

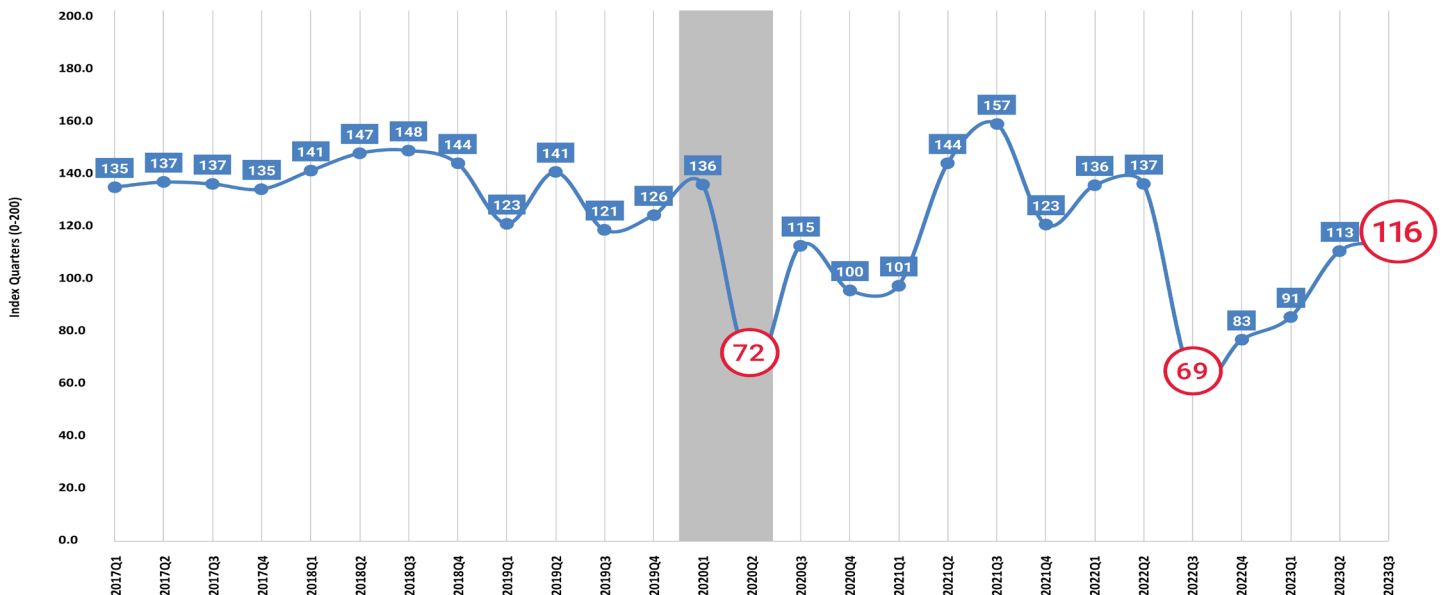
QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

UNLV LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Third Quarter 2023

Local Businesses Express Continued Optimism for the Second Straight Quarter



Southern Nevada Business Confidence Index, Highlights

ECONOMIC EXPECTATIONS

o Local businesses' confidence continued to rise from 113.4 in the prior quarter to 116.0 in 2023Q3.

o Local business leaders maintained an unfavorable view of U.S. economic conditions with a value of 82.0. Despite scoring below 100, it recorded its highest value since 2022Q2, indicating a decrease in pessimism regarding the U.S. economic outlook among respondents.

EXPECTATIONS FOR HIRING

o The index value for expectations on hiring was the only component among the five components in the index to witness a decline from the prior quarter amid some cooling signs in the labor market. Nevertheless, it still surpassed 100 with a score of 104.9.

