Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the second quarter of 2020 plummeted 31.4 percent at an annual rate. The worst-ever contraction in real GDP was caused by mandated “stay-at-home” orders to mitigate the spread of COVID-19. The U.S. labor market exhibited strong gains for the last few months as the economy began opening, but it recently lost some of its momentum. U.S. nonfarm employment added 661,000 jobs in September compared to last month’s 1.5 million. The unemployment rate fell to 7.9 percent. The economy still needs to recoup 10.7 million jobs to return to February’s pre-pandemic peak. Despite this recent slowing in employment growth, retail sales in recent months surpassed the pre-pandemic peak and showed a ‘V-Shaped’ recovery thanks to the CARES Act. Some analysts argue that the division between the haves and the have-nots in the economy will lead to a widening of income inequality and a “K-shaped” recovery. Housing starts also continued to post robust year-over-year gains, boosted by all-time low interest rates. Consequently, consumer confidence rose sharply in September with optimistic views on current business and labor market conditions. The U.S. economy is bouncing back, but the economic outlook remains highly uncertain as the COVID-19 pandemic and political uncertainty remain.

Clark County posted improved signals in local economic activity but saw a slower economic recovery compared to the United States and to other metropolitan areas due to its tourism-dependent economy. Seasonally adjusted employment added 5,900 jobs in August despite a loss in leisure and hospitality employees due to resorts revisiting and revising their reopening plans and bars’ mandated shutdowns caused by the resurgence of virus cases. The unemployment rate dropped to 15.4 percent but still remains the highest among large metro areas. Total McCarran Airport passengers and visitor volumes have been improving since the reopening of the economy, but still plunged over 50 percent year-over-year. Taxable sales, however, showed stronger-than-expected performance thanks to increased personal income due to the CARES Act. Nevada personal income in the second quarter surged to the fourth fastest growth among states (after Massachusetts, Hawaii and New Jersey), boosted by supplemental unemployment benefits. Higher personal income also affected August gaming revenue, excluding casinos in the Las Vegas Strip, with a year-over-year rise of 2.1 percent. The local housing market has also shown better performance than expected thanks to low interest rates and higher disposable income.

Clark County, nonetheless, will likely continue to suffer with a slower economic recovery as most relief benefits expired. Moreover, the tourism sector still faces significant challenges due to restrictions to curb the spread of the virus. The survey results reported in this report align with the current economic conditions as respondents expressed some pessimism on local business conditions but optimism about the overall U.S. economy.

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), fell notably by 13.4 percent from 115.3 in the third quarter to 99.8 in the fourth quarter of 2020 (Figure 1). The index also experienced a year-over-year loss of 20.6 percent. In the previous quarter, the index values were higher-than-expected as the economy just began reopening after the mandated stay-at-home orders; therefore, decreases in the index for this quarter was expected due to the continuing COVID-19 pandemic. The index scored slightly below 100, which suggests that overall business conditions in Southern Nevada won’t change much compared to the previous quarter.

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. The respondents showed optimism for sales but reported a neutral view for profits. The other components—hiring, capital expenditure, and general economic conditions—fell below 100, implying local businesses still struggle with recoveries amid the COVID-19 pandemic. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 95.8, 108.3, 100.0, 98.3, and 96.7, respectively.¹

**Expectations for the U.S. and Nevada Economies.** Southern Nevada business leaders expressed slight pessimism for Nevada economic activity but optimism for U.S. economic conditions. This may reflect a slower local recovery as the local economy depends highly on tourism. Although the U.S. retail sales surpassed their pre-COVID levels in recent months thanks to increased personal income due to the CARES Act, the tourism sector still experiences a substantial loss with limited travel amid the COVID-19 pandemic. As a result, the values for U.S. and Nevada economic activity scored 107.5 and 95.8 percent, respectively. The values also experienced quarter-over-quarter losses, which may partly reflect the expiration of coronavirus relief benefits and the stalled negotiations for a new stimulus package.

When asked about the U.S. economy, 45.0 percent forecasted a better economy, while 37.5 percent forecasted a much or somewhat worse economy. The remaining 17.5 percent expected no change. When asked the same question about the Nevada economy, 40.0 percent of respondents forecasted an improved economy, 15.8 percent projected no change, and 44.2 percent expected a worse economy.

