Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the third quarter of 2018 grew at an annualized rate of 3.4 percent after 4.2 percent growth in the second quarter. The recent tax cut buoyed strong consumer spending and private business investment, including private inventory investment, and mainly led the faster-than-expected GDP growth. Government spending also contributed positively to growth, while residential investment and net exports contributed negatively. The U.S. labor market in 2018 posted its strongest growth in recent years by adding an average of 220,000 per month, much higher than the 182,000 and 195,000 average monthly job gain from 2017 and 2016, respectively. The unemployment rate ticked up to 3.9 percent in December 2018 as current workers as well as previously discouraged workers sought better job opportunities. The University of Michigan consumer sentiment index remained favorably high, although consumers expressed more negative than positive views on job prospects in two years. The Federal Reserve (Fed) raised the federal fund rates in December for the fourth time in 2018 to a target range of 2.25 to 2.5 percent. The Fed Chairman, Jerome Powell, indicated that the Fed would move more cautiously with future interest rate hikes due to economic uncertainty. In December, the increased volatility of the stock market stoked a fear of a possible recession due to a narrowing yield spread, weak global economy, and a trade war with China.

The local economy continues its economic expansion based on the most recent data. Clark County employment added an average of 3,300 jobs per month through November 2018, which exceeds the 2,000 jobs per month in 2017. The seasonally adjusted unemployment rate also remained at 4.5 percent, which is the lowest since the Great Recession. October taxable sales for Clark County experienced a strong year-over-year gain, up by 10.2 percent. November visitor volume posted the largest yearly growth in almost 3 years, up by 4.7 percent. Visitor volume experienced a yearly loss for many months preceding the October release. Gaming revenue also increased robustly during the same period. The housing price index continued its double-digit, but slower, yearly gain despite the recent housing market slowdown. The year-to-date number of residential permits/units declined from last year.

The recent survey results align with the current national and local economic conditions. Local business professionals remain optimistic about sales, profits, hiring, capital spending, and economic conditions. The findings, however, also signal that respondents begin to worry about a potential recession in a few years. The respondents also showed continuing optimism on home prices and construction activity in the short run despite an increase in inventory and a flat movement of housing prices. The local businesses continued to express much concern about finding qualified employees and about the degree of economic uncertainty. Overall, the survey outcomes indicate that the local economy should continue to improve in the first quarter of 2019.

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), dropped by 14.5 percent from 143.6 in the fourth quarter of 2018 to 122.8 in the first quarter of 2019 (Figure 1). Local businesses’ expectations in the first quarter of each year tend to increase compared to the fourth quarter due to seasonality. The unusual large loss of index from last quarter, therefore, may signal that local businesses started to worry about a potential economic slowdown or recession. The index also plummeted by 13.0 percent year-over-year and recorded its lowest value since the fourth quarter of 2016.

“Thus, although all index values remain above 100, business expectations took a big hit as 2018 ended and business leaders looked forward into the first quarter of 2019.”
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 as they all exceeded 100, although all components experienced both quarterly and yearly losses. The index values for business expectations of Nevada economic conditions, sales, hiring, profits, and, capital expenditure scored 128.9, 126.8, 122.4, 121.4, and 114.6, respectively.¹ For comparison, the same index values for the fourth quarter of 2018 equaled 158.5, 147.4, 132.3, 149.5, and 130.5, respectively. Thus, although all index values remain above 100, business expectations took a big hit as 2018 ended and business leaders looked forward into the first quarter of 2019.

**Expectations for the U.S. and Nevada Economies.**
The index value for expectations on the U.S. economic conditions plunged by 23.4 and 29.7 percent quarter-over-quarter and year-over-year, respectively. Since the survey was distributed in December, a substantial decrease in the value may reflect stock market volatility due to a narrowing yield spread and global economic uncertainty. When asked about the U.S. economy, 41.2 percent of respondents projected an improved economy, while 34.0 percent expected a worse economy. The remaining 24.7 percent projected no change.

