

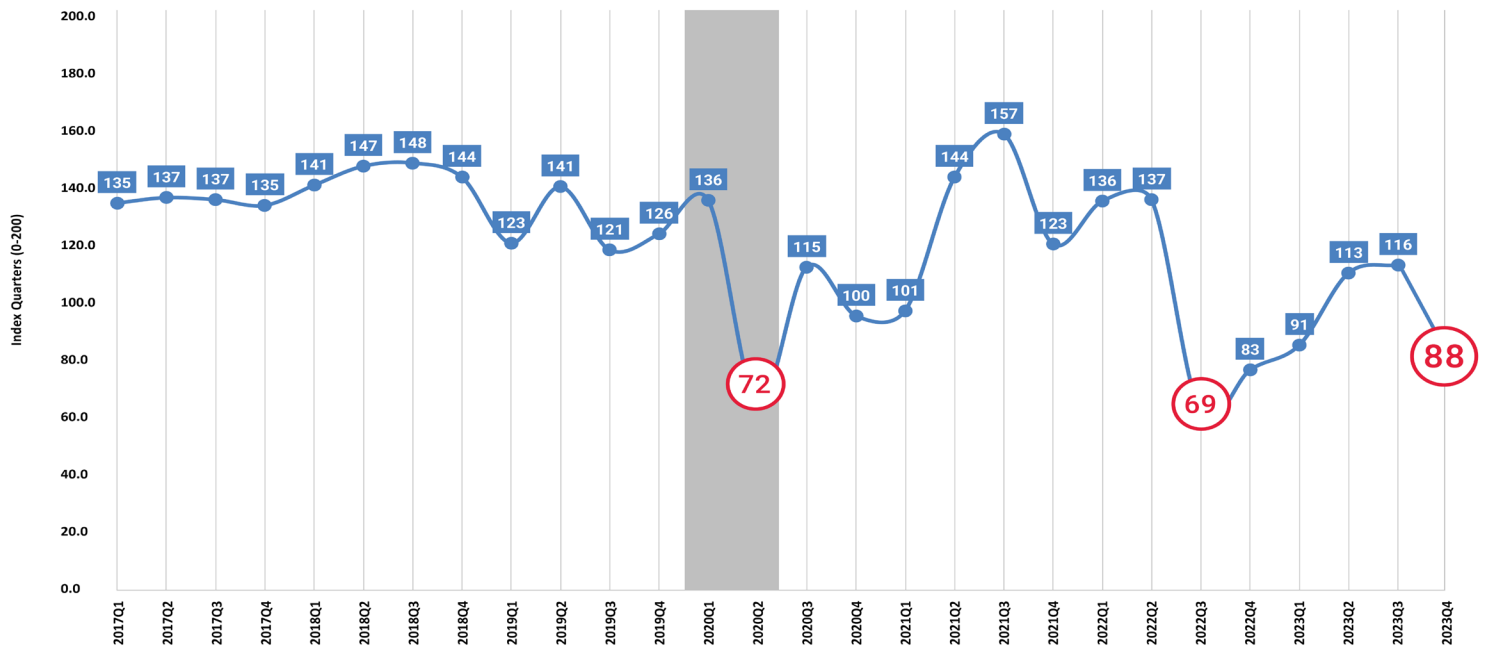
QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

UNLV LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Fourth Quarter 2023

Local Business Leaders Turn from Optimism to Pessimism



Southern Nevada Business Confidence Index, Highlights

ECONOMIC EXPECTATIONS

- Local businesses' confidence fell for the first time since 2022Q3 from 116.0 in the prior quarter to 88.2 in 2023Q4, a rather dramatic drop.
- Local business leaders maintained an even more unfavorable view of U.S. economic conditions with a value of 42.3. Alongside scoring below 100, it is the lowest score since 2022Q4, indicating an increase in pessimism regarding the U.S. economic outlook among respondents.

EXPECTATIONS FOR HIRING

- The index value for expectations on hiring fell below 100 from 104.9 in 2023Q3 to 85.9 in 2023Q4, indicating another pessimistic signal regarding the local economy.

EXPECTATIONS FOR HOME PRICES

- The index value for expectations on home prices in Southern Nevada fell below 100 immediately after its first increase over 100 in four consecutive quarters from 121.3 to 78.9 in 2023Q4

- The Las Vegas Case-Shiller Home price index bucks this trend, posting an increase in local home prices since March 2023 and reversing the downward trajectory observed since June 2022 due to rising mortgage rates.
- Residential permits also rebounded recently, which might reflect a tight inventory as well as an expectation that the Fed will halt interest rate hikes soon.

