

QUARTERLY INDICATORS

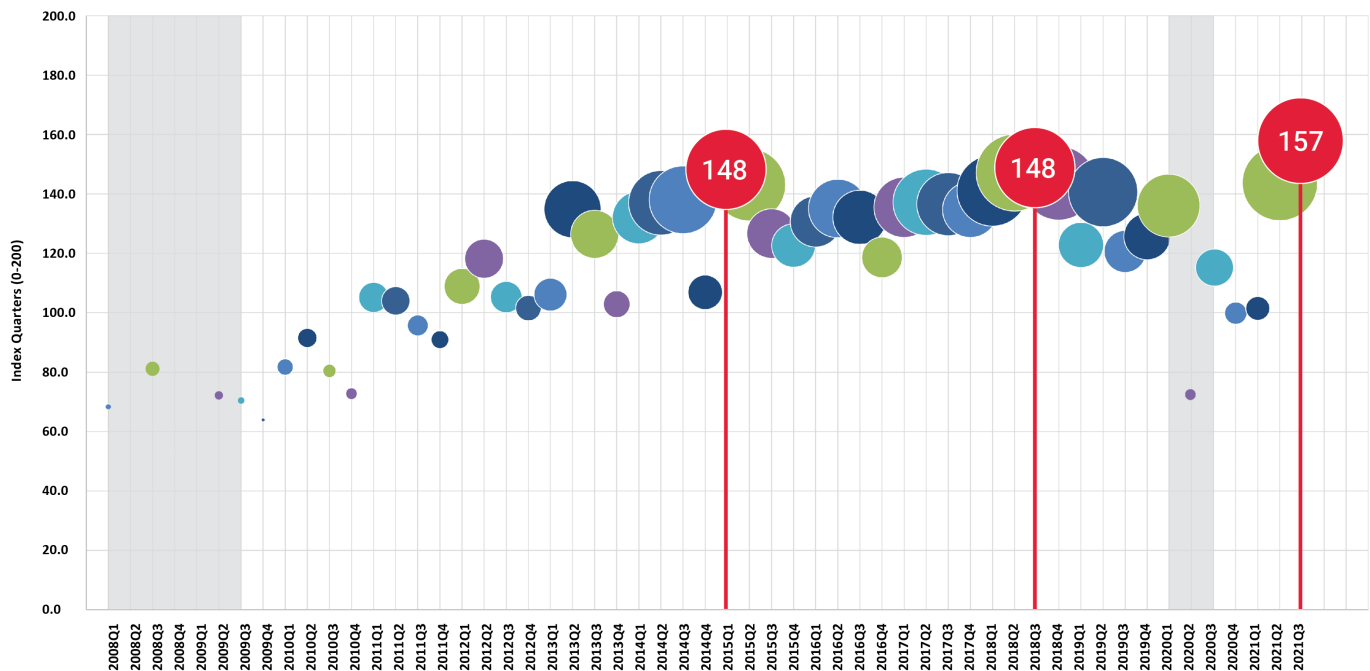
Southern Nevada Business Confidence Index

UNLV LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Third Quarter 2021

Southern Nevada Business Confidence Index, Highlights

The Top 3 Highest Index Scores for CBER's Southern Nevada Business Confidence Index



ECONOMIC EXPECTATIONS

- o Southern Nevada business leaders expressed **the highest confidence ever recorded** for both Nevada and U.S. economic conditions as the economy snaps back faster and stronger than expected. CBER's index for Nevada beat its prior peak in the 1st quarter of 2015.
- o Four of the five individual components of the Southern Nevada Business Confidence Index for the 3rd Quarter of 2021 set record highs going back to 2008.

EXPECTATIONS FOR CAPITAL EXPENDITURE

- o This was the one measure that did not set a record high, though it remains at an impressive level of 135.2. In a strong sign of optimism, 44.4 percent of respondents forecasted increased capital expenditure in their industry. Recent shortages and supply chain constraints may slightly constrain this measure.

