Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the first quarter of 2017 increased at a slower-than-expected 1.4 percent annualized rate. Consumer spending displayed the slowest growth since the second quarter of 2013, mainly reflecting fewer auto sales, which most analysts believe to have already passed their peak. More specifically, personal consumption expenditures, business investment, residential investment, and net exports contributed positively to growth; while private inventory investment and federal, state, and local government spending contributed negatively. U.S. nonfarm employment rebounded by adding a surprising 222,000 jobs in June; in addition, the previous two months of employment numbers were revised upward. As a result, an average of 194,000 jobs per month were created during the second quarter of 2017, which exceeded the 166,000-jobs-per-month pace from the first quarter. The unemployment rate in June edged up to 4.4 percent as the labor force participation rate rose slightly but still remained at its lowest level in a decade. Retail sales showed a slower 3.8 percent year-over-year gain in May, while consumer confidence remained at a high level with continued favorable prospects for higher incomes and low inflation. Although housing starts decreased by 2.4 percent in May, housing prices continued to increase, up by 5.5 percent year-over-year. The Federal Reserve (Fed) increased its benchmark rate by 0.25 percentage point to a range of 1.0 to 1.25 percent in June, and it announced that it will start to taper its $4.5 trillion balance sheet this year. The Fed will probably raise the interest rate one more time this year in December.

The Nevada economy continued to show favorable signs in its ongoing expansion. Even though nonfarm employment lost 6,500 jobs in May, it still added an average of 1,200 jobs per month this year. Moreover, the recent unemployment rate stayed at a 10-year low level, at 4.7 percent. Taxable sales have shown a strong year-over-year growth this year, benefitting from the operation of the Tesla Gigafactory, Switch, and many others in the Tahoe-Reno Industrial Center.

The Clark County economy posted somewhat mixed signals based on the most recent data. Seasonally adjusted employment lost 1,300 jobs from April to May, but an average of 1,300 jobs per month was created during 2017. The unemployment rate ticked up to 5.0 from 4.9 percent in May. Even though Las Vegas visitor volume decreased by 0.9 percent in the first quarter compared to a year ago, the hotel/motel occupancy rate increased by 0.5 percent. Total McCarran airport passengers and gaming revenue also climbed by 2.2 and 5.6 percent, respectively, during the same period. Taxable sales posted a strong 7.1 percent increase in the first quarter of 2017 compared to last year. The housing price index experienced a robust increase of 6.8 percent year-over-year in April. The housing market is anticipated to continue its strong pick-up in 2017, but the expected upward movement in interest rates could 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), fell slightly by 0.5 percent from 137.2 in the second quarter to 136.5 in the third quarter of 2017 (Figure 1). Although the index ticked down marginally due to seasonality, it continued to remain high as local business leaders stayed positive on the overall economic conditions for both Southern Nevada and the U.S. The index climbed 3.3 percent from a year ago from 132.1 to 136.5. 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,
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, sales, profits, hiring, and capital expenditures scored 158.1, 147.8, 133.7, 117.8, and 125.3, respectively.\(^1\)

**Expectations for the U.S. and Nevada Economies.** Southern Nevada business leaders expressed highly optimistic outlooks for both Nevada and the United States, as the scores of general economic conditions for Nevada and the United States remained at some of the highest levels in two years. The value for Nevada economic conditions increased for the third straight quarter in 2017, with a score of 158.1. When asked about the Nevada economy, 67.7 percent were positive, 22.6 percent were neutral, and 9.7 percent were negative. The value for the U.S. economy, however, decreased 7.4 percent from the previous quarter; while it increased significantly by 22.3 percent from last year, with the score of 137.6. The remaining high expectation of the general economic conditions for the United States reflected local businesses’ hope for the promised policies by the new administration. When asked about the U.S. economy, 57.0 percent of business leaders expected improvement, 23.7 percent expected no change, and 19.4 percent expected weakening.

**Expectations for Sales.** The expectations on sales rebounded and rose to the highest level in two years, whereby its value climbed by 5.6 and 8.5 percent from last quarter and last year, respectively. This is somewhat surprising as local business leaders usually show lower expectations for sales in the third quarter compared to the second quarter. This may reflect a higher level of consumer confidence with respect to the new administration. When asked about sales in their own industry, 60.9 percent of respondents expected an increase in sales, 26.1 percent expected no change, and 13.0 percent expected a decline.

**Expectations for Profits.** The Southern Nevada business leaders expressed less optimism on their profits in the third quarter compared to the second quarter, as the value decreased by 6.0 percent from 142.2 to 133.7. The value, nevertheless, remained 4.0 percent higher than last year. Specifically, 48.9 percent of respondents projected increased profits, while 15.2 percent projected worsened profits in their industry compared to last quarter. The remaining 35.9 percent expected no change.

