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CBER Business Confidence Index May Incorporate the Anticipated Tax Reform

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 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.¹

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,

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

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 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).

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. 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.

CBER conducts the survey of Southern Nevada businesses on a quarterly basis. The complete results of the most current survey can be found online at <http://cber.unlv.edu/publications/2018Q1BCI.pdf>. The CBER website is <http://cber.unlv.edu>.

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Figure 1. CBER’s Southern Nevada Business Confidence Index

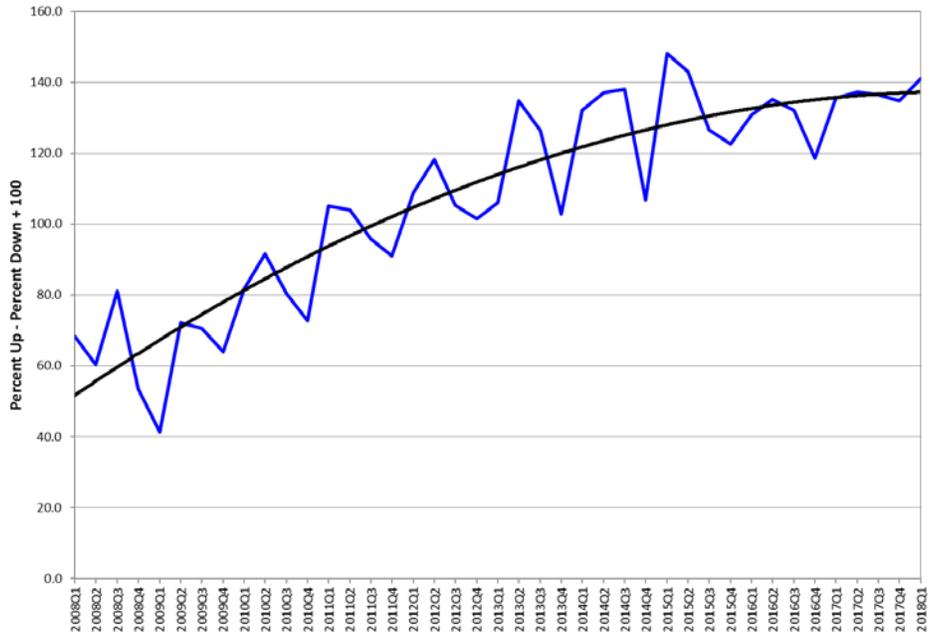
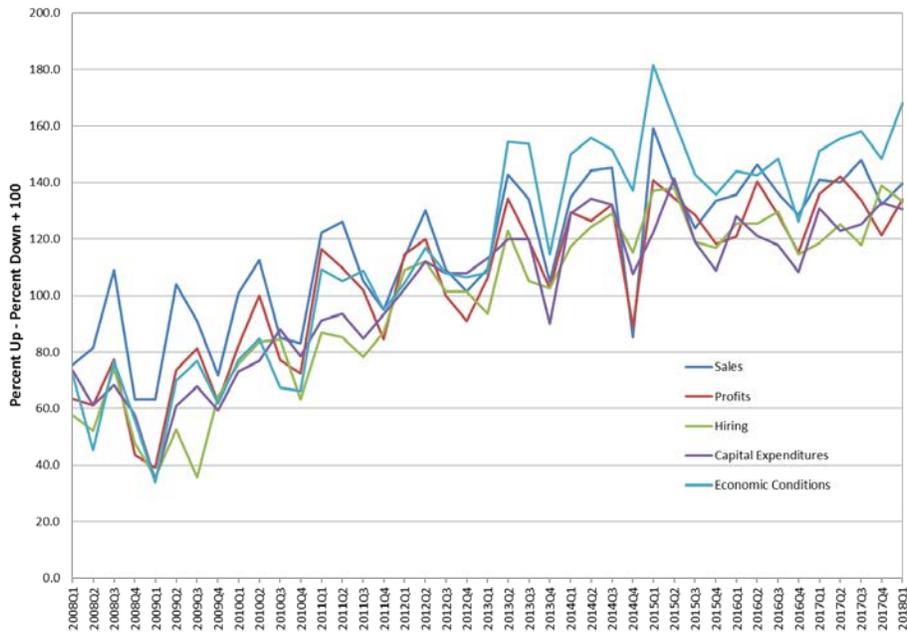


Figure 2. Components of CBER’s Southern Nevada Business Confidence Index



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