EXPECTATIONS FOR HOME PRICES

- o Local business executives predict that the upward trend of local housing prices will continue for the third quarter with a value of 164.8. Nevada continues to show strong month-over-month housing-price growth, though below national indexes for year-over-year-housing-price growth.

EXPECTATIONS FOR CONSTRUCTION ACTIVITY

o Local business leaders express a highly positive outlook on construction activity with an index value of 167.3 and with 72.7 percent of the respondents expecting more construction activity in the 3rd quarter. This may reflect the rapid recovery of the economy fueled by high vaccination rates, federal relief money, increased business confidence, and possible further spending on infrastructure out of Washington, D.C.

EXPECTED CHALLENGES

o While business confidence was the number one concern mentioned by respondents (32.0 percent), finding qualified employees soared to the number two spot, rising from 12.8 percent last quarter to 22.0 percent. Inflation and (material) supply issues were also mentioned.

EXPECTATIONS FOR FULL ECONOMIC RECOVERY

o Optimism in the speed of the economic recovery has increased with 12.0 percent of respondents expecting a full recovery in 2021 (higher than the 3.5 percent from last quarter) and an increased majority of local business leaders (56.0 percent) anticipate that a full recovery will happen in 2022.

FULL REPORT BELOW

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the first quarter of 2021 experienced a strong gain of 6.4 percent at an annual rate, bringing the gap from the pre-pandemic peak to within one percent. The strong recovery was largely boosted by federal relief funds. U.S. nonfarm employment, however, continued to show weaker-than-expected gains, adding 559,000 jobs in May, with signals of a labor shortage. That is, average hourly earnings increased by 0.5 percent from last month even though the May employment increase largely reflected job gains in the leisure and hospitality sector. Retail sales, which already surpassed its pre-pandemic peak, also continued its robust year-over-year climb. Housing starts recently struggled with increasing building costs and materials shortages, but still remained at a high level. Overall, the U.S. economy experiences a strong recovery benefiting from the vaccine rollout and federal relief money. Constrained labor and materials markets and a surge in inflation, however, raise some concerns about the ongoing recovery.

Clark County recently posted highly positive signs of economic recovery as the tourism sector sees high demands boosted by the vaccine rollout as well as massive federal support. Seasonally adjusted employment added 8,400 jobs in April, but the unemployment rate remained unchanged at 8.9 percent. April visitor volume continues robust pick-ups, but remains 29.7 percent lower than the level from April 2019. April gaming revenue, however, was 7.0 percent higher than the level from April 2019 thanks to strong consumer spending fueled by strong federal and monetary responses to the COVID-19 recession. In addition, March taxable sales recorded its second highest level. The local housing market also reaches higher median home prices every month due to high demand and tight inventory. The most recent data indicate that the local economy experienced a strong improvement as travel restrictions related to COVID-19 ease. The survey results conveyed in this report align with the current economic conditions as respondents expressed record-high optimism on local business conditions.

“Clark County recently posted highly positive signs of economic recovery as the tourism sector sees high demands boosted by the vaccine rollout as well as massive federal support.”

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),

recorded its highest level since CBER started reporting the index, as the tourism sector gains momentum with much fewer restrictions related to COVID-19 thanks to high vaccination rates. The index’s prior highest level occurred in 2015Q1 with the value of 148.1. The index jumped strongly this quarter despite its high level in the previous quarter, up 9.5 percent from 143.7 in the second quarter to 157.3 in the third quarter of 2021 (Figure 1). The index also gained substantially by 36.5 percent year-over-year. A substantial quarter-over-quarter gain in the index value suggests that business leaders expect a stronger recovery in the third quarter, benefitting from the strong pick-up in the leisure and hospitality sector, which experienced a severe downturn due to the COVID-19 pandemic.

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 remain well above 100, which suggests that respondents, on average, feel more positive than negative about the five components. In addition, local businesses expressed record high optimism for every component except capital expenditure, benefitting from the recent strong rebound in the tourism sector. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 187.0, 170.9, 150.9, 142.6, and 135.2, respectively (Figure 2)¹.