MOST IMPORTANT CHALLENGES

- Finding qualified employees, marked by 25.4 percent of business leaders, was ranked the most difficult challenge in Southern Nevada in 2023Q4.

POTENTIAL RECESSION

- A quarter of respondents each expressed the belief that the U.S. economy will slide into recession within either the first or second half of 2024.
- There was a small increase in the percentage of respondents compared to the previous quarter (22.2 vs. 21.4 percent), however, who expected no recession in the next two years.

FULL REPORT BELOW

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the third quarter of 2023 grew well above its potential growth by an annual 4.9 percent. This increase in real GDP largely reflected consumer spending, private inventory investment, exports, residential fixed investment, and federal government spending. The largest increases seen were in the house and utilities, healthcare, financial services and insurance, and food services and accommodations sectors. U.S. nonfarm employment in September added a stronger-than-expected 336,000 jobs. Wages rose strongly by 4.6 percent year-over-year. The September unemployment rate held at 3.8 percent and the labor force participation rate ages 25 to 54 remained unchanged at its highest level since May 2002 of 83.5 percent. Alongside the expanding labor market, recent economic data indicate that the United States continues to expand. Advanced estimates for retail sales eked out marginal growth, up only 0.7 percent month-over-month, making its fifth consecutive month of growth. The PCE inflation of 3.4 percent in September remained steady, in line with market forecasts. Despite this, consumer sentiment fell again in October, marking three consecutive months of decline. This observation benefits from the ongoing increase in inflation and decline in consumer spending. The Fed left the federal funds rate target unchanged at its November meeting, as the U.S. economy remains more robust than anticipated.

“U.S. real gross domestic product (GDP) for the third quarter of 2023 grew well above its potential growth by an annual 4.9 percent. ”

Clark County continued to display somewhat favorable economic signals. Seasonally adjusted employment added 8,500 jobs in August, but the unemployment rate increased by 0.3 percent to 6.1 percent, the highest among large metro areas. Leisure and hospitality employment surpassed its pre-pandemic peak of 295,166 by 2.26 percent to 301,825. This is while nonfarm employment surpassed its pre-pandemic peak by 7.75 percent in September. July taxable sales increased 8.05 percent year-over-year and May gaming revenue increased by 0.2 percent year-over-year. Harry Reid passengers fell by 0.5 percent, however, visitor volume in August grew by 8.5 percent from last year. The local housing market experienced continuous increases in housing prices and residential permits amid low inventories.

The survey results presented in this report indicate pessimism on future local business conditions following the prevailing pessimistic views on U.S. economic conditions. Local businesses also anticipated a decrease in local housing prices as well as a mild slight decrease in construction activity. Worsening U.S. economic conditions, however, may pose challenges to the local economy’s expansion as local tourism largely hinges on domestic travelers.

“The survey results presented in this report indicate pessimism on future local business conditions following the prevailing pessimistic views on U.S. economic conditions.”

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), fell sharply to 88.2 in the fourth quarter from 116.0 in the prior quarter, going below 100 for the first time since 2023Q1. (Figure 1). That is, local businesses anticipate an economic contraction in Southern Nevada, while they expressed even more pessimism regarding the U.S. economic outlook for a sixth consecutive quarter.

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. Only one of the five index components –capital expenditure exceeded 100, which suggests that respondents, on average, feel overall more negative than positive about these five components. That is, the index sits below 100 at 88.2. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 95.7, 78.6, 71.8, 85.9, and 108.6, respectively (Figure 2)¹.

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders forecasted that Nevada economic conditions will minimally contract or stay the same, while local business leaders expressed the most pessimism on U.S. economic conditions at a score of 42.3. This is compared to the previous quarter at a 82.0, which was also the highest score since 2022Q2. (Figures 3 and 4). Alongside the index value for expectations on U.S. economic conditions scoring below 100, it recorded its lowest value since 2022Q4, indicating an increase in pessimism regarding U.S. economic outlook among respondents. When asked about the U.S. economy, 70.4 percent forecasted a somewhat worse or much worse economy, while 12.7 percent

“Southern Nevada business leaders forecasted that Nevada economic conditions will minimally contract or stay the same, while local business leaders expressed the most pessimism on U.S. economic conditions.”

