Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the fourth quarter of 2020 increased by 4.3 percent at an annual rate, after a best-ever gain of 33.4 percent in the third quarter. As a result, real GDP shrank 3.5 percent in 2020 because of early spring government-mandated lockdowns caused by COVID-19. U.S. nonfarm employment posted a better-than-expected gain of 916,000 jobs in March, which may signal that the economic recovery is gaining momentum with eased COVID-19 restrictions. The economy, however, still needs to recoup 8.4 million jobs to return to its February pre-pandemic peak. Retail sales, which already surpassed the pre-pandemic peak, also continued its robust year-over-year increase and will likely experience a boost from the third stimulus checks. Housing starts, nonetheless, declined year-over-year for the second straight month, which may partly reflect rising interest rates as well as increasing building costs. Overall, the U.S. economy shows signs of strong improvement with the most recent data benefiting from the vaccine rollout and the $1.9 trillion relief package. The slow vaccination in other countries, however, brings concern of potential viral mutations, which could erect headwinds against economic progress.

Clark County recently posted positive signs of economic recovery as the tourism sector showed improvement with the vaccine rollout. Seasonally adjusted employment added 3,200 jobs in February. The unemployment rate dropped to 9.6 percent from 9.8 percent. Total McCarran Airport passengers and visitor volume saw robust pick-ups, rising by 7.2 and 18.2 percent, respectively, month-over-month, despite the reduced number of days in February. Gaming revenue in February also improved slightly from January 2021. Despite these improvements, the recovery in the tourism sector lags far behind compared to other sectors as it is directly affected by business restrictions related to COVID-19. Taxable sales experienced stronger-than-expected performance thanks to increased personal income due to massive federal support. The local housing market exhibited surprising performance despite the virus thanks to low mortgage interest rates.

Clark County has suffered with its tepid recovery due to its tourism-dependent economy, which is different from Washoe County whose economy is now more diversified. Clark County, however, recently showed early signs of an uplift in the local tourism sector after the summer, fall, and winter pause as more people get vaccinated, which promotes recovery in Clark County’s tourism-dependent economy. In addition, the $1.9 trillion stimulus package started to promote the speed of the recovery. The survey results conveyed in this report align with the current economic conditions as respondents expressed high optimism on local business conditions.

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), surged by 41.6 percent from 101.5 in the first quarter to 143.7 in the second quarter of 2021 (Figure 1). The index, moreover, skyrocketed 98.7 percent year-over-year as the index in 2020Q2 was at the lowest level since the Great Recession due to the worsening COVID-19 outbreak. A substantial quarter-over-quarter gain in the index value suggests that the local business
leaders are highly confident that the local economy will experience a strong recovery in the second quarter. Moreover, the leisure and hospitality sector, which showed deep pessimism since the COVID-19 outbreak, finally rebounded and showed robust optimism this quarter.

The index includes five components: business leaders’ expectations of (i) general economic conditions in Nevada, as well as expectations for their own industry’s (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditure. The index components all remain above 100, which suggests that respondents, on average, feel more positive than negative about the five components. The respondents exhibited strong optimism for all five components, which may reflect a positive economic outlook not only due to eased restrictions with ongoing vaccination efforts but also due to the new $1.9 trillion federal relief bill. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 155.4, 160.2, 146.2, 135.6, and 120.9, respectively (Figure 2).  

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders expressed strong confidence for both Nevada and U.S. economic conditions as both indexes posted substantial quarter-over-quarter and year-over-year surges. This may reflect a strengthening economic recovery, driven by more fiscal stimulus and ongoing vaccination efforts. Las Vegas has been penalized in economic recovery due to its tourism-dependent economy, but current vaccination efforts help to ease business restrictions related to COVID-19. As a result, the local businesses showed higher optimism for the Nevada economy compared to the U.S. economy this quarter. Moreover, the value for Nevada economic activity scored above 100 after two consecutive quarters of values below 100. The values for U.S. and Nevada economic activity were 151.6 and 155.4, respectively.

