



QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

Economic Outlook: Global, National, and Local — U.S. real gross domestic product (GDP) for the fourth quarter of 2015 grew modestly at an annualized growth rate of 1.4 percent. The effect of continued strong consumption mainly drove the U.S. economy during the fourth quarter of 2015. The strong dollar, cheap oil, and a sluggish growth in global economy, however, dampened this fourth quarter growth. More specifically, personal consumption expenditure, residential investment, and federal government spending contributed positively to real GDP growth; while nonresidential investment, net exports, private inventory investment, and state and local government spending contributed negatively.

The U.S. domestic market continued its modest expansion despite unfavorable global economic conditions. The U.S. labor market continued its healthy growth, adding 215,000 jobs in March. Although the unemployment rate rose by 0.1 percent to 5.0 percent in March 2016, this upward movement reflected the increase in labor force participation. Even though auto/truck sales experienced a yearly loss, retail sales posted a 3.1 percent year-over-year gain in March 2016. February housing starts also significantly increased by 30.9 percent compared to a year earlier. The stock market also fully recovered from its substantial losses at the beginning of this year, and oil prices started to rebound last month. In addition, the Fed decided not to increase the federal funds rate in March as the continuing weaker global economy and stronger dollars still cast a shadow over the ongoing performance of the U.S. economy.

The Nevada and Clark County economies posted generally strong performance with the most recent data. Even though taxable sales recently experienced weak year-over-year growth, tourism remains fairly robust and the housing market shows a strong recovery from the Great Recession. Many of the economic indicators, such as population, visitor volume,

taxable sales, employment, and so on, have either exceeded their prior peaks before the Great Recession or should exceed those peaks in the near future.

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), increased by 3.4 percent on a quarterly basis from 130.7 to 135.1 in the first and second quarters of 2016, respectively (Figure 1). The index includes five components: business expectations of (i) general economic conditions in Nevada, (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditures. The index remains well above 100, which implies that respondents, on average, feel more positive than negative about the five components. Moreover, the index has exceeded 100 for the past five years. All five components also exceeded 100 for the second quarter of 2016 (Figure 2). The index values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 142.7, 146.2, 140.2, 125.4, and 121.0, respectively.¹

Expectations for the U.S. and Nevada Economies — When asked about their expectations for general economic conditions in the second quarter of 2016, Southern Nevada business leaders continued to express a more optimistic outlook on the local economy than the U.S. economy. When asked about the U.S. economy, 46.5 percent of the respondents expected an improvement, 34.1 percent expected no change, and 19.4 percent expected some weakening. When asked about Nevada, 57.9 percent of Southern Nevada business leaders expected an improving economy, 26.9 percent expected no change, and 15.2 percent expected a weakening.

Respondents held a more optimistic outlook in the second quarter of 2016 as compared to the first quarter for the U.S. economy; they felt slightly less optimistic about the Nevada

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 economic conditions component equals 135, then this means that 35 percent more respondents exhibit a positive attitude (say 50 percent) than those that exhibit a negative attitude (say 15 percent).

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economy compared to last quarter (i.e., 143.9 to 142.7). The higher values of U.S. economic condition in the second quarter might reflect a better-than-expected domestic economy (e.g., employment growth, stable consumer spending, improved housing market). Moreover, the stock market completely recovered from its losses at the beginning of the year, and the Fed gave more confidence to investors by deciding not to raise the federal funds rate last month. Uncertainty about the global economy still exists as the Chinese and emerging market economies experience slower growth. In addition, the stronger dollar casts a shadow over the strength of U.S. economic growth.

The professional & business services and real estate/finance sectors provided the largest number of respondents to the survey. As such, we can disaggregate the data by the above two sectors. Respondents from the real estate/finance sector were more optimistic about economic conditions in Nevada, scoring 170.0, while respondents in the professional & business services sector scored 140.8, which nearly matched the overall index of 142.7.

