

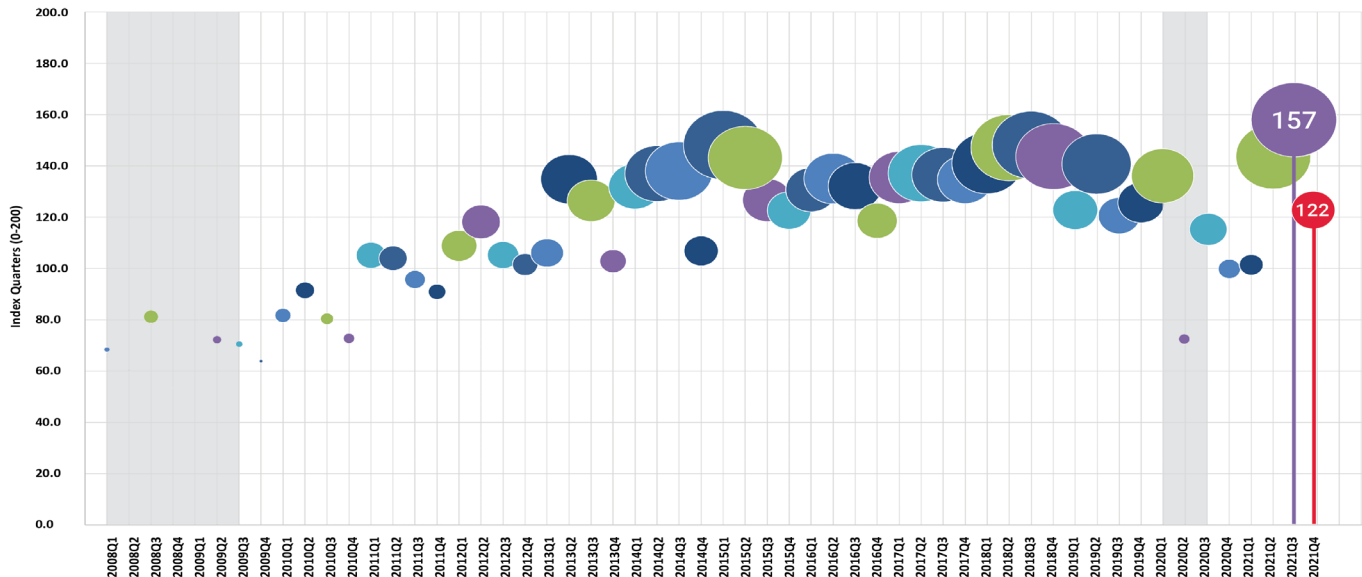
QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

UNLV | LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Fourth Quarter 2021

Two Most Recent Index Scores for CBER's Southern Nevada Business Confidence



Southern Nevada Business Confidence Index, Highlights

ECONOMIC EXPECTATIONS

o Southern Nevada business leaders forecasted that the economic conditions for both Nevada and the United States will continue to improve despite the Delta variant spread.

o However, the Southern Nevada Business Confidence Index showed a negative impact of the delta variant on local business leaders' economic perspectives as it plummeted by **22.1** percent from last quarter after previously recording its highest score. At **122.5**, the total score most closely matches the score from our business confidence survey taken in the fourth quarter of 2015.

EXPECTATIONS FOR HIRING

o The index value for expectations on hiring scored the highest among five components with a value of **130.8**. This likely reflects that room still exists for improvement in the labor market, while other economic indicators such as retail sales and real GDP have already fully recovered from the COVID-19 recession.

EXPECTATIONS FOR HOME PRICES

o The Case-Shiller Las Vegas home price index in June finally surpassed its previous peak from April 2006. It took more than 15 years for the local housing market to recover fully from the previous bubble burst, while the national housing market had already recovered in 2016 and has remained in an expansion cycle for the last 5 years.

o Local business executives predict that the upward trend of local housing prices will continue for the fourth quarter with a value of **116.9**.

