Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the second quarter of 2017 rebounded robustly, increasing at a 3.1 percent annualized rate. The robust economic growth in the second quarter reflected strong rebounds of consumer spending and business investment, while residential investment experienced the largest decline of the real GDP components. More specifically, personal consumption expenditure, nonresidential fixed investment, private inventory investment, federal government spending, and net export contributed positively to growth; while private residential fixed investment and state and local government spending contributed negatively. U.S. nonfarm employment lost 33,000 jobs, which is the first negative monthly job growth in seven years; as a result, an average of 91,000 jobs per month were created during the third quarter of 2017, which is much lower than the 187,000 jobs per month pace from the second quarter. The negative reading mainly reflected a large 105,000 payrolls drop in food services and drinking places due to Hurricanes Harvey and Irma. The average hourly earnings accelerated to a 2.9 percent annual rate, the fastest increase since 2009 because of a dip in the number of lower-wage leisure and hospitality workers due to bad weather. The unemployment rate in September, however, fell to 4.2 percent, a 16-year low. Retail sales exhibited a slow 3.2 percent year-over-year gain in August mainly due to weak auto sales, while consumer confidence remained high in spite of North Korean issues, the Charlotteville event, and major hurricanes. The July housing price index continued to increase due to tight supply. The Federal Reserve (Fed) began reducing its $4.5 trillion balance sheet in October by slowly reducing its bonds and securities holdings, which could promote modest hikes in mid- and long-term interest rates.

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The Nevada economy continued to show favorable signs in its ongoing expansion. August employment data showed that Nevada ranked first among states in job growth compared to a year ago. Although the recent unemployment rate edged upward, it still remained at a decade low. Taxable sales have been boosted by the operation of the Tesla Gigafactory, Switch, and many others in the Tahoe-Reno Industrial Center. In addition, legalized recreational marijuana sales added extra gains to taxable sales of $27.1 million in July, which almost doubled the initial sales in Colorado and Oregon, and were seven times that in Washington after their launch. Nevada personal income growth for the second quarter of 2017 advanced at the fastest pace among the states.

The Clark County economy posted somewhat positive signals based on the most recent data. Seasonally adjusted employment gained 4,200 jobs from July to August; as a result, Clark County experienced the creation of an average of 2,200 jobs during 2017. The unemployment rate ticked up to 5.2 from 5.1 percent in August. Although Las Vegas visitor volume declined by 0.7 percent in the first half of the year compared to 2016, the hotel/motel occupancy rate increased by 0.5 percent. Clark County taxable sales and gaming revenue rose robustly by 4.9 and 3.8 percent, respectively, in the first half of 2017 compared to last year. The housing price index climbed strongly by 7.4 percent year-over-year in July. Moreover, construction employment yearly growth accelerated to its strongest pace since the Great Recession. The housing market is anticipated to continue its strong upward trend in 2017, but the expected upward movement in interest rates could provide a headwind. The local economy should see another favorable year in 2017, as the Southern Nevada economy benefits from the strengthening of the U.S. economy. The recent mass shooting on the Las Vegas Strip, however, could slow the local economy as domestic tourists may be reluctant to choose Las Vegas as their primary destination, at least in the very short run.
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), declined by 1.3 percent from 136.5 in the third quarter to 134.7 in the fourth quarter of 2017 (Figure 1). Even though the index moved downward quarter-to-quarter due to seasonality, the index remains significantly above the level from last year (i.e., 118.6). The index includes five components: business expectations of (i) general economic conditions in Nevada, (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditure. The index remains above 100, which implies that respondents, on average, feel more positive than negative about the five components. Among the five components, the values for sales, profits, and economic conditions experienced losses, while the values for hiring and capital expenditure experienced gains from last quarter. All five components, however, gained compared to last year. Southern Nevada business leaders expressed continued optimism on overall economic conditions for both Southern Nevada and the United States as all components of the index remained well above 100. The index values for business expectations of Nevada economic conditions, hiring, capital expenditure, sales, and profits scored 148.3, 138.9, 133.0, 132.2, and 121.3, respectively.1

