Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the first quarter of 2019 grew by 3.1 percent at an annualized rate. Although the growth rate marked its fastest first quarter gain since 2015, the overall real GDP growth hinged largely on temporary factors such as higher private business inventories and reduced imports. Consumer spending, which captures about two thirds of the real GDP, however, posted a weaker gain. After an unexpectedly low job creation in May, the U.S. labor market in June rebounded strongly by adding 224,000 jobs, which produced an average of 171,000 job gains per month during the second quarter of 2019. The unemployment rate, however, edged up to 3.7 percent, and average hourly earnings growth in June remained unchanged at 3.1 percent year-over-year. Retail sales over the last few months posted a weaker performance compared to a year ago, but consumer and business confidence remained at relatively high levels. The Fed now may cut the federal funds rate amid continued trade tensions between the U.S. and China and an anticipated global economic slowdown.

The local economy continues its economic expansion based on the most recent data. Clark County added 4,100 jobs in May, up robustly by 2.8 percent year-over-year. The seasonally adjusted unemployment rate also fell to 4.1 percent, its lowest level since January 2007. April taxable sales for Clark County experienced a strong year-over-year increase, up by 6.9 percent. Although gaming revenue continued to decrease year-over-year for the third straight month, May visitor volume rebounded after two consecutive months of yearly losses. Moreover, McCarran passengers hit a record level in May. The median existing home price recently posted a gain after staying almost flat for the last several months. This may reflect lower mortgage rates. The year-to-date number of residential permits/units, nonetheless, experienced a loss from last year.

The recent survey results somewhat align with the current national and local economic conditions. Local business professionals remained optimistic for sales, profits, hiring, capital spending, and economic conditions. The respondents also expressed continuing optimism on home prices and construction activity in the third quarter, which may reflect the recent rebounds in home prices and home sales. Southern Nevada business leaders, however, reported increased concern about economic uncertainty compared to the previous survey as trade tensions between the U.S. and China create a headwind. A majority of respondents, however, forecasted no recession in the near future, which may suggest that they believe the trade tensions will get resolved in the near term. Local business leaders expressed a continuing challenge of finding qualified workers. Overall, the survey outcomes indicate, in our view, that the local economy should continue to expand in the third quarter of 2019.

Southern Nevada Business Confidence Index

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despite significantly lower expectations than last quarter. The index values for business expectations of sales, Nevada economic conditions, profits, capital expenditure, and hiring scored 125.8, 125.8, 122.5, 115.7, and 113.5, respectively.1

Expectations for the U.S. and Nevada Economies. Local business leaders reported a slightly negative view on the U.S. economic outlook for the first time in many years, while their confidence in the Nevada economy remained at a relatively high level. This suggests that local business leaders mainly worry about increasing trade tensions between the U.S. and China. In fact, the recent National Federation of Independent Business survey mentioned that 30 percent of business owners reported changes in China trade policy negatively affected their businesses. In addition, the CBER’s survey results also indicate that more local business leaders think trade wars will negatively affect economic growth compared to last quarter.

Overall, the index value for expectation on the U.S. economic condition fell substantially by 16.7 and 37.7 percent, respectively, quarter-over-quarter and year-over-year to a value of 95.5. The index value for expectations on the Nevada economic condition, nevertheless, remained at a relatively lofty level of 125.8 despite a quarterly and yearly loss of 15.2 and 22.9 percent, respectively. When asked about the U.S. economy, 30.3 percent of respondents forecasted an improved economy, while 34.8 percent expected a worse economy. The remaining 34.8 percent projected no change. When asked about the Nevada economy, 46.1 percent of the respondents projected an improved economy, 33.7 percent forecasted no change, and 20.2 percent expected a worse economy.

Expectations for Sales. The local business leaders’ confidence in sales activity in their industry plummeted after a large rebound in the previous quarter. Although the index value slipped by 17.6 and 14.9 percent, respectively, quarter-over-quarter and year-over-year, the respondents remained favorable about sales activity in their industry for the third quarter of 2019 with a value of 125.8. That is, 49.4 percent of the respondents predicted increased sales in their industry, 27.0 percent expected no change, and only 23.6 percent projected decreased sales.

