



QUARTERLY INDICATORS

Southern Nevada Business Confidence Index

UNLV | LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

First Quarter 2018

Economic Outlook: Global, National, and Local

U.S. real gross domestic product (GDP) for the third quarter of 2017 expanded at an annualized rate of 3.2 percent, another quarter of strong growth on top of the 3.1 percent growth of the last quarter. All main components of the real GDP contributed positively to growth except for residential investment. Specifically, consumer spending and business investment, including inventories, remained robust, and net exports further strengthened due to a depreciating dollar. Moreover, government spending finally rebounded after two consecutive quarters of declines. U.S. nonfarm employment created an average of 171,000 new jobs each month in 2017, slightly lower than the 187,000 new jobs each month in 2016. The unemployment rate remained at 4.1 percent, a 17-year low, which suggests a solid U.S. labor market. Consumer and business confidence stayed at favorable levels thanks to strong labor market conditions and the implementation of tax reform in 2018. This implies that the U.S. economy will continue to expand, which is also consistent with the CBER survey results.¹ The Federal Reserve (Fed) recently raised the federal funds rate to between 1.25 to 1.50 percent and hinted at three rate increases in 2018. The tax cuts could spur more vigorous monetary policies to prevent the economy from overheating.

As the Nevada economy experienced a larger dip during the Great Recession compared to other states because of a less diversified economy, its recovery also started later, which resulted in economic growth in recent years that outperformed the U.S. economy. The seasonally adjusted employment in November increased by 2.7 percent. Nevada's growth rate tied for second fastest with Texas and trailed Utah, which ranked number one with a growth rate of 2.8 percent. The unemployment rate, however, remained at 5.0 percent, above the national rate of 4.1 percent. The operation of the Tesla Gigafactory, Switch, and many other companies in the Tahoe-Reno

Industrial Center boosted taxable sales. Moreover, legalized recreational marijuana sales brought extra gains in recent months.

Clark County, where more than 70 percent of Nevadans live, has also seen economic recovery and expansion based on recent data. The unemployment rate ticked up compared to the lowest level in 2017 and did not budge at 5.2 percent for four consecutive months. The October shooting tragedy helped cause recent weak readings in the tourism sector, but the effect is minor and will not likely remain. The decrease in visitor volume was expected in 2017 due to the reduced number of rooms in inventory caused by room renovations. Revenue per available room and the average daily room rate, in fact, increased by 2.1 and 2.8 percent, respectively, in 2017 relative to 2016. The housing market also recently posted double-digit yearly gains and should continue its strong upward trend in 2018. The expected upward movement in interest rates engineered by the Fed, however, could provide a headwind. The anticipated federal tax cut will contribute to somewhat higher U.S. economic growth in 2018. (Note that most respondents completed their surveys before the tax cut was actually adopted.) As a result, the local economy should see improvements in economic activity due to the strengthening of the U.S. economy.

The Southern Nevada Business Confidence Index... exceeds its level from last year... by 4.2 percent.

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), increased by 4.7 percent from 134.7 in the fourth quarter of 2017 to 141.1 in the first quarter of 2018 after two consecutive quarters of decline (Figure 1). The index's value also exceeds its level from last year (i.e., 135.5), just after the election of President Trump, by 4.2 percent. The upward movement in the first quarter may reflect a seasonal "New Year" effect as well as the expected tax cut (reform). Since the majority of the respondents completed the survey before the tax reform bill passed

¹ See the report section, Expectations for the U.S. and Nevada Economies.

in the Senate, the survey result may be somewhat conservative. In addition, the value does not seem to show the lingering effect of the October shooting in that the index gained compared to last quarter and last year. The index includes five components: business expectations of (i) general economic conditions in Nevada, (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. Among the five components, the values for hiring and capital expenditure experienced losses, while the values for sales, profits, and economic conditions experienced gains from a quarter ago. Local business leaders expressed continued optimism on overall economic conditions for both Southern Nevada and the United States, as all components of the index remained well above 100. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 168.0, 139.6, 134.0, 133.3, and 130.5, respectively.²

Expectations for the U.S. and Nevada Economies. Southern Nevada business leaders reported a more favorable economic outlook for both Nevada and the United States compared to last quarter with values of 168.0 and 152.6, respectively. The scores of general economic conditions for Nevada and the United States experienced significant gains, up by 13.3 and 24.3 percent, respectively, from quarter to quarter. Even though this more likely reflects seasonality, the expected tax cut (reform) may have boosted the values of economic conditions. The recent mass shooting on October 1 does not seem to have affected negatively the Las Vegas economy as the value of Nevada economic conditions recorded its second highest value since the Great Recession. In terms of year-over-year growth, the score for Nevada climbed by 11.1 percent, while the score for the United States remained unchanged from last year.

