Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the fourth quarter of 2019 increased at an annual rate of 2.1 percent. Overall, the US economy expanded by 2.3 percent in 2019, slower than the 2.9 percent recorded in 2018. The real GDP expansion in 2019 mainly reflected sturdy consumer spending, benefiting from the strong labor market. The U.S. economy, however, faces an unprecedented moment with the rapidly evolving coronavirus (Covid-19) pandemic. The U.S. labor market lost 701,000 jobs in March with a notable loss of 459,000 jobs in the leisure and hospitality sector, and the unemployment rate soared to 4.4 percent. These readings, however, only reflected the first two weeks of March. The current situation is much worse as most states issued shutdowns, lockdowns, or stay-at-home orders in response to exponentially rising confirmed Covid-19 cases. As a result, nearly 10 million jobless claims were filed over the last two weeks of March, and the number expects to increase until the coronavirus pandemic is mitigated. To avoid a deep economic downturn, the Fed cut its federal fund rate to near zero and launched aggressive quantitative easing by committing to buying unlimited quantities of Treasury and mortgage-backed securities. The 2.3 billion stimulus package, the largest amount in history, also passed Congress and was signed by the president to provide citizens with emergency funds to survive through the almost stalled economy. Economic uncertainty continues despite these aggressive fiscal and monetary stimulus policies, as numerous questions are asked about economic resilience after the coronavirus pandemic. Moreover, much uncertainty exists on the severity and length of the public-health-induced shut down of the U.S. economy. The oil-price, which dropped dramatically due to oversupply, recently rebounded with potential cuts to oil production from Saudi Arabia and Russia.

Clark County had shown robust economic recovery or expansion until the coronavirus pandemic occurred. The nonfarm employment in February rose by 1.3 percent, and the unemployment rate in January fell to the lowest level of 3.9 percent since the Great Recession. The taxable sales for Clark County in January continued its strong gain of 6.2 percent. The tourism industry also posted solid growth in January and February, benefitting from the lunar New Year and an extra day in February. The Case-Shiller Las Vegas home price index continued to rise and recovered to its level from November 2007. Continuing decline in home inventory also signaled that the housing market remains robust with low interest rates. The upward trend, however, faces a dramatic turn as Nevada closed nonessential businesses in the middle of March in response to Covid-19. Southern Nevada faces a more severe economic downturn compared to other regions as its economy depends largely on the tourism industry. According to the state’s Department of Employment, Training and Rehabilitation (DETR), laid-off workers filed 171,000 initial claims for unemployment insurance during the last three weeks of March in Nevada, which approximately equals 12 percent of nonfarm employment in February.

The recent survey results align with the current national and local economic conditions. Local business professionals exhibited the deepest pessimism in a decade for both local economic and business conditions. The survey took place during March, but most of respondents were completed before the governor’s nonessential business shutdown order. The reported business confidence in this report, therefore, is probably overstated. The survey respondents’ confidence worsened during the survey due to the rapidly worsening Covid-19 situation. To show how local business leaders changed their views on the economy, we report the survey results for survey responses received before and after March 8th for several selected questions in the appendix. Overall, the survey outcomes suggest that the local economy will experience an economic downturn in the second quarter of 2020. CBER believes that we are currently in recession.

1 March 8th was chosen for the following reasons. First, our first email distributions occurred on March 4th, and the reminders were sent on March 11th. Second, most survey respondents completed their surveys before March 15th.
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), plummeted by 47.0 percent from 136.3 in the first quarter to 72.3 in the second quarter of 2020 (Figure 1). In addition, the index experienced a year-over-year decline of 48.6 percent and dropped below 100 for the first time since 2011Q4. The index, however, maybe overstated, since a substantial majority of responses were received before the nonessential business shutdown order was issued.

