Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the fourth quarter of 2016 increased at a 2.1 percent annualized rate. Even though real GDP grew at a faster rate of 3.5 percent the previous quarter, overall underlying categories strengthened this quarter. Robust consumer spending boosted real GDP more than expected, which was fueled by a strong labor market. More specifically, personal consumption expenditure, business investment, residential investment, private inventory investment, and state and local government spending contributed positively to growth. Net exports and federal government expenditures, however, contributed negatively to growth. U.S. nonfarm employment added a less-than-expected 98,000 jobs in March, but an average of 178,000 jobs were created during the first quarter of 2017 due to surprising job additions in January and February. The unemployment rate dropped to 4.5 percent in March, the lowest since the Great Recession.

Retail sales continued a sturdy 5.7 percent year-over-year gain in February, and housing starts also posted a strong 5.7 percent increase during the same period. The housing price index rose for 12 consecutive months; moreover, it showed the fastest growth since July 2014, up 5.9 percent from last year. Consumer confidence remained at a high level with continued favorable prospects for higher incomes and low inflation. The Fed increased its benchmark rate by 0.25 percentage point to a range of 0.75 to 1.0 percent in March and will probably raise the interest rate two more times in 2017.

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The Clark County economy posted some mixed signals based on the most recent data. Seasonally adjusted employment lost 900 jobs from January to February. The unemployment rate ticked up to 5.1 from 4.9 percent in February. January taxable sales, however, jumped substantially with strong spending from both visitors and locals. February tourism data showed a contraction compared to a year ago. This outcome seems not only due to the “Chinese New Year” in February last year but also since February 2017 had one less day. Although recent residential permits/units plummeted compared to last year because of a substantial decrease in multi-family permits, February new and existing median home prices surged by 4.8 and 9.0 percent, respectively, year-over-year. The housing market is anticipated to continue its strong pick-up in 2017, but the expected upward movement in interest rates can be a headwind. Nevertheless, 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), increased by 1.3 percent from 135.5 in the first quarter of 2017 to 137.2 in the second quarter in 2017 (Figure 1). The index remained high as local business leaders continue to expect a stronger economy for the United States. This upward movement, however, may also reflect seasonality, since the index in the second quarter usually jumps compared to the first quarter. 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 the confidence index gained compared to a quarter ago, not all the components climbed quarter-over-quarter. That is, the components for sales and capital expenditure experienced losses relative to last quarter. 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 Nevada economic conditions, profits, sales, hiring, and capital expenditure scored 155.7, 142.2, 140.0, 125.2, and 122.8, respectively.¹

**Expectations for the U.S. and Nevada Economies**
Southern Nevada business leaders expressed much optimism about the local economy, as the score of Nevada economic conditions rose by 2.9 percent from last quarter. In addition, the expectation of general economic conditions for Nevada not only scored the highest, but also increased the most, year-over-year among the five components. General economic conditions for Nevada increased 2.9 and 9.1 percent, respectively, compared to a quarter and a year ago.

Local businesses also stayed at the highest level of optimism for the U.S. economy for the second quarter of 2017. Local businesses, which currently employ 0 to 9 employees and 20 to 250 employees, actually showed more favorable outlook on the U.S. economy than Nevada economy. General economic conditions for the U.S. decreased by 2.6 percent from 152.6 to 148.7 from last quarter, while it increased by 17.0 percent compared to last year. The remaining high expectation of the general economic conditions for the U.S. reflected local businesses' hope for the promised policies by the new administration. When asked about the U.S. economy, 64.3 percent of business leaders expected improvement, 20.0 percent expected no change, and 15.7 percent expected weakening. The similar numbers for the Nevada economy are 64.3 percent positive, 27.0 percent neutral, and 8.7 percent negative. Thus, overall the business leaders’ expectations for the Nevada economy marginally exceeded their expectations for the U.S. economy.

**Expectations for Profits**
The Southern Nevada business leaders continued to forecast an increase in their profits in the second quarter of 2017 compared to the first quarter. The index value for expectations on profits increased by 4.7 and 1.4 percent, respectively, from last quarter and last year with the value of 142.2. Specifically, 56.9 percent of respondents projected increased profits, while 14.7 percent projected worsened profits in their industry compared to last quarter. The remaining 28.4 percent expected no change.

**Expectations for Sales**
The expectations on sales decreased by 0.7 and 4.2 percent, respectively, compared to last quarter and last year, even though consumer confidence remained at its highest level in a decade. When asked about sales in their own industry, 56.5 percent of respondents expected an increase in sales, 27.0 percent expected no change, and 16.5 percent expected a decline. Interestingly, expectations for sales (i.e., 140.0) scored slightly lower than expectations for profits as local business leaders in smaller businesses (hiring 0 -19 employees) showed much more optimism for profits than for sales.

**Expectations for Hiring**
The index value for expectations on hiring increased by 5.7 percent from last quarter, but is slightly lower (0.2 percent) than last year with the value of 125.2. According to the National Federation of Independent Businesses’ survey, small businesses struggle to find qualified workers, even though they have opened more job positions. In addition, recent data show that Clark County experienced a substantial average weekly wage increase (up by 12.2 percent) in the third quarter of 2016 compared to a year ago. This tight labor market may explain why expectations on hiring are slightly lower compared to last year. Taken as a whole, 38.3 percent of the respondents predicted an increase in hiring in their industry, 48.7 percent expected no change, and 13.0 percent expected a decrease.

**Expectations for Capital Expenditure**
The expectations for capital expenditure scored the lowest among the five components with the value of 122.8. The index value, nonetheless, rose by 1.5 percent year-over-year. The smaller the businesses are, the more optimistic are their expectations for capital expenditure. Overall, when asked about capital expenditure, 36.0 percent of the respondents forecasted increases for their industry compared to 13.2 percent who expected decreases. Half (50.9 percent) of the respondents expected no change.