EXPECTED CHALLENGES

o **27.6** percent of business leaders marked finding qualified employees as the most difficult challenge they currently face. According to the NFIB research foundation, the biggest problem facing small businesses is finding qualified workers to meet their demand.

o **20.7** percent of respondents mentioned the coronavirus (COVI-19) as the third most important challenge amid the Delta variant spread, which previously scored as one of the least important challenges with **6.0** percent last quarter.

EXPECTATIONS FOR FULL ECONOMIC RECOVERY

o Local business leaders expressed pessimism on the speed of economic recovery this quarter, as **64.4** percent respondents expected no full recovery until 2023 or later, which is significantly higher than the **32.0** percent recorded in the last quarter. The remaining **35.6** percent respondents forecasted that a full recovery would happen in 2022, much lower than the **56.0** percent recorded in the last quarter.

FULL REPORT BELOW

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the second quarter of 2021 grew strongly, but lower-than expected, at an annual rate of 6.7 percent. As a result, the real GDP has now fully recovered from the COVID-19 pandemic recession and surpassed its pre-pandemic peak. The strong growth reflected a strong surge in consumer spending, which was boosted by federal relief funds. U.S. nonfarm employment, however, continued to show weaker-than-expected gains, adding only 194,000 jobs in September amid the spread of the Delta variant. The unemployment rate in September, however, dropped significantly to 4.8 from 5.2 percent. Retail sales in August also posted a surprising gain of 0.7 percent month-over-month despite a plummet of 10.7 percent in auto and truck sales. Non-store retail sales soared at 5.3 percent over the same period, implying a change of consumer behavior due to the surge in COVID cases. Overall, the U.S. economy's growth recently slowed with the resurgence of COVID cases, higher inflation, and labor and material shortages. The Federal Reserve, nevertheless, expects to begin tapering toward the end of 2021 and to begin raising interest rates in 2022.

Clark County recently posted mixed signs of economic recovery as the tourism sector sees monthly losses due to the Delta variant spread. Seasonally adjusted employment added 7,000 jobs in August, and the unemployment rate also fell by 1.0 percent to 8.0 percent. Both gaming revenue and taxable sales recently hit their highest levels on record, benefiting from massive influx of federal stimulus money, and currently remains substantially higher than two years ago. The local housing market also reached higher median home prices every month due to higher demand and tighter inventory. The most recent data, however, indicate that the local economy struggles with the Delta variant due to its tourism-dependent economy. August visitor volume and gaming revenue decreased by 9.6 and 14.6 percent, respectively, from last month. Moreover, July taxable sales also experienced a month-over-month loss of 4.2 percent. The survey results conveyed in this report align with the current economic conditions as respondents expressed lower confidence compared to last quarter. Local business leaders, nonetheless, believe that the local business conditions will continue to improve in the fourth quarter of 2021.

“Clark County recently posted mixed signs of economic recovery as the tourism sector sees monthly losses due to the Delta variant spread.”

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), dropped significantly by 22.1 percent after hitting a record high level in the last quarter. The index, nonetheless, scored 122.5 in the fourth quarter of 2021, which implies that local business leaders believe that the economy will expand this quarter despite the Delta variant (Figure 1). The index grew substantially by 22.7 percent year-over-year.

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 despite the recent surge in the Delta variant. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 116.9, 123.1, 121.5, 130.8, and 120.3, respectively (Figure 2)¹.

"The index, nonetheless, scored 122.5 in the fourth quarter of 2021, which implies that local business leaders believe that the economy will expand this quarter despite the Delta variant."

