



QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

UNLV | LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Third Quarter 2020

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the first quarter of 2020 declined by 5.0 percent at an annual rate, the steepest drop since 2008Q4. The decrease in real GDP was caused by the mandatory shutdowns to contain the coronavirus, mainly reflecting negative contributions from consumer spending and business investment, including inventory investment. The U.S. labor market posted surprising rebounds in May and June, adding a combined 7.5 million jobs with a sharp increase in the leisure and hospitality sector. The improvements reflected the resumption of economic activity after stay-at-home orders, whereby some previously furloughed workers were asked to return to work. Moreover, Paycheck Protection Program (PPP) loans may have helped a stronger-than-expected recovery in the labor market. The employment, however, still needs to recoup 14.7 million jobs to reach its previous peak in February. The unemployment rate dropped to 11.1 percent. May retail sales, which plummeted in April, rebounded strongly by 17.7 percent month-over-month, but still remain 6.1 percent lower than last year's level. The most recent optimistic readings show that the U.S. economy has recovered faster than expected, benefitting from very aggressive monetary and fiscal policies, unlimited Quantitative Easing (QE) and the CARES act. The recent coronavirus spike, however, may generate a headwind as some states pause or retrench their reopening plans. The federal government faces the decision of whether to approve another round of the stimulus package due to the end of extra unemployment benefits from the CARES act.

Clark County experienced a more severe economic downturn compared to the United States and to other metropolitan areas due to its tourism-dependent economy. Although seasonally adjusted employment added 20,900 jobs in May, the unemployment rate remained the highest among large metro areas despite its fall to 29.3 percent. Due to casinos' temporary shutdowns in response to COVID-19, the April and May gaming revenue and visitor volumes plunged over 90 percent year-over-year. April taxable sales and gasoline sales (in gallon) also dropped by 36.1 and 47.0 percent, respectively, from last year.

The local housing market, however, has shown better performance than expected despite the stay-at-home order, perhaps boosted by the near-zero federal fund rate and unlimited QE by the Fed. Clark County expects to have a considerable pickup in local economic activity in June thanks to the casinos' reopening on June 4th. Economic uncertainty, however, continues as the recent surge in the COVID-19 cases may hamper the local economic recovery.

The recent survey results align with the current national and local economic conditions. Local business professionals exhibited optimism in both local economic

and business conditions thanks to the reopened economy. Despite the most recent promising readings, economic uncertainty grew recently due to the uncontrollable spread of COVID-19. In our view, therefore, the reported business confidence in this report is probably overstated in that responses were collected just before the coronavirus spike. Overall, the survey outcomes suggest that the local economy will experience an economic recovery in the third quarter of 2020.

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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), rebounded sharply by 59.4 percent from 72.3 in the second quarter to 115.3 in the third quarter of 2020 (Figure 1). The index, therefore, is only 4.5 percent lower than its level from last year. The index, however, is not comparable with past indexes in that positive rebounds in index values are expected because economic conditions could hardly become worse from the recent, almost stalled economy. That is, we just experienced the worst economic downturn in history after the Great Depression. The COVID-19 economic downturn is different from the

previous recessions in that this is more “man-made” or “government-imposed”, caused by massive shutdowns due to the public health crisis and the attempt to contain the spread of COVID-19.

The index includes five components: business leaders’ expectations of (i) general economic conditions in Nevada, as well as expectations on their own industry’s (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditure. The index remains above 100, which suggests that respondents, on average, feel more positive than negative about the five components. Overall, respondents expressed more optimism than pessimism on the components except for capital expenditure this quarter compared to last quarter. The index value for capital expenditure, however, remained below 100, implying many local businesses still see high risks in expanding their businesses with ongoing uncertainty about the future effects of the virus. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 134.6, 128.7, 114.8, 104.7, and 93.5, respectively.¹

Expectations for the U.S. and Nevada Economies.