**Expectations for Hiring.** The expectations for hiring scored the lowest among the five components with the value of 117.8, and it was the only component that experienced both quarterly and yearly reductions. The index value for hiring in the third quarter of 2017 fell by 5.9 and 9.1 percent, respectively, from last quarter and last year, which may signal a slowing of job growth in Southern Nevada as the labor market is tighter. Taken as a whole, 33.3 percent of the respondents predicted an increase in hiring in their industry, 51.1 percent expected no change, and 15.6 percent expected a decrease.

**Expectations for Capital Expenditures.** The value for capital expenditures posted both quarterly and yearly gains, up by 2.0 and 6.3 percent, respectively. When asked about capital expenditures, 41.8 percent of the respondents forecasted increases for their industry compared to 16.5 percent who expected decreases, and 41.8 percent expected no change.

**Expectations for Home Prices.** Southern Nevada experienced an impressive spring season in the housing market. The median closing prices of new and existing homes for May 2017 strongly increased by 6.5 and 12.5 percent, respectively, from last year. Moreover, the median closing price of new homes for May exceeded its previous peak in December 2006. The Las Vegas housing market has less than a two-month supply of existing homes for sale. Due to this tightness of home supply in the market, competition between buyers becomes tougher. Nevertheless, the resale transactions in May were at their highest level since 2005, according to Home Builders Research. Renewed population growth and strong wage growth will continue to benefit and support the local housing market.

Local businesses’ expectations on the potential gains in home prices surged for the third quarter of 2017, which aligns with the current strong indicators mentioned above. The index score of 175.3 significantly exceeds its value of 162.1 from last quarter, up 8.1 percent. That is, the majority of the respondents (76.3 percent) expected increases in home prices in Southern Nevada, while only 1.1 percent expected losses in home prices. The remaining 22.6 percent forecasted no change.

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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 158.1, then this means that 58.1 percent more respondents exhibit a positive attitude (67.74 percent) than those that exhibit a negative attitude (9.68 percent).
Expectations for Construction Activity. Survey respondents also showed more optimistic expectations for construction activity with an index value of 178.5 compared to 162.9 from the second quarter, up 9.6 percent. Specifically, 79.6 percent of the respondents expected increasing construction activity in the third quarter of 2017 compared to the second quarter. In addition, 19.4 percent projected no change, and only 1.1 percent expected less construction activity in the second quarter.

Credit Conditions. Credit conditions worsened for local businesses from last quarter. That is, no one reported a rejection for extension of an existing credit line in the last quarter. But, in this quarter, 13.3 percent of those applying for an extension of an existing line of credit were rejected. In total, 35.7 percent of respondents applied to extend an existing line of credit in the last year. Of those who responded, 66.7 percent reported receiving the credit line they requested, and 20.0 percent reported receiving a smaller amount than they originally sought. The remaining 13.3 percent, as already noted, were rejected.

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.

Compared to last quarter, slightly more local business executives expected an increase in federal infrastructure spending (69.7 vs. 68.8 percent), while the expectation for an increase in federal defense spending remained relatively flat (86.4 vs. 86.6 percent). Local business leaders’ expectations on the corporate and individual tax cuts as well as deregulation, however, continued to decline for two consecutive quarters. When asked about the corporate income tax rate, 52.3 percent (65.2 percent last quarter) of respondents expected a decrease in this rate. When asked about federal government regulation, 60.2 percent (76.4 percent last quarter) of respondents expected less regulation. Respondents displayed the least expectation on the individual tax rate as only 32.2 percent (38.4 percent last quarter) forecasted a decrease in this rate. Overall, local business leaders remained optimistic about anticipated fiscal stimulus policies and deregulation, which partly contributed to the higher score in local business confidence.

Conclusion

The most recent CBER Business Survey shows an optimistic outlook for the Southern Nevada and U.S. economies. Positive expectations on rising home prices and a pick-up in construction activity suggest that the real estate market will remain strong in the third quarter of 2017. In spite of a recent large loss in employment, the optimistic outlook on hiring also implies that employment should continue to expand. Local business leaders’ positive prospects on sales, profits, and capital expenditures suggest that the Southern Nevada economy will continue to move forward. Even though economic policies of the new administration still remain 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 United State, 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 decreased slightly due to seasonality but is still above 100 for the third quarter of 2017.

All five components of CBER’s composite index exceeded 100 for the third 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 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?
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?

- Granted a line of credit for the requested amount: 20.2%
- Granted a line of credit for a lesser amount: 7.7%
- Refused a line of credit: 7.4%
- Did not apply for a line of credit: 73.8%

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: 23.6%
- Credit line extended, but at a reduced amount: 7.1%
- Extension denied: 4.8%
- Did not apply to extend an existing line of credit: 64.3%

Which best describes your position in the business?

- Owner/Manager: 56.0%
- Manager, but NOT owner: 48.5%
- Owner, but NOT manager: 1.1%

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

- 0 - 9 employees: 37.8%
- 10 - 19 employees: 17.4%
- 20 - 250 employees: 26.1%
- More than 250 employees: 20.0%

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