Figure 1

CBER's Southern Nevada Business Confidence Index

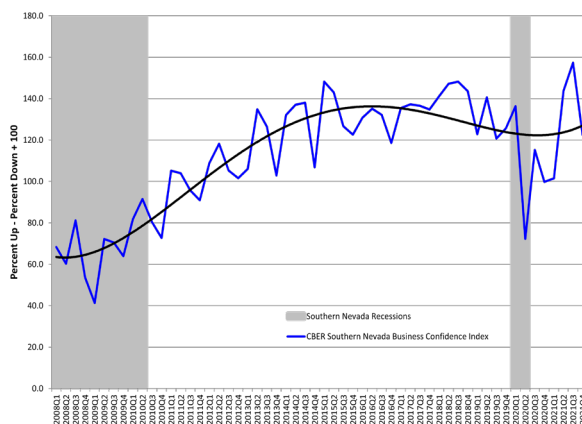
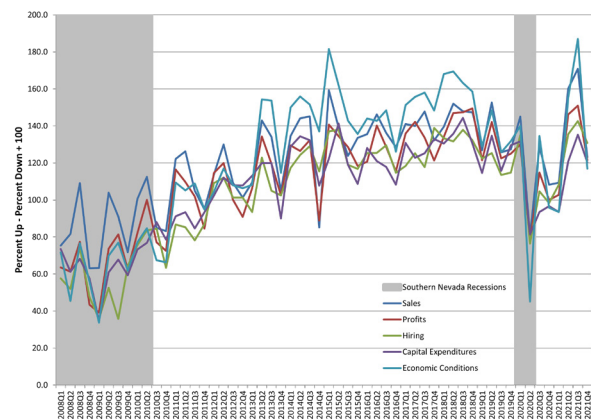


Figure 2

Components of CBRE's Southern Nevada Business Confidence Index



Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders forecasted that the economic conditions for both Nevada and the United States continued to improve amid the Delta variant spread (Figures 3 and 4). That is, the values for U.S. and Nevada economic activity were 109.4 and 116.9, respectively, as respondents felt more positive than negative about future economic conditions. The values, however, showed a negative impact of the delta variant on local business leaders' economic perspectives as they plummeted by 34.8 and 37.5 percent, respectively, for the U.S. and Nevada economic activity from last quarter after previously recording their highest scores. When asked about the U.S. economy, 45.3 percent forecasted a better economy, while 35.9 percent projected a worse economy. The remaining 18.8 percent expected no change. When asked the same question about the Nevada economy, 50.8 percent of respondents forecasted an improved economy, 15.4 percent projected no change, and only 33.8 percent expected a worse economy.

Expectations for Sales

The index value for expectations on sales dropped by 28.0 percent quarter-over-quarter to 123.1 (Figure 5). This likely reflected the end of the enhanced employment benefits as

"... the values for U.S. and Nevada economic activity were 109.4 and 116.9, respectively, as respondents felt more positive than negative about future economic conditions."

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 116.9, then this means that 16.9 percent more respondents exhibit a positive attitude (50.8 percent) than those that exhibit a negative attitude (33.8 percent).

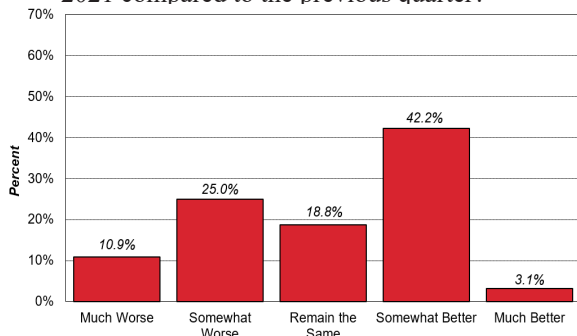
well as the Delta variant. The respondents, however, still expect an increase in sales in the fourth quarter of 2021 as the value scored above 100. Clark County retail sales in July remained significantly higher at 24.2 percent than its level from two years ago. When asked about sales, 50.8 percent of the respondents predicted increased sales in their industry, 21.5 percent expected no change, and 27.7 percent projected decreased sales.

Expectations for Profits

Local businesses expressed optimism on profits with a value of 121.5 (Figure 6). When asked about profits in their own industry, 46.2 percent of respondents expected an increase, 29.2 percent predicted no change, and 24.6 percent forecasted a decrease.

