Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the first quarter of 2018 expanded at an annualized rate of 2.0 percent, after three consecutive quarters of nearly 3 percent growth. Slowed consumer spending decelerated the economic expansion, while the growth rate still exceeded the first quarter growth in recent years. The “bean counters” at the Bureau of Economic Analysis still work on eliminating some perceived residual seasonality in real GDP. Business investment largely contributed to the increase in real GDP in the first quarter. The U.S. labor market continues to give strong positive signals, although many economists believe that the economy already exceeds full employment. U.S. nonfarm employment added 213,000 jobs in June; as a result, an average of 215,000 jobs were created over the first half of 2018 compared to 184,000 in the first half of 2017. The unemployment rate, however, edged up to 4.0 percent due to higher labor force participation. Consumer spending, which grew sluggishly earlier this year, also rebounded and is expected to drive real GDP well above prior estimates. Overall, the economy has been performing at, or above, expectations, which raises concerns of a possible overheating economy. The uncertainty over a potential tariff war, however, may create a significant headwind. The strength of the economy causes the Federal Reserve (Fed) to consider four interest hikes this year. The Fed raised the federal funds rates recently to 2.0 percent.

The local economy continues to experience significant economic recovery and expansion based on recent data. The number of jobs in Las Vegas recently hit slightly above 1 million after six consecutive monthly gains. In addition, the seasonally adjusted unemployment rate fell to 4.7 percent, the lowest since the Great Recession. Taxable sales experienced robust yearly gains for the first quarter of 2018, and the number of total McCarran passengers reached the highest level ever recorded in May. Las Vegas visitor volume also rebounded recently year-over-year after year-over-year decreases from June 2017 through March 2018, and gaming revenue continued to post robust yearly gains. The housing price continued its double-digit yearly gains and is expected to continue its strong recovery in 2018. A continuing shortage of homes for sale 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 national and local economic conditions. Local business professionals expressed highly optimistic outlooks for sales, profits, hiring, capital spending, and economic conditions. The majority of respondents, however, showed a large concern about finding qualified employees, which implies that the Las Vegas labor market is tight. Since the Las Vegas housing market continues to grow strongly, the respondents continue to forecast increases in home prices and construction activity in the short run. Overall, the survey outcomes indicate that no signals of recession exist and that the local economy will continue to move forward in the third 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), increased slightly by 0.7 percent from 147.1 in the second quarter to 148.1 in the third quarter of 2018 (Figure 1). The index reached the same level in 2015Q1, its highest level since CBER started reporting this index. The index’s value also strongly exceeds its level from last year in the third quarter (i.e., 136.5). The index shows that business leaders in Southern Nevada remain confident on the short-term future of the local economy as the index increased for each of the last three quarters. 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 Finding qualified employees scores as the most difficult challenge for local business leaders.
five components. Overall, respondents reported highly optimistic outlooks on the five components as they all exceeded 100 by significant margins. The index values for business expectations of Nevada economic conditions, sales, profits, capital expenditure, and hiring scored 163.2, 147.9, 147.4, 144.3, and 137.9, respectively.¹

**Expectations for the U.S. and Nevada Economies.** Southern Nevada business leaders expressed a less favorable economic outlook for Nevada compared to last quarter (i.e., 163.2 vs. 169.4). The index value, however, rose by 3.3 percent from last year. When asked about the Nevada economy, 68.4 percent of the respondents expected a better economy, while only 5.3 percent expected a worse economy. The remaining 26.3 percent forecasted no change.

Local business leaders reported a highly favorable economic outlook for the United States, as the index value (i.e., 153.2) surged by 10.7 and 11.3 percent, respectively, quarter-over-quarter and year-over-year. This favorable national outlook still falls below the outlook for the Nevada economy, however. This record high level of the index value may reflect recent favorable economic indicators and the summit between President Trump and Kim Jong Un, which occurred during the survey period, despite the uncertainty due to a potential trade war and interest rate hikes by the Fed. When asked about the U.S. economy, 66.3 percent of respondents projected an improved economy, 21.1 percent expected no change, and 12.6 projected a worse economy.

**Expectations for Sales.** The index value for expectations on sales decreased by 2.7 percent quarter-over-quarter from 152.0 to 147.9. The value, however, remained relatively flat year-over-year, up by 0.05 percent. When asked about sales, 61.5 percent of respondents expected increased sales in their industry compared to 13.5 percent who expected decreased sales. The remaining 25.0 percent projected no change.

**Expectations for Profits.** The local business leaders expressed a record-high level of optimism for profits. The index value for expectations on profits experienced both quarterly and yearly increases, up by 0.3 and 10.2 percent respectively. When asked about profits, 60.0 percent of the respondents forecasted increased profits in their industry, 27.4 percent expected no change, and 12.6 percent forecasted decreased profits.

**Expectations for Capital Expenditure.** The survey shows that more local businesses expect growth in capital expenditure in their industry compared to last quarter and last year. In addition, the index value reached its highest level since the Great Recession. The value for expectations on capital expenditure jumped by 6.3 and 15.2 percent, respectively, from last quarter and last year. Specifically, about half of respondents (50.5 percent) predicted an increase in capital expenditure in their industry, while only 6.2 percent projected a decrease. The remaining 43.3 percent expected no change.