In contrast to our current figures, at the trough in the pandemic recession in the second quarter of 2020, the five measures were 45.1, 80.8, 77.8, 76.4, and 81.4 respectively. The only time our individual components were lower was after the 2008 great recession and it took years for business confidence to rebound. This time around we saw how the pandemic recession was unprecedented and, therefore, the recovery in business leader expectations is also proving to be unprecedented.

“The Southern Nevada Business Confidence Index ... recorded its highest level since CBER started reporting the index, as the tourism sector gains momentum with much fewer restrictions related to COVID-19 thanks to high vaccination rates.”

Figure 1
CBER’s Southern Nevada Business Confidence Index

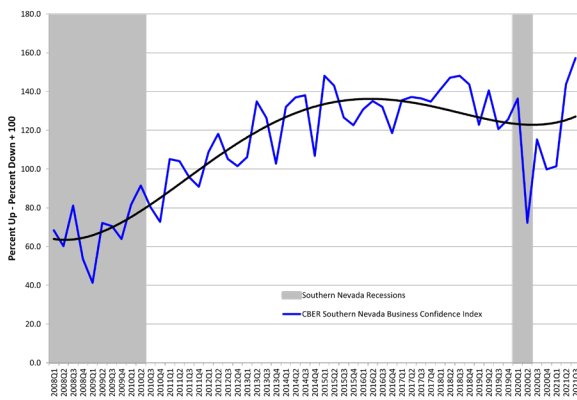
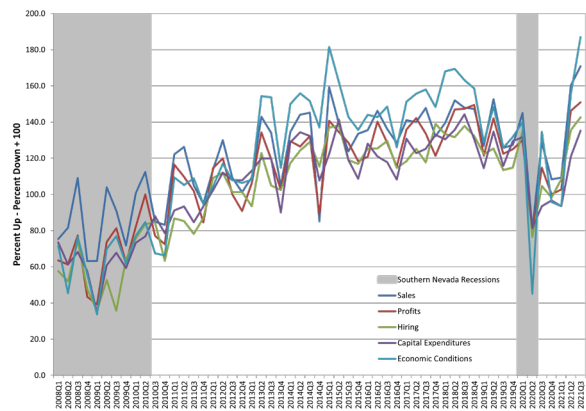


Figure 2
Components of CBER’s Southern Nevada Business Confidence Index



Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders expressed the highest confidence on record for both Nevada and U.S. economic conditions (Figures 3 and 4), as the economy recovers faster and stronger than expected. As more than 50 percent of U.S. population received their first doses, the economy has moved much closer to normal operations. In addition, the economy was boosted by strong consumer spending with stronger-than-ever fiscal and monetary

¹ 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 187.0, then this means that 87.0 percent more respondents exhibit a positive attitude (90.7 percent) than those that exhibit a negative attitude (3.7 percent).

stimulus. As a result, shortages of raw materials and labor emerged as most businesses did not foresee the speed of the rebound. The U.S. economy has now significantly recovered from the worst-downturn since the Great Depression, caused by the COVID-19 outbreak. Las Vegas had been penalized the most during the economic recovery from COVID-19 related restrictions due to its tourism-dependent economy. Currently, an almost fully reopened economy continues to promote faster recovery and helps boost revenue streams for local businesses.

Both measures of economic performance, therefore, posted substantial quarter-over-quarter and year-over-year surges. The values for U.S. and Nevada economic activity were 167.9 and 187.0, respectively. When asked about the U.S. economy, 77.4 percent forecasted a better economy, while 9.4 percent projected a worse economy. The remaining 13.2 percent expected no change. When asked the same question about the Nevada economy, 90.7 percent of respondents forecasted an improved economy, 5.6 percent projected no change, and only 3.7 percent expected a worse economy.

“Currently, an almost fully reopened economy continues to promote faster recovery and helps boost revenue streams for local businesses.”

Figure 3

How do you think economic conditions in the United States will change in the 3rd quarter of 2021 compared to the previous quarter?

