Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the fourth quarter of 2018 grew at an annualized rate of 2.2 percent. As a result, the real GDP in 2018 expanded by 2.9 percent, the strongest growth since 2015. The strong growth reflected the recent tax cut, which promoted strong consumer spending, and business investment, while the trade deficit rose to its highest level since the Great Recession. The U.S. labor market in March rebounded after an unexpectedly low job creation in February, by adding higher-than-expected 196,000 jobs, which produced averaged 180,000 job gains per month during the first quarter of 2019. The unemployment rate remained at 3.8 percent. Retail sales over the last few months showed a weaker performance, but the recent consumer sentiment index by the University of Michigan rebounded with rising incomes. The Fed indicated no potential federal funds rate hikes this year, following a new path of more patience. The stock market rebounded despite ongoing economic uncertainty with a narrowing yield spread, weak global economy, and a potential trade war.

The local economy continues its economic expansion based on the most recent data. Although Clark County employment lost 1,600 jobs in February, the year-to-date employment added an average of 1,900 jobs per month over the last two months. The seasonally adjusted unemployment rate also dropped to 4.2 percent, the lowest since March 2007. January taxable sales for Clark County experienced a robust year-over-year increase, up by 6.6 percent. Although Clark County reported weak performance in gaming revenue in recent months, visitor volume continued to show yearly gains. The housing price index recently posted a slowing year-over-year growth as the inventory increases. The year-to-date number of residential permits/units, nonetheless, climbed from last year.

The recent survey results somewhat align with the current national and local economic conditions. Local business professionals expressed high optimism for sales, profits, hiring, capital spending, and economic conditions. The respondents expressed continuing optimism on home prices and construction activity in the second quarter despite the recent housing market slowdown with reduced sales and almost doubled inventory compared to last year. The Southern Nevada business leaders, however, reported increased concern about finding qualified employees compared to the previous survey. The escalated worry of a potential recession, which we previously reported with an unexpectedly lower business confidence, seemed to fade away this quarter. Overall, the survey outcomes indicate that the local economy should continue to expand in the second 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), rebounded after a substantial loss last quarter, up by 14.5 percent from 122.8 in the first quarter of 2019 to 140.6 in the second quarter (Figure 1). The index’s surprising gain may reflect the combination of the end of the partial federal government shutdown, no potential interest hikes as Fed alters its immediate policy, and seasonality. Local business leaders usually express higher confidence in the second quarter compared to the first quarter. The increased worry of a potential economic slowdown or recession in the prior quarter also seems to have waned this quarter. Although the index decreased by 4.4 percent from last year, the index recorded its second-highest, second-quarter level.

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. This quarter, respondents expressed highly optimistic outlooks on the
five components as they all well exceeded 100. Although the index values substantially rebounded from last quarter, all excluding sales experienced year-over-year losses. The index values for business expectations of sales, Nevada economic conditions, profits, capital expenditure, and hiring scored 152.6, 148.4, 142.1, 134.7, and 125.3, respectively.

Expectations for the U.S. and Nevada Economies. Local business leaders reported higher confidence in their economic outlooks for both Nevada and the U.S. compared to last quarter. The index values for expectations on the U.S. and Nevada economic conditions jumped by 6.9 and 15.1 percent, respectively, quarter-over-quarter. This may reflect the end of the partial federal government shutdown, rebounding consumer confidence, and the Fed’s change in policy to not raise interest rates in the near future, which may solidify more optimistic views on current economic conditions compared to a quarter ago. The values, nevertheless, still declined notably by 17.2 and 12.4 percent, respectively, for the U.S. and Nevada year-over-year.

When asked about the U.S. economy, 44.8 percent of respondents projected an improved economy, while 30.2 percent expected a worse economy. The remaining 25.0 percent forecasted no change. Southern Nevada business leaders expressed a more favorable economic outlook for Nevada. When asked about the Nevada economy, 65.3 percent of the respondents projected an improved economy, 17.9 percent forecasted no change, and 16.8 percent expected a worse economy.

Expectations for Sales. The local businesses showed the highest level of confidence in sales activity in their industry since 2015Q1. The index value for expectations on sales rebounded after three consecutive quarters of decreases and was the only component that experienced a year-over-year gain. The value climbed strongly by 20.3 percent quarter-over-quarter and posted a slight increase of 0.4 percent year-over-year. That is, 62.1 percent of the respondents predicted increased sales in their industry, 28.4 percent expected no change, and only 9.5 percent projected decreased sales.

Expectations for Profits. Along with highly optimistic views on sales activity, the index value for expectations on profits also increased strongly from last quarter. Although the value fell by 3.3 percent from a year ago, it gained substantially by 17.1 percent from last quarter. When asked about profits in their own industry, 53.7 percent of respondents predicted an increase, 34.7 percent expected no change, and 11.6 percent forecasted a decrease.

Expectations for Capital Expenditure. The survey shows that local businesses anticipate increased activity in capital expenditure in their industry compared to last quarter, up by 17.5 percent. The index value for expectations on capital expenditure, however, did not budge much from last year (i.e., 135.7 to 134.7). When asked about capital expenditure in their own industry, 44.2 percent of the respondents’ projected increased capital expenditure, 9.5 percent expected decreased capital expenditure. The remaining 46.3 percent forecasted no change.

Expectations for Hiring. The expectation on hiring experienced a quarterly gain of 2.4 percent from 122.4 to 125.3. The value, however, is lower than the level from last year by 4.8 percent. Southern Nevada business leaders expressed increased challenges in finding qualified workers compared to last quarter, which may explain why the value for hiring scored the lowest among the five components. When asked about hiring, 36.8 percent respondents predicted an increase in hiring in their industry, while 11.6 percent projected a decrease. The remaining 51.6 percent expected no change.