Expectations for Sales — The index value for expectations on sales has increased for three straight quarters as more respondents forecasted continuing improvement in sales. The sales index rose by 7.8 percent quarter-over-quarter from 135.6 to 146.2. That is, 60.2 percent of respondents expected an increase in sales in their industry, 25.7 percent expected no change, and 14.1 percent expected a decline. The respondents in the real estate/finance sector were far more optimistic than all respondents with a score of 160.0, while the respondents in the professional & business services sector forecasted a less optimistic outlook than average respondents with a value of 138.8.

Expectations for Profits — The Southern Nevada business leaders expressed optimism for profits as the index value for expectations on profits jumped 16.2 percent compared to the first quarter of 2016. The index value for profits increased from 120.7 to 140.2. When asked about profits, 53.3 percent of the respondents expected an improvement, 33.7 percent expected no change, and 13.1 percent expected a worsening. The respondents in the real estate/finance and professional & business services sectors were somewhat more optimistic than all respondents with scores of 147.5 and 149.0, respectively.

Expectations for Capital Expenditures — The index value for expectations on capital expenditures decreased from 128.0 to 121.0. When asked about capital expenditures, 33.5 percent of the respondents expected increases for their industry, compared to 12.6 percent who expected decreases. The remaining 53.9 percent expected no change for the second quarter of 2016. The respondents in the professional & business services and real estate/finance sectors had somewhat more optimistic forecasts on their capital expenditures than all respondents, scoring 126.5 and 134.2, respectively.

Expectations for Hiring — The respondents' expectations about hiring in their industry had the same index value for this quarter as for the first quarter of 2016 (i.e., 125.4). Taken as a whole, 39.0 percent of the respondents predicted an increase in hiring, 47.3 percent expected no change,

and 13.7 percent expected a decrease. The respondents in the professional & business services and real estate/finance sectors were slightly less optimistic than all respondents as their values for this component equaled 118.4 and 123.1, respectively.

Expectations for Home Prices — Most data point to continuing improvement in the Las Vegas housing market. The total number of Clark County housing permits issued in 2015 increased by 9.0 percent compared to those issued in 2014, and the sum of residential permits during January and February 2016 is 56.7 percent higher than the sum from January and February 2015. The Case-Shiller housing price index in Las Vegas has recovered 62.1 percent of its loss from its prior peak, while the median new home price has nearly reached the level before the housing bubble burst. In addition, construction employment continued its strong double-digit growth in February 2016 compared to a year ago.

Perhaps because of these economic indicators, respondents still remained significantly optimistic on the potential gains in home prices for this quarter. Last quarter, the index value for expectations on home prices was 162.4, which is slightly lower than this quarter's value of 168.1. When asked how home prices in 2016 will compare to prices in 2015, 72.2 percent expected increases in home prices in Clark County, while only 4.2 percent expected losses in home prices, and the remaining 23.7 percent expected no change. Interestingly, no negative answers on housing-price expectation existed among the respondents in the real estate/finance sector. The vast majority of respondents (90 percent) in the real estate/finance sector expected increases in home prices, while only 10 percent expected no change.

Expectations for Construction Activity — In contrast to the last quarter survey, recent survey results showed a less optimistic expectation in construction activity than for home prices. But, the scores are still significantly above 100. The index value for expectations on construction activity decreased slightly from 169.4 to 165.5 in the recent survey. Specifically, 73.1 percent of the respondents expected increasing construction activity in 2016 compared to 2015. In addition, 19.3 percent expected no change, and only 7.6 percent expected decreases in construction activity in 2016.

Effects of the Financial Crisis — More than 80 percent of Southern Nevada business leaders still feel the effects of the nation's financial crisis. Among the top problems for their businesses, the respondents reported unpredictable business conditions (48.1 percent) and slowing or lost sales (12.3 percent). This quarter, the survey respondents showed more concern about unpredictable business conditions than in the previous survey, which might reflect a weakening global economy as well as gyrations in the U.S. stock market. In addition, the Fed mentioned a weak global economy as a main reason they decided not to raise the federal funds rate. The ranking of top two problems was the same for professional & business services sector respondents. The real estate/finance sector respondents ranked falling real estate values as the second problem area behind the unpredictability of business conditions.