Expectations for Profits. The index value for expectations on profits plunged considerably compared to last quarter along with decreased optimism on sales activity. Even though the index value declined by 13.8 and 16.9 percent, respectively, relative to a quarter and a year ago, the local business leaders still showed continued optimism with a value of 122.5. When asked about profits in their own industry, 46.1 percent of respondents expected an increase, 30.3 percent predicted no change, and 23.6 percent forecasted a decrease.

Expectations for Capital Expenditure. The survey shows that local business leaders anticipate decreased activity in capital expenditure in their industry, posting a value of 115.7 percent, down by 14.1 percent compared to last quarter. The index value for expectations on capital expenditure also experienced a year-over-year loss of 19.8 percent from last year. When asked about capital expenditure in their own industry, 38.2 percent of the respondents’ projected increased capital expenditure, 22.5 percent expected decreased capital expenditure. The remaining 39.3 percent forecasted no change.

Expectations for Hiring. The expectation on hiring hit its lowest level in nearly 6 years. One possible explanation is that some local businesses may have become more conservative with hiring a new worker or expanding their businesses amid ongoing economic uncertainty due to trade tensions between the U.S. and China. The survey results revealed increased concern with economic uncertainty as an important challenge that local businesses face. A continued challenge with finding a qualified employee, however, also might partly affect a lower expectation in terms of hiring in their industry compared to last quarter. Overall, the index value of 113.5 dropped by 9.4 and 17.7 percent, respectively, compared to last quarter and last year. When asked about hiring, 31.5 percent respondents predicted an increase in hiring in their industry, while 18.0 percent projected a decrease. The remaining 50.6 percent expected no change.

Expectations for Home Prices. Recently, the Las Vegas housing market posted a sign of slowing after two consecutive years of double-digit growth in home prices. The slowed growth also reflected rising interest rates due to four 25-basis point hikes in the Federal funds rate by the Fed last year. As a result, the home inventory rose for the past several months, and existing home median closing prices remained relatively flat. The Fed, however, has not increased its federal funds rate this year; rather it considers cutting rates this year with ongoing economic uncertainty. Consequently, the mortgage rates began to decline, which may positively affect home prices and sales, which have picked up in recent months. Although the index value on expectations on home prices of 130.7 fell by 5.6 and 28.3 percent, respectively, from last quarter and last year, the business leaders remained optimistic on the future of home prices in the near term. When asked about expectations on home prices, 50.0 percent of the respondents expected increases in home prices in Clark County, while 19.3 percent expected a decrease.

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 125.8, then this means that 25.8 percent more respondents exhibit a positive attitude (46.1 percent) than those that exhibit a negative attitude (20.2 percent). Note the rounding error for this calculation.
percent predicted decreases in home prices. The remaining 30.7 percent forecasted no change.

**Expectations for Construction Activity.** High optimism in construction activity continued with ongoing large construction projects in Las Vegas. Southern Nevada currently has several big commercial projects such as the Raider’s stadium, the Las Vegas Convention Center expansion, and the MSG Sphere. Moreover, the city will add approximately 12,000 rooms, equaling an 8 percent increase, to its total inventory in the next few years to meet the potential increased demand for accommodations with these projects. The year-to-date residential permits/units in Clark County, nonetheless, declined by 22.9 percent, probably due to a weakening housing market. Recent rebounds in home prices and decreasing mortgage rates, however, will likely lead to a pick-up in permit activities in the second half of 2019. When asked about expectations on construction, the majority (53.9 percent) of respondents expected more construction activity in the third quarter compared to the second quarter of 2019, while 9.0 percent forecasted less construction activity. The remaining 37.1 percent projected no change. The construction activity index stands at a relatively high value of 144.9.

