Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the third quarter of 2016 increased at a 3.5 percent annualized rate, a welcomed outcome as the U.S. suffered from weak growth during the first half of 2016. This third quarter growth largely reflected a surge in agricultural (soybean) exports and a rebound in business inventories. U.S. nonfarm employment added 156,000 jobs in December; as a result, U.S. employment increased by 1.7 percent in 2016, a slower pace than the 2.1 percent in 2015. The unemployment rate increased slightly to 4.7 percent in December, as the labor force participation rate increased. This unemployment rate is the lowest since November 2007, just before the Great Recession started. Average hourly earnings posted the strongest yearly gain since the recession ended, up by 2.9 percent. Some economists insist that the U.S. labor market is currently at full employment. We may see faster growth in 2017 with the anticipated stimulus policies promised by the new administration.

Retail sales posted a stronger gain in 2016 of 3.0 percent compared to 2.3 percent in 2015. Auto sales in 2016 set another record, up by 0.4 percent, thanks to the historic high sales in December. The U.S. house price index has also fully recovered from the Great Recession and exceeded its prior peak in July 2006. With positive expectations for the new administration, the stock market hit a historic record, and consumer confidence surged to its highest point in 12 years. At the same time, the economic policy uncertainty index surged to higher levels, indicating increased economic policy uncertainty. The Fed raised its benchmark interest rate after a lull of 12 months at its recent December meeting to 0.75 percent. The Federal Open Market Committee indicated that more rate increases should occur in 2017 and 2018. The dollar hit a 14-year high in December and is expected to be stronger in 2017 and 2018 with higher U.S. interest rates and a weaker global economy.

The Nevada and Clark County economies continued to post positive signs in their ongoing recovery and expansion. The year-to-date taxable sales increased strongly by 4.9 and 3.7 percent, respectively, in Nevada and Clark County. Clark County visitor volume again recorded another new record for two consecutive years, and the year-to-date total McCarran passenger numbers increased noticeably by 4.8 percent. The 2016 year-to-date gaming revenue also increased by 1.7 and 1.5 percent, respectively, for Nevada and Clark County, as a result of higher win percentages. The money actually bet by gamblers in casinos decreased compared to last year. Double-digit growth in housing permits/units and construction employment and the upward trend of the housing price index highlighted the stronger real estate market in 2016. We anticipate that the improvement will continue in 2017. In addition, Nevada employment in 2016 finally exceeded its previous peak, albeit with a different distribution across sectors. That is, construction employment lags, whereas service sector employment grows relative to total employment. Moreover, the local economy should see another favorable year in 2017 as the Southern Nevada economy benefits from the strengthening of the U.S. economy.

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), surged by 14.3 percent from 118.6 in the fourth quarter of 2016 to 135.5 in the first quarter of 2017 (Figure 1). The gain perhaps reflects a seasonal “New Year” effect, as every first quarter’s index scores higher than its previous quarter’s. 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. All the components...
except for hiring jumped remarkably from a quarter ago and were up year-over-year. Hiring was the only component that experienced a loss from a year ago. Southern Nevada business leaders reported positive attitudes as the components of the index all remained well above 100. The index values for business expectations of economic conditions, sales, profits, capital expenditure, and hiring scored 151.3, 141.0, 135.9, 130.8, and 118.4, respectively.¹

**Expectations for the U.S. and Nevada Economies**
Local business leaders expressed much optimism about both the local and the U.S. economies when asked about their expectations for general economic conditions in the first quarter of 2017. The surge in expectations on the economic conditions probably not only reflects a “New Year” effect but also business executives’ hope for the new Congress and new administration. Respondents showed the highest expectation on general economic conditions for Nevada relative to other four components, with a score of 151.3. General economic conditions for Nevada increased 20.0 and 5.1 percent, respectively, compared to a quarter and a year ago. Fifty-nine percent of respondents expected an improving economy, while only 7.7 percent expected a worsening, and 33.3 percent forecasted no change.

Nevada business leaders showed higher expectations for the U.S. economy relative to Nevada, the first time that this has occurred since the Nevada economy started recovering from the previous recession in 2011. The U.S. economic condition index scored 152.6, which increased substantially by 39.3 and 30.8 percent, respectively, from last quarter and last year. When asked about the U.S. economy, about two-thirds of business leaders expected improvement, 21.1 expected no change, and 13.2 percent expected weakening.

**Expectations for Sales**
The 12-year high in consumer confidence may explain the positive upsurge of the sales index. The index value for expectations on sales increased by 9.8 and 4.0 percent compared to last quarter and last year. When asked about sales in their own industry, 56.4 percent of respondents expected an increase in sales, 28.2 percent expected no change, and 15.4 percent expected a decline.

**Expectations for Profits**
The Southern Nevada business leaders forecasted an increase in their profits in the first quarter of 2017, compared to the fourth quarter of 2016. The index value for expectations on profits increased by 17.8 percent to 135.9, 12.6 percent higher than the index from last year. Slightly more than half (51.3 percent) of the respondents projected increased profits, while only 15.4 percent projected worsened profits in their industry compared to last quarter. The remaining 33.3 percent expected no change.

**Expectations for Capital Expenditure**
The expectations on capital expenditure finally rebounded after three consecutive quarters of declines. The capital expenditure index jumped the most by 20.8 percent quarter-over-quarter to 130.8, while rising 2.1 percent above its level from last year. When asked about capital expenditure, 43.6 percent of the respondents forecasted increases for their industry compared to 12.8 percent who expected decreases. Nearly 44 percent (43.6) percent of survey respondents expected no change.