More than 80 percent of respondents felt that the current nation's financial problems affected their businesses. Among the survey participants, 3.3 percent reported that the problems

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associated with financial conditions threatened the survival of their business, and 13.1 percent were convinced that such problems will depress their business prospects for the foreseeable future. Conversely, for 64.0 percent of the respondents, the financial issues create only a temporary setback or require only minor adjustments. Another 15.7 percent, instead, saw no significant effect on their businesses.

The survey respondents also expected lingering effects from the nation's financial problems. A fairly large percentage (38.2 percent) reported that a long period of slow or no economic growth was the most serious problem. Other respondents were more concerned about the loss of small business opportunities (14.5 percent) and large tax increases (12.5 percent).

This survey saw a slight increase in the percentage of Southern Nevada business leaders seeking a credit line, rising from 33.3 percent in the last survey to 37.3 percent in this survey. But, a majority of respondents (62.7 percent) did not seek additional lines of credit in the past year. Of those who did, 52.6 percent obtained the credit they sought, 21.1 percent were granted a line of credit for a lesser amount, while 26.3 percent were refused the line of credit that they requested.

Conclusion — The most recent CBER Business Survey suggests optimism with respect to the Southern Nevada economy. Southern Nevada taxable sales posted stable year-over-year growth throughout 2015, and Clark County's employment also exhibited stable year-over-year gains. While in the past, the real estate and construction markets have been obstacles to a full recovery, numerous signs exist of stronger activity in these markets going forward. Even though gaming revenue experienced difficulty growing, the Las Vegas tourism and hospitality industry has diversified its revenue sources into non-gaming revenue such as conventions, entertainment, shops, and restaurants, tending to insulate its total revenue stream from the lackluster growth in gaming revenue. Finally, as more than 80 percent of Las Vegas tourists reside in the U.S., continued U.S. economic growth can positively influence Southern Nevada's recovery by strengthening tourism, although a weaker global economy still remains as a downside risk.

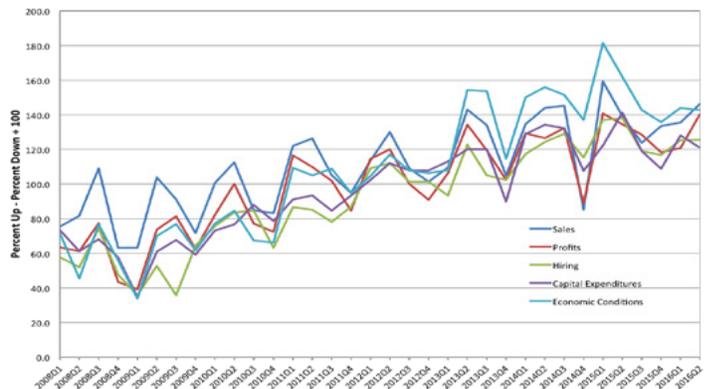
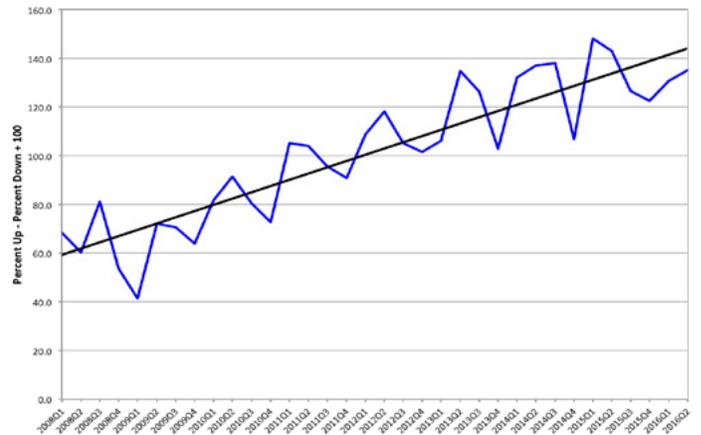
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 Jinju Lee, Economic Analyst
 Center for Business and Economic Research

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.