Southern Nevada business leaders expressed high optimism on rebounds in both the US and Nevada economic activity with values of 134.3 and 134.6, respectively. When asked about the U.S. economy, 64.8 percent forecasted a better economy, while 30.6 percent forecasted a much or somewhat worse economy. The remaining 4.6 percent expected no change. When asked the same question about the Nevada economy, 64.5 percent of respondents forecasted an improved economy, 5.6 percent projected no change, 29.9 percent expected a worse economy. As mentioned earlier, higher optimism for this quarter compared to last quarter is expected as economic conditions could hardly worsen, especially with the economy reopening. One-third of respondents, however, reported that the national and state economic conditions could remain unchanged or worsen in the third quarter compared to the second quarter, which probably reflects their concerns on the potential for a second wave of the virus. In fact, about 40 percent of respondents answered that a second wave is highly likely to occur.²

Expectations for Sales. Local businesses reported optimism in sales activity in their industry with a value of 128.7, rebounding sharply by 59.3 percent from its

previous quarter value of 80.8. When asked about sales, 61.1 percent of the respondents predicted increased sales in their industry, 6.5 percent expected no change, and 32.4 percent projected decreased sales.

Expectations for Profits. The index value for expectations on profits also rebounded with a value of 114.8. This implies that local businesses may provide more incentives to attract customers as businesses reopen. When asked about profits in their own industry, 52.8 percent of respondents expected an increase, 9.3 percent predicted no change, and 38.0 percent forecasted a decrease.

Expectations for Hiring. After massive layoffs or furloughs due to the stay-at-home order in the second quarter, some local business leaders project employees will return to work in the third quarter. The index value, however, scored only 104.7, slightly above 100. This means that many local businesses still predict either no change or a decrease in hiring in their industry. Specifically, 35.8 percent of respondents forecasted an increase in hiring in their industry, 33.0 percent expected no change, and 31.1 percent projected a decrease.

Expectations for Capital Expenditure. Many local businesses seem to follow a conservative path with their capital expenditures due to high economic uncertainty. The survey respondents continued to express overall pessimism on capital expenditure with a value of 93.5. Capital expenditure was the only component that did not score over 100 among the five components despite the economy’s resumption. Nonetheless, the index did increase by 14.9 percent from last quarter’s level of 81.4. When asked about capital expenditure in their own industry, 30.6 percent of the respondents’ forecasted increased capital expenditure, while 37.0 percent expected decreased capital expenditure. The remaining 32.4 percent predicted no change.

Expectations for Home Prices. The local and national housing market displayed a better performance than expected despite the stay-at-home orders, which probably reflected the low interest rates. Despite lower level of sales activity because of the coronavirus, the home price continued its gain. This upward trend, however, may not continue. CoreLogic forecasts that the prices will likely decline over the next 12 months, which aligns with local business executives’ predictions. When asked about expectations on home prices, 18.9 percent of the respondents expected increases in home prices in Southern Nevada, while 39.6 percent predicted decreases in home prices. The remaining 41.5 percent forecasted no change. Thus, the index value equals 79.2, suggesting declining housing prices, on average.

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 134.6, then this means that 34.6 percent more respondents exhibit a positive attitude (64.5 percent) than those that exhibit a negative attitude (29.9 percent).

² All participants finished responding by the middle of June just before the daily COVID-19 cases spiked.

Expectations for Construction Activity. Local business leaders expressed a slightly negative outlook on construction activity with a value of 94.4. This may reflect the end of Allegiant Stadium’s construction in July. Construction activity was exempted from the stay-at-home order last quarter as it is classified as an essential business. When asked about expectations on construction, 31.8 percent of the respondents expected more construction activity, 30.8 percent projected no change, and 37.4 percent forecasted less construction activity in the third quarter compared to last quarter.