Expectations for the U.S. and Nevada Economies. Southern Nevada business leaders reported less optimism on the economic outlook for both Nevada and the United States compared to last quarter. This partly reflects seasonality, while Hurricanes Harvey and Irma may have dampened the confidence for the U.S. outlook. The recent mass shooting at a country music concert on the Las Vegas Strip is not reflected in our findings as the survey was conducted during September. It is unclear how negatively this tragic and deadly incident will affect the local business confidence on the Nevada economic outlook.

The scores of general economic conditions for Nevada and the United States declined by 6.2 and 10.8 percent, respectively, from quarter to quarter, while the scores were significantly up year-over-year by 17.6 and 12.0 percent, respectively. The value for Nevada economic conditions for the fourth quarter of 2017 was 148.3. When asked about the Nevada economy, 64.0 percent of the respondents forecasted a better economy, 20.2 percent expected no change, and 15.7 percent forecasted a worse economy. The value for the U.S. economy is optimistic, but it is lower than the value for Nevada, with a score of 122.7. When asked about the U.S. economy, 51.1 percent of business leaders were positive, 20.5 percent were neutral, and 28.4 percent were negative.

Expectations for Sales. The expectations for sales fell by 10.6 percent quarter-over-quarter, after hitting the highest level in two years last quarter. Nevertheless, its value climbed by 2.9 percent from last year. Local businesses’ expectation on sales is somewhat aligned with recent consumer confidence, which experienced a small loss due to Hurricanes Harvey and Irma. When asked about sales in their own industry, 52.2 percent of respondents expected an increase in sales, 27.8 percent expected no change, and 20.0 percent expected a decline.

Expectations for Profits. The index value for profits in the fourth quarter of 2017 slipped by 9.2 percent from last quarter. In addition, the expectations for profits scored the lowest among the five components with the value of 121.3. Nevertheless, the value itself is the highest fourth quarter value since the Great Recession and gained 5.2 percent from a year ago. When asked about profits, 41.6 percent of the respondents forecasted increased profits compared to 20.2 percent who projected worse profits. The remaining 38.2 percent expected no change.

Expectations for Hiring. The Southern Nevada business leaders expressed strong optimism on hiring in their own industry with a value of 138.9. This level for hiring in the fourth quarter of 2017 hit its highest value since the Great Recession. The value surged by 17.9 and 21.1 percent, respectively, from last quarter and last year after generally soft readings this year. Specifically, 46.7 percent of respondents predicted an increase in hiring in their industry, while only 7.8 percent expected a decrease. The remaining 45.6 percent expected no change.

Expectations for Capital Expenditure. The expectations for capital expenditure experienced both robust quarterly and yearly gains, up by 6.1 and 22.8 percent, respectively. This value not only posted the strongest yearly gain among the five components, but it also rose to the highest level in two years. Increases in capital expenditure by businesses will further boost the local economy. The recent mass shooting on the Las Vegas Strip, however, may lower respondents’ optimism for capital expenditure in their industry, however. Taken as a whole, 45.5 percent of the respondents forecasted increases in capital expenditure in their industry, 42.0 percent expected no change, and 12.5 percent expected decreases.

Expectations for Home Prices. The Southern Nevada housing market continued its strong recovery from the
summer. The median closing prices of new and existing homes for August surged by 10.5 and 15.0 percent, respectively, compared to last year. The median closing price of new homes was fully recovered from the Great Recession, while the median closing price of existing homes still remained near its early 2004 level. In addition, the new and existing housing closings increased by 4.3 and 5.5 percent, respectively, from a year ago, even though housing supply plummeted 35.0 percent during the same period. That is, the market is absolutely a seller’s market, and competition among buyers becomes intense. 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, however, declined for the fourth quarter of 2017 perhaps due to the real estate industry’s off season. The index score of 155.6 substantially dropped by 11.2 percent compared to the third quarter of 2017, while the value significantly exceeds its value of 134.2 from last year. When asked about expectations on home prices, the majority of the respondents (67.8 percent) expected increases in home prices in Southern Nevada, while 12.2 percent expected losses in home prices. The remaining 20.0 percent forecasted no change.