**Expectations for Sales.** Local businesses reported optimism in sales activity in their industry with a value of 108.3. Sales was the only component that scored higher than 100, which may reflect increased retail sales after excluding the leisure and hospitality sector thanks to the CARES Act. Although Clark County taxable sales in July decreased by 9.0 percent from last year, taxable sales excluding the leisure and hospitality sector² climbed by 4.0 percent over the same period. When asked about sales, 38.3 percent of the respondents predicted increased sales in their industry, 31.7 percent expected no change, and 30.0 percent projected decreased sales.

**Expectations for Profits.** The index value for expectations on profits scored 100, meaning the percentages of positive and negative respondents are the same. Among all sectors, pessimism on profits was prevalent in the leisure and hospitality and education and health services sectors. When asked about profits in their own industry, 34.2 percent of respondents expected an increase, 31.7 percent predicted no change, and 34.2 percent forecasted a decrease.

**Expectations for Hiring.** Southern Nevada business leaders predicted slightly reduced hiring activities in their industry with a value of 98.3. The leisure and hospitality industry continues to experience tepid recovery amid the pandemic, since people do not travel much due to restrictions and cautions related to the virus. Consequently, mass layoffs loom in the tourism sector such as airlines and theme parks. In Las Vegas, several casinos already notified furloughed workers of permanent layoffs since they could not rehire due to decreased sales. When asked about hiring in their own industry, 28.0 percent expected an increase, 42.4 percent expected no change, and 29.7 percent projected a decrease.

**Expectations for Capital Expenditure.** Many local businesses continue to follow a conservative path with their capital expenditure, with a value of 96.7, due to high economic and political uncertainty. Capital expenditure, however, was the only component that experienced an increase from last quarter. Specifically, 25.8 percent of respondents forecasted increased capital expenditure in their industry, 45.0 percent expected no change, and 29.2 percent projected decreased capital expenditure.

**Expectations for Home Prices.** The local and national housing market has exhibited a better-than-expected performance despite the virus, boosted by all-time low mortgage rates. Nationwide new residential sales in August reached a record-high since September 2006. The monthly supply of houses in the United States is currently at an all-time low of 3.3 months. Both housing sales and prices in Southern Nevada also followed the national trend and continued their gains amid an inventory shortage of homes. CoreLogic, however, warned that the upward trend might move in the opposite direction, as it listed Las Vegas as one of cities most at risk of falling home prices over the next 12 months. The local business executives, nevertheless, predicted a continued rise in local home prices for the fourth quarter with a value of 110.8. When asked about expectations on home prices, 39.2 percent of the respondents expected increases in home prices in Southern Nevada, while 28.3 percent predicted decreases.

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 95.8, then this means that 4.2 percent more respondents exhibit a negative attitude (44.2 percent) than those that exhibit a positive attitude (40.0 percent).

² We excluded business codes 711, 712, 713, 721 and 722 from the total Clark County taxable sales. https://tax.nv.gov/uploadedFiles/taxnvgov/Content/TaxLibrary/SUT_Stat_Jul_20.pdf
in home prices. The remaining 32.5 percent forecasted no change.

**Expectations for Construction Activity.** Local business leaders also expressed a slightly positive outlook on construction activity with a value of 105.9. This may reflect high performance in the housing market. When asked about expectations on construction, 36.1 percent of the respondents expected more construction activity, 33.6 percent projected no change, and 30.3 percent forecasted less construction activity in the fourth quarter compared to last quarter.

**Most Important Challenges.** Local business leaders mentioned economic uncertainty as the most difficult challenge for the second straight quarter, leading with 29.2 percent. Coronavirus (COVID-19) scored a close second as the most important challenge with 26.5 percent. Among those who reported “others” as the most important challenge (18.6 percent), political uncertainty and decreased or halted sales due to travel or gathering restrictions were mentioned most frequently.

