked by 31.1 percent of business leaders, were ranked as the most difficult challenge in Southern Nevada for the first time.”

Figure 11

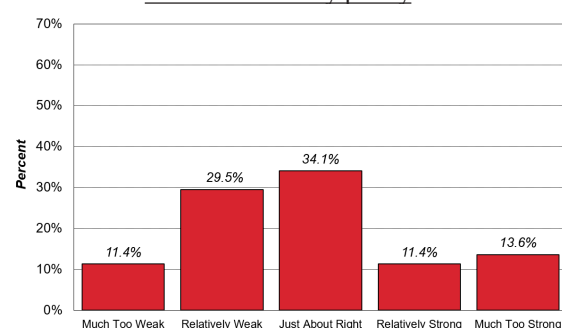
What is the most important challenge that you face in your business today?



CBER Business Confidence Index Survey

Figure 12

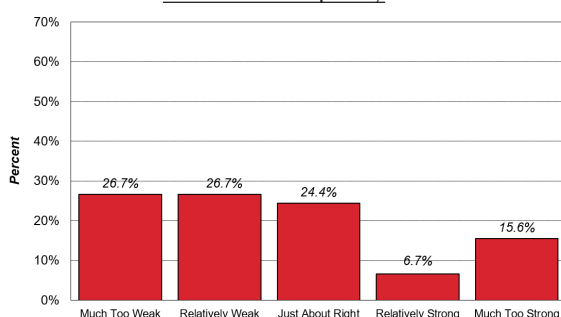
How would you rate current national monetary policy?



CBER Business Confidence Index Survey

Figure 13

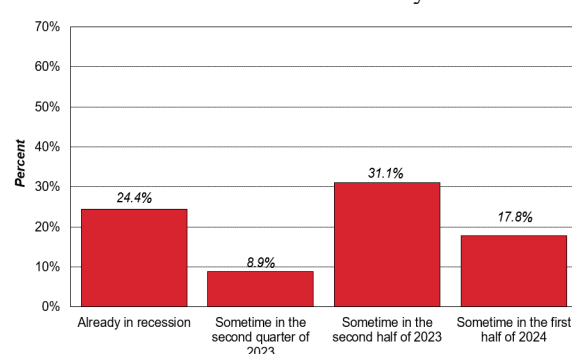
How would you rate current national fiscal policy?



CBER Business Confidence Index Survey

Figure 14

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



CBER Business Confidence Index Survey

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

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

The majority of local business leaders believe that the U.S. economy will slide into recession sometime in 2023 or that the U.S. economy is already experiencing a recession (Figure 14). When asked about the next recession, 24.4 percent of respondents assumed that the national economy is already in recession, 40.0 percent predicted a recession sometime in 2023, 24.4 percent forecasted sometime in 2024, and the remaining 11.1 percent forecasted no recession in the next two years. Among those who predicted a recession in 2023, the majority (77.8 percent) forecasted a recession in the second half of 2023.

With the Fed's new policy to combat inflation, 75.6 percent of respondents believe that the Fed's new policy to bring down inflation already caused, or will cause, a recession, while 24.2 percent projected no recession (Figure 15). Among those who expected a recession, 55.9 percent thought that the Fed would reduce inflation, and the remaining 44.1 percent forecasted that the Fed would fail to reduce inflation. Among those who projected no recession (24.4 percent), only 36.4 percent of respondents anticipated that the Fed's new policy to bring down inflation would reduce inflation, while 63.6 percent predicted that the Fed would fail to reduce inflation.

"The majority of local business leaders believe that the U.S. economy will slide into recession sometime in 2023 or that the U.S. economy is already experiencing a recession."

Figure 15

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

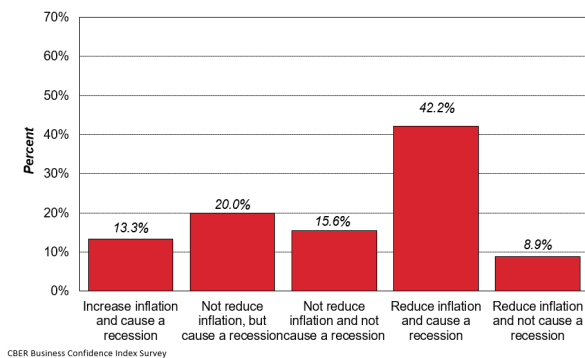


Figure 16

Which best describes your position in your business?

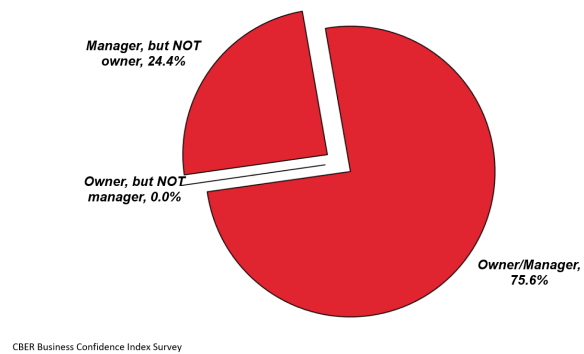


Figure 17

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

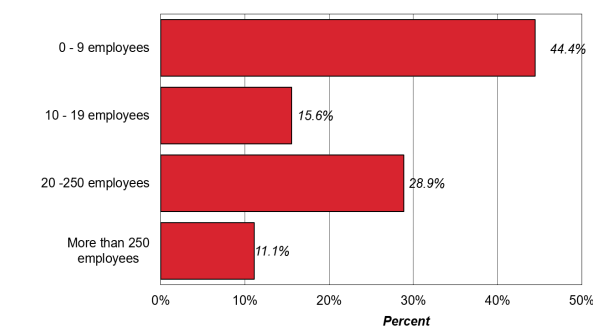
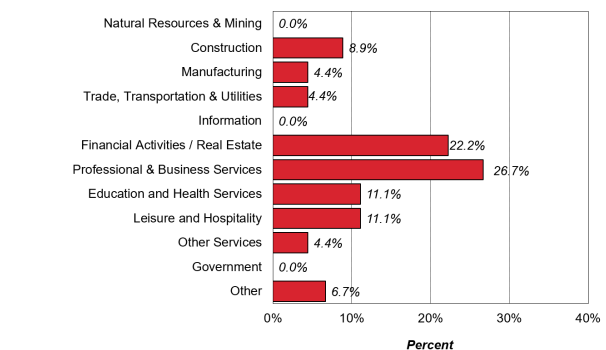


Figure 18

Business sectors reflected in 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 are optimistic about the local economy in the second quarter of 2023 despite an ongoing economic slowdown and uncertainty about U.S. economic conditions. That is, local business leaders predict that the local economic conditions will improve in the second quarter with a positive outlook on sales, profits, capital expenditure, and hiring, while the same business leaders believe that U.S. economic conditions will continue to worsen. The respondents also anticipate increased construction activity in Clark County in the short term, despite a continued cooling of home prices. In conclusion, the local economy is expected to expand in the second quarter of 2023, while the ongoing U.S. economic slowdown and uncertainty may present a stubborn headwind as the Las Vegas economy largely depends on domestic travelers.

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.