**Expectations for Hiring.** The expectations for hiring by local businesses rebounded after two consecutive quarters of declines. Expectations rose by 4.8 and 17.1 percent, respectively, quarter-over-quarter and year-over-year. In comparison to the last survey, the current survey shows that local businesses face growing difficulty in finding qualified workers. This implies that the Southern Nevada labor market is tight and that wage growth should accelerate. When asked about hiring in their own industry, 49.5 percent of the respondents projected an increase, 38.9 percent expected no change, and 11.6 percent projected a decrease.

**Expectations for Home Prices.** Local business leaders’ expectations on the potential for home price increases continue to strengthen, as the value increased to 182.3 from 179.8 last quarter. As a result, the index score moved to its highest value. The shortage of homes, a favorable labor market, and incoming migrants boost Las Vegas housing prices, up by 12.7 percent year-over-year. When asked about expectations on home prices, the majority of the respondents (85.4 percent) expected increases in home prices in Southern Nevada, while only 3.1 percent expected lower home prices. The remaining 11.5 percent forecasted no change.

**Expectations for Construction Activity.** Survey respondents’ expectations on construction activity gained for three consecutive quarters with a current index value of 183.3, which may reflect ongoing visible projects on the strip as well as the shortage of homes. The number of year-to-date seasonally-adjusted residential permits/units in Clark County increased by 7.6 percent year-over-year. When asked about expectations for construction activity in Southern Nevada, 86.5 percent of the respondents expected more construction activity in the third quarter compared to the second quarter of 2018, while only 3.1 percent expected less construction activity. The remaining 10.4 percent projected no change.

**Credit Conditions.** Credit conditions worsened slightly compared to the prior quarter. Fewer local businesses sought additional credit in the past year compared to last quarter (i.e., 35.9 vs. 51.3 percent). Of those who applied, 78.9 percent received their credit line request, while 15.8 percent reported receiving less than what they originally expected.

¹The 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 163.2, then this means that 63.2 percent more respondents exhibit a positive attitude (68.4 percent) than those that exhibit a negative attitude (5.3 percent).
sought, which compares to 80.0 and 15.0 percent, respectively, last quarter. The remaining 5.3 percent reported a rejection of their request, which is slightly higher than the 5.0 percent from last quarter.

**Most Important Challenges and the Fed’s Interest Policy.** Finding qualified employees scores as the most difficult challenge for local business leaders. More respondents said that finding qualified workers proves the most important challenge they face compared to last quarter (i.e., 48.8 vs 28.3 percent). The second most difficult challenge that local businesses now face is economic uncertainty (11.0 percent). Also, those who responded “others” mentioned government regulation the most.

When the respondents were asked how the Fed’s interest rate policy might affect economic growth, more respondents were pessimistic than optimistic. In terms of expected economic growth in the short term due to the Fed’s interest policy, however, the majority of respondents were neutral. Specifically, 56.1 percent of respondents expected no change, 29.3 percent forecasted a decrease in economic growth, and 14.6 percent forecasted an increase in economic growth in the short run. The local business leaders’ opinions become more bifurcated regarding the long-term effect of the Fed’s interest rate policy. That is, 27.5 percent of respondents predicted an increase in economic growths in the long-term due to the Fed’s interest policy, 36.3 percent expected no change, and 36.3 percent predicted a decrease in economic growth.

**The Next Recession.** The survey results revealed that local businesses expressed more optimism about the current economic expansion. When the respondents were asked about the timing of the next national recession, 57.3 percent of respondents forecasted that the next recession will not happen until 2021 or later, which exceeds the response of 51.1 percent from last quarter’s survey. Other respondents answered as follows: 24.4 percent predicted a recession in 2020; 15.9 percent, 2019; and only 2.4 percent, 2018.

**Conclusion**

The most recent CBER business survey results revealed that local business confidence reached the highest level in the third quarter of 2018, which may reflect high-performing national and local economies. The record-high positive expectations on home prices and construction activity suggest that the local real estate market will continue its strong recovery in the third quarter of 2018, while the shortage of housing inventory and rising interest rates raise some concerns. Local business leaders’ positive expectations on sales, profits, capital expenditure, and hiring indicate that no recession signals exist and that the local economy will continue to expand in the short run. The survey respondents also expressed positive views on economic conditions in the United States, with no recession projection in the short run. In conclusion, favorable local business confidence indicates that the local economy growth will continue in the third quarter.
CBER’s Business Confidence Index increased for the third straight quarter to its highest level (along with 2015Q1) since CBER started reporting this index.

All five components of CBER’s composite index exceeded 100 for the third quarter of 2018.

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?

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 Fed’s interest rate policy affect economic growth in the short run?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
How will the Fed’s interest rate policy 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?

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: 39.9%
- Credit line extended, but at a reduced amount: 7.7%
- Extension denied: 2.6%
- Did not apply to extend an existing line of credit: 64.1%

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

Which best describes your position in the business?

- Owner/Manager: 95.7%
- Owner, but NOT manager: 3.5%
- Manager, but NOT owner: 0.8%

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

- 0 - 9 employees: 42.2%
- 10 - 19 employees: 23.3%
- 20 - 250 employees: 27.7%
- More than 250 employees: 16.9%

Business sectors reflected in survey:

- Natural Resources & Mining: 1.3%
- Construction: 10.1%
- Manufacturing: 10.1%
- Trade, Transportation & Utilities: 2.6%
- Information: 2.6%
- Financial Activities / Real Estate: 22.8%
- Professional & Business Services: 26.6%
- Education and Health Services: 11.4%
- Leisure and Hospitality: 7.8%
- Other Services: 3.8%
- Government: 3.8%
- Other: 1.3%

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