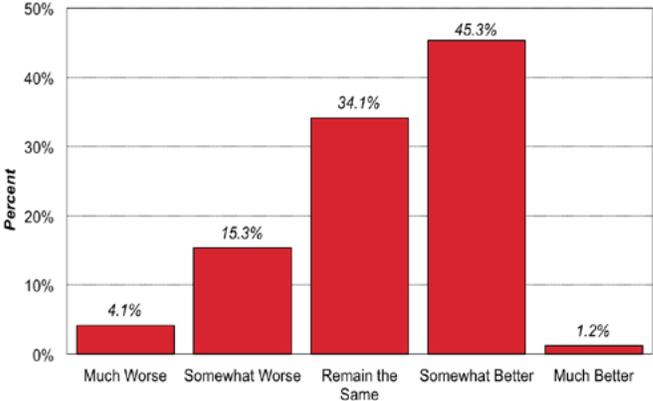
BUSINESS CONFIDENCE INDEX SURVEY RESULTS

CBER's Business Confidence Index has experienced a gain and was well above 100 for the second quarter of 2016

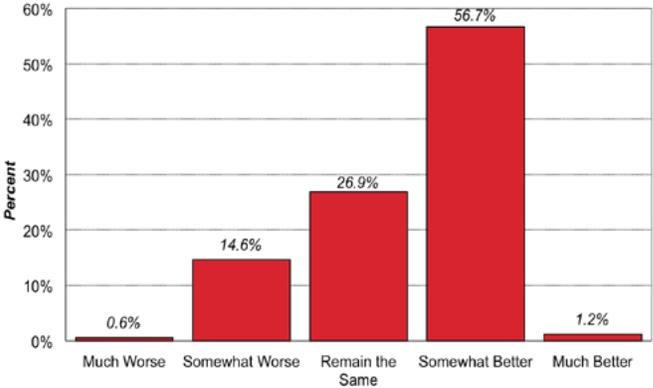
All five components of CBER's composite index exceeded 100 for the second quarter of 2016



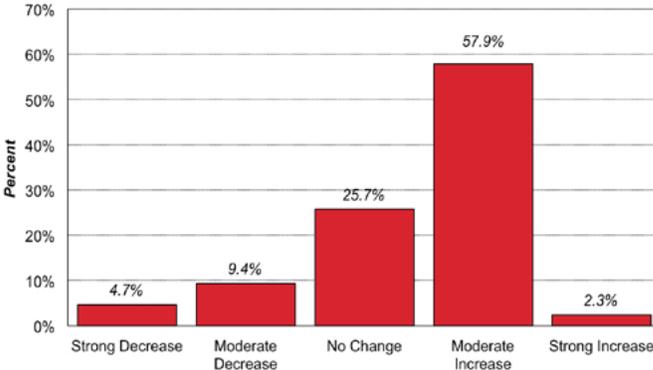
How do you think economic conditions in the U.S. will change in the coming quarter compared to the current quarter?



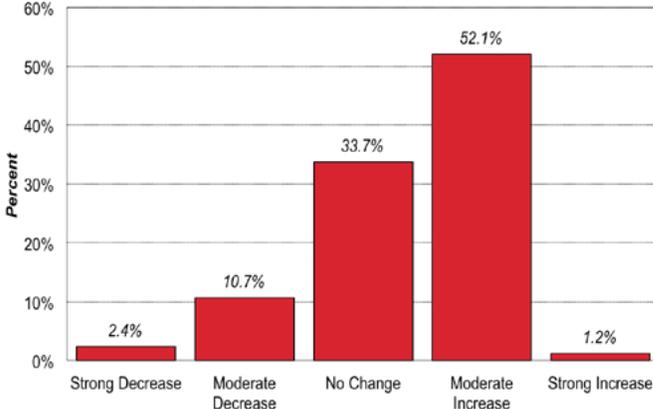
How do you think economic conditions in Nevada will change in the coming quarter compared to the current quarter?