EXPECTATIONS FOR HOME PRICES

o The index value for expectations on home prices in Southern Nevada finally exceeded 100 with a value of 121.3 after four consecutive quarters below 100.

o The Las Vegas Case-Shiller Home price index confirms this trend, posting a rebound in local home prices in March, reversing the downward trajectory observed since June 2022 due to rising mortgage rates.

o 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

o Economic uncertainty, marked by 29.3 percent of business leaders, was ranked the most difficult challenge in Southern Nevada in 2023Q3 despite waning concern over the economy falling into recession among consumers.

POTENTIAL RECESSION

o Half of the respondents expressed the belief that the U.S. economy will slide into recession within the next 18 months.

o A larger percentage of respondents compared to the previous quarter (21.4 vs. 11.1 percent), however, 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 first quarter of 2023 grew just above its potential growth by an annual 2.0 percent. The increase in real GDP in the first quarter largely reflected robust consumer spending, which was partly offset by a decline in business inventories. Government spending and net exports also contributed positively to growth in real GDP. U.S. nonfarm employment in June added a weaker-than-expected 209,000 jobs as the private sector saw the smallest gain of 149,000 since December 2020. In addition, employment in April and May was revised down by a combined 110,000 jobs than previously reported. Despite slowed job gains, wages rose strongly by 4.4 percent year-over-year. The June unemployment rate fell to 3.6 percent and the labor force participation rate ages 25 to 54 reached its highest level of 83.5 percent since May 2002. Despite the ongoing tight labor market, recent economic data indicate a U.S. economic slowdown. Retail sales growth recently decelerated sharply, up only by 1.6 percent year-over-year despite PCE inflation of 3.8 percent in May. Consumer sentiment, nevertheless, reached its highest reading since September 2021 with reduced concerns of a potential recession. This observation benefits from the ongoing decline in inflation and the stability of the labor market. The Fed increased the federal funds rate by another 25 basis points on July 26 as the U.S. economy remains more robust than anticipated.

Clark County continued to display somewhat favorable economic signals. Seasonally adjusted employment added 1,400 jobs in May, but the unemployment rate remained unchanged at 5.8 percent, the highest among large metro areas. Leisure and hospitality employment remained 0.6 percent lower than its pre-pandemic peak, while nonfarm employment surpassed its pre-pandemic peak by 6.4 percent in May. April taxable sales only increased 1.9 percent year-over-year and May gaming revenue declined by 1.0 percent year-over-year. Harry Reid passengers and visitor volume in May, however, climbed by 8.2 and 1.5 percent, respectively, from last year. The local housing market experienced rebounds in housing prices and residential permits amid low inventories.

The survey results presented in this report indicate optimism on future local business conditions despite the prevailing pessimistic views on U.S. economic conditions. Local businesses also anticipated a rise in local housing prices as well as increased 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.

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“The survey results presented in this report indicate optimism on future local business conditions despite 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), continued to rise to 116.0 in the third quarter from 113.4 in the prior quarter, remaining above 100 for the second straight quarter. (Figure 1). That is, local businesses anticipate a continued economic expansion in Southern Nevada, while they expressed pessimism regarding the U.S. economic outlook for a fifth 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. 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 index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 115.0, 127.4, 117.7, 104.9, and 114.8, respectively (Figure 2)¹.

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders forecasted that Nevada economic conditions continue to expand, while U.S. economic conditions will continue to worsen in the third quarter compared to the previous quarter, with values of 115.0 and 82.0, respectively (Figures 3 and 4). Despite the index value for expectations on U.S. economic conditions scoring below 100, it recorded its highest value since 2022Q2, indicating a decrease in pessimism regarding U.S. economic outlook among respondents. When asked about the U.S. economy, 29.5 percent forecasted a better economy, while 47.5 percent projected a worse economy. The remaining 23.0 percent projected no change. When asked the same question about the Nevada economy, 45.0 percent of respondents predicted an improved economy, 25.0 percent anticipated no change, and 30.0 percent expected a worsening economy.

“The Southern Nevada Business Confidence Index...continued to rise to 116.0 in the third quarter from 113.4 in the prior quarter, remaining above 100 for the second straight quarter.”

