Economic Outlook:
Global, National, and Local

The U.S. economy posted weak expansion in the first half of 2016, where U.S. real gross domestic product (GDP) grew by a 0.8 and 1.4 percent annual rate in the first and second quarters of 2016, respectively. Although consumer spending showed a surprising gain for the second quarter, cutback in private investment slowed the speed of the expansion for the U.S. economy. In the second quarter, consumer spending, nonresidential fixed investment, and net exports made positive contributions to real GDP growth; while private inventory investment, residential fixed investment, and state and local government spending made negative contributions. A weaker global economy (especially the uncertainty from European economies) still remains a downside risk for the U.S. economy.

Even though the U.S. economy posted weak growth in the first half of the year, the job market continues to show robust gains; in addition, recent data showed that once discouraged job seekers now return to the labor force. U.S. nonfarm employment added 156,000 jobs in September, while the unemployment rate rose to 5.0 percent with a higher labor force participation rate. Retail sales continued a year-over-year increase, as did housing starts and housing prices with the most recent data. In spite of these positive U.S. indicators, the Fed’s decision to increase the federal funds rate will not likely occur until December in deference to the election.

The Nevada and Clark County economies continued to post favorable signs with their ongoing recovery and expansion. Although taxable sales experienced decelerated year-over-year growth in August, it still shows a robust yearly increase. Visitor volume also posted a year-over-year gain in August. Gaming revenue and housing permits/units in August dropped compared to last year, but the labor market posted a healthy gain for the month. Recent positive U.S. economic data also support the Southern Nevada economy as more than 80 percent of Las Vegas visitors reside in the U.S.

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), decreased significantly by 10.2 percent from 132.1 in the third quarter of 2016 to 118.6 in the fourth quarter in 2016 (Figure 1). The loss, however, reflects strong seasonality, where every year since 2010 the index drops in the fourth quarter, while it rebounds in each first quarter, perhaps due to a New Year effect. 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 above 100, which implies that respondents, on average, feel more positive than negative about the five components. Although all five components of the index experienced large losses, Southern Nevada business leaders still reported positive attitudes as they all remained above 100. The index values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 126.1, 128.5, 115.4, 114.6, and 108.3, respectively.¹

Expectations for the U.S. and Nevada Economies

Local businesses expressed optimism for both the local and the U.S. economies when asked about their expectations for general economic conditions in the fourth quarter of 2016. Although general economic conditions for Nevada experienced the largest decrease (15.1 percent) among the five components from last quarter, the respondents continued

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 126.1, then this means that 26.1 percent more respondents exhibit a positive attitude (46.5 percent) than those that exhibit a negative attitude (20.4 percent).
to forecast a more positive outlook for Nevada economic activity (i.e., 126.1) than for the U.S. (i.e., 109.6) for the fourth quarter. When asked about the U.S. economy, 34.4 percent of the respondents expected an improving economy, 40.8 percent expected no change, and 24.8 percent expected a worsening. When asked about Nevada, 46.5 percent of local businesses expected improvement, 33.1 percent expected no change, and 20.4 percent expected weakening.

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 these two sectors. Respondents from the real estate/finance sector showed more optimism about economic conditions in Nevada than all respondents by scoring 137.1, but they were less optimistic about U.S. economic conditions compared to all respondents with a score slightly over 100. Respondents in the professional & business services sector were less optimistic about the economic outlook for Nevada with a score of 105.9, while they expressed a more positive forecast for the U.S. economic conditions compared to all respondents with a value of 117.6.

**Expectations for Sales**
The index value for expectations on sales decreased by 5.7 percent compared to the third quarter of 2016. The sales index, however, scored the highest (i.e., 128.5) among the five components. When asked about sales in their own industry, 50.0 percent of respondents expected an increase in sales, 28.5 percent expected no change, and 21.5 percent expected a decline. The respondents in the real estate/finance sector continued to project far more optimism than all other respondents with a score of 142.9, while the respondents in the professional & business services sector saw a less optimistic outlook than average with a value of 123.5.