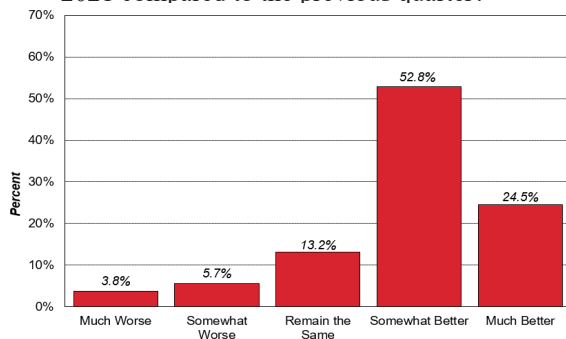
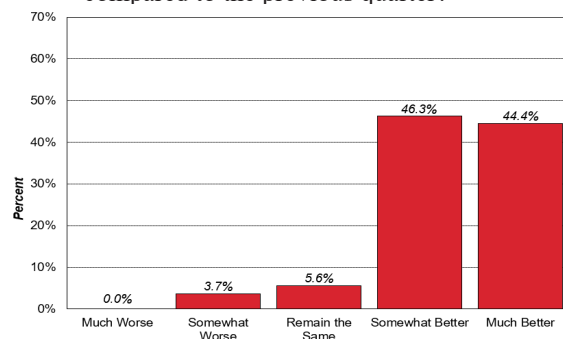


Figure 4

How do you think economic conditions in Nevada will change in the 3rd quarter of 2021 compared to the previous quarter?



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

Expectations for Sales

After recording its highest value last quarter, the index value for expectations on sales moved even higher this quarter to 170.9 (Figure 5). Retail sales exhibited strong performance despite COVID-19, benefiting from massive inflows of income support from the federal government. As a result, the U.S. retail sales has already surpassed its pre-pandemic peak in June 2020, but Clark County retail sales recovered more slowly, recently recording its second highest level in March 2021 as the tourism sector experienced a strong recovery with the vaccine rollouts. In addition, local business leaders expect this strong performance to continue in the third quarter of 2021. That is, 78.2 percent of the respondents predicted increased sales in their industry, 14.5 percent expected no change, and only 7.3 percent projected decreased sales.

Expectations for Profits

The respondents also expressed record high confidence on profits with a value of 150.9, which aligns itself with sales (Figure 6). The index was up robustly by 3.2 and 31.4 percent, respectively, quarter-over-quarter and year-over-year. When asked about profits in their own industry, 61.8 percent of respondents expected an increase, 27.3 percent predicted no change, and 10.9 percent forecasted a decrease.

Expectations for Hiring

Local business leaders also posted the highest optimism for hiring with a value of 142.6 (Figure 7). This strongly suggests that the current labor market distortion is caused by labor shortage and not by job supply. The index value for expectations on hiring increased by 5.2

“After recording its highest value last quarter, the index value for expectations on sales moved even higher this quarter to 170.9 ...”

and 36.2 percent from last quarter and last year, respectively. When asked about hiring in their own industry, 51.9 percent expected an increase, 38.9 percent expected no change, and only 9.3 percent projected a decrease.

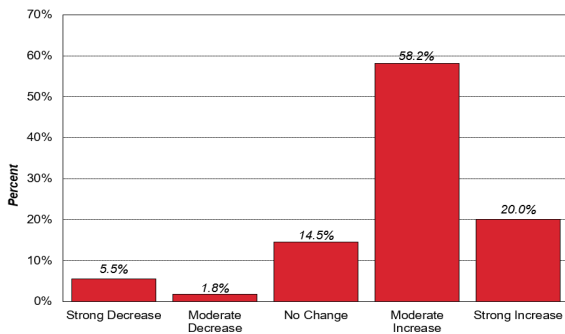
Expectations for Capital Expenditure

The index value for capital expenditure jumped by 11.8 and 44.6 percent from last quarter and last year, respectively (Figure 8). Although the index did not hit its highest level like other components, it remains at an impressive level of 135.2. When asked about expectations on capital expenditure, 44.4 percent of respondents forecasted increased capital expenditure in their industry, while 9.3 percent projected decreased capital expenditure. The remaining 46.3 percent expected no change.