When asked about the Nevada economy, 77.3 percent of the respondents forecasted a better economy, 13.4 percent expected no change, and 9.3 percent forecasted a worse economy. The value for the U.S. economy is very optimistic, but it is lower than the value for Nevada. When asked about the U.S. economy, 64.9 percent of business leaders forecasted a better economy, 22.7 percent expected no change, and 12.4 percent forecasted a worse economy.

Expectations for Sales. The expectations for sales rose by 5.6 percent quarter-over-quarter to a value of 139.6.

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 168.0, then this means that 68.0 percent more respondents exhibit a positive attitude (77.3 percent) than those that exhibit a negative attitude (9.3 percent).

The finding may reflect the expected tax cut (reform), which will likely boost economic growth and generate higher disposable incomes. A dominating opinion suggests that the tax reform will reduce tax payments to the federal government for most households. Nevertheless, the index experienced a slight 1.0 percent decrease year-over-year. When asked about sales, 58.3 percent of respondents expected an increase in sales in their industry, 22.9 percent expected no change, and 18.8 percent expected a decline.

Expectations for Profits. The local business leaders expressed more optimism for profits compared to last quarter, as the index rose by 10.5 percent to a value of 134.0. This value, however, showed a 1.4 percent loss from last year. When asked about profits, 51.1 percent of the respondents forecasted increased profits in their industry compared to 17.0 percent who projected worse profits. The remaining 31.9 percent expected no change.

Expectations for Hiring. The respondents' expectations about hiring in their industry indicated less optimism in the first quarter of 2018 than in the fourth quarter of 2017. The index, nonetheless, still remained at a high level with the fourth highest value of 133.3 since the Great Recession. In addition, the index climbed by 12.6 percent from last year. Taken as a whole, 45.2 percent of respondents predicted an increase in hiring in their industry, while 11.8 percent expected a decrease. The remaining 43.0 percent expected no change.

Expectations for Capital Expenditure. The index value for expectations on capital expenditure experienced both quarterly and yearly losses, slipping by 1.8 and 0.2 percent, respectively. In spite of its quarterly and yearly declines, the value of expectations for capital expenditure still remained at a highly optimistic level with the score of 130.5. That is, 43.2 percent of the respondents forecasted increases in capital expenditure in their industry, 44.2 percent expected no change, and 12.6 percent expected decreases.

Expectations for Home Prices. The Southern Nevada housing market experienced a favorable year in 2017, with its strong recovery. The recent seasonally adjusted Case-Shiller home price index showed that Las Vegas housing prices exhibited double-digit growth, up by 10.2 percent year-over-year, recorded as the second fastest growing metro after Seattle. The housing price at the national level only rose by 6.2 percent during the same period. The Las Vegas housing price, nonetheless, still can move much higher as the current housing price still remained 28.8 percent below its previous peak unlike other major metropolitan areas that have already exceeded their prior peaks. For new homes, the median closing price has fully recovered from the Great Recession. Overall, the Southern Nevada housing market is expected to exhibit another

strong recovery in 2018, benefitting by renewed population growth and a strong labor market.

Local businesses' expectations on the potential gains in home prices rebounded, up by 7.3 percent for the first quarter of 2017. The index score of 167.0 also exceeds its value of 164.1 from last year. When asked about expectations on home prices, the majority of the respondents (72.2 percent) expected increases in home prices in Southern Nevada, while only 5.2 percent expected lower home prices. The remaining 22.7 percent forecasted no change.

Expectations for Construction Activity. Survey respondents also expressed more optimistic expectations for construction activity with an index value of 177.3 compared to 166.7 in the last quarter. Specifically, 81.4 percent of the respondents expected increasing construction activity in the first quarter of 2018 compared to the fourth quarter of 2017, while only 4.1 percent forecasted less construction activity. The remaining 14.4 percent projected no change.

