The third and final estimate of the U.S. real gross domestic product (GDP) for the second quarter of 2015 showed an annualized rate of growth of 3.9 percent. Strong consumer spending played a significant role in explaining this growth rate. Specifically, personal consumption expenditures, net exports, state and local government spending, and residential fixed investment contributed positively to this growth. On the other hand, federal government spending, private inventory investment, and nonresidential fixed investment contributed negatively. U.S. nonfarm employment continued to add jobs. The unemployment rate was at 5.1 percent in September, which is its lowest level since the 2007-2009 recession. Although the Federal Open Market Committee (FOMC) of the Federal Reserve decided not to raise the federal funds rate, the stock market continued to struggle with the uncertainty of global economic outcomes. The uncertain global effects are primarily connected to the Chinese economic slowdown and its spillover effects on emerging market economies. That is, the Chinese economy, the largest importer in the world commodity markets, reduced its demand for commodities and lowered commodity prices.

Even though the world economy suffers from China’s slower economic growth, the U.S. economy still exhibits modest growth. Housing starts and housing prices have increased on a year-over-year basis, and auto/truck sales and retail sales have remained strong. The Nevada and Clark County economies show positive signs from the most recent data. In Clark County, tourism remains fairly robust, and taxable sales continue to display a strong year-over-year growth.

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 from 126.7 in the third quarter to 122.6 in the fourth quarter of 2015 (Figure 1). Even though the index declined for the third straight quarter, the survey respondents still remain optimistic about Southern Nevada’s economy. Moreover, the index increased compared to a year ago from 106.8 to 122.6, and it is also the highest fourth quarter value since 2008. The index includes the following five components of business expectations: general economic conditions in Nevada, sales, profits, hiring, and capital expenditures. As with the previous 15 quarters, the index is still above 100, which implies that respondents, on average, gave more positive than negative answers when asked about the five components. All five components were also above 100 for the fourth quarter of 2015 (Figure 2). The values for economic conditions, sales, profits, hiring, and capital expenditures scored 135.6, 133.5, 118.3, 116.8, and 108.7, respectively.

Expectations for U.S. and Nevada Economies
When asked about general economic conditions for the fourth quarter of 2015, Southern Nevada businesses were slightly more optimistic about the local economy than the U.S. economy as a whole. When asked about the U.S. economy, 40.1 percent of the respondents expected an improvement, 34.0 percent expected no change, and the remaining 25.9 percent expected some weakening. For the general economic conditions of Nevada, 51.5 percent of Southern Nevada businesses forecasted an improving economy, 32.7 percent expected no change, and the remaining 15.9 percent expected a weakening.

The outlook for both the U.S. and Nevada economies is somewhat less optimistic compared to the previous quarter, as is reflected by the values for the general economic conditions index, which showed a decrease of 12.1 percent and 5.0 percent, respectively. Similarly, respondents’ outlook for economic conditions for fourth quarter of 2015 is worse than a year ago.

Of the business sectors that responded to the survey, the professional service sector and the real estate/finance sector were the most represented. As such, it is possible to...
disaggregate the data by these sectors. Respondents from the professional service sectors were notably pessimistic regarding the national outlook for the fourth quarter of 2015, as the value on economic conditions for this sector was 89.8. This value is well below 135.6, the value for all respondents on this component. Respondents from the real estate/finance sector were optimistic regarding the national economy, as measured by a value of 125.5.

Expectations for Sales
The respondents reported improved expectations for sales. The value for sales was the only component among the five components of the CBER Business Confidence Index that increased compared to last quarter, from 123.8 to 133.5. Slightly more than 53 percent of the respondents expected an increase in sales in their industry, 26.9 percent expected no change, and 19.8 expected a decline. The respondents in the professional service sector and real estate/finance sector were somewhat more optimistic than all respondents with scores of 127.1 and 137.0, respectively.

Expectations for Profits
Respondents were less optimistic about profits in the fourth quarter compared to third quarter, even though expectations about sales improved in their industry in the fourth quarter. The value on this component of the overall index fell from 128.6 to 118.3, indicating that respondents remain somewhat optimistic about their own profits. When asked about profits, 42.8 percent of the respondents expected an improvement, 32.7 percent expected no change, and 24.5 percent expected a worsening.

Expectations for Hiring
The respondents’ expectations about hiring in their industry deteriorated slightly in the fourth quarter, the component’s value falling from 119.1 to 116.8. Taken as a whole, 35.7 percent of the respondents predicted an increase in hiring, 45.4 percent expected no change, and 18.9 percent expected a decrease. The respondents in the real estate/finance sector and professional services sector were somewhat more optimistic than all respondents, as their values for this component equaled 119.2 and 119.4, respectively.

Expectations for Capital Expenditures
The value for the capital expenditures component decreased the most among the five components of the CBER Business Confidence Index, from 119.1 to 108.7, but the respondents still remained marginally optimistic. When asked about capital expenditures, 33.4 percent expected increases for their industry, compared to 24.7 percent who expected decreases. The remaining 42.1 percent expected no change for the fourth quarter of 2015. The respondents in the professional services sector and real estate/finance sector were less optimistic than all respondents about capital expenditures in their industry, as the values for this component of the general index were 105.1 and 102.2, respectively.

