Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the second quarter of 2018 grew at an annualized rate of 4.2 percent, the fastest pace in recent years. Consumer spending that accounts for two-thirds of real GDP sharply rebounded, probably buoyed by the tax cut, after a slowed growth in the previous quarter. Private fixed investment, net exports, and government consumption also contributed positively to growth, while private inventories and residential investment contributed negatively. The U.S. labor market continues its robust growth, although many economists believe that the labor market has reached full employment. U.S. nonfarm employment added an average of 190,000 jobs over the third quarter of 2018. Although the average job creation decelerated compared to last quarter, it is higher than the 142,000 jobs posted last year in the third quarter. The unemployment rate also edged down to 3.7 percent, the lowest level since 1969. In addition, consumer sentiment remained favorably high due to improved personal financial conditions, suggesting that the national economy will at least maintain its current performance in the near future. The uncertainty over a potential tariff war, however, may create a significant headwind. The markets did greet the agreement between the United States, Mexico, and Canada (USMCA) to replace NAFTA as a positive event. The strength of the economy causes the Federal Reserve (Fed) to consider another a quarter-point hike in December. The Fed raised the federal funds rate three times this year. That is, the Fed is taking the “punch bowl” away from the (economic) party as it heats up.

The local economy continues its economic recovery and expansion, but somewhat mixed signals exist based on the most recent data. Although Clark County employment lost 500 jobs in August, the average monthly year-to-date job addition equaled 2,950, higher than the average of 2,025 from last year. The seasonally adjusted unemployment rate ticked up to 4.7 percent. July taxable sales for Clark County experienced the strongest year-over-year gain, up by 8.8 percent since March 2017. Visitor volume and gross gaming revenue experienced yearly losses for recent months. The year-to-date gross gaming revenue, however, still remained higher than the level from last year. The housing price index continued its double-digit yearly gain, while the number of residential permits/units decreased in recent months compared to last year.

The recent survey results align with current national and local economic conditions. Local business professionals remain highly optimistic about sales, profits, hiring, capital spending, and economic conditions. The respondents also showed continuing optimism on home prices and construction activity in the short run despite an increase in inventory and expected future interest rate hikes. The local businesses, however, expressed increased concerns with finding qualified employees, about facing economic uncertainty, and with experiencing higher operation and/or production costs. Finding qualified employees was still chosen as the most important challenge. Overall, the survey outcomes indicate that respondents see no signals of recession, but do see the local economy continuing to improve in the fourth 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), decreased by 3.0 percent from 148.1 in the third quarter to 143.6 in the fourth quarter of 2018 (Figure 1). After three straight quarters of gains, the index experienced a loss probably due to seasonality. The index, however, reached the highest ever-reported fourth-quarter value, with a yearly increase of 6.6 percent. 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 highly optimistic views on the five components as they all exceeded 100 by significant margins. The index values for business expectations of Nevada economic conditions, profits, sales, hiring, and, capital expenditure scored 158.5, 149.5, 147.4, 132.3, and 130.5, respectively.¹

**Expectations for the U.S. and Nevada Economies.** Southern Nevada business leaders expressed a less favorable economic outlook for both Nevada and the U.S., down by 2.9 and 8.6 percent respectively compared to a quarter ago. The index values, however, recorded the highest values for fourth-quarter responses, up by 6.8 and 14.1 percent, respectively, from last year. Overall, the local business leaders remain highly positive about future national and statewide economic conditions, while ongoing economic uncertainty with a potential trade war lurks in the background.

When asked about the Nevada economy, 70.2 percent of the respondents expected a better economy, while 11.7 percent expected a worse economy in the fourth quarter of 2018. The remaining 18.1 percent forecasted no change. When asked about the U.S. economy, 55.8 percent of respondents projected an improved economy, 28.4 percent expected no change, and 15.8 percent projected a worse economy.

**Expectations for Sales.** The index value for expectations on sales decreased for the last two quarters, but the current expectations for the fourth quarter value is at its highest level (score of 147.4) since the Great Recession. The value fell slightly by 0.3 percent quarter-over-quarter, while it sharply jumped by 11.5 percent year-over-year. When asked about sales, 60.8 percent of the respondents forecasted increased sales in their industry, 25.8 percent expected no change, and 13.4 percent forecasted decreased sales.

**Expectations for Profits.** A new record-high level of optimism for profits was expressed by the local businesses. The index value for expectations on profits has now posted three straight quarterly gains. The value increased by 1.4 and 23.2 percent, respectively, compared to last quarter and last year. When asked about profits, 59.8 percent of respondents expected increased profits in their industry compared to 10.3 percent who expected decreased profits. The remaining 29.9 percent projected no change in profits.

**Expectations for Capital Expenditure.** The survey shows that fewer local businesses anticipate growth in capital expenditure for the fourth quarter in their industry compared to last quarter and last year. The value for expectations on capital expenditures experienced both quarterly and yearly losses, declining by 9.6 and 1.8 percent respectively, after hitting its highest level last quarter. When asked about capital expenditures in their own industry, 43.2 percent of the respondents projected an increase, 44.2 percent expected no change, and 12.6 percent projected a decrease.

**Expectations for Hiring.** The expectations for hiring by local businesses declined by 4.1 and 4.7 percent, respectively, quarter-over-quarter and year-over-year, but remained well above 100 with a value of 132.3. That is, local businesses expect less difficulty in finding qualified workers compared to last quarter. The decrease in the index value probably reflects seasonality in the data as well as our movement toward full employment. That is, the fourth quarter tends to see a downward movement in the index and as we approach full employment, more businesses will report that they do not plan to hire additional workers. Specifically, 40.6 percent respondents predicted an increase in hiring in their industry, while only 8.3 percent projected a decrease. The remaining 51.0 percent expected no change.