Figure 1

CBER’s Southern Nevada Business Confidence Index

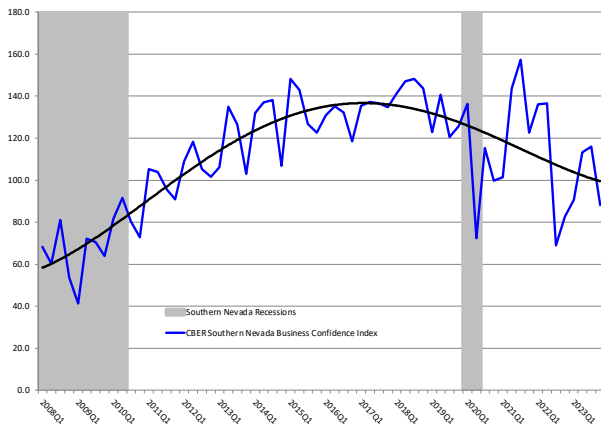
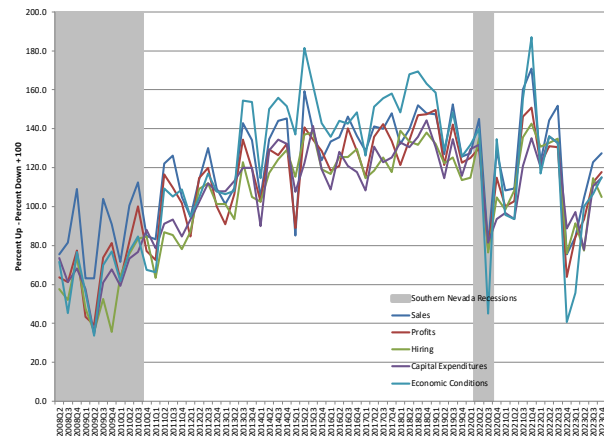


Figure 2

Components of CBER’s Southern Nevada Business Confidence Index



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 115.0 this means that 15.0 percent (100+15.0) more respondents expressed a positive attitude (45.0 percent) than those who expressed a negative attitude (30.0 percent).

projected a somewhat better or much better economy. The remaining 16.9 percent projected no change. When asked the same question about the Nevada economy, 38.6 percent of respondents predicted a somewhat worse or much worse economy, 27.1 percent anticipated no change, and 34.3 percent expected a somewhat better or much better economy.

Expectations for Sales

Local business leaders expressed a significant drop in optimism on sales with a value of 78.9 (Figure 5). The index value decreased by 68.7 percent and 6.62 percent, respectively, from last quarter and last year despite a recent stronger year-over-year growth in local taxable sales. When asked about sales in their own industry, 46.5 percent of the respondents forecasted a decrease, 28.2 percent expected no change, and 25.4 percent predicted an increase.

Expectations for Profits

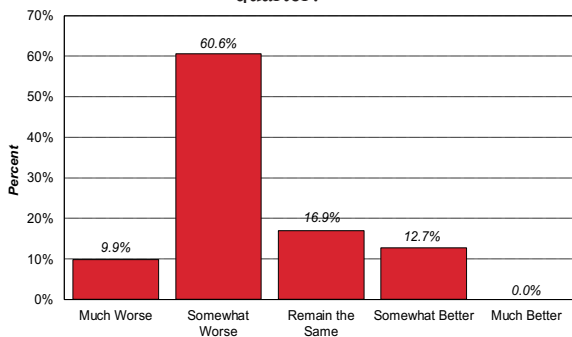
Local business leaders also expressed heightened pessimism on profits; it is the second lowest score at 71.8 compared to 117.7 in the previous quarter (Figure 6). When asked about profits, 50.7 percent of respondents anticipated decreased profits in their industry, 26.8 percent predicted no change, and 22.5 percent forecasted increased profits.

“Local business leaders expressed a significant drop in optimism on sales.”

“Local business leaders also expressed heightened pessimism on profits.”