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

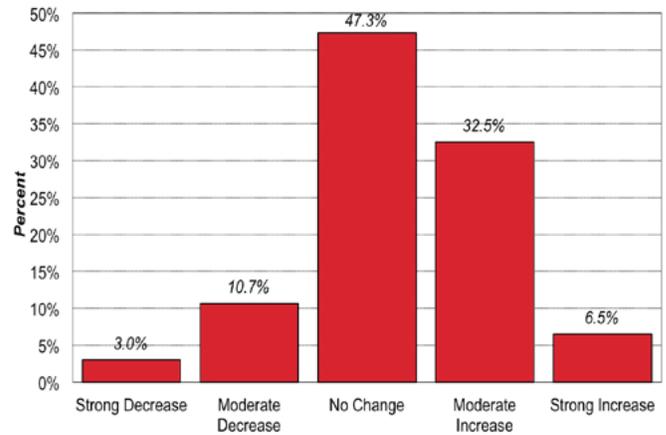


How do you think profits in your industry will change in the coming quarter compared to the current quarter?

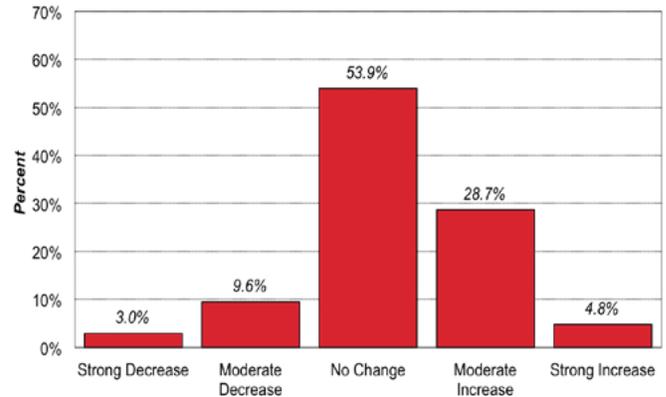


Note: Totals may not sum to 100 because reported values are rounded independently.

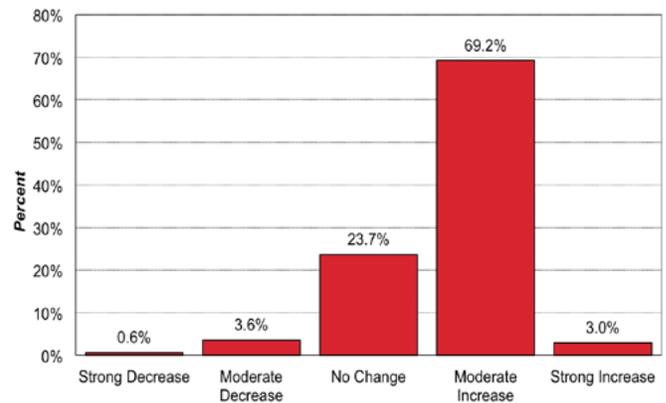
How do you think hiring in your industry will change in the coming quarter compared to the current quarter?



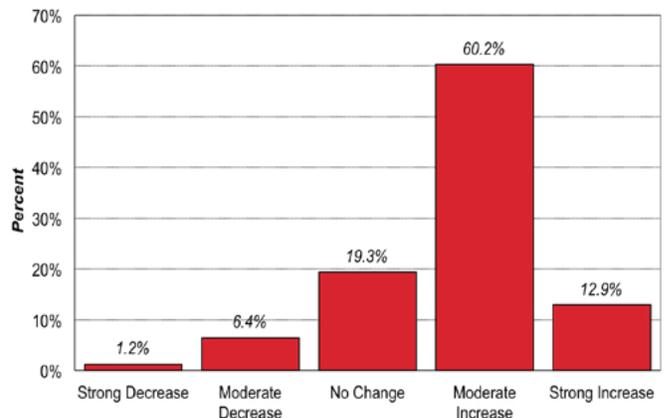
How do you think capital expenditures in your industry will change in the coming quarter compared to the current quarter?