“Local business leaders also posted the highest optimism for hiring with a value of 142.6 ...”

Figure 5

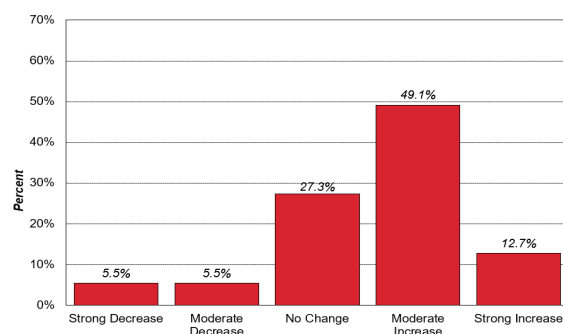
How do you think sales in your industry will change in the 3rd quarter of 2021 compared to the previous quarter?



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Figure 6

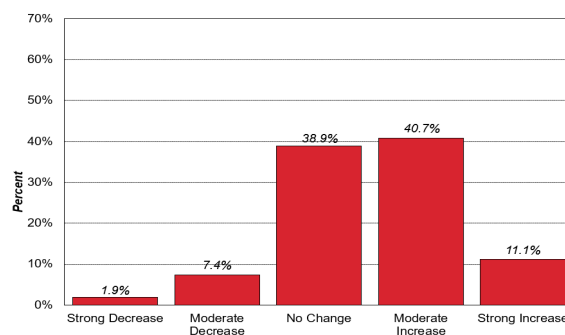
How do you think profits in your industry will change in the 3rd quarter of 2021 compared to the previous quarter?



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Figure 7

How do you think hiring in your industry will change in the 3rd quarter of 2021 compared to the previous quarter?

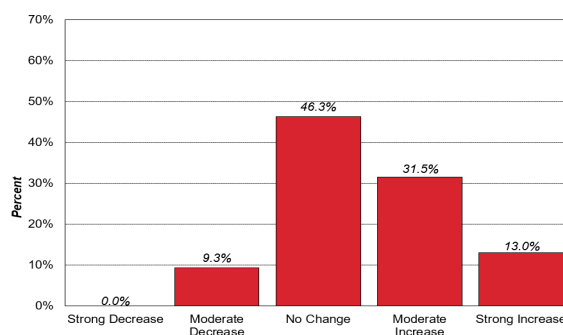


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Note: When reporting percentage responses, totals may not add to 100 because of rounding.

Figure 8

How do you think capital expenditure in your industry will change in the 3rd quarter of 2021 compared to the previous quarter?



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Expectations for Home Prices

The local and national housing market exhibited a stronger-than-expected performance despite the virus, benefitting from all-time low mortgage rates (Figure 9). The inventory of homes for sale persistently remains at low levels due to surprisingly high demands, and the home prices continued to rise as a consequence. The local housing market has posted new record high median prices every month and does not show any signs of cooling down. Recent increased building costs, moreover, will push up the value of homes even more. Local business executives predict that the upward trend of local housing prices will continue for the third quarter with a value of 164.8. When asked about expectations on home prices, 74.1 percent of the respondents expected increases in home prices in Southern Nevada, 16.7

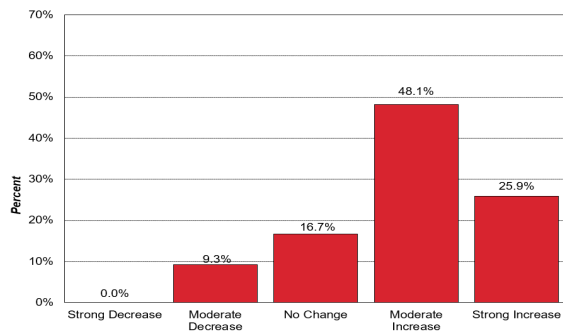
“The local housing market has posted new record high median prices every month and does not show any signs of cooling down. Recent increased building costs, moreover, will push up the value of homes even more ...”

percent forecasted no change, and 9.3 percent predicted decreases in home prices.

