Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the fourth quarter of 2017 expanded at an annualized rate of 2.9 percent, after two consecutive quarters above 3 percent growth. Overall, the U.S. economy experienced a strong expansion, accelerating to 2.3 percent growth in 2017 from 1.5 percent in 2016. U.S. nonfarm employment added a less-than-expected 103,000 jobs in March, but still averaged 202,000 jobs over the first three months of 2017, maintaining the economy’s growth. The unemployment rate remained unchanged at 4.1 percent for the last six months. Recent slower consumer spending despite the favorable tax reform raises some concerns, but consumer confidence remains at a high level. The Federal Reserve (Fed) recently raised the federal funds rate to between 1.50 and 1.75 percent, and at least two additional hikes are expected this year. The U.S. economy looks strong with a tightening labor market. The recent uncertainty over a potential tariff war may create a headwind.

The local economy continues to experience economic recovery and expansion based on recent data. The employment sector grew by 2.9 percent with more diversification in job additions. The education and health service; construction; and trade, transportation, and utilities sectors were the top three in local job creation in 2017. Taxable sales in 2017 gained 3.9 percent, a faster pace than the 3.6 percent growth in 2016. Although a recent decrease in visitor volume continued due to the reduced number of rooms in inventory, gaming revenue and total McCarran Airport passengers experienced gains. In addition, over 10,000 room additions by 2020 indicate high optimism in local tourism. The housing market continued its double-digit yearly gains and is expected to continue its strong recovery in 2018. A continuing shortage of homes and rising interest rates, nevertheless, bring concerns to local real estate professionals about the health of the market.

The recent survey results align with current local economic conditions. Local business professionals expressed optimistic outlooks on sales, profits, hiring, capital spending, and economic conditions. As the economic expansion continues, the respondents also forecast increases in home prices and construction activity in the short run. The survey results show, however, that local businesses express concerns about finding qualified employees, economic uncertainty, and increasing operating and/or production costs. Overall, the survey outcomes indicate that no signals of recession exist and that the local economy will continue to move forward in the second quarter of 2018.

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), rose by 4.3 percent from 141.1 in the first quarter to 147.1 in the second quarter of 2018. This level is the highest level since 2015Q1, which was its highest level that CBER ever recorded (Figure 1). The index’s value also strongly exceeds its level from last year (i.e., 137.2) in spite of its seasonality. That is, the index usually records its highest level in the second quarter of the year. 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. Overall, respondents reported optimistic views on the five components. Moreover, the levels of the components mostly experienced higher values for both year-over-year and...
Southern Nevada business leaders also expressed continued optimism on overall economic conditions for the U.S., as its value remained well above 100. The index values for business expectations of Nevada economic conditions, sales, profits, capital expenditure, and hiring scored 169.4, 152.0, 146.9, 135.7, and 131.6, respectively.¹

Expectations for the U.S. and Nevada Economies. Southern Nevada business leaders expressed a more favorable economic outlook for Nevada, while they forecasted a less favorable economic outlook for the United States. That is, the score of general economic conditions for Nevada rose slightly by 0.8 percent from last quarter (i.e., 169.4 vs. 168.0), but surged strongly by 8.8 percent from last year (i.e., 169.4 vs. 155.7). On the other hand, the score of general economic conditions for the United States, however, dropped by 9.3 and 6.9 percent, respectively, relative to last quarter and last year. The softened optimism on U.S. economic conditions may reflect economic uncertainty due to a potential tariff war and recent high volatility in the stock market.

When asked about the Nevada economy, 71.4 percent of the respondents forecasted a better economy, 26.5 percent expected no change, and only 2.0 percent forecasted a worse economy. The value for the U.S. economy still remains highly favorable, but lower than the value for Nevada. When asked about the U.S. economy, 57.6 percent of local business executives forecasted a better economy, 23.2 percent expected no change, and 19.2 percent forecasted a worse economy.

Expectations for Sales. The index value for expectations on sales jumped by 8.9 and 8.6 percent, respectively, quarter-over-quarter and year-over-year. The value of sales scored 152.0, the second highest value in three years. When asked about sales, 62.2 percent of respondents expected increased sales in their industry compared to 10.2 percent who expected decreased sales. The remaining 27.6 percent projected no change.

Expectations for Profits. The local business leaders expressed higher optimism for profits with a value of 146.9. Not only did the value climb by 9.6 and 3.3 percent, respectively, quarter-over-quarter and year-over-year, but it also hit its highest level since the Great Recession. When asked about profits, 57.1 percent of the respondents forecasted increased profits in their industry, 32.7 percent expected no change, and 10.2 percent forecasted worse profits.