In 2016, how do you think home prices in Southern Nevada will change compared to 2015?

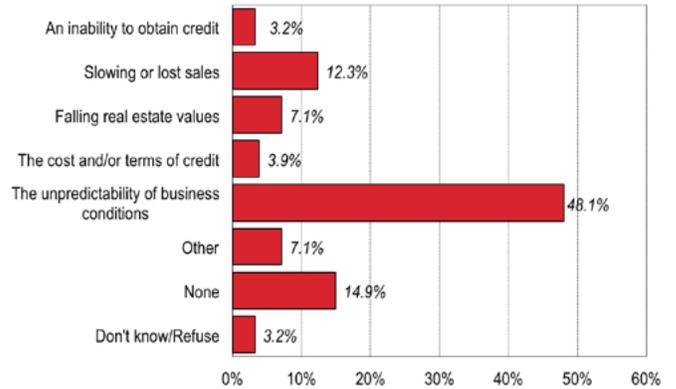


In 2016, how do you think construction activity in Southern Nevada will change compared to 2015?

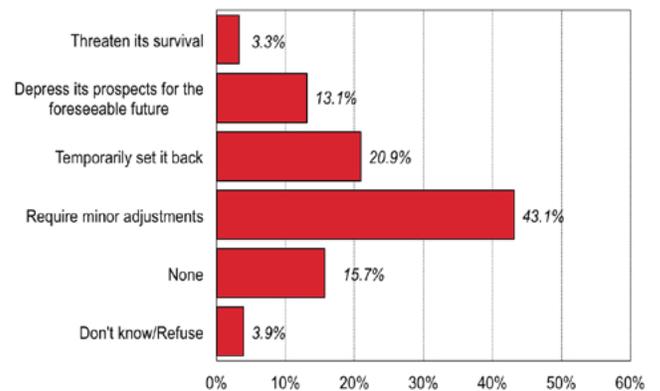


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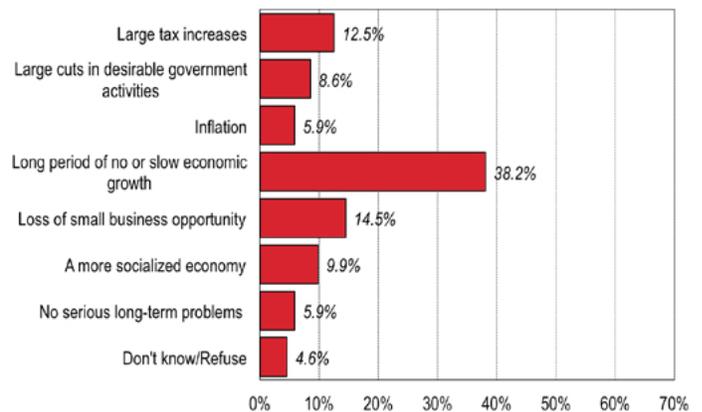
If you have been affected by the nation's current financial problems, is the most important problem caused by:



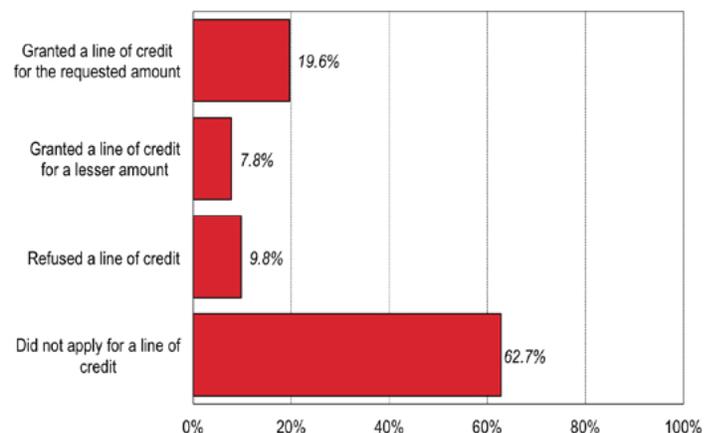
For your business, does the immediate financial problem associated with the current financial situation:



What do you think will be the most serious long-term problem caused by the nation's financial problems?

