Economic Outlook: Global, National, and Local – According to the third estimate, U.S. real gross domestic product (GDP) for the third quarter of 2015 grew by a 2.0 percent annualized growth rate. Strong consumer spending remained a strong contributor to U.S. economic growth in the third quarter. More specifically, personal consumption expenditure, state and local government spending, business investment, and residential investment contributed positively to growth; while private inventory investment and net exports contributed negatively. Although labor force participation rates remain significantly below their peak levels, the U.S. labor market showed the strongest job growth for 2015 in the fourth quarter, and the unemployment rate hit a new low of 5.0 percent during the same period, which many analysts and the Fed think is near the natural unemployment rate. The continuing Chinese economic slowdown casts a shadow over the world and U.S. economies. Oil prices continue to hit new lows, mainly due to the stronger dollar and oversupply.

Despite negative spillovers from China’s slower economy, the U.S. domestic market showed modest growth. Housing starts and housing prices experienced continuous yearly growth, and auto/truck sales and retail sales have remained strong. The strong labor market and consumer spending portend a continuing growth of the U.S. economy. At the same time, the strong dollar and weak global economy could dampen the growth of the U.S. economy. A stronger dollar should continue as the Fed began raising the federal fund rate at its December 2015 meeting with a plan to increase it gradually until the end of 2016.

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. Many of the economic indicators, such as population, visitor volume, taxable sales, employment, and so on, have either exceeded their prior peaks before the Great Recession or should exceed those peaks in the near future.

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 by 6.6 percent on a quarterly basis from 122.6 in the fourth quarter of 2015 to 130.7 in the first quarter of 2016 (Figure 1). The index rebounded after three straight quarters of decline but remains below its level from a year earlier. The index includes five components: business expectations of (i) general economic conditions in Nevada, (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditures. The index remains well above 100, which implies that respondents, on average, feel more positive than negative about the five components. The index has exceeded 100 for the past 16 quarters. All five components were also above 100 for the first quarter of 2016 (Figure 2). The values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 143.9, 135.6, 120.7, 125.4, and 128.0, respectively.1

Expectations for the U.S. and Nevada Economies – When asked about their expectations for general economic conditions in the first quarter of 2016, Southern Nevada business leaders were much more optimistic about the local economy than the U.S. economy. When asked about the U.S. economy, 38.6 percent of the respondents expected an improvement, 39.4 percent expected no change, and 22.0 percent expected some weakening. When asked about Nevada, 56.8 percent of Southern Nevada business leaders expected an improving economy, 30.3 percent expected no change, and 12.9 percent expected a weakening.

Respondents held a more optimistic outlook in the first quarter of 2016 for both the U.S. and Nevada economies than

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, the index of 135.6 for the economic conditions component means that 35.6 percent more respondents exhibit a positive attitude (51.5 percent) than those that exhibit a negative attitude (15.9 percent).
they held in the fourth quarter of 2015. This is a recurring pattern in our survey, which we might call “the new-year effect.” In addition, all components have usually shown higher values in the first quarter when compared to the previous fourth quarter. The values for the first quarter of 2016, however, were lower than those from the first quarter of 2015. This might reflect increased uncertainty about the strength of the world economy due to the Chinese economic slowdown and the attendant spillover effects on the emerging market economies.

Of the business sectors that responded to the survey, the professional & business services and real estate/finance sectors exhibited the largest number of respondents. As such, we can disaggregate the data by these two sectors. Respondents from the professional & business services and financial activities/real estate sectors scored 118.8 and 116.0, respectively, which nearly matched the overall index of 116.7.

Expectations for Sales – The respondents forecasted continuing improvement in sales. The value on sales in Southern Nevada increased only slightly compared to last quarter, from 133.5 to 135.6. More than half of the respondents (52.6 percent) expected an increase in sales in their industry, 30.4 percent expected no change, and 17.0 percent expected a decline. The respondents in the professional & business services and real estate/finance sectors were somewhat more optimistic than all respondents with scores of 148.5 and 152.0, respectively.

Expectations for Capital Expenditures – The value for the capital expenditures component rebounded from 108.7 to 128.0. In addition, this was the only component of the five components in the CBER Business Confidence Index that experienced an increase in its value from a year earlier. When asked about capital expenditures, 40.2 percent of the respondents expected increases for their industry, compared to 12.1 percent who expected decreases. The remaining 47.7 percent expected no change for the first quarter of 2016.

The respondents in the professional & business services sector were less optimistic than average respondents with a value about 10 points lower than average. Respondents in the financial activities/real estate sector, however, were much more positive about increasing their capital expenditures. Only 4.0 percent expected a decline of capital expenditure, while 58.4 percent expected increases in their capital expenditure. The Fed’s decision to begin raising the federal fund rate might positively affect the outlook for increasing capital expenditure in the financial activities/real estate sector.

Expectations for Hiring – The respondents’ expectations about hiring in their industry improved in the first quarter of 2016. The component’s value rose from 116.8 to 125.4. Taken as a whole, 36.6 percent of the respondents predicted an increase in hiring, 52.2 percent expected no change, and 11.1 percent expected a decrease. The respondents in the professional & business services and financial activities/real estate sectors were slightly less optimistic than all respondents, as their values for this component equaled 121.1 and 124.0, respectively.