Credit Conditions. We found fewer respondents (i.e., 22.1 percent) applied for a line of credit compared to last quarter (i.e., 35.2 percent). Of those who applied, 66.7 percent received the credit line they requested, while 14.3 percent reported receiving a smaller amount than they originally sought. The remaining 19.0 percent reported a rejection for a line of credit.

Expectations for New Fiscal Stimulus and Deregulation Policies. Local businesses were asked about their expectations about the fiscal policy initiatives that were promised during the presidential campaign. The questions were related to expectations on federal infrastructure spending, federal defense spending, and federal government regulation. The questions about expectations on the corporate income tax rate and individual tax rate were removed as the new tax cut (reform) bill was about to pass when the survey was conducted. Instead, the respondents were asked how the expected tax cut (reform) would affect economic growth.

Compared to last quarter, more Southern Nevada business executives expected an increase in federal infrastructure spending (56.4 vs. 53.9 percent) and less federal government regulation (71.6 vs. 64.0 percent). The expected tax cut (reform) may contribute to more positive views on realization of promised fiscal policies. The expectation for an increase in federal defense spending, however, decreased as the tension between the United States and North Korea softened (84.2 vs. 89.2 percent). Overall, most of the survey respondents expected that fiscal stimulus policies and deregulation will happen over the next two years.

When the respondents were asked about how tax reform will affect economic growth, more people were optimistic than pessimistic. In the short run, about half of the respondents (45.3 percent) expected higher economic growth due to the adopted tax cut, while 20.0 percent of the respondents forecasted lower economic growth. The remaining 34.7 percent doubted any change in economic growth in the short term. People's opinions bifurcated with regard to the long-term effect of the anticipated tax cut. Positive views of economic growth dominate with a slim majority (51.1 percent) having forecasted an increase in economic growth in the long run, 17.0 percent expected no change, and 31.9 percent projected a decrease in economic growth.

Conclusion

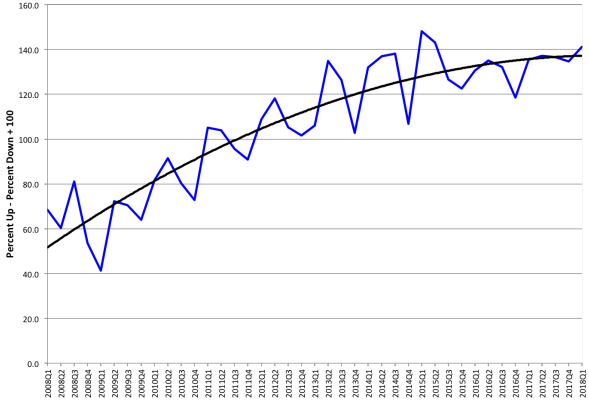
The most recent CBER Business Survey shows that local business leaders are highly optimistic regarding both the Southern Nevada and U.S. economic outlook in the first quarter of 2018. The positive expectations on home prices and construction activity suggest that the local real estate market will continue its robust recovery in the first quarter of 2018. High optimism on hiring and capital expenditure implies that no recession signal exists in the short run in Clark County. Local business leaders' positive outlook on sales and profits also suggests that robust consumer spending will continue in the first quarter of 2018. In fact, the survey results may partly reflect the expected tax cut, as the majority of those who responded expected higher economic growth due to the anticipated tax cut. In addition, the survey results do not show any evidence of the lingering effect of the October 1 shooting. In conclusion, the Clark County economy will continue to expand in the first quarter of 2018, benefited by the strong U.S. labor market and favorable consumer and business confidence.

Stephen M. Miller, Director
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Center for Business and Economic Research

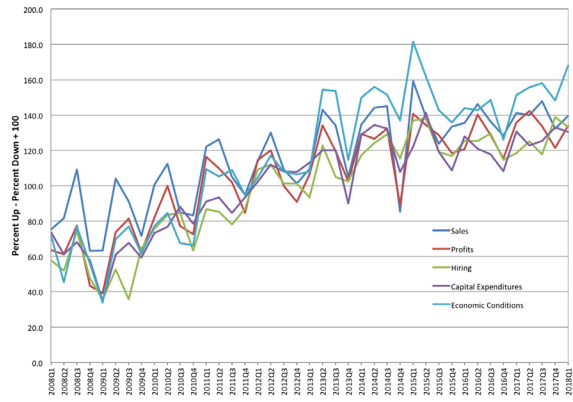
The views expressed are those of the authors and do not necessarily represent those of the University of Nevada, Las Vegas or the Nevada System of Higher Education.