**The Economic Recovery.** Local business leaders anticipate that a full recovery will not happen in 2020. When asked about the timing of the full economic recovery, a slim majority of respondents (45.1 percent) forecasted a full recovery in 2022, while only 0.9 percent expected a full recovery to happen in 2020. The remaining respondents were approximately evenly distributed for 2021 and 2023 or later, with 26.5 and 27.4 percent, respectively.

**Responses of National Fiscal and Monetary Policies.** Many local business leaders reported that the responses of national fiscal and monetary policies to the COVID-19 recession by the Congress/Administration and the Fed were weak. When asked about the response of national fiscal policy implemented by the Congress and the Administration, more than half of respondents (54.5 percent) answered that the fiscal policy response to the economic downturn due to the virus was too weak, while 22.3 percent reported too strong. The remaining 23.2 percent reported “just about right”. This suggests that the local businesses may agree with a need of a new stimulus package to speed up economic recovery.

The survey also revealed that Southern Nevada business executives think that the response of monetary policy was stronger than that of fiscal policy to the COVID-19 recession. That is, 38.7 percent reported the response was too weak, 35.1 percent answered “just about right,” and 26.1 percent reported the response was too strong.

**Company’s Position after Full Economic Recovery.** A majority of local business leaders seem optimistic about their levels of sales and employment after the full economic recovery compared to pre-pandemic times. When asked about their levels of sales after the full recovery compared to their pre-recession positions, 62.5 percent of respondents forecasted an increase in sales, 8.9 percent expected no change, and 28.6 percent predicted a decrease. When asked about employment, 47.8 percent of respondents expected an increase compared to pre-recession levels, while 26.5 percent expected a decrease. The remaining 25.7 percent predicted no change in employment after the full recovery compared to the pre-recession levels.

**Conclusion**

In summary, the most recent CBER business survey suggests that local business leaders are slightly pessimistic about the local economic recovery in the fourth quarter. Respondents forecasted that U.S. economic conditions will continue to improve this quarter, while the Nevada economy will slightly worsen compared to the previous quarter. This may reflect the tepid recovery in the tourism sector due to the coronavirus. As a result, the Southern Nevada business leaders expressed pessimism on both hiring and capital expenditure in their industry. On the other hand, local business leaders expressed optimism on sales in their industry maybe thanks to increased spending by local consumers. They also predicted increased home prices and construction activities in the fourth quarter despite CoreLogic’s concerns about the Las Vegas’ housing market. Overall, the index indicates that Clark County’s economic conditions will not improve much in the near term. We now confront “déjà vu of the Great Recession all over again” due to our tourism-dependent economy.

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.

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
CBER’s Business Confidence Index scored slightly below 100, suggesting that overall local business conditions will not change much compared to last quarter.

Local businesses reported optimism for sales, a neutral view for profits, but slight pessimism for hiring, capital expenditure, and general economic conditions. This implies that local businesses are still struggling to recover amid the COVID-19 pandemic.

In the 4th quarter of 2020, how do you think economic conditions in the United States will change compared to the 3rd quarter of 2020?
In the 4th quarter of 2020, how do you think economic conditions in Nevada will change compared to the 3rd quarter of 2020?

In the 4th quarter of 2020, how do you think sales in your industry will change compared to the 3rd quarter of 2020?

In the 4th quarter of 2020, how do you think profits in your industry will change compared to the 3rd quarter of 2020?

In the 4th quarter of 2020, how do you think hiring in your industry will change compared to the 3rd quarter of 2020?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
In the 4th quarter of 2020, how do you think capital expenditures in your industry will change compared to the 3rd quarter of 2020?

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?

When do you expect the full recovery from the current recession to occur?

Note: When reporting percentage responses, totals may not add to 100 because of rounding.
What is the most important challenge that you face in your business today?

Comparing your company’s position before the COVID-19 recession to where you expect it to be after the economy fully recovers, your sales will be?

Comparing your company’s position before the COVID-19 recession to where you expect it to be after the economy fully recovers, your employment will be?

Rating the response of national fiscal policy to the COVID-19 recession, the Congress and the Administration implemented a fiscal policy that was...
Rating the response of national monetary policy to the COVID-19 recession, the Federal Reserve implemented a monetary policy that was

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.