Expectations for Home Prices. The housing market started to cool down over the past several months with a rising inventory of homes for sale and falling home closings. The January inventory almost doubled compared to last year, and total sales volumes dropped by 15.2 percent during the same period. As a result, home price remained flat for the last few months, which slowed the yearly growth of home prices. The growth rate of home price, however, still posted a double-digit gain, up by 10.5 percent year-over-year. Despite the current weaker housing market, the majority of respondents predicted an increase in housing price compared to last quarter. The index value on expectations on home prices increased by 14.1 percent quarter-over-quarter, while the business leaders’ confidence on home prices was down by 22.9 percent compared to last year. When asked about expectations on home prices, 55.2 percent of the respondents expected increases in home prices in Clark County, while 16.7 percent predicted decreases in home prices. The remaining 28.1 percent forecasted no change.

Expectations for Construction Activity. Survey respondents’ expectations on construction activity experienced a quarter-over-quarter gain of 6.8 percent. High optimism in construction activity may reflect the ongoing large construction projects in Las Vegas. In 2018, the commercial permit valuations in Southern Nevada marked a record high level with projects such as Resorts World, the Raider’s stadium, and the Las

---

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 148.4, then this means that 48.4 percent more respondents exhibit a positive attitude (65.3 percent) than those that exhibit a negative attitude (16.8 percent).
Vegas Convention Center expansion boosting total project valuation. According to the Las Vegas Visitor and Convention Authority, Las Vegas will add approximately 12,000 rooms to its total inventory in a few years, which is an 8 percent increase in the current room inventory. The year-to-date residential permits/units in Clark County also rose by 25.8 percent despite ongoing weaker housing market. Specifically, 64.2 percent of the respondents expected more construction activity in the second quarter compared to the first quarter of 2019, while 11.6 percent forecasted less construction activity. The remaining 24.2 percent projected no change.

**Credit Conditions.** Credit conditions tightened compared to the last quarter. Fewer local businesses sought an extended line of credit in the past year compared to prior quarter (i.e., 36.6 vs. 44.1 percent). Of those who applied, 66.7 percent received their credit as requested, lower than the 70.8 percent from last quarter. A smaller proportion (i.e. 6.7 vs. 20.8 percent) of respondents also reported receiving less than what they originally sought. The remaining 26.7 percent reported a rejection of their request, while only 8.3 percent reported a rejection last quarter.

**Most Important Challenges.** Local business leaders scored finding qualified employees as the most difficult challenge for the fifth consecutive quarter. More respondents said that finding qualified workers proves the most important challenge they face compared to a quarter ago (i.e., 37.1 vs. 35.8 percent). Economic uncertainty continued to score as the second most important challenge with a smaller proportion of respondents compared to the prior quarter (i.e., 16.9 vs. 24.2 percent). This may reflect the Fed’s new policy of no potential interest rate hikes in the near term and the end of the partial federal government shutdown. Rising interest rates marked as the third most difficult challenge for the first time this quarter (11.2 percent). Higher operating and/or production costs, which is usually mentioned as the third most difficult challenge, scored the fourth most difficult challenge (10.1 percent). This outcome suggests that local businesses may feel that the four interest rate hikes in 2018 occurred faster than they expected or thought prudent with the current economic conditions. This probably will prove temporary, as the Fed will not likely increase the federal funds rates until the end of this year or even until next year.

**The Fed’s Interest Policy.** When the survey asked respondents how the Fed’s interest rate policy might affect economic growth, less respondents predicted a decrease in economic growth compared to last quarter (i.e., 36.4 vs 53.3 percent). More local businesses became neutral on the Fed’s interest rate hikes, as 46.6 percent expected no change, which is higher than the 33.7 percent from the previous quarter. This response probably reflects the Fed’s new interest rate policy stance. The remaining 17.0 percent forecasted an increase in economic growth due to the Fed’s interest policy, which is slightly higher than last quarter.

**A Potential Trade War.** The majority of local business leaders think that a trade war will negatively contribute to future economic growth. That is, 70.8 percent of respondents predicted a decrease in economic growth, while only 9.0 percent expected an increase in economic growth due to a trade war. The remaining 20.2 percent forecasted no change.

**The Next Recession.** Local business leaders became more positive about economic expansion in the near future compared to last quarter. When asked about the timing of the next national recession, 37.5 percent of respondents forecasted the next recession in 2022 or later; 30.7 percent predicted a recession in 2021; 30.7 percent, 2020; and only 1.1 percent, 2019. Overall, many respondents who previously reported 2019 and 2020 moved to 2021 and 2022 or later. Last quarter, 32.3 and 15.1 percent of respondents predicted a recession in 2020 and 2019, respectively.

**Conclusion**

The most recent CBER business survey reveals that local business confidence rebounded sharply in the second quarter of 2019 after a plummet in the first quarter. The index dropped in the first quarter substantially probably due to ongoing uncertainty prompted by the shutdown of the federal government, weakness in European economies, and the potential for a trade war with China. Nevertheless, the respondents are highly optimistic with the current economic conditions. The Southern Nevada business leaders reported positive outlook on sales, profits, capital expenditure, and hiring in their industry, which implies that the local economy will continue to expand in the short run. The index values for home prices and construction activity also rebounded in spite of escalating home inventory, reduced home sales, and decelerating home price growth, which suggests that the housing market will continue its recovery in the second quarter of 2019. Overall, the survey results show that the local economy will continue to grow in the second quarter of 2019.

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 rebounded sharply after a substantial loss in the previous quarter.

All five components of CBER’s composite index gained and exceeded 100 for the second quarter of 2019.

How do you think economic conditions in the U.S. 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 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?

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