Southern Nevada business leaders expressed a less favorable economic outlook for Nevada, down by 18.7 and 23.3 percent from last quarter and last year, respectively. Moreover, the index value of Nevada economic conditions had its lowest first quarter in five years. This reflected increased concerns about a potential slowdown of the U.S. economy. When asked about the Nevada economy, 52.6 percent of the respondents expected a better economy, 23.7 percent expected no change, and 23.7 percent forecasted a worse economy. Nevertheless, business leaders expressed more optimism about the Nevada economy than the U.S. economy by index values of 128.9 to 107.2.

**Expectations for Sales.** The index value for expectations on sales continued its loss for the last three consecutive quarters and marked its lowest value since the third quarter of 2015. The value declined largely by 14.0 and 9.2 percent, respectively, compared to a quarter and a year ago, but a slim majority of respondents still remained favorable in terms of a projection in sales in their industry. That is, 49.5 percent of the respondents forecasted increased sales in their industry, 27.8 percent expected no change, and 22.7 percent forecasted decreased sales.

**Expectations for Hiring.** The local businesses predicted reduced hiring activity in their industry compared to last quarter. The expectations for hiring by respondents decreased by 7.5 and 8.2 percent, respectively, quarter-over-quarter and year-over-year. The decline may partly reflect the current tight labor market, which causes a shortage of qualified workers and rising hiring costs. Local business leaders, however, remained positive in that the index exceeds 100 at 122.4. When asked about hiring, 36.7 percent respondents predicted an increase in hiring in their industry, while 14.3 percent projected a decrease. The remaining 49.0 percent expected no change.

**Expectations for Profits.** After a new record-high level of optimism for profits in the last quarter, the index value for expectations on profits experienced a substantial loss, down by 18.8 percent from last quarter (i.e. 149.5 to 121.4). The index value is also 9.4 percent lower than last year. When asked about profits in their own industry, 42.9 percent of respondents forecasted an increase, 35.7 percent expected no change, and 21.4 percent forecasted a decrease.

**Expectations for Capital Expenditure.** Local businesses reported the least confidence on capital expenditure among the five components. Even though the index value of expectation on capital expenditure fell by 12.2 percent compared to last quarter and last year, local businesses remained somewhat optimistic with a value of 114.6. The survey also shows that a slim majority of local businesses would keep their capital expenditure at a similar level from last quarter. That is, 35.4 percent of the respondents’ projected increased capital expenditure, 20.8 percent expected decreased capital expenditure. The remaining 43.8 percent projected no change relative to last quarter.

**Expectations for Home Prices.** The housing market slowed over the past few months with a rising inventory of homes for sales. The October inventory soared by 54.5 percent year-over-year, and total sales volumes dropped over the same period. As a result, home price remained flat for the last few months, which decelerated a yearly growth of home prices. The growth rate of home price, however, still posted a double-digit gain, up by 12.8 percent year-over-year. The survey result aligns with the current housing market trend. Local business leaders’ expectations on the potential for home prices continued to drop, down by 25.1 percent quarter-over-quarter from 162.1 to 121.4. When asked about expectations on home prices, 46.9 percent of the respondents expected increases

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 128.9, then this means that 28.9 percent more respondents exhibit a positive attitude (52.6 percent) than those that exhibit a negative attitude (23.7 percent).
in home prices in Clark County, while 25.5 percent expected a decrease in home prices. The remaining 27.6 percent forecasted no change.

**Expectations for Construction Activity.** Survey respondents’ expectations on construction activity declined by 9.2 percent compared to last quarter. High optimism in construction activity, however, continues for the first quarter of 2019, as the score well exceeds 100 at 142.9. Although year-to-date permits/units in Clark County decreased, the ongoing road constructions and large projects in Las Vegas such as the Raider’s stadium, Resorts World themed resort casino, and the Las Vegas Convention Center expansion contributes to a positive view of construction activity. Specifically, 56.1 percent of the respondents expected more construction activity in the first quarter of 2019 compared to the fourth quarter of 2018, while 13.3 percent expected less construction activity. The remaining 30.6 percent projected no change.

**Credit Conditions.** Credit conditions worsened compared to the last quarter. More local businesses sought an extended line of credit in the past year compared to prior quarter (i.e., 44.1 vs. 35.3 percent). Of those who applied, 70.8 percent received their credit request, lower than the 83.3 percent from last quarter. The larger proportion of respondents also reported receiving less than what they originally sought (i.e., 20.8 vs 16.7 percent). The remaining 8.3 percent reported a rejection of their request, while none reported a rejection last quarter.