Paycheck Protection Program (PPP) Loan. The PPP established by the CARES act provided small businesses the resources to support their businesses, which help to cover overhead costs and payrolls amid massive shutdowns caused by COVID-19. Two rounds of PPP applications went through over the last few months. About half of the respondents reported that they applied for the loan in the first round. Of those who applied, 53.7 percent received the amount as sought, 14.8 percent reported receiving a smaller amount than they originally thought, and 31.5 percent reported a rejection of their applications. Less respondents (25.3 percent) reported that they applied for the PPP loan in the second round, since businesses can only receive the loan once unless they meet certain requirements. Of those who applied, 76.0 percent reported receiving the full amount they requested, while 8.0 percent reported receiving less than what they originally requested. The remaining 16.0 percent reported a rejection of their request.

The Fed’s Interest Policy . It seems that a majority of local businesses do not think that the Fed should adopt a negative interest rate policy. The Fed currently keeps its federal fund rate near zero and continues the “whatever it takes” QE. As some European countries and Japan keep their interest rates below zero to spur economic growth, debate over whether the United States also needs to adopt negative interest rates occurred. When asked about introducing a negative interest policy, only 14.3 percent reported agreement, while 58.1 percent disagreed. The remaining 27.6 percent reported “uncertain” about a negative interest policy.

Most Important Challenges. Local business leaders mentioned economic uncertainty as the most difficult challenge, leading with 47.6 percent. Decreasing sales was scored as the second most important challenge with 21.0 percent. Coronavirus is mentioned as the third most difficult challenge they currently face with 11.4 percent.

The likelihood of a Second Wave of COVID-19. The recent acceleration of the COVID-19 cases seems to be expected for local businesses as all the responses

were collected just before the cases started to surge. Respondents forecasted a high probability of a potential second wave of coronavirus infection. Approximately 93 percent of local businesses predicted some levels of likelihoods on a second wave of the virus. That is, 19.0 percent expects a small chance; 33.3 percent, a moderate chance; 41.0 percent, a high chance. Only 6.7 percent of respondents expected no chance of a second wave. Viewed somewhat differently, 25.7 percent expect a small or no chance of a second wave of the coronavirus while 74.3 percent project a moderate to high chance of a second wave.

The Economic Recovery. A majority of local businesses anticipate a full recovery would not happen in 2020. That is, only a slim 7.6 percent expected the full recovery to happen in 2020. The remaining respondents were approximately evenly distributed for 2021, 2022, and 2023 or later. Specifically, 30.5 percent forecasted the full recovery in 2021, 31.4 percent predicted the full recovery in 2022, and 30.5 percent forecasted no full recovery until 2023 or later.

Conclusion

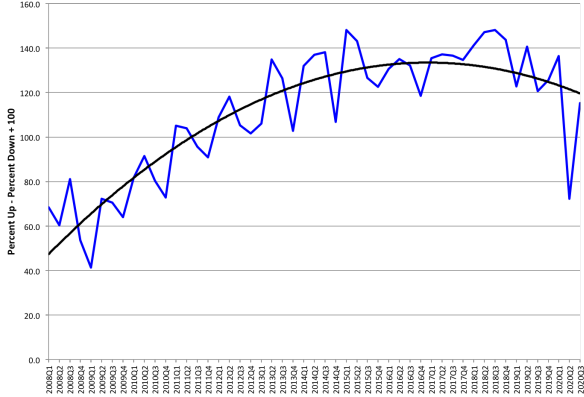
In summary, the local business confidence rebounded in the third quarter of 2020 due to the resumption of local economic activity. The survey results reveal that the United States and Nevada economy will start to recover in the third quarter, which resulted in optimism on sales, profits, and hiring in their industry. The overall index values for home prices and construction activity, however, suggest that the housing market in the near term may start to suffer from the aftermaths of the recent economic downturn due to COVID-19. As Clark County depends heavily on tourism for its economy, we expect that the local economic recovery will be slower and take longer than other areas in the United State. Once again, Las Vegas will be “ground zero” for the COVID-19 recession.