Figure 3

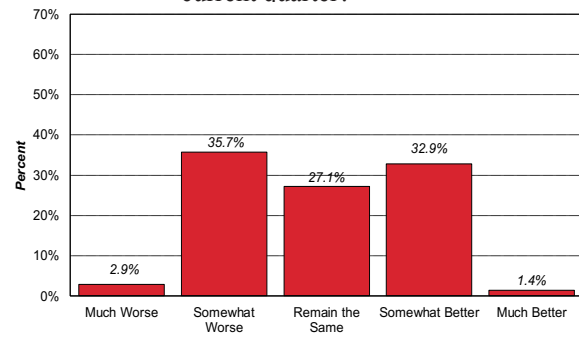
How do you think economic conditions in U.S. will change in the coming quarter compared to the current quarter?



CBER Business Confidence Index Survey

Figure 4

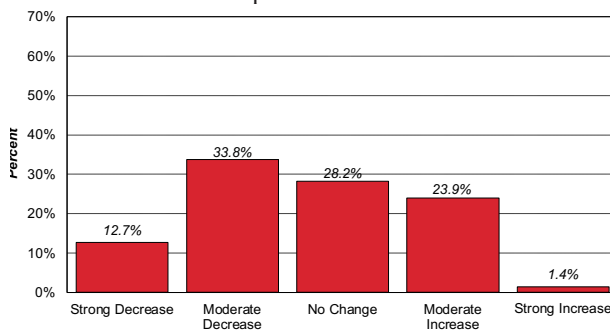
How do you think economic conditions in Nevada will change in the coming quarter compared to the current quarter?



CBER Business Confidence Index Survey

Figure 5

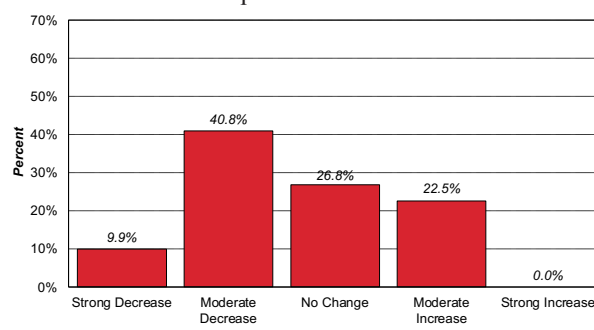
How do you think sales in your industry will change in the coming quarter compared to the current quarter?



Business Confidence Index Survey

Figure 6

How do you think profits in your industry will change in the coming quarter compared to the current quarter?



IER Business Confidence Index Survey

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

Expectations for Hiring

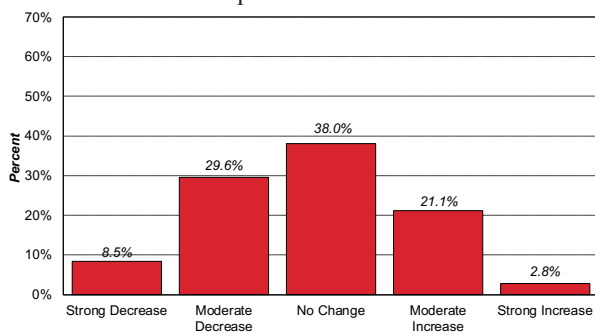
The index value for expectations on hiring although pessimistic was the second least pessimistic amongst the other indexes, declining by 18.1 percent from last quarter (Figure 7). Local business leaders anticipated a slight decrease in hiring activity with a score of 85.9. When asked about hiring in their own industry, 38.0 percent expected a decrease, 38.0 percent expected no change, and 23.9 percent projected an increase. This links to the most important challenge question where most local business leaders said their biggest challenge was finding qualified employees.

Expectations for Capital Expenditure

The index for expectation on capital expenditure is the only index to surpass 100. The value decreased by 5.4 percent to 108.6 this quarter from 114.8 in 2023Q3 (Figure 8). That is, 31.4 percent of respondents forecasted decreased capital expenditure in their industry, while 40.0 percent projected increased capital spending. The remaining 28.6 percent expected no change.

Figure 7

How do you think hiring in your industry will change in the coming quarter compared to the current quarter?

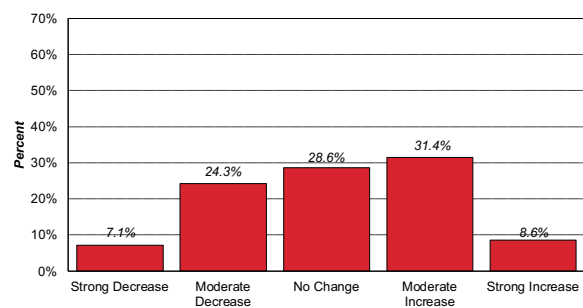


ER Business Confidence Index Survey

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

Figure 8

How do you think capital expenditures in your industry will change in the coming quarter compared to the current quarter?