**Credit Conditions.** Credit conditions did not change much compared to the last quarter. More local businesses sought an extended line of credit in the past year compared to the prior quarter (i.e., 47.2 vs. 36.6 percent). Of those who applied, 64.7 percent received their credit as requested, lower than the 66.7 percent from last quarter. A slightly smaller proportion (i.e. 23.5 vs. 26.7 percent) of respondents, however, reported a rejection of their request. The remaining 11.8 percent reported receiving less than what they originally sought, while 6.7 percent reported receiving less than last quarter.

**Most Important Challenges.** Local business leaders scored finding qualified employees as the most difficult challenge for the sixth consecutive quarter. Nearly the same proportion of respondents scored this as the most important challenge they face compared to a quarter ago (i.e., 37.3 vs. 37.1 percent). Economic uncertainty continued to score as the second most important challenge, but with a substantially larger proportion of respondents compared to the prior quarter (i.e., 26.5 vs. 16.9 percent). This may largely reflect ongoing trade tensions between the U.S. and China and the anticipated global economic slowdown. The Fed also hinted of potential interest rate cuts because of trade tensions and weakened global economic growth. As a result, rising interest rates, which was marked as the third most difficult challenge in the previous quarter, became the least important challenge this quarter (i.e., 2.4 vs. 11.2 percent). Business leaders mentioned decreasing sales, instead, as the third most difficult challenge for the first time (10.8 percent).

**The Fed’s Interest Policy.** The survey revealed that some respondents who previously reported negative or neutral views on the Fed’s interest policy toward economic growth changed to positive views. When the survey asked respondents how the Fed’s interest rate policy might affect economic growth, fewer respondents predicted a decrease in economic growth compared to last quarter (i.e., 32.1 vs 36.4 percent). Less local businesses became neutral on the Fed’s interest rate hikes, as 40.7 percent expected no change, which is lower than the 46.6 percent from the previous quarter. The remaining 27.2 percent forecasted an increase in economic growth due to the Fed’s interest policy, which is higher than last quarter’s 17.0 percent.

**A Potential Trade War.** The majority of local business leaders think that a trade war will negatively contribute to future economic growth. That is, 78.8 percent of respondents predicted a decrease in economic growth, while only 8.8 percent expected an increase in economic growth due to a trade war. The remaining 12.5 percent forecasted no change. Last quarter, 70.8 percent expected a decrease in economic growth, 20.2 percent expected no change, and 9.0 percent an increase in economic growth due to a trade war.

**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, a majority (51.2 percent) of respondents forecasted the next recession in 2022 or later; 26.2 percent predicted a recession in 2021; 17.9 percent, 2020; and only 4.8 percent, 2019. Overall, many respondents who previously reported 2020 or 2021 moved to 2022 or later. Last quarter, 37.5, 30.7, and 30.7 percent of respondents forecasted the next recession in 2022 or later; 26.2 percent predicted a recession in 2021; 17.9 percent, 2020; and only 4.8 percent, 2019. Overall, many respondents who previously reported 2020 or 2021 moved to 2022 or later. Last quarter, 37.5, 30.7, and 30.7 percent of respondents predicted a recession in 2022 or later, 2021, and 2020, respectively. This may suggest that local business leaders think trade tensions between the U.S. and China is a temporary issue that will get resolved.

**Conclusion**

The most recent CBER business survey reveals that local business leaders’ confidence remains at a high level for the third quarter of 2019 despite potential headwinds such as trade tensions with China and slowed global economic growth. Although the index dropped substantially quarter-over-quarter and year-over-year due to ongoing economic uncertainty, the survey results show that a slightly negative view on the U.S. economy is temporary as a majority of respondents expect the next recession to occur in 2022 or later. Respondents also posted continued optimism with current economic conditions. The Southern Nevada business leaders reported
positive outlook on sales, profits, capital expenditure, and hiring in their industry, which implies, in our view, that the local economy will continue to expand in the short run. The index values for home prices and construction activity also suggest that the housing market will remain stable at least in the short term. In conclusion, the survey results suggest that the local economy will continue to grow in the third 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 declined to its lowest level in three years probably due to ongoing economic uncertainty.

All five components of CBER’s composite index experienced losses but exceeded 100 for the third 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.