

## GAMING INDUSTRY OUTLOOK: WEAKER ECONOMIC CONDITIONS OFFSET BY EXECUTIVE OPTIMISM

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After a period of exceptionally strong growth, economic activity in the U.S. gaming industry is expected to ease moderately over the next six months, according to the AGA Gaming Industry Outlook presented by Fitch Ratings.

The Gaming Industry Outlook provides a snapshot of the current and future economic health of the industry based on executive sentiment, casino visitation plans, gaming revenue and economic indicators. The Outlook includes two separate indices:

- The Current Conditions Index measured 99.5, reflecting approximately stable casino gaming-related economic activity in the third quarter relative to the second quarter (index values above 100 indicate activity is increasing).
- The Future Conditions Index decelerated to 95.3, indicating annualized industry economic activity over the next six months is expected to decrease moderately.

The weaker outlook evident in the Future Conditions Index reflects a baseline economic outlook that now assumes a mild recession during the first half of next year balanced by positive expectations expressed by the Gaming Executive Panel. Nearly four-in-ten panel participants (38%) expect business conditions to be better over the next three to six months, compared to only eight percent who expect worse conditions.

## INDEX HIGHLIGHTS

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Real economic activity in the industry, as measured by gaming revenue, employment and employee wages and salaries in the Current Conditions Index, slowed in Q3 relative to 2022 Q2 with an index reading of 99.5. Strong inflation in the third quarter contributed to a weaker measure of economic activity as gaming revenue and employee wages are adjusted for inflation in the Current Conditions Index.

The smoothed version – effectively a three-quarter weighted average – of the Current Conditions Index, which is reported with a two-quarter lag and is less impacted by short-term fluctuations, stood at 104.9 in Q3 2022. This indicates industry activity has been expanding in recent quarters at an annualized pace of approximately 4.9% and reflects real underlying growth even when controlling for the effects of inflation.



## GAMING EXECUTIVE PANEL HIGHLIGHTS

Gaming executives expressed largely positive or neutral sentiment across a range of indicators. Overall, almost all respondents describe the current business situation as good (68%) or satisfactory (28%), and more than one third expect future conditions to improve (38%) over the next three to six months.

Panel participants' responses are more neutral on future growth. In Q1 2022, the net positive share of respondents expecting an increase in the pace of capital investment over the next three to six months was 71%, but in Q3 this declined to 50%. Expectations for the pace of gaming unit sales for replacement use as well as for new or expansion use also eased. For the first time, respondents had a net "tight" outlook on company access to credit, with more respondents indicating access to credit is tight (31%) than easy (8%).

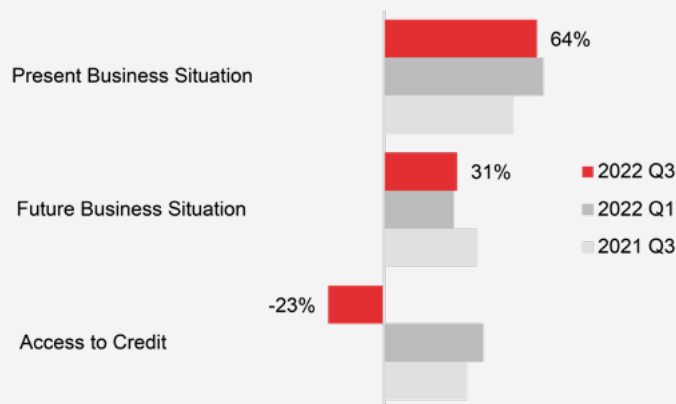
Panel participants who anticipate an increased pace of growth in wages and benefits continue to outnumber those that expect a decrease by a wide margin (72% net positive). At the same time, the expected pace of hiring has continued to move toward neutral: the share expecting the pace of hiring new employees to increase was 28% net positive, down from 50% in the first quarter and 71% in the fall of 2021.

Supply chain issues remain a top concern even as they have started to ease. Two-thirds (65%) of panel participants cited supply chain delays as a limiting factor in the third quarter, down from 75% earlier this year. Inflation and interest rate concerns (62%, flat from 63%), as well as the uncertainty of the economic environment (50%, up from 46%) also remain major limiting factors for the industry.

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- • **Gaming executives remain positive on current business conditions and many expect future condition to be better.**

**Business Situation**  
Net positive calculated as share of respondents that assess present conditions as "good" minus share assessing conditions as "bad"