**Expectations for Home Prices.** Local business leaders’ expectations on the potential for home price declined, down by 11.1 percent quarter-over-quarter from 182.3 to 162.1. The housing market recently slowed somewhat with a sharp increase of home prices. The months of supply of homes for sale also increased from 2.0 to 2.5 since March 2018, meaning that housing inventory went up, but it still remains tight. Even though the index fell compared last quarter, the local businesses remained more optimistic compared to last year in that the index value gained 4.2 percent year-over-year. Although Las Vegas housing price experienced the fastest growth among the major 10 cities according to the S&P CoreLogic Case-Shiller Indices, it recovered only 78.2 percent from its peak in 2007. The average U.S. housing price, however, surpassed its previous peak in 2016. When asked about expectations on home prices, the majority of the respondents (73.7 percent) expected increases in home prices in Clark County, while only 11.6 percent expected a moderate decrease in home prices. The remaining 14.7 percent forecasted no change.

**Expectations for Construction Activity.** Survey respondents’ expectations on construction activity decreased by 14.2 percent compared to last quarter after three consecutive quarters of gains. The value also posted

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 158.5, then this means that 58.5 percent more respondents exhibit a positive attitude (70.2 percent) than those that exhibit a negative attitude (11.7 percent).
a yearly decline from the score of 166.7 to 157.3. The loss of the index value may reflect the ongoing labor shortage in the construction industry. The number of year-to-date seasonally-adjusted residential permits/units in Clark County contracted by 7.1 percent year-over-year. When asked about expectations for construction activity in Southern Nevada, 70.8 percent of the respondents expected more construction activity in the fourth quarter compared to the third quarter of 2018, while 13.5 percent expected less construction activity. The remaining 15.6 percent projected no change.

**Credit Conditions.** Credit conditions worsened compared to the prior quarter. More local businesses sought a new line of credit in the past year compared to last quarter (i.e., 27.7 vs. 21.0 percent). Of those who applied, 73.9 percent received their credit line request, while 4.3 percent reported receiving less than what they originally sought, which compares to 82.4 and 11.8 percent, respectively, last quarter. The remaining 21.7 percent reported a rejection of their request, which is much higher than the 5.9 percent from last quarter.

**Most Important Challenges.** Local business leaders scored finding qualified employees as the most difficult challenge for the third consecutive quarter. Fewer respondents, however, indicated that finding qualified workers is the most important challenge they face compared to last quarter (i.e., 28.2 vs 48.8 percent). Economic uncertainty (21.2 percent) scored as the second most difficult challenge that local businesses now face, which may be partly due to a potential trade war. Also, Higher operating and/or production costs scored as the third most difficult challenge (18.8 percent). Among those who responded “others” mentioned government regulation the most frequently.

**The Fed’s Interest Policy.** When the respondents were asked how the Fed’s interest rate policy might affect economic growth, more respondents were pessimistic than optimistic. The majority of respondents, however, were neutral. Specifically, 55.3 percent of respondents expected no change, 31.8 percent forecasted a decrease in economic growth, and 12.9 percent forecasted an increase in economic growth due to the Fed’s interest policy.

**A Potential Trade War.** The majority of local business leaders think that a trade war will negatively rather than positively contribute to future economic growth. That is, 65.9 percent of respondents predicted a decrease in economic growth, while only 11.8 percent predicted an increase in economic growth due to a trade war. The remaining 22.4 percent forecasted no change.

**The Next Recession.** The survey results revealed that local businesses expressed optimism about the current economic expansion. When the respondents were asked about the timing of the next national recession, 30.6 percent of respondents forecasted that the next recession will not happen until 2022 or later. Other respondents answered as follows: 31.8 percent predicted a recession in 2021; 22.4 percent, 2020; and 15.3 percent, 2019.

**Conclusion**

The most recent CBER business survey results revealed that local business confidence remains strong despite a seasonal loss in the fourth quarter of 2018. The Southern Nevada business leaders expressed highly positive outlooks on sales, profits, capital expenditure, and hiring in their industry, which implies that the local economy will continue to grow in the short run. Respondents’ expectations on home prices and construction activity slipped partly due to a shortage of construction workers and rising interest rates. The index values remained significantly above 100, however, suggesting that the local real estate market will continue its recovery. The survey respondents also think that no recession signal exists, and the national economy will continue to expand in the short run. In conclusion, the survey results suggest that the local economy growth will continue in the fourth quarter.

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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 for the fourth quarter of 2018 after three straight quarters of gains likely due to seasonality.

All five components of CBER’s composite index remained well above 100 for the fourth 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?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
How will a trade war affect economic growth?

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: 20.4%
- Credit line extended, but at a reduced amount: 5.2%
- Extension denied: 0.0%
- Did not apply to extend an existing line of credit: 64.7%

Which best describes your position in the business?

- Owner/Manager: 67.1%
- Owner, but NOT manager: 1.2%
- Manager, but NOT owner: 31.7%

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

- 0 - 9 employees: 50.0%
- 10 - 19 employees: 8.2%
- 20 - 250 employees: 23.5%
- More than 250 employees: 8.2%

Business sectors reflected in survey

- Natural Resources & Mining: 0.6%
- Construction: 7.1%
- Manufacturing: 0.6%
- Trade, Transportation & Utilities: 7.1%
- Information: 2.4%
- Financial Activities / Real Estate: 6.7%
- Professional & Business Services: 16.7%
- Education and Health Services: 13.1%
- Leisure and Hospitality: 6.5%
- Other Services: 10.7%
- Government: 0.5%
- Other: 1.2%

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