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 falls below 100, which suggests that respondents, on average, feel more negative than positive about the five components. Overall, respondents’ optimism totally disappeared this quarter compared to last quarter with the sudden coronavirus attack. The index values for all five components plummeted below 100, implying local businesses are very pessimistic about the ongoing challenges, at least for the short term. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 45.1, 80.8, 77.8, 76.4, and 81.4, respectively.2

Expectations for the U.S. and Nevada Economies. Southern Nevada Business leaders expressed deep pessimism on both the U.S. and Nevada economic outlook. Even before the statewide nonessential business shutdowns, it seems that the local businesses already felt an upcoming economic downturn due to the coronavirus. The index value for Nevada economic conditions slipped by 67.8 and 69.6 percent, respectively, quarter-over-quarter and year-over-year. The value hit its lowest level in a decade at 45.1, which nearly matches the similar level of 45.4 in 2008Q2. The index value for U.S. economic conditions also plummeted to its lowest level in 11 years at 43.1. When asked about the U.S. economy, only 15.3 percent forecasted a better economy, while a majority of respondents (72.2 percent) forecasted a much or somewhat worse economy. The remaining 12.5 percent expected no change. When asked the same question about the Nevada economy, 15.5 percent of respondents forecasted an improved economy, 14.1 percent projected no change, 70.4 percent expected a worse economy.

Expectations for Sales. Local businesses reported deep pessimism in sales activity in their industry, with 44.3 and 47.1 percent decreases from last quarter and last year, respectively, with a value of 80.8. Before March 8, more than half of respondents actually expressed high optimism on expected increased sales, while it turned totally negatively after March 8, as only 18.4 percent predicted increased sales amid the worsening situation with the coronavirus.3 When asked about sales, 34.2 percent of the respondents predicted increased sales in their industry, 12.3 percent expected no change, and 53.4 percent projected decreased sales.

Expectations for Profits. The index value for expectations on profits also experienced both substantial quarterly and yearly losses, along with high pessimism on sales activity. The value of profit scored 77.8, the lowest level since 2010Q4. When asked about profits in their own industry, 29.2 percent of respondents expected an increase, 19.4 percent predicted no change, and 51.4 percent forecasted a decrease.

Expectations for Hiring. After a strong quarterly gain of 17.6 percent in the previous quarter, the index value for expectations on hiring plunged by 43.4 percent to a value of 76.4. The index value, however, posted the smallest year-over-year loss of 39.0 percent compared to the other four components. This reflects the lower optimism on hiring over the last several quarters among the five components, caused by the persistent challenge of finding qualified employees due to the strong labor market. The local businesses are now driven into a situation that cannot avoid layoffs or furloughs due to stay-at-home or shutdown orders caused by Covid-19. When asked about hiring in their own industry, 20.8 percent respondents predicted an increase in hiring, 34.7 percent expected no change, and 44.4 percent projected a decrease.

Expectations for Capital Expenditure. The survey respondents expressed pessimism on capital expenditure even before the coronavirus pandemic worsened in the United States. The appendix shows that more respondents expected decreased than increased capital expenditure. This indicates that the local business leaders seemed to have a strong sense of the upcoming economic uncertainty from Covid-19. Overall, the value substantially decreased by 38.2 and 39.6 percent, respectively, quarter-over-quarter and year-over-year. When asked about capital expenditure in their own industry, 22.9 percent of the respondents’ forecasted increased capital expenditure, while 41.4

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2 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 45.1, then this means that 54.9 percent more respondents exhibit a negative attitude (70.4 percent) than those that exhibit a positive attitude (15.5 percent).

3 See appendix.
percent expected decreased capital expenditure. The remaining 35.7 percent predicted no change.

Expectations for Home Prices. The Las Vegas housing market recently experienced a strong rebound after a slowdown in early 2019. Home inventory continued to decline for six consecutive months as buyers returned to the market due to lower interest rates and the strong labor market. As a larger portion of Southern Nevada employees work for the tourism sector compared to other areas, higher uncertainty emerges in the local housing market. While it is hard to determine the effect of the coronavirus at this point, a slowdown in home sales is expected at least for the short term with limited outside activity. When asked about expectations on home prices, 31.5 percent of the respondents expected increases in home prices in Southern Nevada, while the same percent predicted decreases in home prices. The remaining 37.0 percent forecasted no change. Although the index value on expectations of home prices scored 100.0, higher optimism on home price by respondents drove this outcome in early March, only to see more pessimistic views from the respondents who completed the survey after March 8th totally offset the early positive view.

