Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the second quarter of 2019 increased by 2.0 percent at an annualized rate. The growth rate decelerated from the first quarter of 3.1 percent mainly due to weaker business investment (including inventory investment) and net exports. The economic expansion, however, mainly benefited from consumer spending, which posted its fastest growth in nearly four years. Government spending also grew at its fastest pace in a decade and contributed positively to real GDP growth. The U.S. labor market experienced a slowdown during the last two months. As a result, the market produced an average of 157,000 new jobs per month in the third quarter, which is lower than the 189,000 jobs per month from the same three months in 2018. The unemployment rate fell to a 50-year low of 3.5 percent, but September average hourly earnings growth dropped to its lowest pace in a year, up by 2.9 percent year-over-year. The Fed may cut the federal funds rate again amid continued trade tensions between the United States and China and global economic uncertainty, while recent progress with the U.S.–China trade talk seemed to alleviate, at least temporarily, a fear of a potential recession. Consumer and business confidence remained at relatively high levels despite recent declines due to ongoing economic and political uncertainty, suggesting that no recession would occur in the near future.

The local economy continues its economic expansion based on the most recent data. Clark County added 3,400 jobs in August, up by 1.8 percent year-over-year. The seasonally adjusted unemployment rate remained unchanged at 4.3 percent. The year-to-date taxable sales for Clark County experienced a strong year-over-year gain, up by 6.8 percent. Although McCarren passengers continued its robust yearly rise, the year-to-date gaming revenue and visitor volume advanced only marginally, up by 0.8 and 0.6 percent from last year. The Case-Shiller Las Vegas home price index recently rebounded and gained month-over-month, but the yearly growth continued its downward trend to lower growth rates. The year-to-date number of residential permits/units, nonetheless, remained lower than the level from last year, but the gap narrowed compared to early this year, which may reflect a recent pick-up in home sales partly due to lower mortgage rate.

The recent survey results generally 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 fourth quarter, which may reflect the recent rebounds in home sales. Southern Nevada business leaders, however, reported a continued concern about economic uncertainty as trade tensions between the U.S. and China create a headwind. A majority of respondents, nonetheless, projected no recession in the near future, which may indicate that they believe the trade tensions will get resolved in the near future. The local employment year-over-year growth decelerated from 3.5 to 1.8 percent from January to August. In our view, this may partly reflect a struggle of finding qualified workers, which remained the most difficult challenge that local businesses face for almost two years. Overall, the survey outcomes suggest that the local economy should continue to expand in the fourth 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, up by 4.2 percent from 120.7 in the third quarter to 125.7 in the fourth quarter of 2019 (Figure 1). Although the index, which remained at a relative high level, gained quarter-over-quarter, its large year-over-year loss continued with ongoing trade tensions between the U.S. and China and an anticipated global economic
slowdown. The index, in our view, will not revisit its historically high level from last year in the near future as the economic data signal a slowdown.

The index includes five components: business leaders’ expectations of (i) general economic conditions in Nevada, as well as expectations on their own industry’s (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. The respondents expressed continuing optimism as all five components climbed from last quarter and also remained above 100. The index values for business expectations of Nevada economic conditions, capital expenditure, sales, profits, and hiring scored 131.8, 129.5, 127.3, 125.0, and 114.8, respectively.¹ Note that businesses express a more positive attitude about the Nevada economy than about their own industry’s performance at the margin.

**Expectations for the U.S. and Nevada Economies.** Local business leaders showed a positive view on the national economic outlook for this quarter, which differs from last quarter where the local businesses expressed a soft pessimism on the future national economy with increasing trade tensions between the U.S. and China (i.e., 108.0 vs. 95.5). This may reflect a hope from ongoing negotiation between the U.S. and China or changing views on the severity of the effect of trade war on the national economy. In fact, the CBER’s survey results indicate that a few respondents who showed the negative views on a trade war on economic growth in the last quarter moved to neutral views for this quarter. As a result, the local businesses’ confidence on Nevada economy also rose, benefiting from more favorable perspective on the U.S. economy.