Figure 3

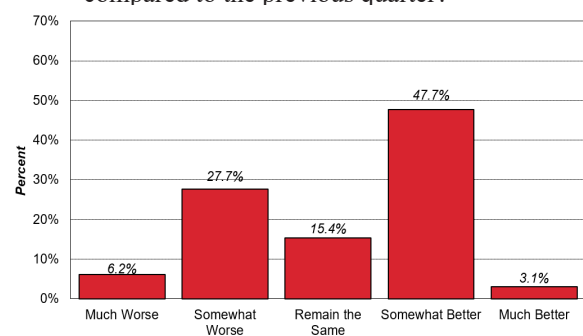
How do you think economic conditions in the United States will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 4

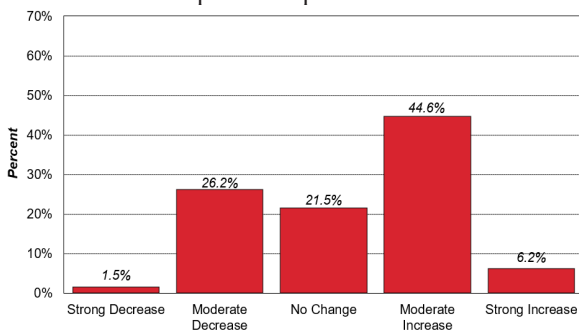
How do you think economic conditions in Nevada will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 5

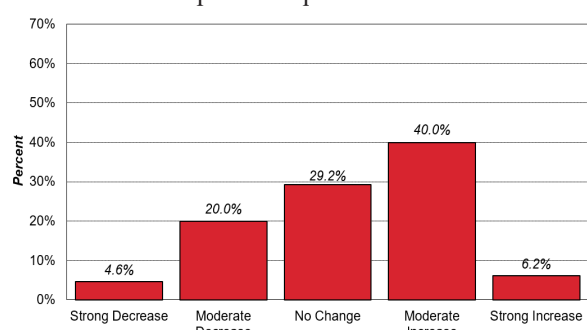
How do you think sales in your industry will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 6

How do you think profits in your industry will change in the 4th quarter of 2021 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 scored the highest among five components with a value of 130.8 (Figure 7). The index also increased the most compared to last year, up by 33.1 percent from 98.3 in 2020Q4. This likely reflects that the labor market recovery is still in progress, while other economic indicators such as retail sales and real GDP have already fully recovered from the COVID-19 recession. When asked about hiring in their own industry, 41.5 percent expected an increase, 47.7 percent expected no change, and only 10.8 percent projected a decrease.

Expectations for Capital Expenditure

Local business leaders continued to express optimism on capital expenditure in their industry with a value of 120.3 (Figure 8). That is, 32.8 percent of respondents forecasted increased capital expenditure in their industry, while 12.5 percent projected decreased capital expenditure. The remaining 54.7 percent expected no change.

“The index value for expectations on hiring scored the highest among five components with a value of 130.8.”

Expectations for Home Prices

The local and national housing markets 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 consequently continued to rise. The Case-Shiller Las Vegas home price index in June finally surpassed its previous peak from April 2006. It took more than 15 years for the local housing market to recover fully from the previous bubble burst, while the national housing market already recovered in 2016 and has remained in an expansion cycle for the last 5 years. The local housing market has posted new record high median prices every month. Local business executives predict that the upward trend of local housing prices will continue for the fourth quarter with a value of 116.9. When asked about expectations on home prices, 41.5 percent of the respondents expected increases in home prices in Southern Nevada, 33.8 percent forecasted no change, and 24.6 percent predicted decreases in home prices.

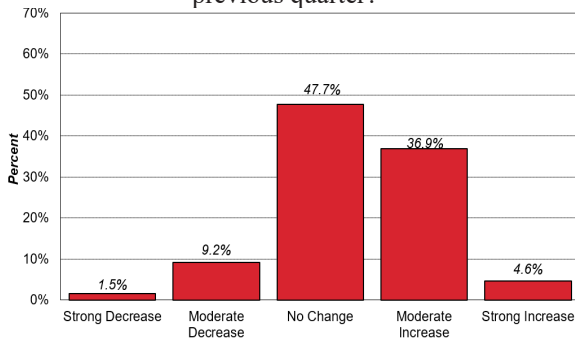
“It took more than 15 years for the local housing market to recover fully from the previous bubble burst, while the national housing market already recovered in 2016 and has remained in an expansion cycle for the last 5 years.”

Expectations for Construction Activity

Local business leaders also express a positive outlook on construction activity with a value of 136.9 (Figure 10). This may reflect a strong increase in housing permits as builders try to ease the recent overwhelming demand. When asked about expectations on construction, 46.2 percent of the respondents expected more construction activity, 44.6 percent projected no change, and 9.2 percent forecasted less construction activity in the fourth quarter compared to the third quarter of 2021.