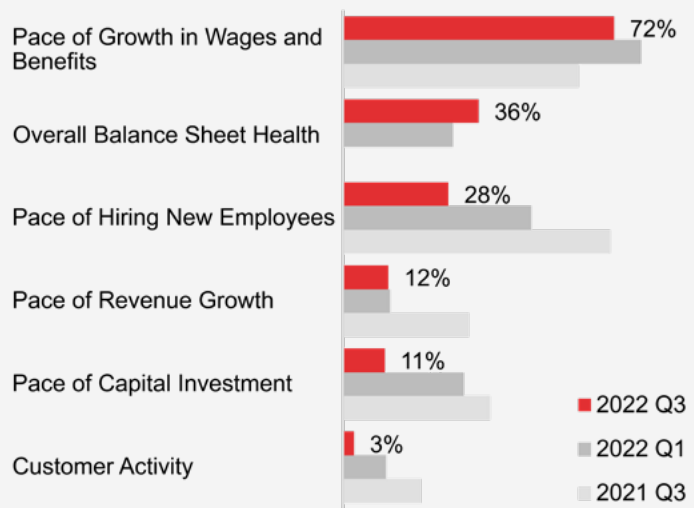


Response base: Gaming executive panel overall. Net positive calculated as share assessing present conditions for their company as "good" or future conditions as "expected to be better over the next three to six months" or access to credit as "easy," minus share assessing each measure as "bad" or "expected to be worse" or access to credit as "tight."

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**Panel participants continue to anticipate an increased pace of growth in wages and benefits by a wide margin, even as the share expecting an increase in the pace of hiring new employees has narrowed.**

**Growth Expectations**  
Net positive calculated as share of respondents that “expect increase” over next three to six months minus share that “expect decrease”

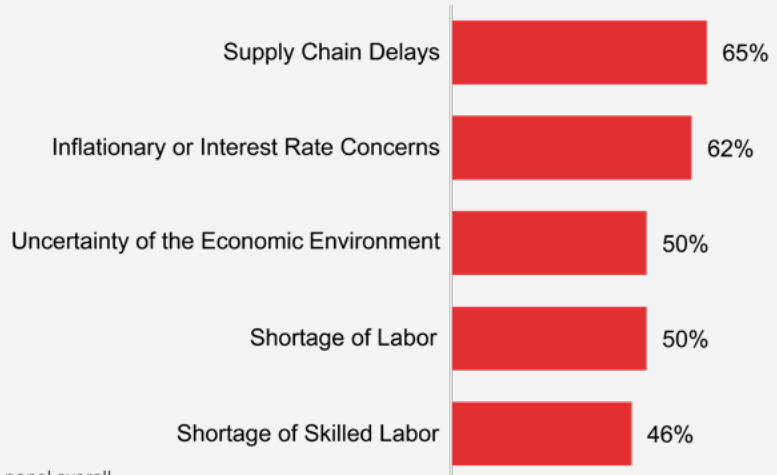


Response base: Gaming executive panel overall.

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**Supply chain concerns have begun to decline, but overall economic uncertainty is a major limiting factor.**

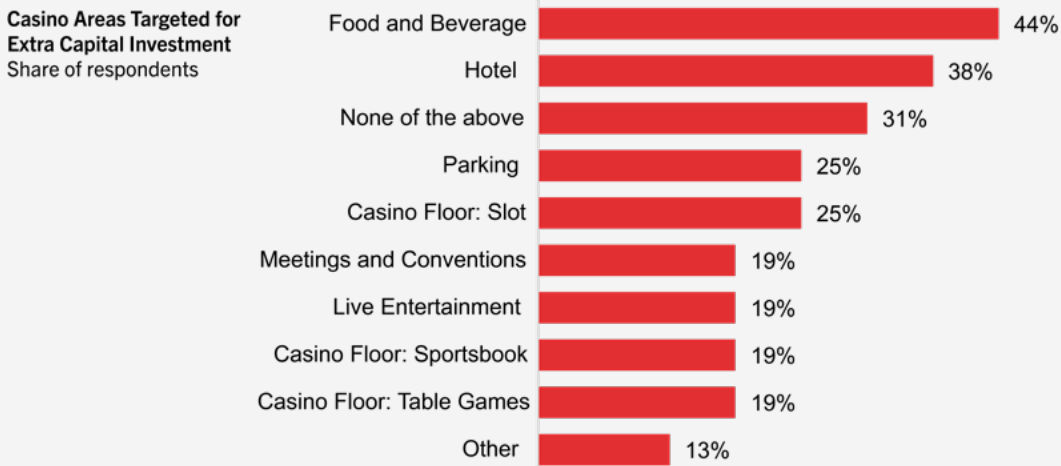
**Factors Limiting Operations**  
Share of respondents



Response base: Gaming executive panel overall.