BUSINESS CONFIDENCE INDEX SURVEY RESULTS

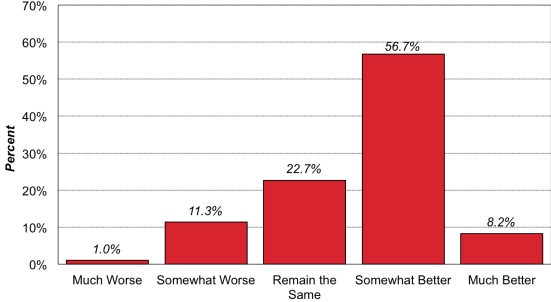
CBER's Business Confidence Index increased for the first quarter of 2018, which may reflect seasonality as well as the anticipated tax reform.



All five components of CBER's composite index remained well above 100 for the first quarter of 2018.

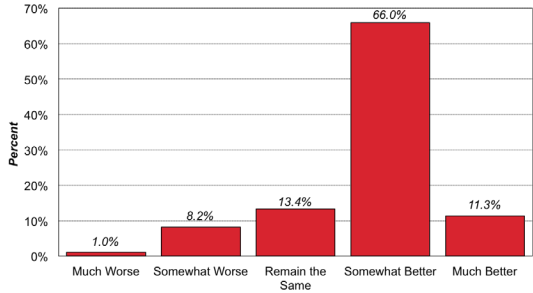


How do you think economic conditions in the U.S. will change in the coming quarter compared to the current quarter?



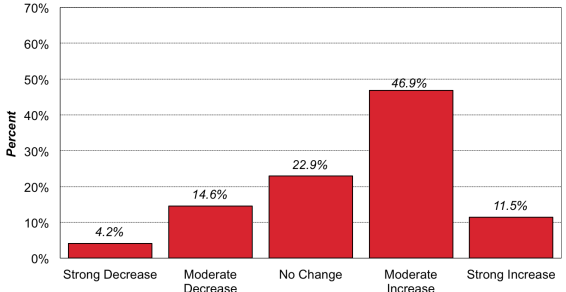
CBER Business Confidence Index Survey

How do you think economic conditions in Nevada will change in the coming quarter compared to the current quarter?



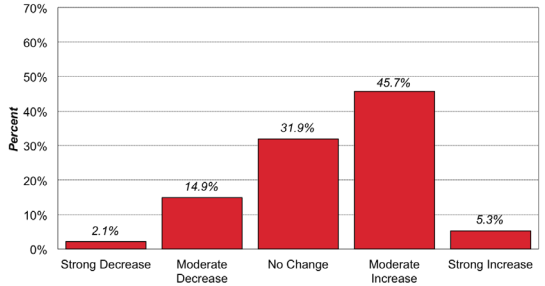
CBER Business Confidence Index Survey

How do you think sales in your industry will change in the coming quarter compared to the current quarter?



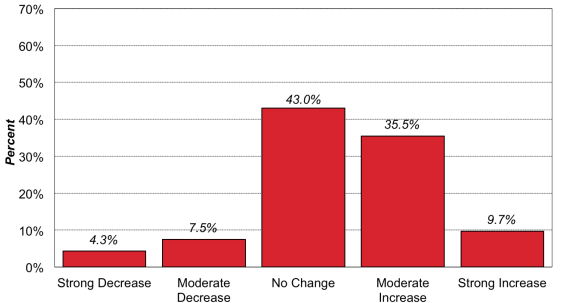
CBER Business Confidence Index Survey

How do you think profits in your industry will change in the coming quarter compared to the current quarter?