Figure 7

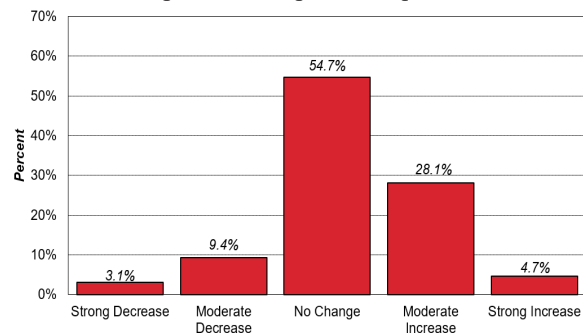
How do you think hiring in your industry will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 8

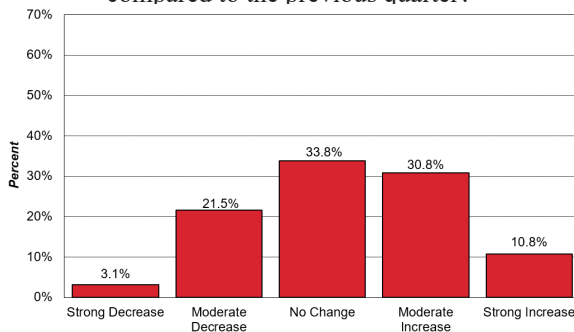
How do you think capital expenditure in your industry will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 9

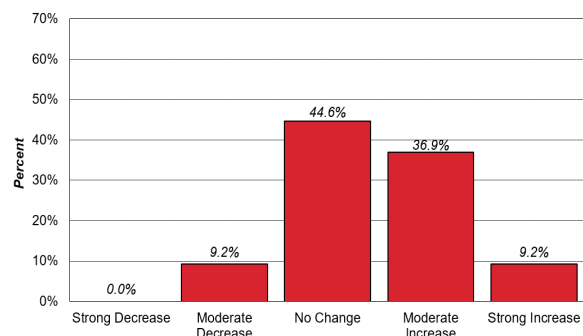
How do you think home prices in Southern Nevada will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

Figure 10

How do you think construction activity in Southern Nevada will change in the 4th quarter of 2021 compared to the previous quarter?



CBER Business Confidence Index Survey

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

Most Important Challenges

Finding qualified employees was marked as the most difficult challenge with 27.6 percent (Figure 11). Economic uncertainty, which was mentioned the most difficult challenge for five consecutive quarters until the previous quarter, was now reported as the second most difficult challenge with 24.1 percent. According to the NFIB research foundation, the biggest problem facing small businesses is finding qualified workers to meet their demand. The recent weak performance in the U.S. labor market may partly reflect the fact that employers struggle to fill positions. The respondents mentioned the coronavirus (COVID-19) as the third most important challenge with 20.7 percent amid the Delta variant spread, which previously scored one of the least important challenges with 6.0 percent last quarter. Among those who reported “others” as the most important challenge (12.1 percent), supply chain disruptions continued to be mentioned most frequently.

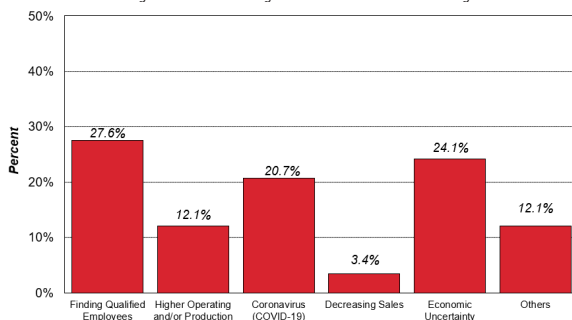
The Economic Recovery

Local business leaders expressed pessimism on the speed of economic recovery this quarter (Figure 12), as 64.4 percent respondents expected no full recovery until 2023 or later, which is significantly higher than the 32.0 percent recorded in the last quarter. None predicted a full recovery in 2021, and the remaining 35.6 percent respondents forecasted that a full recovery would happen in 2022. Last quarter, the majority of local business leaders (56.0 percent) anticipated that a full recovery would happen in 2022.