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 169.4, then this means that 69.4 percent more respondents exhibit a positive attitude (71.4 percent) than those that exhibit a negative attitude (2.0 percent).

Expectations for Capital Expenditure. The index value for expectations on capital expenditure experienced both quarterly and yearly gains, up by 4.0 and 10.5 percent, respectively. This outcome may reflect better financial conditions due to the corporate tax cut. Specifically, 41.8 percent of the respondents expected increases in capital expenditure in their industry, 52.0 percent expected no change, and only 6.1 percent expected decreases.

Expectations for Hiring. The respondents’ expectations about hiring in their industry continued to decline for two consecutive quarters, with a value of 131.6, while the value still remains higher than its level from last year. These quarterly survey results actually show that local businesses face much difficulty in finding qualified workers. This may partly explain why the component on hiring experienced a loss. Taken as a whole, 41.8 percent of respondents predicted an increase in hiring in their industry, while 10.2 percent expected a decrease. The remaining 48.0 percent expected no change.

Expectations for Home Prices. Local businesses’ expectations on the potential for home price increases soared for the second quarter of 2018. The index score of 179.8 is the highest value that we have recorded, which aligns with the shortage of homes for sale and increasing demand due to renewed population growth as well as a robust labor market. When asked about expectations on home prices, the majority of the respondents (80.8 percent) expected increases in home prices in Southern Nevada, while only 1.0 percent expected lower home prices. The remaining 18.2 percent forecasted no change.

Expectations for Construction Activity. Survey respondents also expressed much optimism for construction activity with an index value of 180.8 compared to 177.3 in the last quarter. That is, 84.8 percent of the respondents expected increasing construction activity in the second quarter compared to the first quarter of 2018, while only 4.0 percent forecasted less construction activity. The remaining 11.1 percent projected no change.

Credit Conditions. The survey results revealed that credit conditions improved for local businesses from the last quarter. Of those who have an existing line of credit, 51.3 percent of respondents applied for extending their existing line of credit in the last year. Of those who applied, 80.0 percent received their credit line request, while 15.0 percent reported receiving less than what they originally sought. The remaining 5.0 percent reported a rejection of their request, which is much smaller than the 33.3 percent from last quarter.

Most Important Challenges. Finding qualified employees, economic uncertainty, and increasing operating and/or production costs ranked as the top three challenges
that local businesses now face. Leading with 28.3 percent of respondents, finding qualified employees is the most important challenge they face. Other respondents were more concerned about economic uncertainty (22.8 percent) and higher operation and/or production costs (17.4 percent).

The Next Recession. The survey asked local business leaders about when the next national recession would occur. Local businesses were optimistic that the national economic expansion will continue in the short run. The majority (51.1 percent) forecasted that the next recession will not happen until 2021, or later. Other respondents (28.3 percent) predicted a recession in 2020, 19.6 percent predicted 2019, and only 1.1 percent predicted 2018.

Expectations for Newly Implemented Tax Reform. When the respondents were asked about how the newly implemented tax reform will affect economic growth, more people were optimistic than pessimistic. In the short run, 70.3 percent of the respondents expected higher economic growth due to the adopted tax cuts, while 3.3 percent forecasted lower economic growth. The remaining 26.4 percent doubted that any change would occur in economic growth in the short term. In the last quarter, only 45.3 percent expected higher economic growth due to the tax reform in the short run, which did not reflect the actual passage of tax cuts. In the long run, some local businesses revealed a slight concern with long-term economic growth due to the adopted tax cuts. Positive views of economic growth still dominate with a large majority (65.9 percent) forecasting an increase in economic growth in the long run, 11.0 percent expected no change, and 23.1 percent projected a decrease in economic growth.

Conclusion

The most recent CBER Business Survey shows that local business leaders are highly optimistic regarding the Southern Nevada economic outlook in the second quarter of 2018. The positive expectations on home prices and construction activity suggest that the local real estate market will continue its robust recovery in the second quarter of 2018, while the shortage of housing inventory brings some concerns. Local business leaders’ positive expectations on sales, profits, capital expenditure, and hiring indicate that no recession signal exists in the short run in Clark County. The survey respondents also expressed positive views on economic conditions for the United States, with no recession projection in the short run. In conclusion, the Southern Nevada economy is expected to continue its current expansion.
CBER’s Business Confidence Index climbed to the second highest level of 147.1.

Local business professionals expressed continuing optimism on sales, profits, hiring, capital spending, and economic conditions.

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 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?

How will the result of federal tax reform affect economic growth in the short run?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
How will the result of federal tax reform affect economic growth in the long run?

When do you expect the next national recession to occur?

What is the most important challenge that you face in your business today?

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

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.