CBER Business Confidence Index Survey

Expectations for Home Prices

The index value for expectations on home prices in Southern Nevada fell below 100 with a value of 78.9 after the previous quarter’s first score over 100 in four quarters at 121.3 (Figure 9). This indicates that Southern Nevada businesses anticipate a decrease in local home prices in the fourth quarter compared to the previous quarter. Notably, the most recent movement in the Las Vegas Case-Shiller Home price index contradicts these predictions, posting an increase in local home prices since March 2023. This reverses the downward trajectory observed since June 2022 due to rising mortgage rates. Residential permits also rebounded in May, up by 79.7 percent from last year after 10 consecutive months of year-over-year declines, which might reflect a tight inventory as well as an expectation that the Fed will halt interest rate hikes soon. When asked about expectations on home prices, 25.4 percent of the respondents expected increases in home prices in Southern Nevada, 28.2 percent forecasted no change, and 46.5 percent predicted decreases in home prices.

Expectations for Construction Activity

Local business leaders continued to predict a slight decrease in construction activity in Southern Nevada with a value of 91.5 (Figure 10). When asked about expectations on construction, 31.0 percent of the respondents expected more construction activity, 29.6 percent projected no change, and only 39.4 percent forecasted less construction activity in the third quarter compared to the second quarter of 2023 at 136.1.

“Southern Nevada businesses anticipate a decrease in local home prices in the fourth quarter compared to the previous quarter.”

“Local business leaders continued to predict a slight decrease in construction activity in Southern Nevada.”

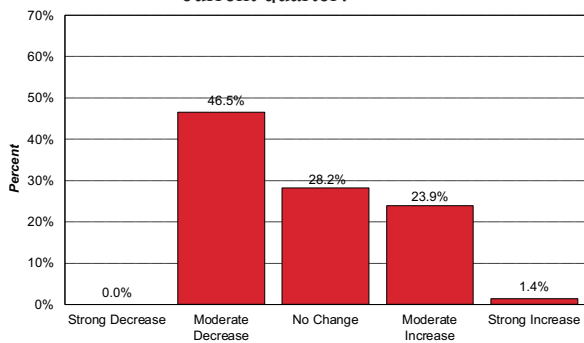
Most Important Challenges

Finding qualified employees, marked by 25.4 percent of business leaders, was ranked the most difficult challenge in Southern Nevada in the fourth quarter of 2023 despite waning concern over the economy falling into recession (Figure 11). Higher operating and/or production costs were reported as the second most difficult challenge in Southern Nevada with 23.9 percent. Economic uncertainty was reported as the most important challenge in the previous quarter, were identified as the third most important challenge this quarter with 16.4 percent amid increasing inflation rates.

“Most local business leaders said their biggest challenge was finding qualified employees.”

Figure 9

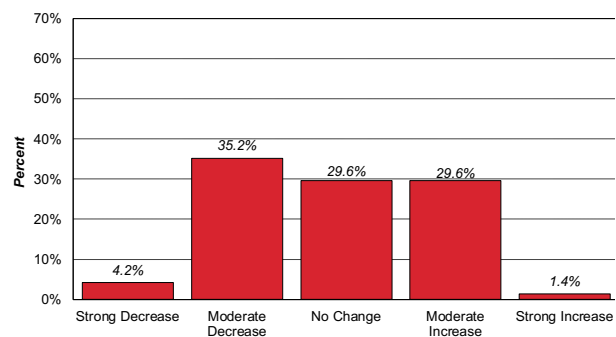
How do you think home prices in Southern Nevada will change in the coming quarter compared to the current quarter?



CBER Business Confidence Index Survey

Figure 10

How do you think construction activity in Southern Nevada will change in the coming quarter compared to the current quarter?



CBER Business Confidence Index Survey

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

National Fiscal and Monetary Policies

Local business leaders rated the current national fiscal and monetary policies as relatively weak and somewhat strong, respectively (Figures 12 and 13). When asked about current national monetary policy, 29.9 percent reported that the monetary response was “too/relatively weak,” while 38.8 percent reported it was “too/relatively strong.” The remaining 31.3 percent reported that it was “just about right.” When asked about current national fiscal policy implemented by the Congress and the Administration, 53.7 percent of respondents answered that the fiscal policy response was “too/relatively weak,” 20.9 percent reported “just about right,” and 25.4 percent reported “too/relatively strong.”