“... the biggest problem facing small businesses is finding qualified workers to meet their demand.”

Figure 11

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

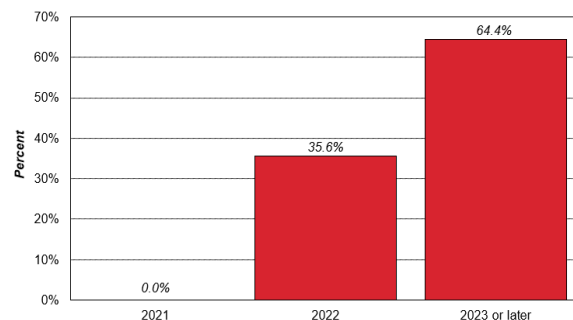


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Figure 12

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



CBER Business Confidence Index Survey

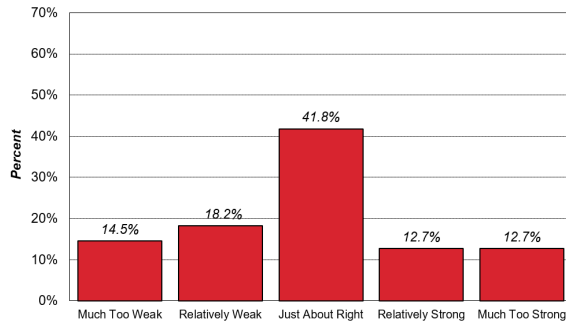
Responses of National Fiscal and Monetary Policies

Local business leaders reported that the response of national fiscal policy was just about right, while the response of national monetary policy is somewhat weak (Figures 13 and 14). Last quarter, respondents stated that the responses of both national monetary and fiscal policies were too strong. The perspectives of respondents have changed, which might be due to recent struggles amid a surge in the COVID-19 cases. In addition, the enhanced federal unemployment benefits just expired during early September, and the Federal Reserve is now planning to begin tapering in the end of 2021 and then begin slowly raising rates in 2022. When asked about the response of national monetary policies to the COVID-19 recession, 25.5 percent reported that the monetary response was too/relatively strong, 41.8 percent that the response was “just about right,” and 32.7 percent reported the response was too/relatively weak. When asked about the response of national fiscal policy implemented by the Congress and the Administration, 33.9 percent respondents answered that the fiscal policy response to the economic downturn due to the virus was too/relatively strong, while 33.9 percent reported too/relatively weak. The remaining 32.1 percent reported “just about right”.

“The perspectives of respondents have changed, which might be due to recent struggles amid a surge in the COVID-19 cases.”

Figure 13

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

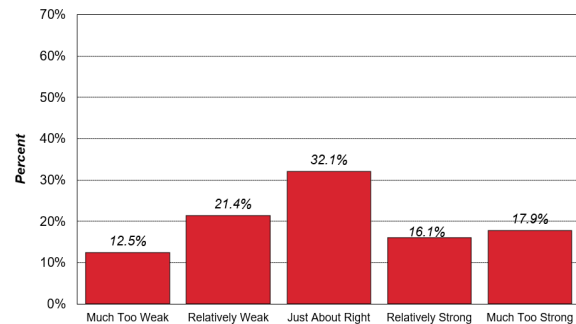


CBER Business Confidence Index Survey

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

Figure 14

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



CBER Business Confidence Index Survey

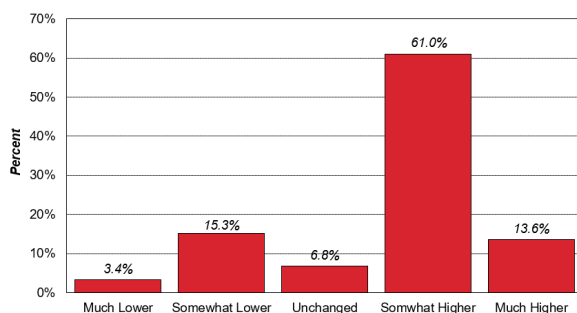
Company's Position after Full Economic Recovery

The majority of local business leaders are highly 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, 74.6 percent of respondents forecasted an increase in sales, 6.8 percent expected no change, and 18.6 percent predicted a decrease. When asked about employment, 51.7 percent of respondents expected an increase compared to pre-recession levels, while 20.7 percent expected a decrease. The remaining 27.6 percent predicted no change in employment after the full recovery compared to the pre-recession levels.