Expectations for Construction Activity. Local business leaders expressed a slightly positive outlook on construction activity with a value of 105.6. The actual confidence on construction activity will probably fall much lower as the respondents who completed the survey after March 8th show more negative than positive views. Although construction activity, which is classified as an essential business, still continues in the valley, some commercial projects may postpone their opening dates due to the expected reduced tourism activity after the stay-at-home order ends. Uncertainty in the local residential market due to Covid-19 also adds uncertainty to future construction activity. When asked about expectations on construction, 34.7 percent of the respondents expected more construction activity, 36.1 percent projected no change, and 29.2 percent forecasted less construction activity in the second quarter compared to last quarter.

Credit Conditions. Credit conditions worsened somewhat for local businesses compared to the previous quarter. More respondents applied for a new line of credit in the past year compared to last quarter (i.e., 28.8 vs. 21.1 percent). Of those who applied, 73.7 percent received their credit as sought, lower than the 83.3 percent from the prior quarter. A larger proportion (i.e. 15.8 vs. 8.3 percent) of respondents reported receiving less than what they originally requested. The remaining 10.5 percent reported a rejection of their request, slightly higher than the 8.3 percent rejection rate from last quarter.

Most Important Challenges. Local business leaders mentioned economic uncertainty as the most difficult challenge, leading with 34.8 percent. Finding qualified employees, which was reported as the most difficult challenge over the last two years, scored as the second most important challenge with 33.3 percent this quarter. Before the coronavirus was recognized as a prominent problem in the United States, half of early respondents identified finding qualified workers as the most difficult challenge they face. Other respondents were more concerned about decreasing sales (12.1 percent).

The Fed’s Interest Policy. It seems that the local businesses expected interest rate cuts by the Fed due to Covid-19. Of those surveyed, a large majority of survey respondents (74.2 percent) anticipated decreases in interest rates, while only 7.6 percent expected increases in interest rates. The remaining 18.2 percent predicted no change. The results also revealed that many local businesses did not expect a significant interest rate cut (strong decrease) by the Fed as only 25.8 percent anticipated it. The Fed announced its first emergency rate cut since 2008 in early March 2020 by half a percentage point to a range of between 1 and 1.25 percent. The Fed then dramatically cut its interest rate again to near zero in the middle of March. Most of respondents completed the survey after the first but before the second emergency rate cut.

The Next Recession. Local business leaders anticipate an upcoming recession in 2020 even before lockdown or stay-at-home orders were prevalent in most states. When asked about the timing of the next national recession, 39.4 percent of respondents forecasted the next recession in 2020; 22.7 percent predicted a recession in 2021; 12.1 percent, 2022; and 25.8 percent, 2023 or later. When asked to identify the likely cause of the next recession, 63.1 percent of respondents expected the coronavirus to spread worldwide. Among those who mentioned other reasons (30.8 percent), political uncertainty and a combination of multiple factors were mentioned frequently.

Conclusion

Taken together, the most recent CBER business survey reveals deep pessimism about Nevada and the U.S. economy in the second quarter of 2020. Local businesses seemed to not expect the situation to worsen with the coronavirus in early March as early respondents showed ongoing optimism on sales, profits, and hiring in their industry. Overall, local business confidence indicates that Southern Nevada is likely to experience an economic downturn, which turned out to be true. Although the overall index values for home prices and
construction activity suggest that the housing market will remain neutral or slightly optimistic, the survey responses after March 8th imply an expected slowdown or contraction in the housing market and construction activity, at least for the short term. As the tourism industry was hit the hardest by the coronavirus, in our view, the recovery of the Southern Nevada economy will be slower and later than other areas in the United States. This outcome will rerun Las Vegas’s experience of recovery from the Great Recession.

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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.

BUSINESS CONFIDENCE INDEX SURVEY RESULTS

CBER Business Confidence Index dropped below 100 for the first time since 2011Q4 due to the rapidly evolving coronavirus pandemic.

All five components of CBER’s composite index plunged below 100 for the second quarter of 2020, which suggests that the Southern Nevada is likely to experience an economic downturn.
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: When reporting percentage responses, totals may not add to 100 because of rounding.
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?