When asked about the U.S. economy, 69.2 percent forecasted a better economy, while 17.6 percent forecasted a worse economy (Figure 3). The remaining 13.2 percent expected no change. When asked the same question about the Nevada economy, 69.6 percent of respondents forecasted an improved economy, 16.3 percent projected no change, and 14.1 percent expected a worse economy (Figure 4). This outcome corresponds to one of the closest linkages between expectations for the U.S. and Nevada economies that this survey has ever reported. That is, survey respondents report little, if any, difference in their outlook for the U.S. and Nevada economies over the next quarter.

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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 155.4, then this means that 55.4 percent more respondents exhibit a positive attitude (69.6 percent) than those that exhibit a negative attitude (14.1 percent).
Expectations for Sales

The index value for expectations on sales recorded the highest of any component at 160.2. The retail sales have exhibited strong performance despite COVID-19, benefiting from massive inflows of income support from the federal government. As a result, the U.S. retail sales already surpassed its pre-pandemic peak in June 2020. Although the U.S. retail sales experienced a robust gain compared to the pre-pandemic levels, Clark County’s retail sales have not yet recovered from the COVID-19 pandemic due to its tourism-dependent economy. This result occurred despite strong local spending thanks to increased personal income due to COVID-19 relief. Recent increasing demand in tourism, however, seems to boost local businesses’ confidence on future sales in their industry. When asked about sales, 72.0 percent of the respondents predicted increased sales in their industry, 16.1 percent expected no change, and 11.8 percent projected decreased sales (Figure 5).

Expectations for Profits

The respondents also expressed strong confidence on profits with a value of 146.2, which is aligned with sales. The index also soared by 42.2 and 87.9 percent, respectively, from last quarter and last year. When asked about profits in their own industry, 60.2 percent of respondents expected increased sales in their industry, 16.1 percent expected no change, and 14.0 percent forecasted a decrease (Figure 6).

Expectations for Hiring

The local business leaders also posted solid optimism for hiring with a value of 135.6. The index value for expectations on hiring jumped by 25.2 and 77.5 percent quarter-over-quarter and year-over-year, respectively. When asked about hiring in their own industry, 43.3 percent expected an increase, 48.9 percent expected no change, and only 7.8 percent projected a decrease (Figure 7).

Expectations for Capital Expenditure

The index value for capital expenditure finally rebounded to 120.9 after four consecutive quarters of pessimism. This signals that many local businesses are gaining confidence with the current economic recovery. Thus, they plan to expand their capital expenditure as the restrictions related to COVID-19 ease due to higher vaccination rates. When asked about expectations on capital expenditure, 36.3 percent of respondents forecasted increased capital expenditure in their industry, while 15.4 percent projected decreased capital expenditure (Figure 8). The remaining 48.4 percent expected no change.

Expectations for Home Prices

The local and national housing market has exhibited a stronger-than-expected performance despite the virus, benefitting from all-time low mortgage rates. Despite the
recent hike in interest rates, the local housing market continues to post new record high median prices each month and does not show any sign of cooling down. Local business executives predict that the upward trend of local housing prices will continue for the second quarter with a value of 146.2. When asked about expectations on home prices, 59.3 percent of the respondents expected increases in home prices in Southern Nevada, 27.5 percent forecasted no change, and 13.2 percent predicted decreases in home prices (Figure 9).

*Expectations for Construction Activity*

Local business leaders also express a highly positive outlook on construction activity with a value of 150.0. This may reflect high performance in the housing market as well as signals of a rapid recovering economy as more vaccines roll out. When asked about expectations on construction, 60.9 percent of the respondents expected more construction activity, 28.3 percent projected no change, and 10.9 percent forecasted less construction activity in the second quarter compared to the first quarter 2021 (Figure 10).

*Most Important Challenges*

The respondents mentioned economic uncertainty as the most difficult challenge for the fourth straight quarter, leading with 32.6 percent (Figure 11). The coronavirus (COVID-19) scored again as the second most important challenge with 24.4 percent. Finding qualified employees was marked as the third most difficult challenge with 12.8 percent when excluding others. Among those who reported “others” as the most important challenge (14.0 percent), political (or regulation) uncertainty was mentioned most frequently.

“The respondents mentioned economic uncertainty as the most difficult challenge for the fourth straight quarter, leading with 32.6 percent.”
The Economic Recovery

A majority of local business leaders anticipate that a full recovery will not happen in 2021 (Figure 12). Despite the strong optimism this quarter, less respondents anticipated the full economic recovery in 2022 compared to the previous quarter (39.5 vs. 50.5 percent). More than half of respondents (57.0 percent) expected a full recovery in 2023 or later which is higher than 36.6 percent from last quarter. Only 3.5 percent expected a full recovery in 2021.