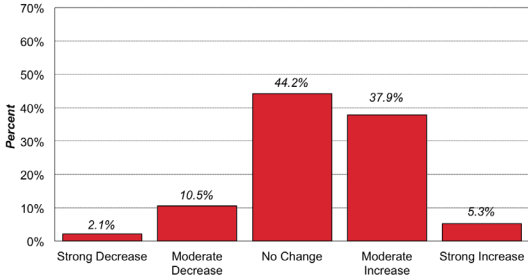
CBER Business Confidence Index Survey

How do you think hiring in your industry will change in the coming quarter compared to the current quarter?



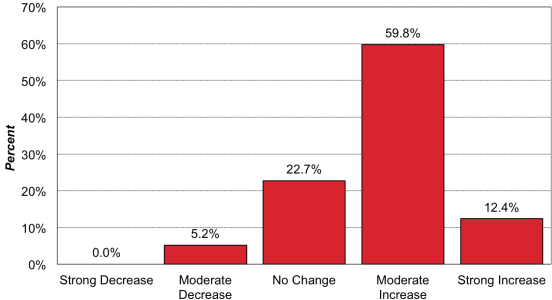
CBER Business Confidence Index Survey

How do you think capital expenditures in your industry will change in the coming quarter compared to the current quarter?



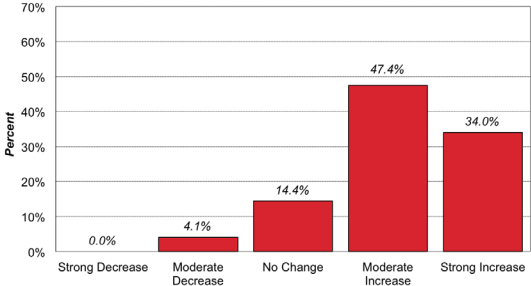
CBER Business Confidence Index Survey

How do you think home prices in Southern Nevada will change in the coming quarter compared to the current quarter?



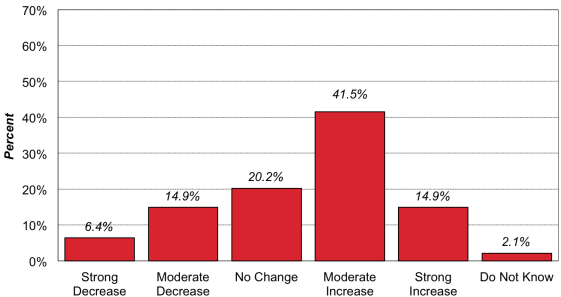
CBER Business Confidence Index Survey

How do you think construction activity in Southern Nevada will change in the coming quarter compared to the current quarter?



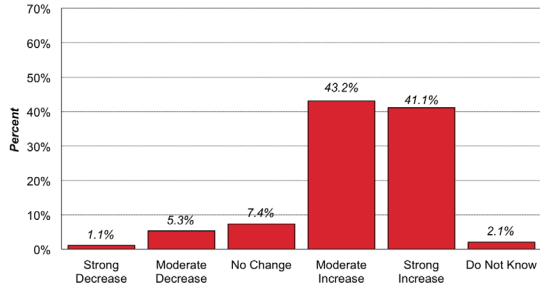
CBER Business Confidence Index Survey

What do you expect to happen to federal infrastructure spending over the next two years?



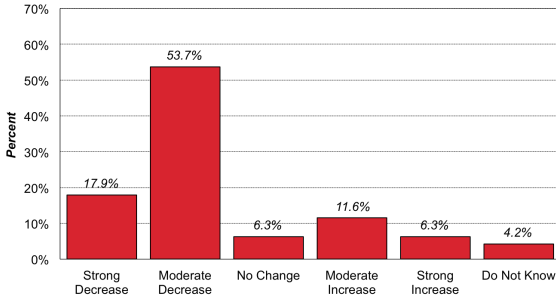
CBER Business Confidence Index Survey

What do you expect to happen to federal defense spending over the next two years?



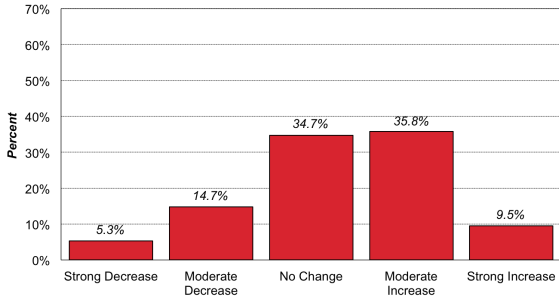
CBER Business Confidence Index Survey

What do you expect to happen to federal government regulation over the next two years?