Expectations for Home Prices
Las Vegas recently experienced faster growth in home prices compared to the U.S. average, although the gains were slower compared to a year ago. Respondents’ expectations for housing is mixed, perhaps, due to slower-than-expected gains in the housing market. Slightly more than 9 of the respondents percent expected home prices to rise in the second half of the year, 11.9 percent expected meaningful increases in the first half of 2016, and 23.7 percent believed substantial price gains will occur in the second half of 2016. In addition, 21.6 percent forecasted gains in the first half of 2017, while 33.5 percent believed that such gains will take place in the second half of 2017 or beyond. Six years after the recession, respondents do not yet expect a significant recovery in home prices. This sentiment was especially expressed by the 64.9 percent of the respondents in the professional services sector who believed that a meaningful recovery in the real estate market will not happen until 2017.

Expectations for Construction Activity
With regard to construction activity in Southern Nevada, the survey findings reveal a mixed outlook. Specifically, 18.5 percent of the respondents forecasted increases in the second half of 2015, 30.3 percent projected increases in the first half of 2016, 20.5 percent expected gains in the second half of 2016, 12.8 percent expected increases in the first half of 2017, and 17.9 percent believed no significant increases will occur until the second half of 2017 or beyond.

Effects of the Financial Crisis
Southern Nevada businesses still feel the effects of the nation’s financial crisis. Among the top problems for their business, the respondents reported unpredictable business conditions (46.1 percent), slowing or lost sales (16.7 percent), and falling real estate values (8.9 percent). The ranking varies, however, depending upon the sector in which the respondents work. For professional services respondents, the top problems were unpredictable business conditions (54.2 percent) and slowing or lost sales (15.3 percent). Respondents in the real estate/finance sector believed that the top problems were business conditions (38.3 percent), falling real estate values (19.1 percent), and slowing or lost sales (14.9 percent).

Nearly all respondents expected financial problems to affect their businesses. Among the survey participants, 7.8 percent reported that the problems associated with financial conditions threatened the survival of their business, and 18.3 percent were convinced that such problems depressed their business prospects for the foreseeable future. Conversely, for 56.1 percent of the respondents, the financial issues create only a temporary setback or require only minor adjustments. Another 15.0 percent, instead, saw no significant effect on their business.

The survey respondents also expected lingering effects from the nation’s financial problems. A fairly large percentage (38.3 percent) reported that a long period of slow or no economic growth was the most serious problem. Other respondents were more concerned about other issues, such as tax increases (14.4 percent), loss of small business opportunity (12.8 percent), and a more socialized economy (12.2 percent).
Credit conditions seem to be improving for Southern Nevada businesses. The majority of respondents (66.5 percent) did not seek additional lines of credit in the past year. Of those who did, 59.3 percent were able to obtain the credit they sought, 11.9 percent were granted a line of credit for a lesser amount, while 28.8 percent were refused the line of credit they requested.

Conclusion
The most recent survey suggests a moderate optimism with respect to the Southern Nevada economy. Consumer spending continues to rise, and Clark County’s employment exhibits stable year-over-year gains. While the real estate and construction markets have been obstacles to a full recovery, signs exist of stronger activity in these markets going forward. Even though Southern Nevada experienced recent losses from gaming revenue (mainly by substantial losses from baccarat), the visitors numbers show a stable year-over-year growth. Finally, strong consumer spending in the U.S. will support Southern Nevada’s economy’s stable growth.

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BUSINESS CONFIDENCE INDEX SURVEY RESULTS

CBER’s Business Confidence Index has reached the highest fourth quarter values since 2008, although it decreased for the third straight quarter.

Only the value for sales experienced a gain compared to last quarter among the five components of CBER’s composite index, but all the components still exceeded 100 for the fourth quarter of 2015.
How do you think economic conditions in the U.S. will change in the coming quarter compared to the current quarter?

![U.S. Economic Conditions Chart]

How do you think economic conditions in Nevada will change in the coming quarter compared to the current quarter?

![Nevada Economic Conditions Chart]

How do you think sales in your industry will change in the coming quarter compared to the current quarter?

![Sales Change Chart]

How do you think profits in your industry will change in the coming quarter compared to the current quarter?

![Profits Change Chart]

Note: Totals may not sum to 100 because reported values are rounded independently.
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?

When do you expect to see a meaningful recovery in Southern Nevada’s home prices?

When do you expect to see an increase in construction activity in Southern Nevada?

Note: Totals may not sum to 100 because reported values are rounded independently.
If you have been affected by the nation’s current financial problems, is the most important problem caused by:

- An inability to obtain credit: 3.9%
- Slowing or lost sales: 16.7%
- Falling real estate values: 8.9%
- The cost and/or terms of credit: 4.4%
- The unpredictability of business conditions: 48.1%
- Other: 7.8%
- None: 9.4%
- Don’t know/Refuse: 2.8%

For your business, does the immediate financial problem associated with the current financial situation:

- Threaten its survival: 7.8%
- Depress its prospects for the foreseeable future: 18.3%
- Temporarily set it back: 23.3%
- Require minor adjustments: 32.8%
- None: 15.0%
- Don’t know/Refuse: 2.6%

What do you think will be the most serious long-term problem caused by the nation’s financial problems:

- A more socialized economy: 12.2%
- Loss of small business opportunity: 12.8%
- Long period of no or slow economic growth: 38.3%
- Inflation: 6.1%
- Large cuts in desirable government activities: 8.3%
- Large tax increases: 14.4%
- No serious long-term problems: 3.9%
- Don’t know/Refuse: 3.9%

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: 19.9%
- Granted a line of credit for a lesser amount: 4.0%
- Refused a line of credit: 9.7%
- Did not apply for a line of credit: 66.5%

Note: Totals may not sum to 100 because reported values are rounded independently.
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: Totals may not sum to 100 because reported values are rounded independently.