Responses of National Fiscal and Monetary Policies

Local business leaders for the first time reported that the response of national monetary policies to the COVID-19 recession was strong. This may indicate that local businesses started to worry about signs of inflation. That is, 32.1 percent reported that the monetary response was too strong, 42.9 percent that the response was “just about right,” and 25.0 percent reported the response was too weak (Figure 13).

The respondents, however, continued to report that the response of national fiscal policies to the COVID-19 recession by the Congress/Administration was marginally weak. When asked about the response of national fiscal policy implemented by the Congress and the Administration, 37.6 percent respondents answered that the fiscal policy response to the economic downturn due to the virus was too weak, while 34.1 percent reported too strong. The remaining 28.2 percent reported “just about right” (Figure 14). This result shows that only 3.5 more respondents think that the fiscal policies were weak, which is much lower than 48.5 percent difference from last quarter. This suggests that some local business leaders supported the need of the additional $1.9 trillion relief package.

Figure 11
What is the most important challenge that you face in your business today?

Figure 12
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.
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 the pre-pandemic economy. When asked about their level of sales after the full recovery compared to their pre-recession positions, 61.6 percent of respondents forecasted an increase in sales, 14.0 percent expected no change, and 24.4 percent predicted a decrease (Figure 15). When asked about employment, 42.4 percent of respondents expected an increase compared to pre-recession levels, while 23.5 percent expected a decrease (Figure 16). The remaining 34.1 percent predicted no change in employment after the full recovery compared to the pre-recession levels.

Figure 13
Rating the response of national monetary policy
to the COVID-19 recession

Figure 14
Rating the response of national fiscal policy
To the COVID-19 recession

Figure 15
Comparing your company’s position before COVID19 recession to where you expect it to be after the economy fully recovers, your sales will be?

Figure 16
Comparing your company’s position before COVID19 recession to where you expect it to be after the economy fully recovers, your employment will be?

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

Conclusion

In summary, the most recent CBER business survey suggests that local business leaders are highly optimistic about the local economy in the second quarter of 2021, which reflects recent strong economic indicators benefitting from the vaccination rollout and additional influx of federal COVID-19 relief. Respondents exhibited vastly favorable outlooks for both U.S. and Nevada economic conditions this quarter. As a result, the Southern Nevada business leaders expressed strong optimism on all five components. They also predicted increased home prices and construction activities in the second quarter. Overall, we conclude that Clark County’s economic conditions are expected to improve more rapidly and vigorously in the second quarter based on local business leaders’ expectations. Recent increasing COVID-19 cases with virus mutations, however, remains as a risk to economic recovery.

“Overall, we conclude that Clark County’s economic conditions are expected to improve more rapidly and vigorously in the second quarter ...”
Figure 17
Which best describes your position
In your business?

- Owner/Manager, 68.2%
- Owner, but NOT manager, 4.7%
- Manager, but NOT owner, 27.1%

Figure 18
How many people, full time and part time, does your business currently employ, NOT including yourself?

- 0 - 9 employees: 53.3%
- 10 - 19 employees: 10.3%
- 20 - 250 employees: 25.8%
- More than 250 employees: 10.5%

Figure 19
Business sectors reflected in survey

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>0.0%</td>
</tr>
<tr>
<td>Construction</td>
<td>5.9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.2%</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>3.5%</td>
</tr>
<tr>
<td>Information</td>
<td>7.0%</td>
</tr>
<tr>
<td>Financial Activities / Real Estate</td>
<td>27.1%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>21.4%</td>
</tr>
<tr>
<td>Education and Health Services</td>
<td>4.7%</td>
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<tr>
<td>Leisure and Hospitality</td>
<td>4.7%</td>
</tr>
<tr>
<td>Other Services</td>
<td>4.7%</td>
</tr>
<tr>
<td>Government</td>
<td>1.2%</td>
</tr>
<tr>
<td>Other</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

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

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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.

Please email us at CBER@UNLV.EDU for questions and concerns.