Expectations for Construction Activity

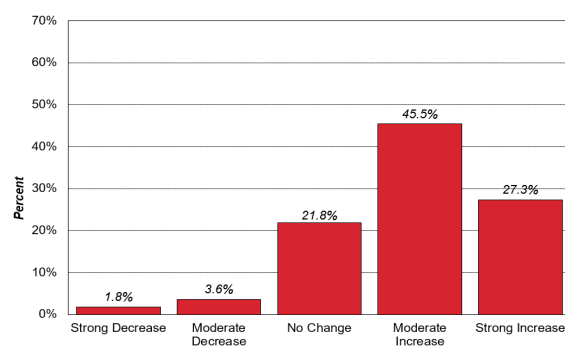
Local business leaders also express a highly positive outlook on construction activity with a value of 167.3 (Figure 10). This may reflect a rapid recovering economy, fueled by high vaccination rates as well as federal relief money. When asked about expectations on construction, 72.7 percent of the respondents expected more construction activity, 21.8 percent projected no change, and 5.5 percent forecasted less construction activity in the third quarter compared to the second quarter of 2021.

Figure 9
How do you think home prices in Southern Nevada will change in the 3rd quarter of 2021 compared to the previous quarter?



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Figure 10
How do you think construction activity in Southern Nevada will change in the 3rd quarter of 2021 compared to the previous quarter?



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Most Important Challenges

The respondents mentioned economic uncertainty as the most difficult challenge for the fifth straight quarter, leading with 32.0 percent (Figure 11). Finding qualified employees was marked as the second most difficult challenge with 20.0 percent, which soared compared to 12.8 percent in the previous quarter. Among those who reported “others” as the most important challenge (22.0 percent), inflation and (material) supply issues were mentioned most frequently. The coronavirus (COVID-19), which previously scored as the second most important challenge with 24.4 percent, dropped to one of the least important challenges with 6.0 percent this quarter.

The Economic Recovery

More local business leaders expressed strong optimism on the speed of economic recovery this quarter (Figure 12), as 12.0 percent of respondents expected a full recovery in 2021, which is much higher than the 3.5 percent recorded in the last quarter. A majority of local business leaders (56.0 percent) anticipate that a full recovery will happen in 2022, which has climbed significantly compared to the previous quarter of 39.5 percent. The remaining 32.0 percent respondents forecasted no full recovery until 2023 or later.

Responses of National Fiscal and Monetary Policies

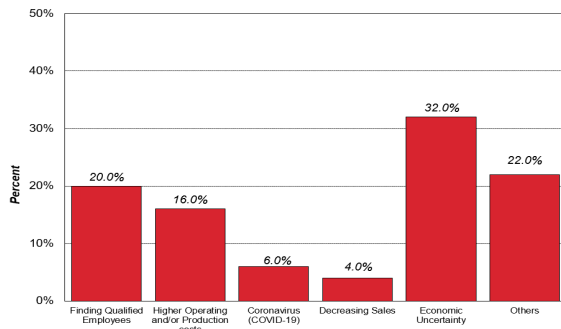
Local business leaders reported that the responses of both national monetary and fiscal policies to the COVID-19 recession were too strong (Figures 13 and 14). Last quarter, respondents stated that only the response of monetary policies was strong, but that of fiscal policies was marginally weak. This may indicate that the CARES Act of 1.9 trillion fiscal relief and the following extensions as well as the ongoing discussions about infrastructure bills in Congress were much stronger than local businesses expected. When asked about the response of national monetary policies to the COVID-19 recession, 47.9 percent reported that the monetary response was too/relatively strong, 35.4 percent that the response was “just about right,” and 16.7 percent reported the response was too/relatively weak. When

“Among those who reported “others” as the most important challenge (22.0 percent), inflation and (material) supply issues were mentioned most frequently.”