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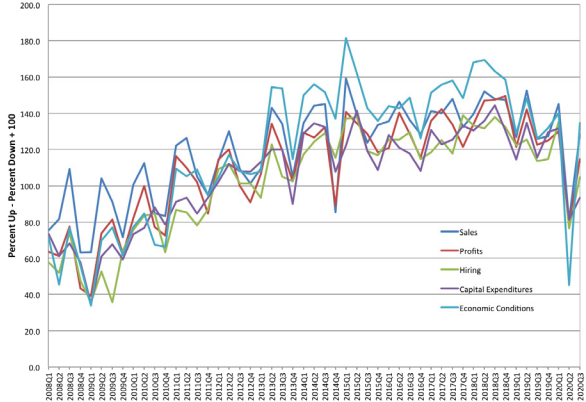
The views expressed are those of the authors and do not necessarily represent those of the University of Nevada, Las Vegas or the Nevada System of Higher Education.

BUSINESS CONFIDENCE INDEX SURVEY RESULTS

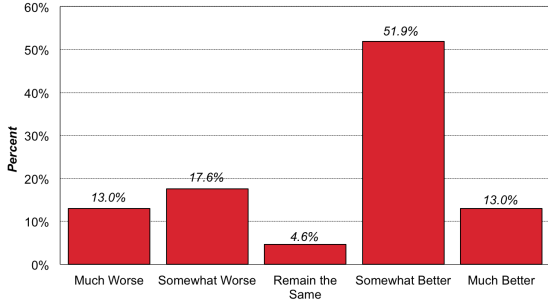
CBER's Business Confidence Index rebounded sharply as economic conditions could hardly worsen, especially with the economic reopening.



Local businesses expressed optimism on sales, profits, hiring and general economic conditions. The index value for capital expenditure, however, remained below 100, perhaps due to ongoing economic uncertainty concerning future effects of the virus.

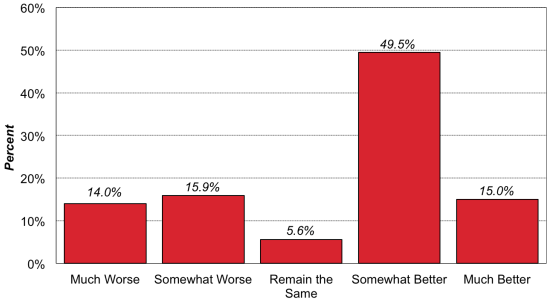


How do you think economic conditions in the U.S. will change in the coming quarter compared to the current quarter?