“The majority of local business leaders are highly 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?

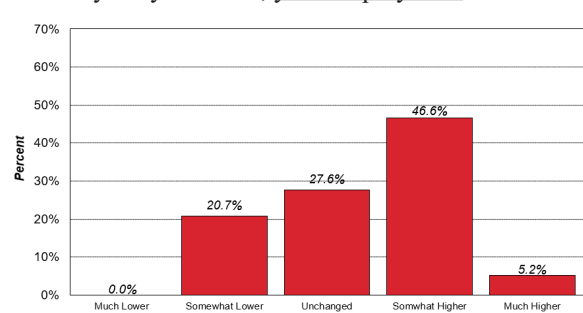


CBER Business Confidence Index Survey

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

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

Conclusion

The most recent CBER business survey suggests that local business confidence remains at a favorable level for the fourth quarter of 2021 despite a recent surge in the Delta variant. Local business leaders predict that both national and local economic conditions will continue to improve in the fourth quarter despite the current challenges with higher inflation, labor shortage, and supply chain disruptions. As a result, respondents expressed a positive outlook on sales, profits, capital expenditure, and hiring in their industry. They also predicted increased home prices and construction activity in the short run. Therefore, we conclude that Clark County's economy will continue to recover in the fourth quarter based on local business leaders' expectations.

“...we conclude that Clark County's economy will continue to recover in the fourth quarter based on local business leaders' expectations.”

Figure 17

Which best describes your position
in your business?

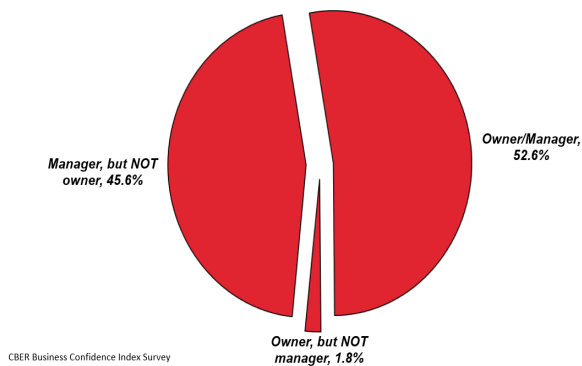


Figure 18

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

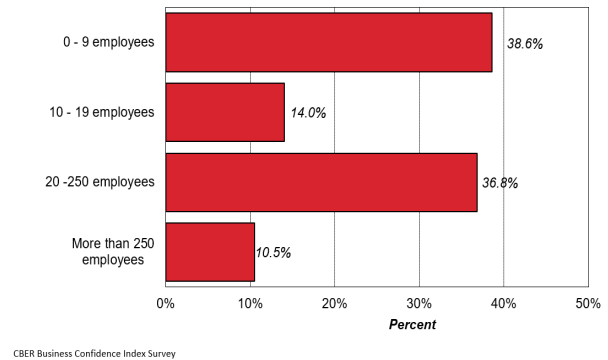
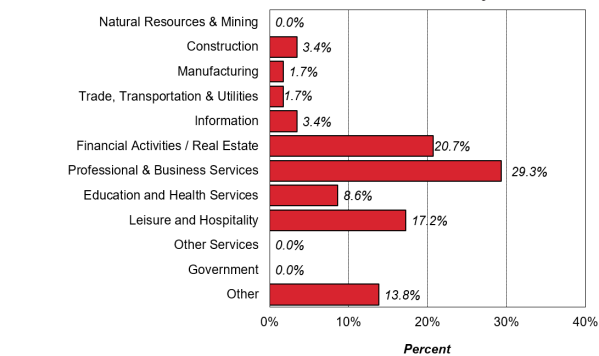


Figure 19

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.