Expectations for Construction Activity. Survey respondents also exhibited less optimistic expectations for construction activity with an index value of 166.7 compared to 178.5 from the third quarter, down 9.6 percent. That is, 74.4 percent of the respondents expected increasing construction activity in the fourth quarter of 2017 compared to the third quarter. In addition, 17.8 percent projected no change, and only 7.8 percent expected less construction activity in the fourth quarter.

Credit Conditions. Credit conditions improved for local businesses from last quarter. This quarter, 35.2 percent of respondents applied for a line of credit. Of those who applied, 67.7 percent received the credit line they requested, while 16.1 percent reported receiving a smaller amount than they originally sought. The remaining 16.1 percent reported a rejection for a line of credit, which is smaller than the 27.0 percent from last quarter.

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, more local business executives expected an increase in federal defense spending (89.8 vs. 86.4 percent), which probably reflects the recent heightened tension between the United States and North Korea. The expectation for an increase in federal infrastructure spending, however, declined (53.9 vs. 69.7 percent). Local business leaders’ expectations on the corporate tax cut barely budged as 51.7 percent (52.3 percent last quarter) of respondents expected a decrease in this rate, while the expectations on individual tax cuts increased (36.4 vs. 32.2 percent). These results do not reflect the recent announcement of President Trump’s tax reform policy as the survey closed at the end of third week of September. When asked about federal government regulation, 64.0 percent (60.2 percent last quarter) of respondents expected less regulation. Overall, Southern Nevada business leaders remained optimistic about the 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. The positive expectations on rising home prices and a pick-up in construction activity suggest that the real estate market will remain robust in the fourth quarter of 2017. High optimism on hiring and capital expenditure implies that the local economy has enough room to expand. Local business leaders’ positive prospects on sales and profits also 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. The recent mass shooting on the Las Vegas Strip, however, could provide a headwind for the Southern Nevada economy. As the shooting happened at the main tourist spot in Las Vegas, potential tourists may be reluctant to choose Las Vegas as their first destination. According to the Las Vegas Convention and Visitor Authority, the local economy depends on the tourism and gaming sectors for about 58 percent of the region’s gross domestic product. It is not clear yet how negatively the deadly incident will affect the Southern Nevada 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 experienced a quarterly loss but was up strongly compared to last year for the fourth quarter of 2017.

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

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?
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: 53.9%
- Granted a line of credit for a lesser amount: 5.7%
- Refused a line of credit: 5.7%
- Did not apply for a line of credit: 44.6%

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: 40.5%
- Credit line extended, but at a reduced amount: 7.7%
- Extension denied: 4.8%
- Did not apply to extend an existing line of credit: 47.6%

Which best describes your position in the business?

- Owner/Manager: 57.8%
- Owner, but not manager: 41.2%
- Manager, but not owner: 1.2%

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

- 0 - 9 employees: 40.4%
- 10 - 19 employees: 25.0%
- 20 - 29 employees: 25.8%
- More than 29 employees: 25.8%

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

- Natural Resources & Mining: 1.1%
- Construction: 6.7%
- Manufacturing: 2.2%
- Trade, Transportation & Utilities: 16.1%
- Information: 2.2%
- Financial Activities / Real Estate: 24.7%
- Professional & Business Services: 20.2%
- Education and Health Services: 13.3%
- Leisure and Hospitality: 4.6%
- Other Services: 7.9%
- Government: 6.7%
- Other: 0.0%