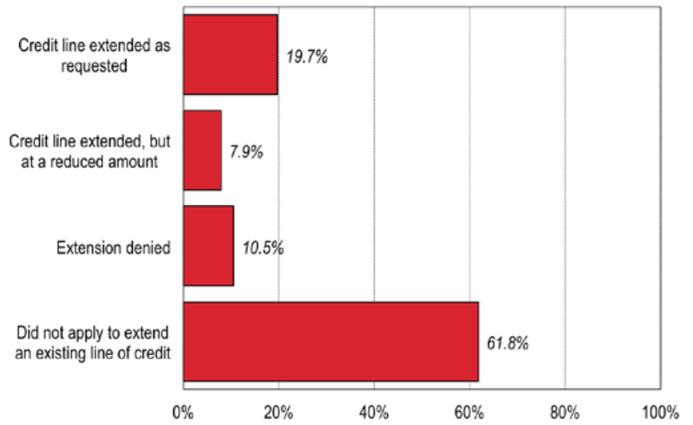


If you applied for a line of credit in the last year, what was the result?

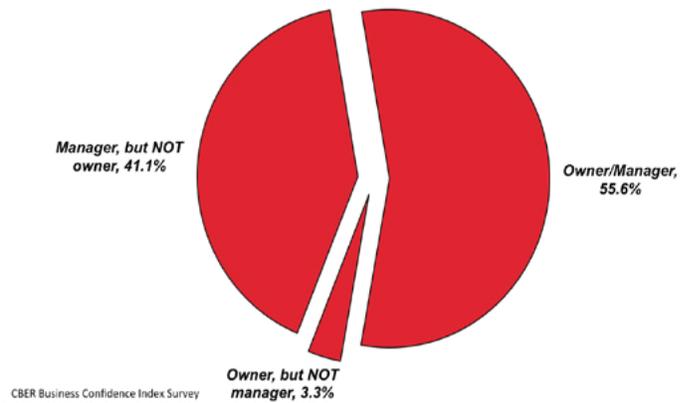


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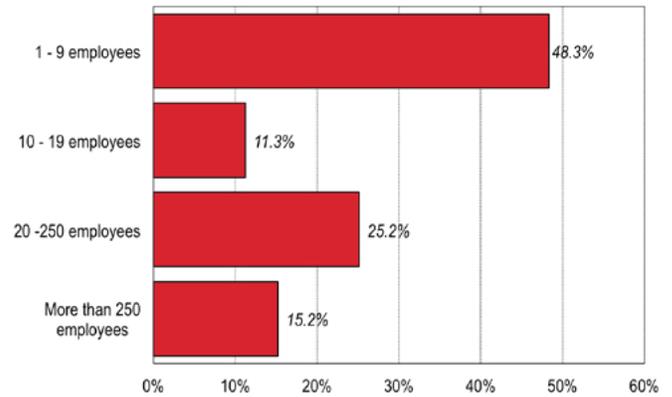
If you applied to extend an existing line of credit in the last year, what was the result?



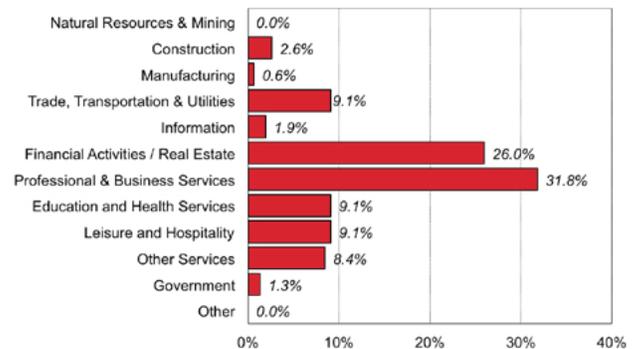
Which best describes your position in the business?



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



Business sectors reflected in survey



Note: Totals may not sum to 100 because reported values are rounded independently.