“Despite the index value for expectations on U.S. economic conditions scoring below 100, it recorded its highest value since 2022Q2, indicating a decrease in pessimism regarding U.S. economic outlook among respondents..”

Figure 1

CBER's Southern Nevada Business Confidence Index

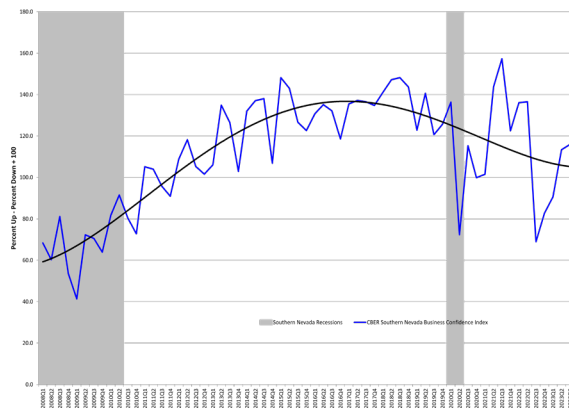
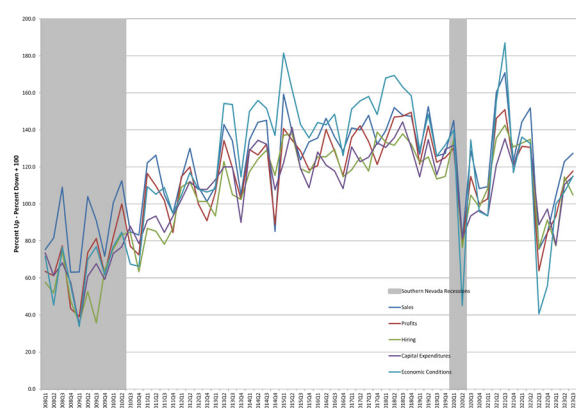


Figure 2

Components of CBER's Southern Nevada Business Confidence Index



Expectations for Sales

Local business leaders expressed the most optimism on sales with a value of 127.4 (Figure 5). The index value increased by 3.7 and 68.7 percent, respectively, from last quarter and last year despite a recent weaker year-over-year growth in local taxable sales.

“Local business leaders expressed expressed the most optimism on sales with a value of 127.4.”

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).

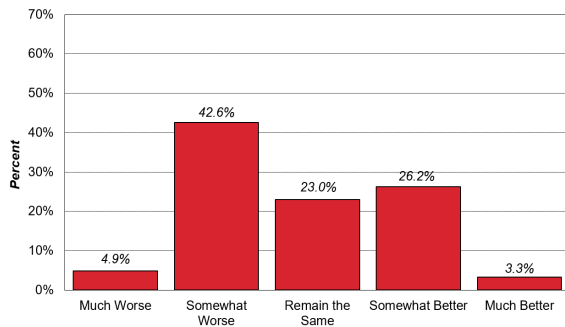
When asked about sales in their own industry, 50.0 percent of the respondents forecasted an increase, 27.4 percent expected no change, and 22.6 percent predicted a decrease.

Expectations for Profits

Local business leaders also expressed heightened optimism on profits, as reflected by a value of 117.7 compared to 112.5 in the previous quarter (Figure 6). When asked about profits, 50.0 percent of respondents anticipated increased profits in their industry, 17.7 percent predicted no change, and 32.3 percent forecasted decreased profits.