**Most Important Challenges.** Local business leaders scored finding qualified employees as the most difficult challenge for the fourth consecutive quarter. More respondents reported this issue as the biggest challenge than reported last quarter (i.e., 35.8 vs 28.2 percent). Economic uncertainty continued to score as the second most important challenge with slightly higher proportion of respondents compared to the previous quarter (i.e., 24.2 vs. 21.2 percent). This may reflect stock market gyrations, a weaker global economy, and a tension between the United States and China due to a potential trade war. Higher operating and/or production costs scored as the third most difficult challenge (12.6 percent).

**The Fed’s Interest Policy.** When the survey asked respondents how the Fed’s interest rate policy might affect economic growth, more respondents predicted a decrease in economic growth compared to last quarter (i.e., 53.3 vs 31.8 percent). Other local business leaders changed from neutral to pessimistic on the Fed’s interest hikes as 33.7 percent reported no change, which is lower than the 55.3 percent from last quarter. This may imply that local businesses feel the four interest rate hikes in 2018 was faster than they expected or thought prudent with the current economic conditions. The remaining 13.0 percent forecasted an increase in economic growth due to the Fed’s interest policy, which is flat from last quarter.

**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, 72.3 percent of respondents predicted a decrease in economic growth, while only 10.6 percent predicted an increase in economic growth due to a trade war. The remaining 17.0 percent forecasted no change.

**The Next Recession.** The survey results revealed that local businesses expressed concern of a potential recession within a few years. When the survey asked respondents about the timing of the next national recession, 26.9 percent of respondents forecasted the next recession in 2022 or later; 25.8 percent predicted a recession in 2021; 32.3 percent, 2020; and 15.1 percent, 2019. Overall, some respondents who previously reported 2021 and 2022 or later moved to 2020. Last quarter, 22.4 percent of respondents predicted a recession in 2020.

**Conclusion**

The most recent CBER business survey revealed that local business confidence remains optimistic in the first quarter of 2019 despite a substantial decrease compared to last quarter and last year. The Southern Nevada business leaders expressed positive outlooks on sales, profits, capital expenditure, and hiring in their industry, which implies that the local economy will continue to expand in the short run. Although respondents’ expectations on home prices declined substantially, the index value of above 100 still suggests that business leaders still expect the housing market to continue its recovery in the first quarter of 2019. The recent narrowing yield spread and the survey responses about a potential recession indicate that a potential recession will likely occur in a couple years. Much uncertainty remains on this issue until more data support the case in the future. In conclusion, the survey results suggest that the local economy will continue to grow in the first quarter of 2019 despite ongoing economic uncertainty.

Stephen M. Miller, Director  
Jinju Lee, Economic Analyst  
Center for Business and Economic Research

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 declined substantially for the first quarter of 2019, which may signal that local businesses start to worry about a potential economic slowdown or recession.

All five components of CBER’s composite index experienced losses but remained above 100 for the first quarter of 2019.

How do you think economic conditions in the U.S. will change in the coming quarter compared to the current quarter?
QUARTERLY INDICATORS
Southern Nevada Business Confidence Index

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: 50.0%
- Credit line extended, but at a reduced amount: 14.7%
- Extension denied: 5.9%
- Did not apply to extend an existing line of credit: 35.9%

Which best describes your position in the business?

- Owner/Manager: 33.2%
- Owner, but not owner: 42.6%
- Manager, but not owner: 4.7%

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

- 0-9 employees: 43.0%
- 10-19 employees: 16.1%
- 20-250 employees: 21.5%
- More than 250 employees: 19.4%

Business sectors reflected in survey

- Natural Resources & Mining: 0.6%
- Construction: 7.4%
- Manufacturing: 5.7%
- Trade, Transportation & Utilities: 7.4%
- Financial Activities / Real Estate: 6.1%
- Professional & Business Services: 20.0%
- Education and Health Services: 26.3%
- Leisure and Hospitality: 14.7%
- Other Services: 12.6%
- Government: 4.2%
- Other: 1.1%
- Percent: 0.0%