**Expectations for Hiring**
The index value for expectations on hiring scored the lowest among the five components at 118.4. The hiring index is also the only component that experienced a loss from last year, decreasing by 5.5 percent. But, it was up from last quarter. The low score may reflect the recent slowdown in employment growth in the Las Vegas Metropolitan Statistical Area. The recent three-month rolling average was 1,600 job losses, which is the largest decrease in six years. This loss, however, will probably be a temporary occurrence as the respondents still remained optimistic about hiring in their own industry. Taken as a whole, 34.2 percent of the respondents predicted an increase in hiring in their industry, 50.0 percent expected no change, and 15.8 percent expected a decrease.

**Expectations for Home Prices**
Southern Nevada posted a substantial pick-up in permits during 2016. The year-to-date Clark County residential permits/units number is 12,164 units, which is 24.4 percent higher than the level from last year. This substantial increase reflected 919 and 1,463 permits/units gains, respectively, from single and multi-family houses. The other indicators also showed positive, rather than negative, signs. The October seasonally adjusted Case-Shiller Las Vegas Home Price Index experienced a 5.8 percent year-over-year growth rate, and the seasonally adjusted construction employment continued a double-digit yearly rise for nine consecutive months, up by 14.5 percent. Although the U.S. national housing price index exceeded its previous peak in July 2006, the Las Vegas housing price has only recovered 64.6 percent. It may be hard for Las Vegas to reach the excessive price levels before the bubble burst.

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 151.3, then this means that 51.3 percent more respondents exhibit a positive attitude (59.0 percent) than those that exhibit a negative attitude (7.7 percent).
Local businesses expressed more optimistic opinions on the potential gains in home prices for the first quarter of 2017, which is aligned with the current strong indicators mentioned above. The index scored 164.1, exceeding the value from last quarter. That is, the majority of the respondents (71.8 percent) expected increases in home prices in Clark County, while 7.7 percent expected losses in home prices, and the remaining 20.5 respondents forecasted no change.

Expectations for Construction Activity
Survey respondents showed slightly less optimistic expectations for construction activity than for home prices with an index value of 153.8. Specifically, 56.4 percent of the respondents expected increasing construction activity in the first quarter of 2017 compared to the fourth quarter of 2016. In addition, 41.0 percent projected no change, and only 2.6 percent expected less construction activity in the first quarter.

Credit Conditions
Credit conditions seem to have been slightly improving for local businesses from last quarter. Nearly 22 percent (21.6) of respondents applied for a line of credit in the last year. Of those, 62.5 percent were granted the credit line they wanted, exceeding the 57.7 percent value from last quarter. Approximately 38 percent (37.5) reported receiving a smaller amount than they originally sought, while no one reported a rejection of the line of credit.

Expectations for New Fiscal Stimulus and Deregulation Policies
This quarter, we surveyed expectations on the new fiscal stimulus and deregulation policies during the first two years of President Trump’s tenure. The five questions asked about the local businesses’ expectations for the fiscal policy initiatives that were promised during the presidential campaign. We asked about federal infrastructure spending, federal defense spending, the corporate income tax rate, individual income tax rates, and federal government regulation.

Local business executives expect increases in federal infrastructure spending (60.5 percent) and federal defense spending (84.2 percent) and decreases in the corporate (70.3 percent) and individual (60.5 percent) income tax rates, and decreases in federal government regulation (83.8 percent) during the first two years of President Trump’s tenure. This result shows that the higher score in local business confidence for the first quarter of 2017 partly reflected anticipated favorable fiscal stimulus policies and deregulation. In terms of federal infrastructure spending and individual income tax rates, however, 36.8 and 34.2 percent of respondents, respectively, doubt that the promised fiscal policy changes will occur.

Economic policy uncertainty remains high at this point. If the new administration succeeds in its pledges, the economy will probably experience faster growth in 2017 and 2018. At the same time, the Fed could increase interest rates faster, if inflation begins to pick up. Such rate hikes could offset the expansionary effect of fiscal actions.

Conclusion
The most recent CBER Business Survey suggests an optimistic outlook for the Southern Nevada and U.S. economies. Positive expectations on rising home prices and a pick-up in construction activity should support a stronger real estate market in the first quarter of 2017. Although Southern Nevada labor markets barely added jobs recently, the optimistic outlook on hiring implies that employment should continue to expand. The higher expectations on sales, profits, and capital expenditures also suggest that the Southern Nevada economy will continue to move in the positive direction. Even though economic policies of the new administration still remained uncertain at this point, the expectations of Southern Nevada business leaders remain positive on the final outcome. 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.

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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 experienced a substantial gain, after two straight quarters of decline.

All five components of CBER’s composite index exceeded 100 for the first quarter of 2017.

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 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?

During the first two years of President Trump’s tenure, what do you expect to happen to federal infrastructure spending?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
During the first two years of President Trump’s tenure, what do you expect to happen to federal defense spending?

During the first two years of President Trump’s tenure, what do you expect to happen to the corporate income tax rate?

During the first two years of President Trump’s tenure, what do you expect to happen to the individual income tax rates?

During the first two years of President Trump’s tenure, what do you expect to happen to federal government regulation?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
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: 13.3%
- Granted a line of credit for a lesser amount: 8.1%
- Refused a line of credit: 0.0%
- Did not apply for a line of credit: 78.4%

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

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

- Credit line extended as requested: 38.9%
- Credit line extended, but at a reduced amount: 5.6%
- Extension denied: 5.6%
- Did not apply to extend an existing line of credit: 50.0%

Which best describes your position in the business?

- Owner, but NOT manager: 52.8%
- Owner, but NOT owner: 2.2%
- Manager, but NOT owner: 44.4%

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

- 0 - 9 employees: 97.9%
- 10 - 19 employees: 5.3%
- 20 - 250 employees: 19.4%
- More than 250 employees: 19.4%

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
Business sectors reflected in survey