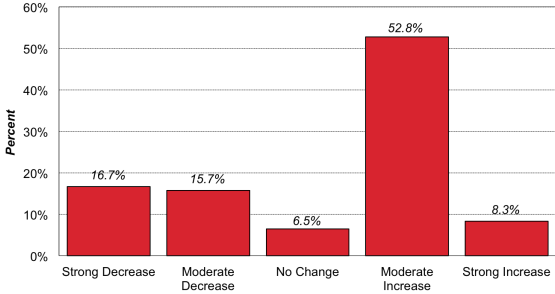
CBER Business Confidence Index Survey

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



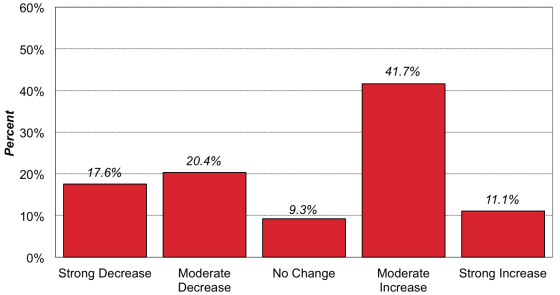
CBER Business Confidence Index Survey

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



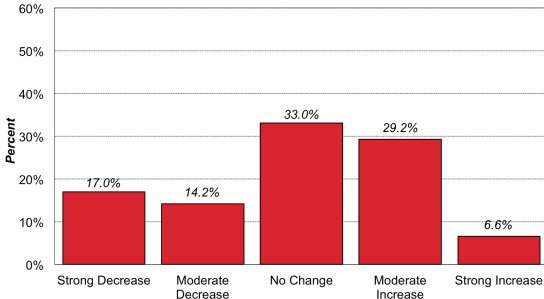
CBER Business Confidence Index Survey

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



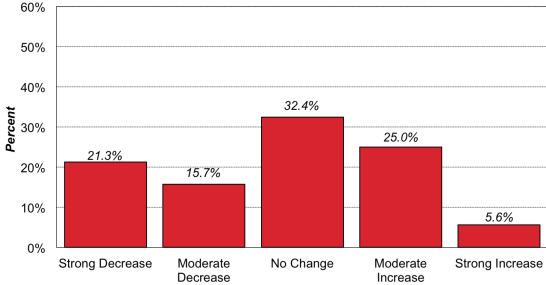
CBER Business Confidence Index Survey

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



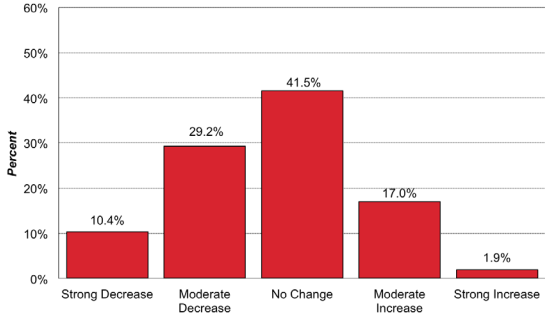
CBER Business Confidence Index Survey

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



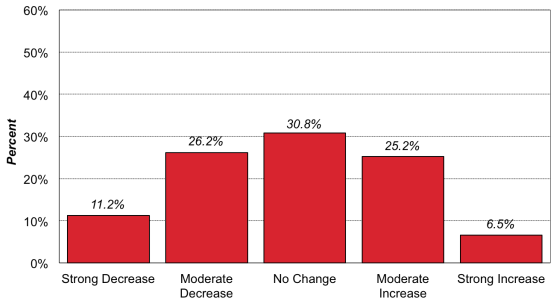
CBER Business Confidence Index Survey

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



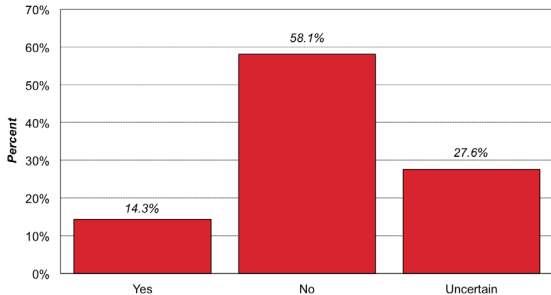
CBER Business Confidence Index Survey

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



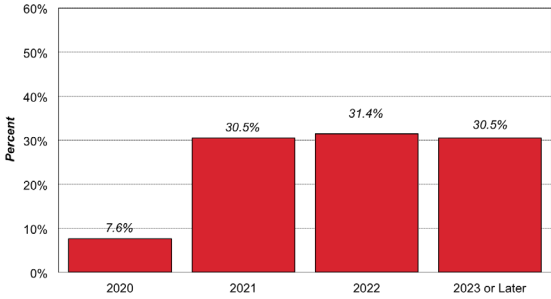
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Should the Fed adopt a negative interest rate policy?



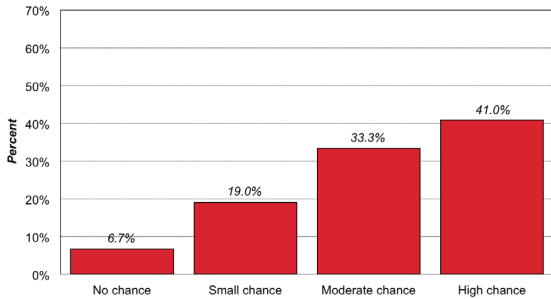
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When do you expect the full recovery from the current recession to occur?