**Expectations for Profits**
The Southern Nevada business leaders forecasted a less optimistic outlook on profit for the fourth quarter of 2016, compared to the third quarter. The index value for expectations on profits decreased by 13.2 points to 115.4, but the respondents are still positive about profits in their industry. Nearly 28 (27.6) percent of local businesses forecasted worsened profits, while 42.9 percent expected increased profits compared to last quarter. The remaining 29.5 percent expected no change. The businesses in the real estate/finance sector posted a much higher expectation on their profits than other industries with a score of 142.9, whereas professional & business services fell near the overall outcome at 114.7.

**Expectations for Capital Expenditures**
The index value for expectations on capital expenditures scored the lowest among the five components with the value of 108.3. The capital expenditures index kept falling throughout the year, which may reflect the Fed’s unpredictable decision on the next interest rate hike and harder credit condition for local businesses. When asked about capital expenditures, 26.8 percent of the respondents forecasted increases for their industry compared to 18.5 percent who expected decreases. More than a half of survey respondents (54.8 percent) expected no change.

The respondents in the real estate/finance sector posted neither a positive nor negative outlook on capital expenditure with the score of 100.0, but this represents a dramatic change compared to last quarter as the index dropped by 25.0 percent quarter-over-quarter, substantially more than any other component. The responses split evenly, with 48.6 percent expecting no change, 25.7 percent expecting a decline, and 25.7 percent expecting an increase. Local businesses in the professional & business services sector expressed continued mildly optimistic forecasts on capital expenditure in their industry by scoring 105.9.

**Expectations for Hiring**
The respondents’ expectations about hiring in their industry remained optimistic in the fourth quarter 2016, with the value of 114.6, in spite of an 11.5 percent decrease from last quarter. Taken as a whole, 31.8 percent of the respondents predicted an increase in hiring in their industry, 51.0 percent expected no change, and 17.2 percent expected a decrease. The respondents in the real estate/finance sector scored higher at 122.9, while respondents in the professional & business services industry expressed a less optimistic outlook on hiring with a value of 105.9.

**Expectations for Home Prices**
Southern Nevada showed a substantial increase in the number of new housing permits/units the first half of the year, up by 42.4 percent compared to the first half of 2015. Recent data, however, show year-over-year decreases. July and August figures were lower than a year earlier, decreasing by 25.9 and 17.6 percent year-over-year, respectively, while the year-to-date number still indicated a 26.2 percent increase compared to last year. The other indicators, nonetheless, still posted positive, rather than negative, signs. The seasonally adjusted Case-Shiller Las Vegas Home Price Index continued to gain for 11 consecutive months, and August construction employment continued a double-digit yearly gain, up by 13.0 percent.
Perhaps due to these positive economic indicators, local businesses still remained significantly optimistic on the potential gains in home prices for the fourth quarter of 2016 with an index value of 134.2. That is, nearly half of the respondents (49.4 percent) expected increases in home prices in Clark County, while 15.2 percent expected losses in home prices, and the remaining 35.4 percent forecasted no change. Local businesses in the financial activities/real estate sector proved more optimistic than average at 154.3, while businesses from the professional and business sector proved less optimistic than average, scoring 120.6. Only 5.7 percent of respondents in the real estate/finance sector expected home price losses, while 60.0 percent predicted gains in home prices. The remaining 34.3 percent expected no change in housing prices until the end of the year.

**Expectations for Construction Activity**

Survey respondents showed a more optimistic expectation for construction activity than for home prices with an index value of 142.4. Specifically, 53.2 percent of the respondents expected increasing construction activity in the fourth quarter of 2016 compared to the third quarter. In addition, 36.1 percent projected no change, and only 10.8 percent expected less construction activity in the fourth quarter. The indexes for the real estate/finance and professional & business services sectors were 154.3 and 126.5, respectively.

