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Southern Nevada Business Confidence Is Still Optimistic Despite Global Economic Uncertainty

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 from 126.7 in the third quarter to 122.6 in the fourth quarter of 2015 (Figure 1). Even though the index declined for the third straight quarter, the survey respondents still remain optimistic about Southern Nevada's economy. Moreover, the index increased compared to a year ago from 106.8 to 122.6, and it is also the highest fourth quarter value since 2008. The index includes the following five components of business expectations: general economic conditions in Nevada, sales, profits, hiring, and capital expenditures. As with the previous 15 quarters, the index is still above 100, which implies that respondents, on average, gave more positive than negative answers when asked about the five components. All five components were also above 100 for the fourth quarter of 2015 (Figure 2). The values for economic conditions, sales, profits, hiring, and capital expenditures scored 135.6, 133.5, 118.3, 116.8, and 108.7, respectively.¹

Expectations for U.S. and Nevada Economies

When asked about general economic conditions for the fourth quarter of 2015, Southern Nevada businesses were slightly more optimistic about the local economy than the U.S. economy as a whole. When asked about the U.S. economy, 40.1 percent of the respondents expected an improvement, 34.0 percent expected no change, and the remaining 25.9 percent expected some weakening. For the general economic conditions of Nevada, 51.5 percent of Southern Nevada businesses forecasted an improving economy, 32.7 percent expected no change, and the remaining 15.9 percent expected a weakening.

The outlook for both the U.S. and Nevada economies is somewhat less optimistic compared to the previous quarter, as is reflected by the values for the general economic conditions index, which showed a decrease of 12.1 percent and 5.0 percent, respectively. Similarly, respondents' outlook for economic conditions for fourth quarter of 2015 is worse than a year ago.

Of the business sectors that responded to the survey, the professional service sector and the real estate/finance sector were the most represented. As such, it is possible to disaggregate the data by these sectors. Respondents from the professional service sectors were notably pessimistic regarding the national outlook for the fourth quarter of 2015, as the value on economic conditions for this sector was 89.8. This value is well below 135.6, the value for all respondents on this component. Respondents from the real estate/finance sector were optimistic regarding the national economy, as measured by a value of 125.5.

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

¹ The index equals the average of its five components. Each component is calculated as follows: add 100 to the difference between the percentages if positive and negative responses. Thus, for example, the index of 135.6 for the economic conditions component means that 35.6 percent more respondents exhibit a positive attitude (51.5 percent) than those that exhibit a negative attitude (15.9 percent).

The pessimistic outlook of respondents about the national economy may be the result of the recent global economic turbulence, caused in large measure by the downward revision of future economic growth in China.

Expectations for Sales

The respondents reported improved expectations for sales. The value for sales was the only component among the five components of the CBER Business Confidence Index that increased compared to last quarter, from 123.8 to 133.5. Slightly more than 53 percent of the respondents expected an increase in sales in their industry, 26.9 percent expected no change, and 19.8 percent expected a decline. The respondents in the professional service sector and real estate/finance sector were somewhat more optimistic than all respondents with scores of 127.1 and 137.0, respectively.

Expectations for Profits

Ironically, respondents were less optimistic about profits in the fourth quarter compared to third quarter, even though expectations about sales improved in their industry in the fourth quarter. The value on this component of the overall index fell from 128.6 to 118.3, indicating that respondents remain somewhat optimistic about their own profits. When asked about profits, 42.8 percent of the respondents expected an improvement, 32.7 percent expected no change, and 24.5 percent expected a worsening.

Expectations for Hiring

The respondents' expectations about hiring in their industry deteriorated slightly in the fourth quarter, the component's value falling from 119.1 to 116.8. Taken as a whole, 35.7 percent of the respondents predicted an increase in hiring, 45.4 percent expected no change, and 18.9 percent expected a decrease. The respondents in the real estate/finance sector and professional services sector were somewhat more optimistic than all respondents, as their values for this component equaled 119.2 and 119.4, respectively.

Expectations for Capital Expenditures

The value for the capital expenditures component decreased the most among the five components of the CBER Business Confidence Index, from 119.1 to 108.7, but the respondents still remained marginally optimistic. When asked about capital expenditures, 33.4 percent expected increases for their industry, compared to 24.7 percent who expected decreases. The remaining 42.1 percent expected no change for the fourth quarter of 2015. The respondents in the professional services sector and real estate/finance sector were less optimistic than all respondents about capital expenditures in their industry, as the values for this component of the general index were 105.1 and 102.2, respectively.

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/bciQUART_4.pdf. The CBER website is <http://cber.unlv.edu>.

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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.

Figure 1. CBER's Southern Nevada Business Confidence Index

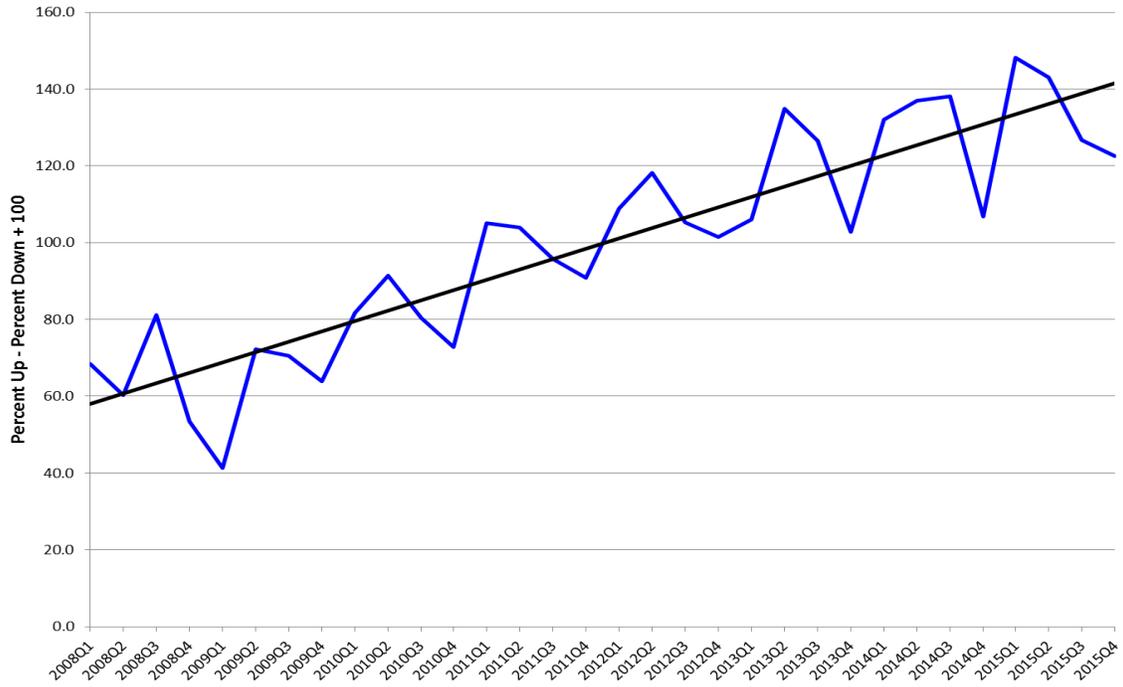


Figure 2. Components of CBER's Southern Nevada Business Confidence Index