**Expectations for Home Prices**
Southern Nevada experienced an upsurge in residential permits in 2016 by adding 13,546 units, which is the largest number since 2008. Among these permits, slightly less than two-thirds were single-family residential permits. Single-family and multi-family residential permits/units increased by 12.1 and 70.0 percent, respectively, from 2015 to 2016.

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 155.7, then this means that 55.7 percent more respondents exhibit a positive attitude (64.35 percent) than those that exhibit a negative attitude (8.70 percent).
The average median price for a new home in 2016 almost recovered to its peak in 2006, while the average median price for an existing home in 2016 recovered about 70.8 percent of its decline. Renewed population growth will continue to benefit and support the local housing market.

Local businesses’ expectations on the potential gains in home prices stayed highly favorable, which is aligned with the current strong indicators mentioned above. The index scored 162.1, which is slightly lower than the value of 164.1 from last quarter. That is, the majority of the respondents (69.8 percent) expected increases in home prices in Southern Nevada, while only 7.8 percent expected losses in home prices, and the remaining 22.4 percent forecasted no change.

*Expectations for Construction Activity*
Survey respondents showed more optimistic expectations for construction activity with an index value of 162.9 compared to 153.8 from the first quarter. Specifically, 68.1 percent of the respondents expected increasing construction activity in the second quarter of 2017 compared to the first quarter. In addition, 26.7 percent projected no change, and only 5.2 percent expected less construction activity in the second quarter.

*Credit Conditions*
Credit conditions improved for local businesses from last quarter. That is, 40.0 percent of respondents applied for extending an existing line of credit in the last year. Of those who responded, 90 percent received the credit line they requested, while no one reported a rejection for extension of an existing line of credit. Only 10 percent reported receiving a smaller amount than they originally sought.

*Expectations for New Fiscal Stimulus and Deregulation Policies*
Local businesses were asked about their expectations for the fiscal policy initiatives that were promised during the presidential campaign. The questions were related to expectations on federal infrastructure spending, federal defense spending, the corporate income tax rate, individual income tax rates, and federal government regulation.

More local business executives expected increases in federal infrastructure spending (68.8 vs 60.5 percent) and federal defense spending (86.6 vs 84.2 percent) compared to last quarter. Their expectations on the corporate and individual tax cuts as well as deregulation, however, were lower this quarter. When asked about the corporate income tax rate, 65.2 percent (70.3 percent last quarter) of respondents expected a decrease in this rate. When asked about federal government regulation, 76.4 percent (83.8 percent last quarter) of respondents expected less regulation. Overall, local business leaders stayed positive about anticipated fiscal stimulus policies and deregulation, which partly contributed to the higher score in local business confidence.

The expectation on individual income tax rates displayed the biggest change. In contrast to last quarter when 60.5 percent of local businesses forecasted a decrease in individual tax rate, only 38.4 percent of the respondents believed that individual tax rate cuts will happen over the next two years. More than half of respondents (56.3 percent), however, doubt that the promised individual tax cut will occur.

We offer one note of caution in these findings. The survey results may be more positive than current views in that most survey responses were collected before the new health care bill was pulled from consideration in the U.S. Congress.

**Conclusion**
The most recent CBER Business Survey paints an optimistic picture 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 second quarter of 2017. The optimistic outlook on hiring also implies that employment should continue to expand. The higher expectations on sales, profits, and capital expenditures suggest that the Southern Nevada economy will continue to move in a 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 gained for the second straight quarter.

Local businesses expressed less optimistic outlooks on sales and capital expenditures but more optimistic outlooks on profits, hiring, and general economic conditions for the second quarter of 2017 compared to the first quarter. Overall, all five components of CBER’s composite index exceeded 100.

How do you think economic conditions in the U.S. 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 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?

What do you expect to happen to federal infrastructure spending over the next two years?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
What do you expect to happen to federal defense spending over the next two years?

What do you expect to happen to the corporate income tax rate over the next two years?

What do you expect to happen to the individual income tax rate over the next two years?

What do you expect to happen to federal government regulation over the next two years?

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?

<table>
<thead>
<tr>
<th>Status</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Granted a line of credit for the requested amount</td>
<td>25.0%</td>
</tr>
<tr>
<td>Granted a line of credit for a lesser amount</td>
<td>2.6%</td>
</tr>
<tr>
<td>Refused a line of credit</td>
<td>6.3%</td>
</tr>
<tr>
<td>Did not apply for a line of credit</td>
<td>66.2%</td>
</tr>
</tbody>
</table>

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?

<table>
<thead>
<tr>
<th>Status</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit line extended as requested</td>
<td>38.0%</td>
</tr>
<tr>
<td>Credit line extended, but at a reduced amount</td>
<td>4.0%</td>
</tr>
<tr>
<td>Extension denied</td>
<td>0.0%</td>
</tr>
<tr>
<td>Did not apply to extend an existing line of credit</td>
<td>60.0%</td>
</tr>
</tbody>
</table>

Which best describes your position in the business?

<table>
<thead>
<tr>
<th>Position</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner/Manager</td>
<td>56.9%</td>
</tr>
<tr>
<td>Owner, but NOT manager</td>
<td>2.0%</td>
</tr>
<tr>
<td>Owner, but NOT owner</td>
<td>41.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 9 employees</td>
<td>45.9%</td>
</tr>
<tr>
<td>10 - 19 employees</td>
<td>8.1%</td>
</tr>
<tr>
<td>20 - 250 employees</td>
<td>27.0%</td>
</tr>
<tr>
<td>More than 250 employees</td>
<td>18.9%</td>
</tr>
</tbody>
</table>

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