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?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
How will the Fed’s policy affect interest rates this year?

- Strong Decrease: 25.6%
- Moderate Decrease: 48.9%
- No Change: 11.2%
- Moderate Increase: 7.6%
- Strong Increase: 0.0%

When do you expect the next national recession to occur?

- 2020: 38.4%
- 2021: 22.7%
- 2022: 12.1%
- 2023 or Later: 24.8%

What event will likely cause the next recession?

- Fed raises interest rates: 3.1%
- Coronavirus spreads worldwide: 63.1%
- Trade war breaks out: 3.1%
- Others: 30.6%

What is the most important challenge that you face in your business today?

- Hiring qualified employees: 23.2%
- High energy costs: 4.5%
- Rising inflation: 15.5%
- Rising interest rates: 1.5%
- Declining sales: 13.1%
- Economic uncertainty: 34.6%
- Other: 33.4%

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
If you applied for a line of credit in the last year, what was the result?

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?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
## APPENDIX: THE COVID-19 EFFECT

<table>
<thead>
<tr>
<th>Questions</th>
<th>Before March 8</th>
<th>After March 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the 2nd quarter of 2020, how do you think sales in your industry will change compared to the 1st quarter of 2020?</td>
<td>34.3% 14.3% 51.4%</td>
<td>71.1% 10.5% 18.4%</td>
</tr>
<tr>
<td>In the 2nd quarter of 2020, how do you think profits in your industry will change compared to the 1st quarter of 2020?</td>
<td>37.1% 22.9% 40.0%</td>
<td>64.9% 16.2% 18.9%</td>
</tr>
<tr>
<td>In the 2nd quarter of 2020, how do you think hiring in your industry will change compared to the 1st quarter of 2020?</td>
<td>23.5% 44.1% 32.4%</td>
<td>63.2% 26.3% 10.5%</td>
</tr>
<tr>
<td>In the 2nd quarter of 2020, how do you think capital expenditures in your industry will change compared to the 1st quarter of 2020?</td>
<td>26.5% 52.9% 20.6%</td>
<td>55.6% 19.4% 25.0%</td>
</tr>
<tr>
<td>In the 2nd quarter of 2020, how do you think economic conditions in Nevada will change compared to the 1st quarter of 2020?</td>
<td>60.0% 17.1% 22.9%</td>
<td>80.6% 11.1% 8.3%</td>
</tr>
<tr>
<td>In the 2nd quarter of 2020, how do you think economic conditions in the United States will change compared to the 1st quarter of 2020?</td>
<td>60.0% 14.3% 25.7%</td>
<td>83.8% 10.8% 5.4%</td>
</tr>
<tr>
<td>How do you think home prices in Southern Nevada will change in the 2nd quarter of 2020 compared to the 1st quarter of 2020?</td>
<td>11.4% 40.0% 48.6%</td>
<td>50.0% 34.2% 15.8%</td>
</tr>
<tr>
<td>How do you think construction activity in Southern Nevada will change in the 2nd quarter of 2020 compared to the 1st quarter of 2020?</td>
<td>14.3% 31.4% 54.3%</td>
<td>43.2% 40.5% 16.2%</td>
</tr>
</tbody>
</table>

Comment: The survey results indicate that local business leaders expressed optimism on sales, profits, and hiring in early March. As the coronavirus pandemic rapidly evolved in the United States, however, respondents’ optimism turned into pessimism. Since Southern Nevada business leaders expected a downturn in capital expenditures in their industry and in the economic conditions for both the U.S. and Nevada even before March 8th, the respondents seemed already to feel global economic uncertainty due to the worsening Covid-19 situation in Europe.

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
Question: When do you expect the next nation recession to occur?

Comment: Respondents after March 8th expressed a stronger sense of an upcoming recession in 2020.

Question: What event will likely cause the next recession?

Comment: The respondents who answered after March 8th showed greater concern about the spread of the coronavirus worldwide.

Question: What is the most important challenge that you face in your business today?

Comment: Earlier, respondents were more concerned about finding qualified employees than economic uncertainty. The respondents after March 8th, however, expressed an increased concern due to economic uncertainty, which probably reflected the rapidly spreading coronavirus in the U.S.

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