“Local business leaders rated the current national fiscal and monetary policies as relatively weak and somewhat strong, respectively.”

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

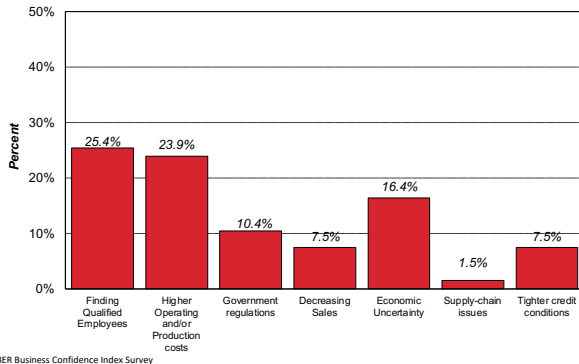
More than half of the respondents expressed the belief that the U.S. economy will slide into recession within the next 18 months (Figure 14). Specifically, 3.0 percent predicted a recession sometime in the second half of 2023, while 53.8 percent forecasted it to occur sometime in 2024. Interestingly, a larger percentage of respondents compared to the previous quarter (26.9 vs. 14.3 percent), expected a recession in the first half of 2024. On the other hand, 19.4 percent of respondents assumed that the U.S. economy already experiences a recession.

“More than half of the respondents expressed the belief that the U.S. economy will slide into recession within the next 18 months.”

With the Fed’s current policy to bring down inflation, 73.5 percent of respondents believe that the Fed’s new policy to bring down inflation already caused, or will cause, a recession, while 26.5 percent projected that the Fed’s new policy would not cause a recession in the next two years (Figure 15). Among those who expected that a recession would result from the Fed’s policy, 42.0 percent thought that the Fed would reduce inflation, and the remaining 58.0 percent forecasted that the Fed would fail to reduce inflation or actually increase inflation. Among those who projected no recession, 61.1 percent of respondents anticipated that the Fed’s current policy to bring down inflation would reduce inflation, while 38.9 percent predicted that the Fed would fail to reduce inflation.

Figure 11

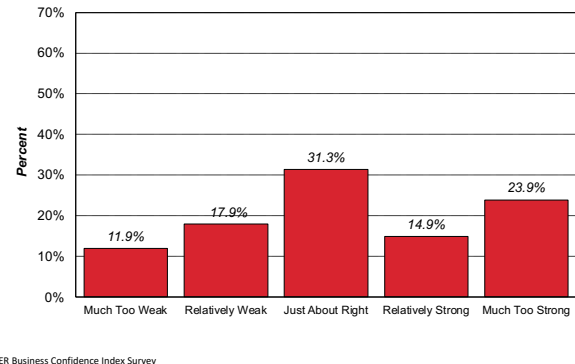
What is the most important challenge that you face in your business today?



CBER Business Confidence Index Survey

Figure 12

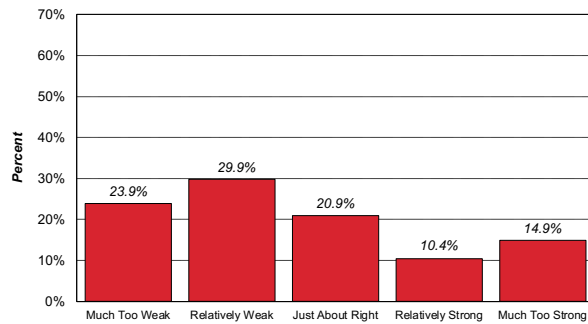
How would you rate current national monetary policy?



CBER Business Confidence Index Survey

Figure 13

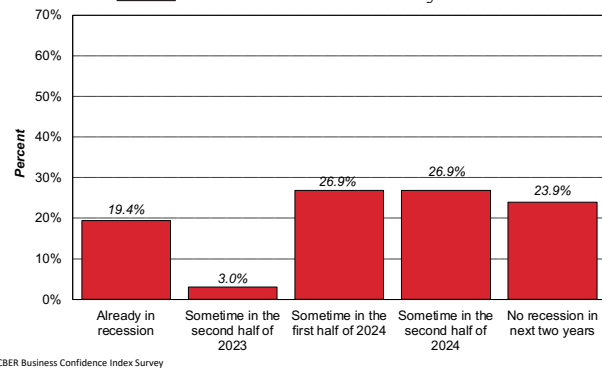
How would you rate current national fiscal policy?