Figure 3

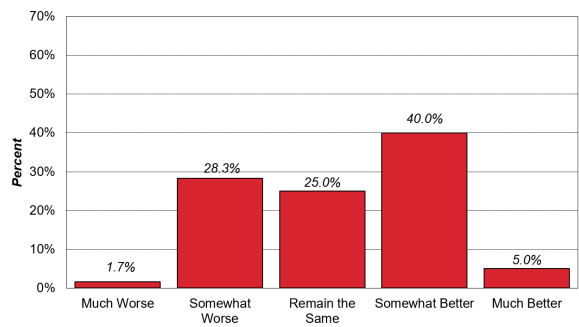
How do you think economic conditions in the United States will change in the 3rd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 4

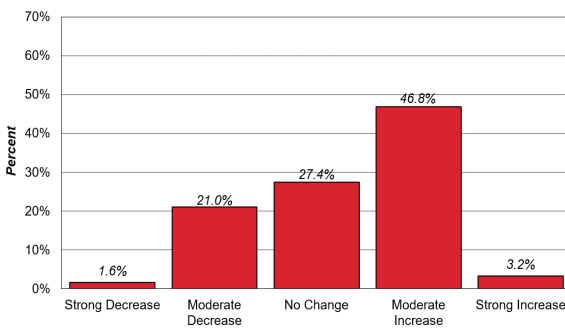
How do you think economic conditions in Nevada will change in the 3rd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 5

How do you think sales in your industry will change in the 3rd quarter of 2023 compared to the previous quarter?

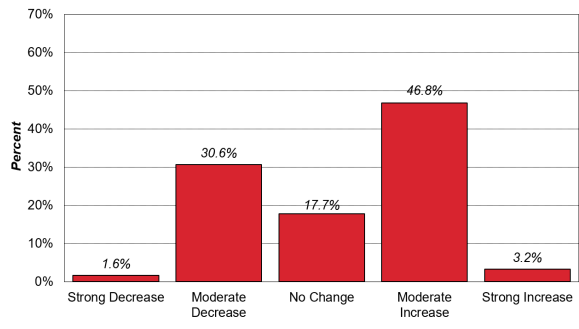


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Note: When reporting percentage responses, totals may not add to 100 because of rounding.

Figure 6

How do you think profits in your industry will change in the 3rd quarter of 2023 compared to the previous quarter?



CBER Business Confidence Index Survey

Expectations for Hiring

The index value for expectations on hiring was the only component to witness a decline from the prior quarter among the five components (Figure 7). Local business leaders, nevertheless, still anticipated a slight increase in hiring activity with a score of 104.9. When asked about hiring in their own industry, 31.1 percent expected an increase, 42.6 percent expected no change, and 26.2 percent projected a decrease.

Expectations for Capital Expenditure

The index for expectation on capital expenditure increased by 4.0 percent to 114.8 this quarter from 110.4 in 2023Q2 (Figure 8). That is, 36.1 percent of respondents forecasted increased capital expenditure in their industry, while 21.3 percent projected decreased capital spending. The remaining 42.6 percent expected no change.

Expectations for Home Prices

The index value for expectations on home prices in Southern Nevada finally exceeded

“The index value for expectations on hiring was the only component to witness a decline from the prior quarter among the five components.”

100 with a value of 121.3 after four consecutive quarters below 100 (Figure 9). This indicates that Southern Nevada businesses anticipate an increase in local home prices in the third quarter compared to the previous quarter. Notably, the Las Vegas Case-Shiller Home price index confirms this trend, posting a rebound in local home prices in March, reversing the downward trajectory observed since June 2022 due to rising mortgage rates. May 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, 42.6 percent of the respondents expected increases in home prices in Southern Nevada, 36.1 percent forecasted no change, and 21.3 percent predicted decreases in home prices.

Expectations for Construction Activity

Local business leaders continued to predict an increase in construction activity in Southern Nevada with a value of 136.1 (Figure 10). When asked about expectations on construction, 49.2 percent of the respondents expected more construction activity, 37.7 percent projected no change, and only 13.1 percent forecasted less construction activity in the third quarter compared to the second quarter of 2023.