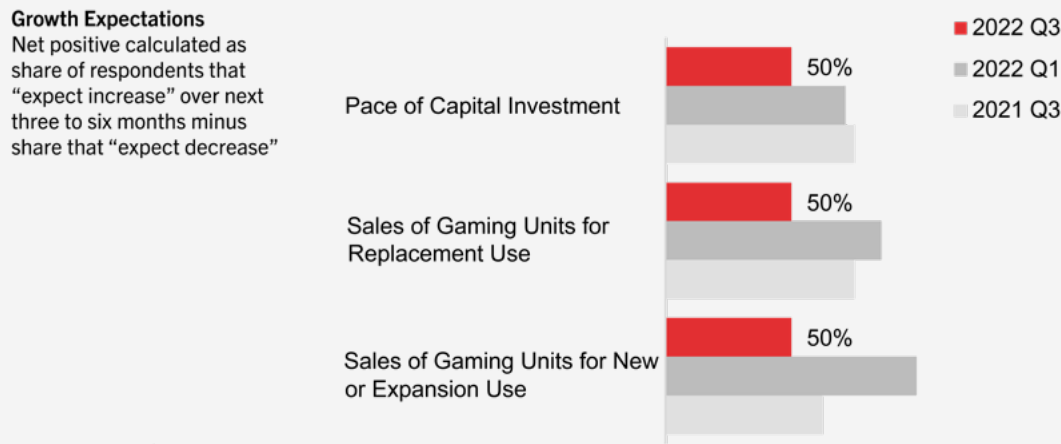
• • **While F&B and hotel facilities still top plans for extra capital investment, panelists cited parking as well as meetings and conventions facilities more frequently than in prior quarters.**



Note: Response base consists of casino operators and owners. Result shows the share of respondents expecting to make greater than normal levels of capital investment in each area over the next six to 12 months.



• • **Supplier expectations for the pace of capital investment and gaming unit sales remain positive, but have eased some relative to prior quarters.**



Response base: Gaming equipment suppliers.

# BACKGROUND & METHODOLOGY

The Gaming Industry Outlook Index is prepared on the behalf of the American Gaming Association by Oxford Economics and presented in partnership with Fitch Ratings. It provides a timely measure of recent growth and future expectations. This Q3 2022 release represents the third release of the index.

## Current Conditions Index:

- The Current Conditions Index measures activity in the U.S. casino gaming industry during the most recent quarter. It is based on three components: gaming revenue, employment, and wages and salaries. Each component is adjusted to control for seasonal patterns and monetary measures are adjusted for inflation. Data is estimated through the end of Q3 2022 for each index component based on available monthly data as of the point of index calculation. As additional information becomes available for past quarters, the index is re-estimated.
- The Current Conditions Index reflects the composite growth of the three components, on an annualized basis. Index values above 100 indicate activity expanded during the quarter, while index values below 100 indicate a contraction. Index values are scaled to be consistent with annualized growth. For example, an index value of 103 is consistent with a 3% annualized pace of growth. The index controls for typical seasonal patterns and index values may be directly compared to the pace of change in previous periods.
- When shown graphically, the Current Conditions Index compresses the most extreme values (index values below 80 or above 120). Individual observations are shown as well as a smoothed series, similar to a moving average, to help convey shifts in industry conditions.

## Future Conditions Index:

- The Future Conditions Index measures the expected direction of conditions in the U.S. casino gaming industry over the coming six months. It is based on the following three components: economic conditions (measured as Oxford Economics' forecast for growth in personal disposable income, household net worth and consumer spending on services), consumer intentions to visit a casino in the future, and the aggregate sentiment expressed in the Gaming Executive Panel. The Future Conditions Index is scaled so that index values correspond to the expected growth rate in industry conditions as measured by the Current Conditions Index. For example, an index value of 103 is consistent with a 3% annualized pace of expected growth.
- The economic conditions measure is based on Oxford Economics' forecast of growth in real disposable income, household net worth, and consumer spending on services. The components of the index were selected based on the contribution each indicator makes to predicting future movements in the Current Conditions Index. Casino executive sentiment is measured through the aggregate measure of positive responses minus negative responses across a set of survey questions.
  - For example, one of the survey questions included in this aggregate is the pace of hiring new employees. The net positive response for that question is calculated as the share of responses that expect an increase in the pace of hiring new employees over the next three to six months, minus the share that expect a decrease in hiring. This net positive response is averaged with responses to a selected set of other survey questions (e.g., pace of revenue growth, pace of growth in wages and benefits, expectations of future business conditions) to calculate the average net positive response as a measure of casino executive sentiment.
- The Future Conditions Index is based in part on Oxford Economics' outlook for the economy:
  - Inflation has proved stronger and more persistent than anticipated. The U.S. economy is now anticipated to experience a mild recession in the first half of 2023 as high inflation, rising interest rates, lingering supply chain difficulties, softer labor market dynamics and global headwinds weaken demand.
  - Each of the economic drivers in the Future Conditions Index (disposable income growth, household net worth and consumer spending) are expected to weaken in real terms during late 2022 and early 2023 before improving in the second half of 2023.

## Gaming Executive Panel

- The Gaming Executive Panel consists of senior-level AGA member executives selected to represent the breadth of the casino gaming sector. Respondents were segmented across three primary categories: casino operators and owners, gaming equipment suppliers, and iGaming and/or sportsbook operators.
- The Q3 2022 survey was conducted between August 30 and September 16, 2022. A total of 26 executives responded, including executives at the major international and domestic gaming companies, tribal gaming operators, single unit casino operators, major gaming equipment suppliers, and major iGaming and/or sports betting operators.

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