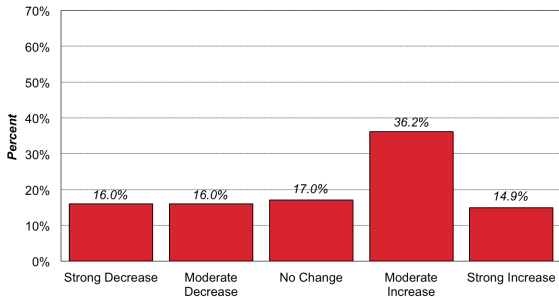
CBER Business Confidence Index Survey

If the tax cut/reform package is adopted, how will it affect economic growth in the short run?



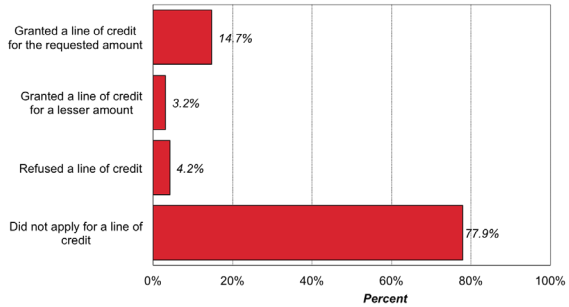
CBER Business Confidence Index Survey

If the tax cut/reform package is adopted, how will it affect economic growth in the long run?



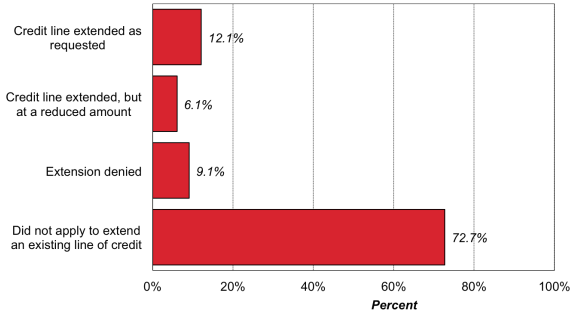
CBER Business Confidence Index Survey

If you applied for a line of credit in the last year, what was the result?



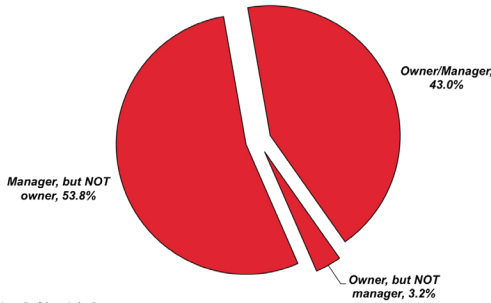
CBER Business Confidence Index Survey

If you applied to extend an existing line of credit in the last year, what was the result?



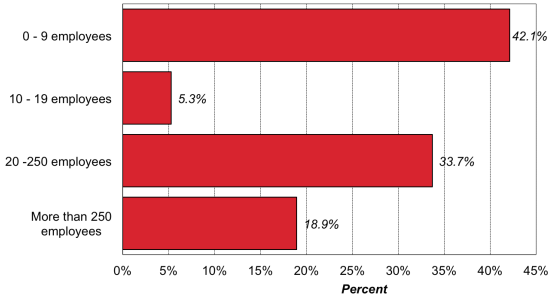
CBER Business Confidence Index Survey

Which best describes your position in the business?



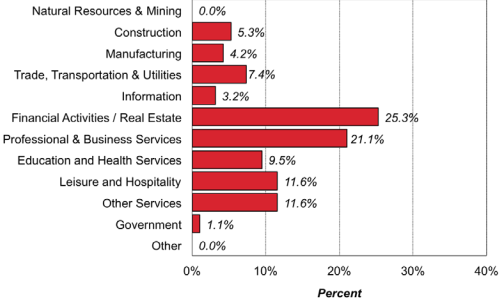
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How many people, full time and part time, does your business currently employ, NOT including yourself?



CBER Business Confidence Index Survey

Business sectors reflected in survey



CBER Business Confidence Index Survey