The index values for expectation on both U.S. and Nevada economic conditions rebounded quarter-over-quarter, up by 13.1 and 4.8 percent, respectively. The index values, however, remained notably lower compared to last year, down by 22.9 and 16.8 percent, respectively. Overall, the local business leaders expressed optimism on future national and statewide economic conditions. When asked about the U.S. economy, 40.9 percent of respondents forecasted an improved economy, while 33.0 percent expected a worse economy. The remaining 26.1 percent projected no change. When asked about the Nevada economy, 48.9 percent of the respondents projected an improved economy, 34.1 percent forecasted no change, and 17.0 percent expected a worse economy.

**Expectations for Sales.** The index value for expectations on sales rebounded slightly, up by 1.2 percent quarter-over-quarter from 125.8 to 127.3. Although the local businesses’ confidence in sales activity remained at an optimistic level, the value remained well below last year’s value of 147.4. That is, 50.0 percent of the respondents predicted increased sales in their industry, 27.3 percent expected no change, and only 22.7 percent projected decreased sales.

**Expectations for Profits.** The local businesses also felt more confident about profits in their industry quarter-over-quarter (i.e., 125.0 vs. 122.5), along with the increased optimism on sales activity. The index value for expectations on profits, however, remained substantially lower than the level from last year as the value hit its record-high level of optimism in 2018Q4. When asked about profits in their own industry, 46.6 percent of respondents expected an increase, 31.8 percent predicted no change, and 21.6 percent forecasted a decrease.

**Expectations for Capital Expenditure.** The survey respondents expressed higher optimism on capital expenditure than sales, profit, and hiring. The index value for expectations on capital expenditure rebounded strongly, up by 11.9 percent from last quarter. The value also experienced the least reduction year-over-year compared to the other components, only down by 0.8 percent. When asked about capital expenditure in their own industry, 44.3 percent of the respondents’ projected increased capital expenditure, while 14.8 percent expected decreased capital expenditure. The remaining 40.9 percent forecasted no change.

**Expectations for Hiring.** The local business leaders’ confidence on hiring in their industry remained relatively unchanged from last quarter with a value of 114.8. The index value remained at a 6-year low level probably due to ongoing economic and political uncertainty (i.e., the U.S.–China trade disputes) as well as a difficulty with finding qualified workers. Overall, the index value slightly gained 1.1 percent quarter-over-quarter but declined by 13.2 percent year-over-year. When asked about hiring in their own industry, 34.1 percent respondents predicted an increase in hiring, 46.6 percent expected no change, and 19.3 percent projected a decrease.

**Expectations for Home Prices.** The Las Vegas housing market slowed and stabilized this year after two consecutive years of double-digit growth in home prices. The cooling of the housing market partly reflected higher interest rates. The home prices, therefore, remained relatively flat with escalated home inventory for the first several months of this year. The Fed, however, cut its

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 131.8, then this means that 31.8 percent more respondents exhibit a positive attitude (48.9 percent) than those that exhibit a negative attitude (17.0 percent). Note the rounding error for this calculation.
federal rate by a 25 basis point for the first time in July, and another 25 basis point cut occurred last month with ongoing uncertainty with the U.S.-China trade war and global economic slowdown. Consequently, the mortgage rates began to decline, and the housing market picked-up over recent months. After more than a decade of struggle, the median home price in Clark County is now about to reach its pre-recession peak. The local business leaders’ confidence in home prices also remained relatively optimistic despite a loss in the index value. Overall, the index value on expectations on home prices of 122.1 fell by 6.6 and 24.7 percent, respectively, from last quarter and last year. When asked about expectations on home prices, 50.0 percent of the respondents expected increases in home prices in Clark County, while 27.9 percent predicted decreases in home prices. The remaining 22.1 percent forecasted no change.

**Expectations for Construction Activity.** Local business leaders expressed continued high optimism in construction activity with a value of 136.4 despite a modest decline compared to last quarter. This may reflect several big commercial projects in Southern Nevada such as the Raider’s stadium, the Las Vegas Convention Center expansion, and the MSG Sphere. The city will also 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 residential permits/units showed substantial rebounds over the last few months, which mostly offset this year’s earlier year-over-year losses. The year-to-date residential permits/units in Clark County, therefore, is currently 4.1 percent lower than its level from last year. When asked about expectations on construction, half of the respondents expected more construction activity in the fourth quarter compared to the third quarter of 2019, while 13.6 percent predicted less construction activity. The remaining 36.4 percent projected no change.