Most Important Challenges

Economic uncertainty, marked by 29.3 percent of business leaders, was ranked the most difficult challenge in Southern Nevada in the third quarter of 2023 despite waning concern over the economy falling into recession among consumers (Figure 11). Finding qualified workers was, once again, reported as the second most difficult challenge in

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“Economic uncertainty... was ranked the most difficult challenge in Southern Nevada in the third quarter of 2023 despite waning concern over the economy falling into recession among consumers.”

Figure 7

How do you think hiring in your industry will change in the 3rd quarter of 2023 compared to the previous quarter?

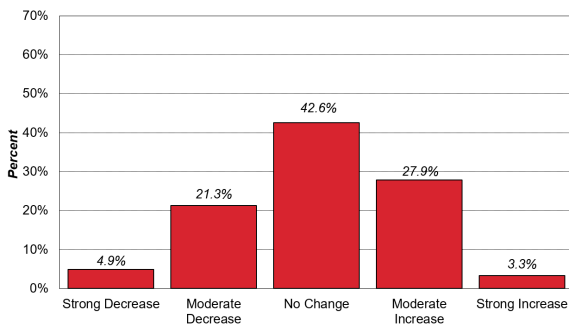
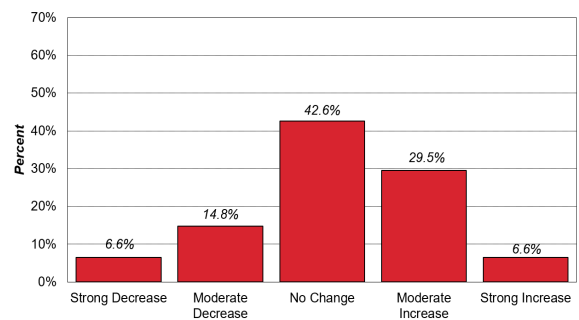


Figure 8

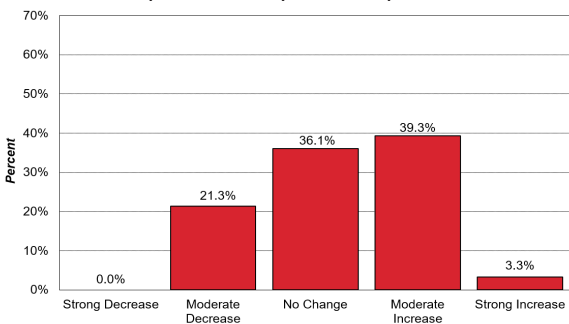
How do you think capital expenditure in your industry will change in the 3rd quarter of 2023 compared to the previous quarter?



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Figure 9

How do you think home prices in Southern Nevada will change in the 3rd quarter of 2023 compared to the previous quarter?

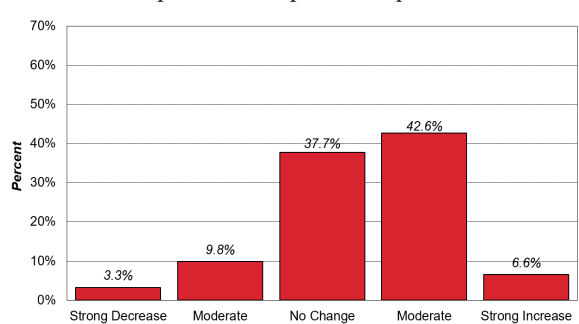


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Figure 10

How do you think construction activity in Southern Nevada will change in the 3rd quarter of 2023 compared to the previous quarter?



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

Southern Nevada with 27.6 percent. Higher operating and/or production costs, which were reported as the most important challenge in the previous quarter, were identified as the third most important challenge this quarter with 20.7 percent amid softening inflation.

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, 53.4 percent reported that the monetary response was “too/relatively weak,” while 24.1 percent reported it was “too/relatively strong.” The remaining 22.4 percent reported that it was “just about right.” When asked about current national fiscal policy implemented by the Congress and the Administration, 69.0 percent of respondents answered that the fiscal policy response was “too/relatively weak,” 15.5 percent reported “just about right,” and 15.5 percent reported “too/relatively strong.”