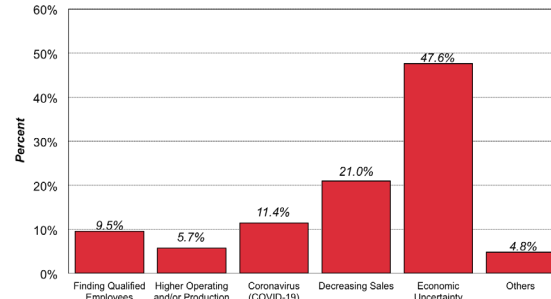
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What is the likelihood of a second wave of coronavirus infection?



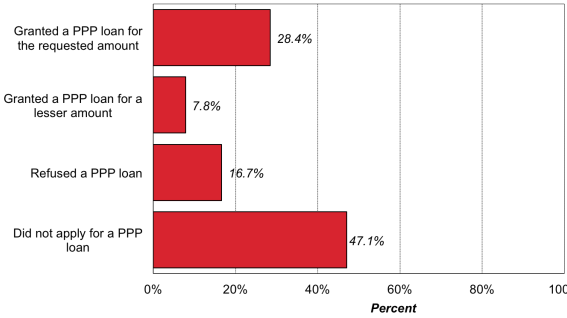
CBER Business Confidence Index Survey

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



CBER Business Confidence Index Survey

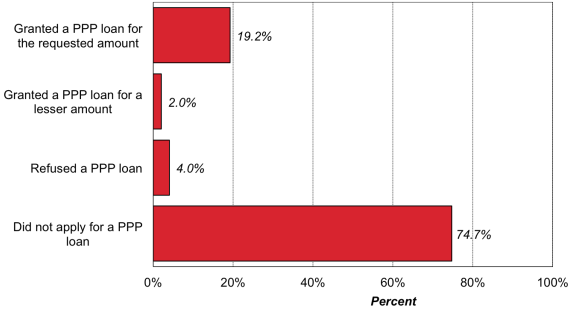
If you applied for a Paycheck Protection Program (PPP) loan in the first round, what was the result?



CBER Business Confidence Index Survey

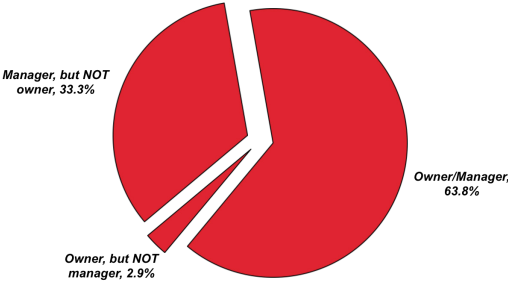
Note: When reporting percentage responses, totals may not add to 100 because of rounding.

If you applied for a PPP loan in the second round, what was the result?



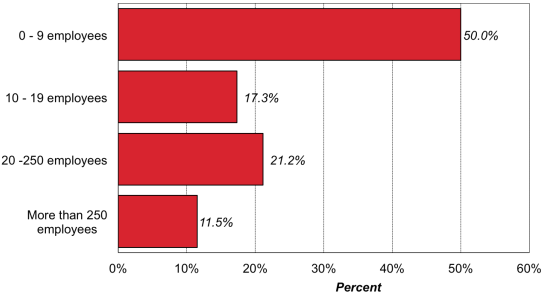
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Which best describes your position in the business?



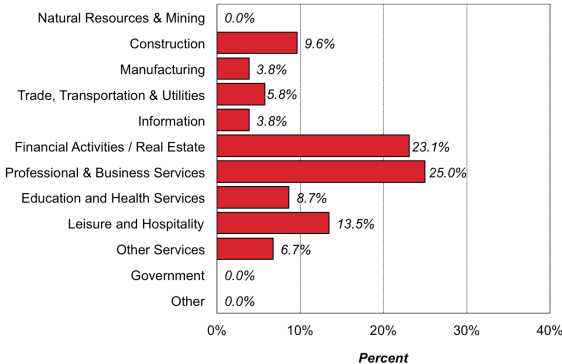
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How many people, full time and part time, does your business currently employ, NOT including yourself?



CBER Business Confidence Index Survey

Business sectors reflected in survey



CBER Business Confidence Index Survey

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