Expectations for Profits – The respondents were only slightly more optimistic about profits in the first quarter of 2016 compared to the fourth quarter of 2015, as the value on this component of the overall index rose from 118.4 to 120.7. When asked about profits, 43.7 percent of the respondents expected an improvement, 33.3 percent expected no change, and 22.9 percent expected a worsening. The respondents in the real estate/finance and professional services sectors were more optimistic than all respondents with scores of 132.0 and 136.4, respectively.

Expectations for Home Prices – Las Vegas has experienced faster growth in home prices compared to the U.S. average this year, although the gains were slower compared to a year ago. Las Vegas has shown strong double-digit yearly growths in construction employment for 12 consecutive months. Also, the November housing permits also posted a strong pick-up in construction activities, up by 45.4 percent year-over-year. Perhaps thanks to these economic indicators, respondents’ expectations for home prices in 2016 were significantly optimistic. When asked how home prices in 2016 will compare to prices in 2015, only 3.8 percent expected decreases in home prices, 66.2 percent expected increases in housing prices in 2016, while 30.1 percent expected no change.

Expectations for Construction Activity – The survey results give a more optimistic view about construction activity than home prices. Specifically, 73.9 percent of the respondents expected increasing construction activity in 2016 compared to 2015. In addition, 21.6 percent expected no change, and only 4.5 percent expected decreases in construction activity in 2016. Interestingly, the respondents from the financial activities/real estate sector reversed the relationship, holding a more optimistic outlook in construction activities than in home prices for Southern Nevada. The values for construction activity and home prices expectation were 180.0 and 160.0, respectively, for respondents in the financial activities/real estate sector.

Effects of the Financial Crisis – Southern Nevada business leaders still feel the effects of the nation’s financial crisis. Among the top problems for their businesses, the respondents reported unpredictable business conditions (40.3 percent) and slowing or lost sales (13.7 percent). The ranking was the same for professional & business services and financial activities/real estate respondents, but they also expressed concern for another problem in addition to slowing or lost sales. Respondents in the financial activities/real estate sector felt that falling real estate values presented a problem on a par with slowing or lost sales. The respondents in professional & business services sector, however, felt that the cost and/or terms of credit was also a major concern.

More than 70 percent of respondents expected financial problems to affect their businesses. Among the survey participants, 41.1 percent reported that the problems associated with financial conditions threatened the survival of their business, and 17.1 percent were convinced that such problems will depress their business prospects for the foreseeable future. Conversely, for 54.5 percent of the respondents, the financial issues create only a temporary setback or require only minor adjustments. Another 19.5 percent, instead, saw no significant effect on their businesses.
The survey respondents also expected lingering effects from the nation’s financial problems. A fairly large percentage (41.9 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 the loss of small business opportunities (15.3 percent) and a more socialized economy (12.9 percent).

Credit conditions seem to be improving for Southern Nevada business leaders. The majority of respondents (66.7 percent) did not seek additional lines of credit in the past year. Of those who did, 51.2 percent obtained the credit they sought, 29.3 percent were granted a line of credit for a lesser amount, while 19.5 percent were refused the line of credit that they requested.

**Conclusion** – The most recent CBER Business Survey suggests optimism with respect to the Southern Nevada economy despite turbulence in the world economy. Southern Nevada taxable sales posted stable year-over-year growth throughout 2015, and Clark County’s employment also exhibited stable year-over-year gains. While in the past the real estate and construction markets have been obstacles to a full recovery, numerous signs exist of stronger activity in these markets going forward. Even though gaming revenue growth in 2015 suffered compared to 2014, the visitors numbers hit all-time monthly highs in 2015. Finally, continued strength in consumer spending and the strengthening job market in the U.S. will help to support the Southern Nevada economy’s continued economic growth.

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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.

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**BUSINESS CONFIDENCE INDEX SURVEY RESULTS**

CBER’s Business Confidence Index experienced a gain for the first quarter of 2016, after three straight quarters of decline but remained below its level from last year.

All five components of CBER’s composite index experienced gains and exceeded 100 for the first quarter of 2016.
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?

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?

In 2016, how do you think home prices in Southern Nevada will change compared to 2015?

In 2016, how do you think construction activity in Southern Nevada will change compared to 2015?

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:

![Bar chart showing the most serious long-term problem caused by the nation’s financial problems.]

- An inability to obtain credit: 40.3%
- Slowing or lost sales: 13.7%
- Falling real estate values: 8.1%
- The cost and/or terms of credit: 6.5%
- The unpredictability of business conditions: 3.2%
- Other: 8.9%
- None: 12.1%
- Don’t know/Refuse: 7.3%

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

![Bar chart showing the immediate financial problems associated with the current financial situation.]

- Threaten its survival: 2.2%
- Depress its prospects for the foreseeable future: 5.6%
- Temporarily set it back: 18.7%
- Require minor adjustments: 35.8%
- None: 19.5%
- Don’t know/Refuse: 4.9%

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

![Bar chart showing the most serious long-term problem caused by the nation’s financial problems.]

- Large tax increases: 8.9%
- Large cuts in desirable government activities: 6.5%
- Inflation: 6.5%
- Long period of no or slow economic growth: 41.9%
- Loss of small business opportunity: 15.3%
- A more socialized economy: 12.9%
- No serious long-term problems: 8.1%
- Don’t know/Refuse: 2.4%

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

![Bar chart showing the result of credit applications.]

- Granted a line of credit for the requested amount: 17.1%
- Granted a line of credit for a lesser amount: 9.8%
- Refused a line of credit: 6.5%
- Did not apply for a line of credit: 66.7%

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.