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

Half of the respondents expressed the belief that the U.S. economy will slide into recession within the next 18 months (Figure 14). Specifically, 14.3 percent predicted a recession sometime in the second half of 2023, while 35.7 percent forecasted it to occur sometime in 2024. Interestingly, a larger percentage of respondents compared to the previous quarter (21.4 vs. 11.1 percent), expected no recession in the next two years. On the other hand, 28.6 percent of respondents assumed that the U.S. economy already experiences a recession.

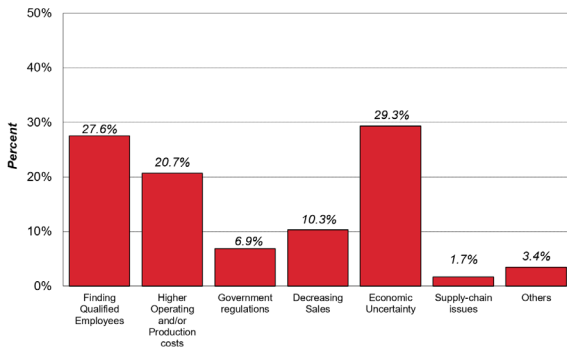
With the Fed’s current policy to bring down inflation, 63.2 percent of respondents believe that the Fed’s current policy to bring down inflation already caused, or will cause, a recession, while 36.8 percent projected no recession in the next two years (Figure 15).

“Higher operating and/or production costs... were identified as the third most important challenge this quarter with 20.7 percent amid softening inflation”

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

Figure 11

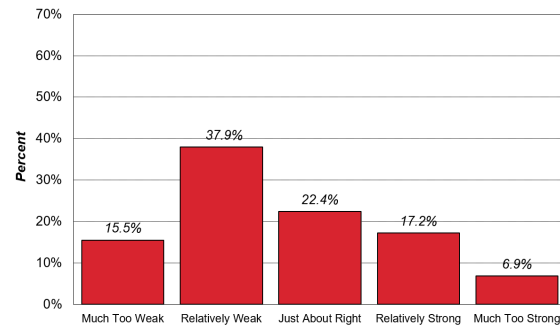
What is the most important challenge that you face in your business today?



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Figure 12

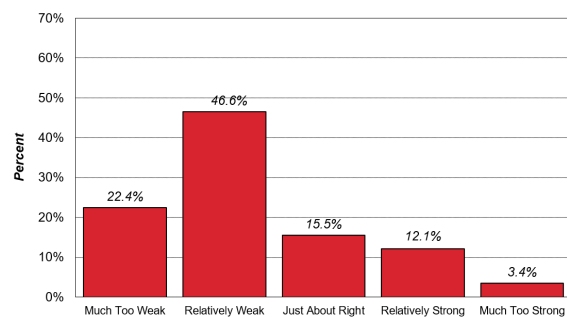
How would you rate current national monetary policy?



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Figure 13

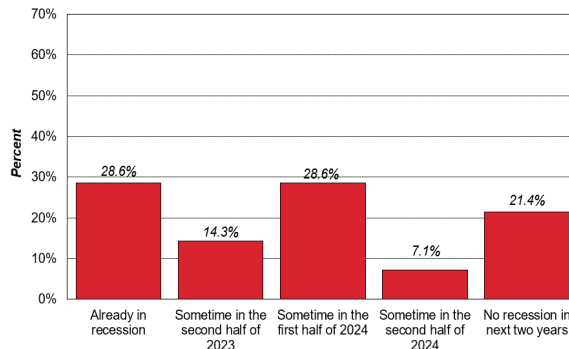
How would you rate current national fiscal policy?



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Figure 14

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



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

Among those who expected a recession, 38.9 percent thought that the Fed would reduce inflation, and the remaining 61.1 percent forecasted that the Fed would fail to reduce inflation. Among those who projected no recession, 52.4 percent of respondents anticipated that the Fed’s current policy to bring down inflation would reduce inflation, while 47.6 percent predicted that the Fed would fail to reduce inflation.