**Credit Conditions.** Credit conditions generally improved for local businesses compared to the prior quarter. More local businesses sought a newline of credit in the past year compared to last quarter (i.e., 29.5 vs. 24.1 percent). Of those who applied, 87.0 percent received their credit as requested, much higher than the 65.0 percent from last quarter. A slightly smaller proportion (i.e. 8.7 vs. 10.0 percent) of respondents reported receiving less than what they originally sought. Only 4.3 percent reported a rejection of their request, which is substantially less than the 25.0 percent from the previous quarter.

**Most Important Challenges.** Local business leaders scored finding qualified employees as the most difficult challenge for the seventh consecutive quarter. A marginally smaller proportion of respondents scored this as the most important challenge they face compared to the prior quarter (i.e., 36.7 vs. 37.3 percent). Economic uncertainty also continued to score as the second most important challenge with a slightly higher proportion of respondents compared to last quarter (i.e., 27.8 vs. 26.5 percent), which may reflect political and economic uncertainty, largely due to ongoing trade tensions between the U.S. and China and the global economic slowdown. This quarter, higher operating and/or production costs scored as the third most difficult challenge the local businesses face with a sharp percentage increase (i.e., 19.0 vs. 8.4 percent). This may partly reflect trade tensions as the National Federation of Independent Business reported that 30 percent of small businesses identified tariffs as affecting them negatively.

**The Fed’s Interest Policy.** The survey revealed that the respondents are more positive than negative toward the current Fed’s interest policy for the first time since the survey asked this question. Some local businesses may have felt a positive impact of the two recent interest rate cuts on their businesses. The Fed reduced its federal fund rates twice by a quarter basis point in recent months to a target range between 1.75 and 2.00 percent. When the survey asked respondents how the Fed’s interest rate policy might affect economic growth, significantly fewer respondents predicted a decrease in economic growth compared to last quarter (i.e., 16.5 vs 32.1 percent). A substantially larger proportion of respondents forecasted an increase in economic growth due to the Fed’s interest policy compared to the prior quarter (i.e., 44.3 vs 27.2 percent). The remaining 39.2 percent expected no change, which barely budged quarter-over-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, 64.1 percent of respondents predicted a decrease in economic growth, while only 10.3 percent expected an increase in economic growth due to a trade war. The remaining 25.6 percent forecasted no change. Last quarter, 78.8 percent expected a decrease in economic growth, 12.5 percent expected no change, and 8.8 percent an increase in economic growth due to a trade war.

**The Next Recession.** The survey results indicate that no recession signal exists for 2019, while slightly higher proportion of respondents reported a concern of a potential recession within the next two years compared to last quarter. When asked about the timing of the next national recession, 25.6 and 32.1 percent of respondents forecasted the next recession in 2020 and 2021, respectively, which are higher than 17.9 and 26.2 percent from last quarter. The remaining 42.3 percent expected that the next recession would occur in 2022 or later, lower than 51.2 percent from the previous quarter.
Conclusion

The most recent CBER business survey suggests that local business confidence remains at a relatively favorable level for the fourth quarter of 2019 despite potential headwinds such as trade tensions with China and slowed global economic growth. The Southern Nevada business leaders expressed positive outlook on sales, profits, capital expenditure, and hiring in their industry, which implies the local economy will continue to expand in the short run. The index values for home prices and construction activity also indicate that the housing market will remain stable in the fourth quarter of 2019. Although the national economy recently slowed, the majority of respondents expects no recession to occur in the near future. As a result, the local economy, in our view, will continue to grow along with the U.S. economy in the fourth 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 quarter-over-quarter. Although the index experienced a year-over-year loss, it remained at a relatively high level.

All five components of CBER’s composite index remained above 100 for the fourth quarter of 2019.

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?

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