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.

Conclusion

The most recent CBER business survey suggests that local businesses maintain a negative outlook on the local economy in the fourth quarter of 2023 following ongoing even more pessimism about U.S. economic conditions. That is, local business leaders predict improved expectations for capital expenditures in the fourth quarter with a negative outlook on sales, profits, local economic conditions, and hiring, following their belief that U.S. economic conditions will continue to deteriorate. The respondents also anticipate a decline in local home prices and slightly decreased construction activity in Clark County in the short term. In conclusion, the local economy is expected to contract in the fourth quarter of 2023 or in 2024 despite the ongoing U.S. economic growth.

Figure 15

Given the Fed's current policy to bring down inflation, you expect that the Fed in the next two years will:

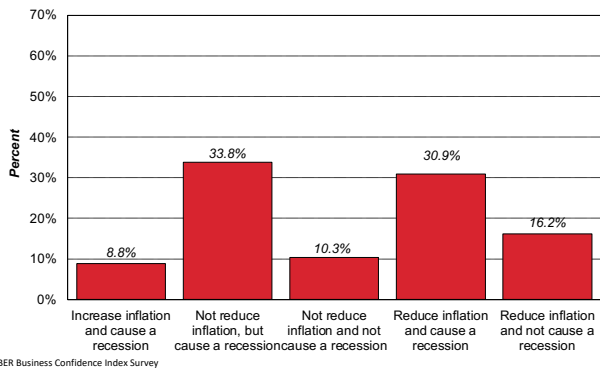


Figure 16

Which best describes your position in the business?

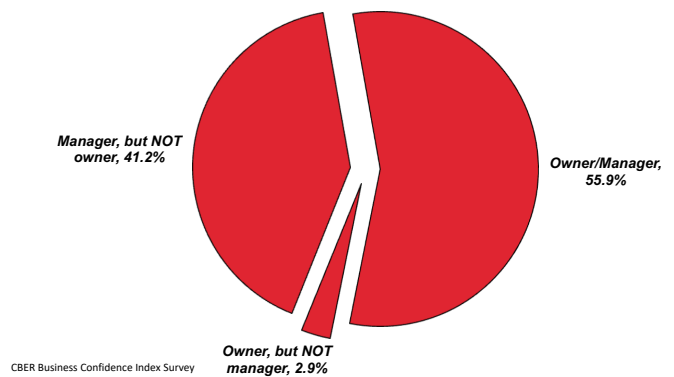


Figure 17

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

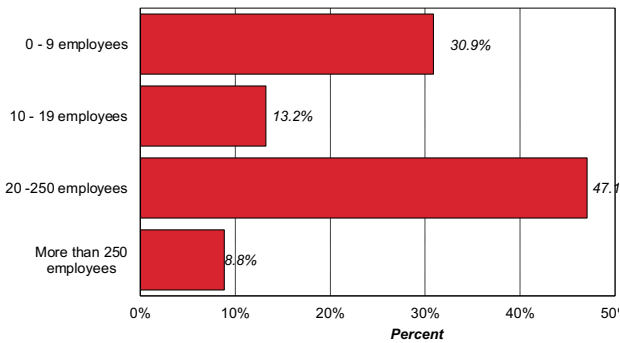
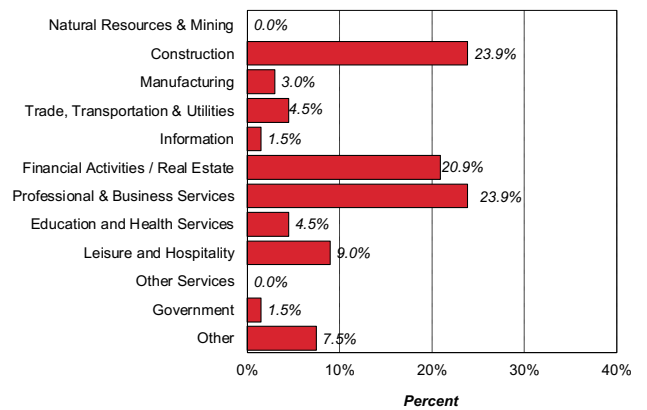


Figure 18

Business sectors reflected in survey



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

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.