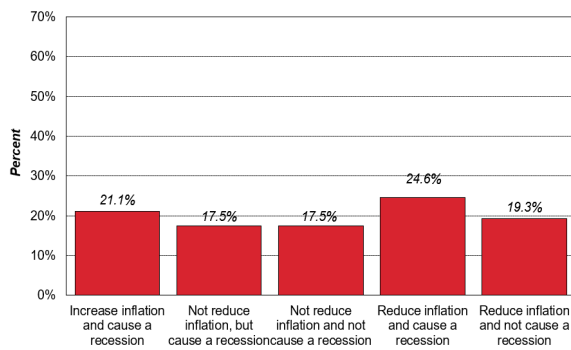
“Among those who projected no recession, 52.4 percent of respondents anticipated that the Fed’s current policy to bring down inflation would reduce inflation...”

Conclusion

The most recent CBER business survey suggests that local businesses maintain a positive outlook on the local economy in the third quarter of 2023 despite ongoing pessimism about U.S. economic conditions. That is, local business leaders predict improved local economic conditions in the third quarter with a positive outlook on sales, profits, capital expenditure, and hiring, despite their belief that U.S. economic conditions will continue to deteriorate. The respondents also anticipate a recovery in local home prices and increased construction activity in Clark County in the short term. In conclusion, the local economy is expected to expand in the third quarter of 2023 despite the ongoing U.S. economic slowdown.

Figure 15

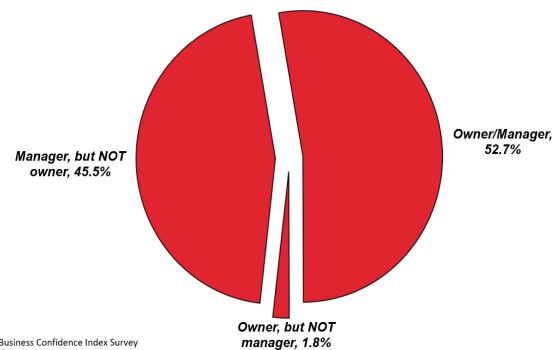
Given the Fed’s current policy to bring down inflation, you expect that the Fed in the next two years will:



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Figure 16

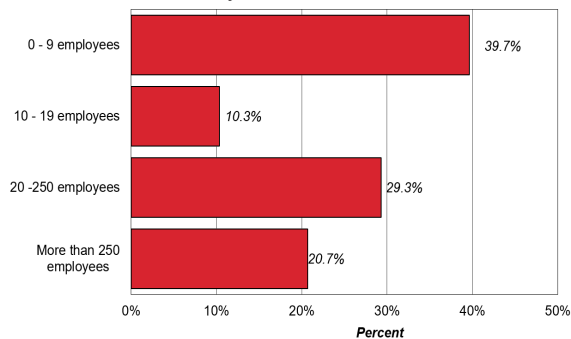
Which best describes your position in your business?



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Figure 17

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

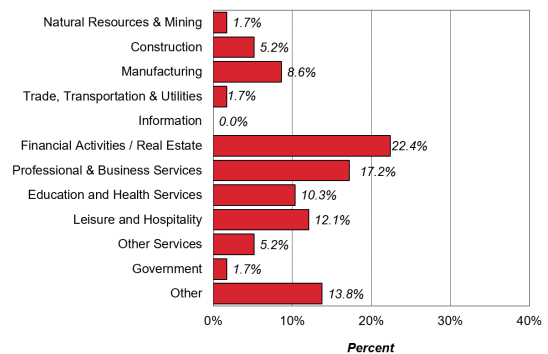


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Note: When reporting percentage responses, totals may not add to 100 because of rounding.

Figure 18

Business sectors reflected in survey



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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.