**Effects of the Financial Crisis**

Slightly more Southern Nevada business leaders felt the effects of the nation’s financial crisis compared to last quarter (i.e., 82.3 vs. 81.2 percent). The respondents again cited the same top three problems as cited in last quarter’s survey: unpredictable business conditions (40.1 percent), slowing or lost sales (17.0 percent), and an inability to obtain credit (10.2 percent). This quarter, more respondents showed their concern about slowing or lost sales and an inability to obtain credit, which had 13.3 and 7.7 percent answers, respectively, in the last quarter. The ranking of the top three problems was the same for respondents in the professional & business services sector, while respondents in the real estate/finance sector ranked falling real estate values as the second problem area instead of slowing or lost sales.

More than 70 percent of respondents felt that the current nation’s financial problems affected their businesses. Among the survey participants, only 2.7 percent reported that the problems associated with financial conditions threatened the survival of their business, but 14.3 percent were convinced that such problems will depress their business prospects for the foreseeable future. Conversely, for 57.8 percent of the respondents, the financial issues created only a temporary setback or required only minor adjustments. Another 21.1 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 (40.1 percent) reported that a long period of slow or no economic growth was the most serious problem. Concerns about large tax increases (13.6 percent) and loss of small business opportunity (13.6 percent) tied for second place.

Credit conditions seem to have worsened at the margin for local businesses. 35.6 percent of respondents applied for a line of credit in the last year. Of those, 57.7 percent were granted the credit line they wanted, which is lower than 62.1 percent from last quarter. Slightly more than 23 percent were refused the line of credit for which they applied, and the remaining 19.2 percent were granted a smaller amount than they originally sought. Small businesses of 0 to 9 employees reported the most difficulty obtaining a line of credit. Among those who applied, 42.9 percent failed to obtain the requested credit line. None of respondents who work for companies with more than 250 employees, however, were rejected.

**Conclusion**

The most recent CBER Business Survey suggests a generally optimistic outlook for the Southern Nevada economy. Even though taxable sales and tourism indicators recently showed weaker growth, a healthy gain in employment suggests a positive outlook for the ongoing recovery and expansion of the Southern Nevada economy. Recent weak permits data bring some concern to the real estate and construction market, but the optimistic outlook from respondents in the finance/real estate sectors suggests that the market continues to move in a positive direction. Finally, as the majority of Clark County tourists reside in the U.S., a continuation of the U.S. economic expansion should support Southern Nevada’s recovery, although political and global economic uncertainty still remain as a potential risk for the U.S. economy.

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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.
CBER's Business Confidence Index declined due to seasonality but is still above 100 for the fourth quarter of 2016.

All five components of CBER's composite index exceeded 100 for the fourth 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?

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

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
How do you think capital expenditures in your industry will change in the coming quarter compared to the current quarter?

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

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

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:

- Threaten its survival: 2.7%
- Detract its prospects for the foreseeable future: 4.3%
- Temporarily set it back: 20.2%
- Require minor adjustments: 32.7%
- None: 21.1%
- Don’t know/Refuse: 4.1%

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

- Large tax increases: 13.6%
- Large cuts in desirable government activities: 6.7%
- Inflation: 8.8%
- Long period of no or slow economic growth: 13.6%
- Loss of small business opportunity: 13.6%
- A more socialist economy: 12.9%
- No serious long-term problems: 0.7%
- Don’t know/Refuse: 4.1%

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

- Granted a line of credit for the requested amount: 21.5%
- Granted a line of credit for a lesser amount: 6.8%
- Refused a line of credit: 8.2%
- Did not apply for a line of credit: 64.4%

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

- Credit line extended as requested: 29.1%
- Credit line extended, but at a reduced amount: 6.3%
- Extension denied: 16.1%
- Did not apply to extend an existing line of credit: 54.4%

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