“Local business leaders reported that the responses of both national monetary and fiscal policies to the COVID-19 recession were too strong...”

Figure 11

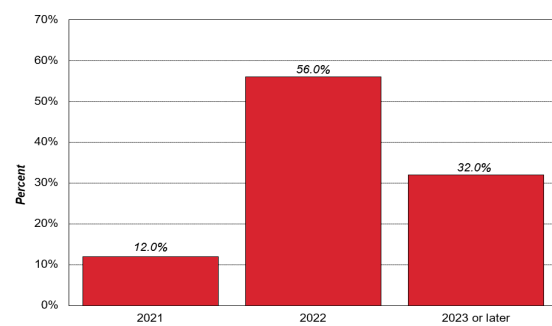
What is the most important challenge that you face in your business today?



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Figure 12

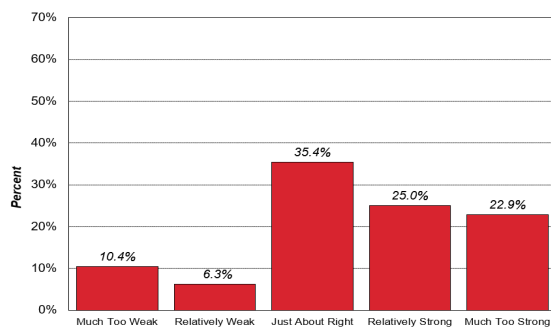
When do you expect the full recovery from the current recession to occur?



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Figure 13

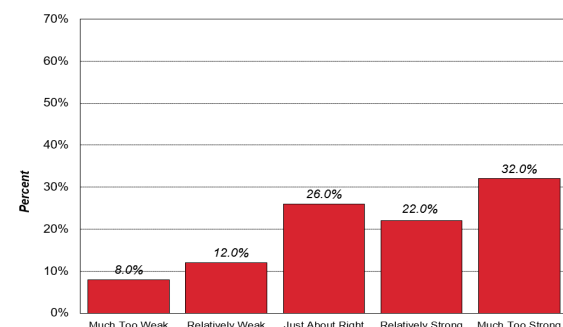
Rating the response of national monetary policy to the COVID-19 recession



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Figure 14

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



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

asked about the response of national fiscal policy implemented by the Congress and the Administration, 54.0 percent respondents answered that the fiscal policy response to the economic downturn due to the virus was too/relatively strong, while 20.0 percent reported too/relatively weak. The remaining 26.0 percent reported “just about right”.

In sum, the evaluation of both monetary and fiscal policy changed between the CBER survey conducted in March 2021 and this current June survey. A swing occurred indicating that Southern Nevada business leaders think that both policies have become too strong. The last meeting of the Federal Open Market Committee signaled movement toward interest rate increases occurring sooner than previously announced, which will weaken the monetary policy response. On the fiscal side, however, the discussion of two infrastructure bills will probably lead to even stronger fiscal response, if enacted.

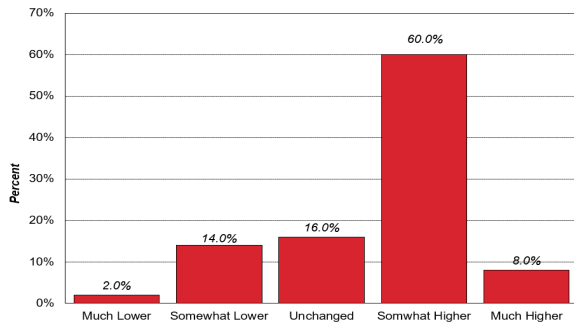
Company’s Position after Full Economic Recovery

A majority of local business leaders are optimistic about their levels of sales and employment after the full economic recovery compared to the pre-pandemic economy (Figures 15 and 16). When asked about their level of sales after the full recovery compared to their pre-recession positions, 68.0 percent of respondents forecasted an increase in sales, 16.0 percent expected no change, and 16.0 percent predicted a decrease. When asked about employment, 46.0 percent of respondents expected an increase compared to pre-recession levels, while only 8.0 percent expected a decrease. The remaining 46.0 percent predicted no change in employment after the full recovery compared to the pre-recession levels.

“A majority of local business leaders are optimistic about their levels of sales and employment after the full economic recovery compared to the pre-pandemic economy ...”

Figure 15

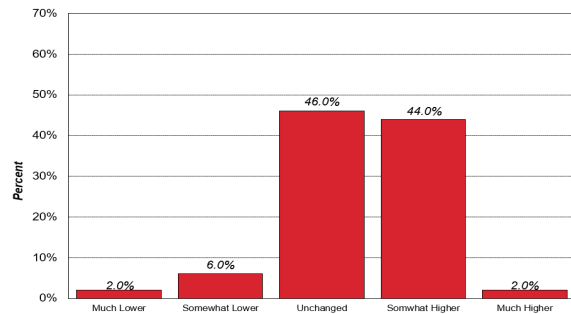
Comparing your company's position before COVID19 recession to where you expect it to be after the economy fully recovers, your sales will be?



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Figure 16

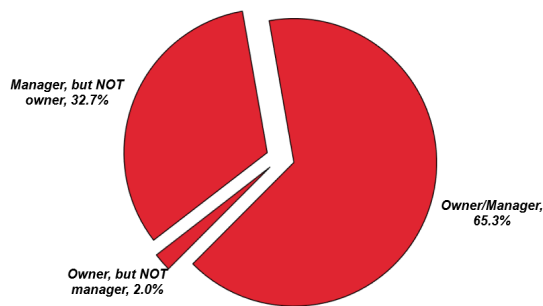
Comparing your company's position before COVID19 recession to where you expect it to be after the economy fully recovers, your employment will be?



CBER Business Confidence Index Survey

Figure 17

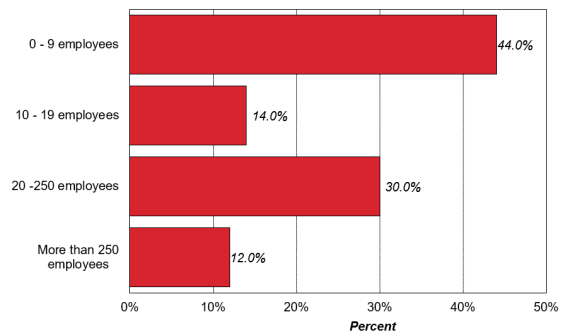
Which best describes your position in your business?



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Figure 18

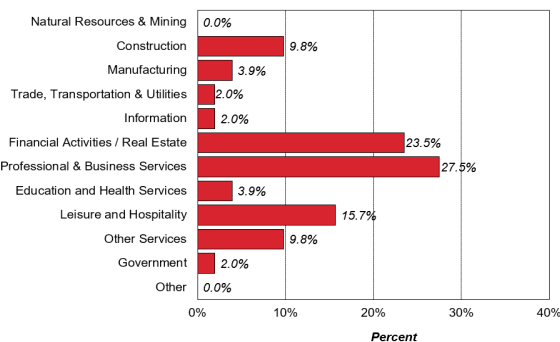
How many people, full time and part time, does you business currently employ, NOT including yourself?



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Figure 19

Business sectors reflected in survey



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

Conclusion

The most recent CBER business survey suggests that local business leaders are highly optimistic about the local economy in the third quarter of 2021, which reflects high vaccination rates and fiscal relief money. Respondents expressed record-high favorable outlooks for both U.S. and Nevada economic conditions this quarter. As a result, the Southern Nevada business leaders expressed extremely high optimism in all five components. They also

“The most recent CBER business survey suggests that local business leaders are highly optimistic about the local economy in the third quarter of 2021 ...”

predicted increased home prices and construction activity in the third quarter. Therefore, we conclude that Clark County's economic conditions are expected to improve much more rapidly and vigorously in the third quarter based on local business leaders' expectations.

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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.