

October 17, 2016

Local Business Confidence Declined Due to Seasonality

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), decreased significantly by 10.2 percent from 132.1 in the third quarter of 2016 to 118.6 in the fourth quarter in 2016 (Figure 1). The loss, however, reflects strong seasonality, where every year since 2010 the index drops in the fourth quarter, while it rebounds in each first quarter, perhaps due to a New Year effect. The index includes five components: business expectations of (i) general economic conditions in Nevada, (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditures. The index remains above 100, which implies that respondents, on average, feel more positive than negative about the five components. Although all five components of the index experienced large losses, Southern Nevada business leaders still reported positive attitudes as they all remained above 100. The index values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 126.1, 128.5, 115.4, 114.6, and 108.3, respectively.¹

Expectations for the U.S. and Nevada Economies

Local businesses expressed optimism for both the local and the U.S. economies when asked about their expectations for general economic conditions in the fourth quarter of 2016. Although general economic conditions for Nevada experienced the largest decrease (15.1 percent) among the five components from last quarter, the respondents continued to forecast a more positive outlook for Nevada economic activity (i.e., 126.1) than for the U.S. (i.e., 109.6) for the fourth quarter. When asked about the U.S. economy, 34.4 percent of the respondents expected an improving economy, 40.8 percent expected no change, and 24.8 percent expected a worsening. When asked about Nevada, 46.5 percent of local businesses expected improvement, 33.1 percent expected no change, and 20.4 percent expected weakening.

The professional & business services and real estate/finance sectors provided the largest number of respondents to the survey. As such, we can disaggregate the data by these two sectors. Respondents from the real estate/finance sector showed more optimism about economic conditions in Nevada than all respondents by scoring 137.1, but they were less optimistic about U.S. economic conditions compared to all respondents with a score slightly over 100. Respondents in the professional & business services sector were less optimistic about the economic outlook for Nevada with a score of 105.9, while they expressed a more positive forecast for the U.S. economic conditions compared to all respondents with a value of 117.6.

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 economic conditions component equals 126.1, then this means that 26.1 percent more respondents exhibit a positive attitude (46.5 percent) than those that exhibit a negative attitude (20.4 percent).

Expectations for Sales

The index value for expectations on sales decreased by 5.7 percent compared to the third quarter of 2016. The sales index, however, scored the highest (i.e., 128.5) among the five components. When asked about sales in their own industry, 50.0 percent of respondents expected an increase in sales, 28.5 percent expected no change, and 21.5 percent expected a decline. The respondents in the real estate/finance sector continued to project far more optimism than all other respondents with a score of 142.9, while the respondents in the professional & business services sector saw a less optimistic outlook than average with a value of 123.5.

Expectations for Profits

The Southern Nevada business leaders forecasted a less optimistic outlook on profit for the fourth quarter of 2016, compared to the third quarter. The index value for expectations on profits decreased by 13.2 points to 115.4, but the respondents are still positive about profits in their industry. Nearly 28 (27.6) percent of local businesses forecasted worsened profits, while 42.9 percent expected increased profits compared to last quarter. The remaining 29.5 percent expected no change. The businesses in the real estate/finance sector posted a much higher expectation on their profits than other industries with a score of 142.9, whereas professional & business services fell near the overall outcome at 114.7.

Expectations for Capital Expenditures

The index value for expectations on capital expenditures scored the lowest among the five components with the value of 108.3. The capital expenditures index kept falling throughout the year, which may reflect the Fed's unpredictable decision on the next interest rate hike and harder credit conditions for local businesses. When asked about capital expenditures, 26.8 percent of the respondents forecasted increases for their industry compared to 18.5 percent who expected decreases. More than a half of survey respondents (54.8 percent) expected no change.

The respondents in the real estate/finance sector posted neither a positive nor negative outlook on capital expenditure with the score of 100.0, but this represents a dramatic change compared to last quarter as the index dropped by 25.0 percent quarter-over-quarter, substantially more than any other component. The responses split evenly, with 48.6 percent expecting no change, 25.7 percent expecting a decline, and 25.7 percent expecting an increase. Local businesses in the professional & business services sector expressed continued mildly optimistic forecasts on capital expenditure in their industry by scoring 105.9.

Expectations for Hiring

The respondents' expectations about hiring in their industry remained optimistic in the fourth quarter 2016, with the value of 114.6, in spite of an 11.5 percent decrease from last quarter. Taken as a whole, 31.8 percent of the respondents predicted an increase in hiring in their industry, 51.0 percent expected no change, and 17.2 percent expected a decrease. The respondents in the real estate/finance sector scored higher at 122.9, while respondents in the professional & business services industry expressed a less optimistic outlook on hiring with a value of 105.9.

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/2016Q4BCI.pdf>. The CBER website is <http://cber.unlv.edu>.

Stephen M. Miller, Director
Jinju Lee, Economic Analyst

Figure 1. CBER's Southern Nevada Business Confidence Index

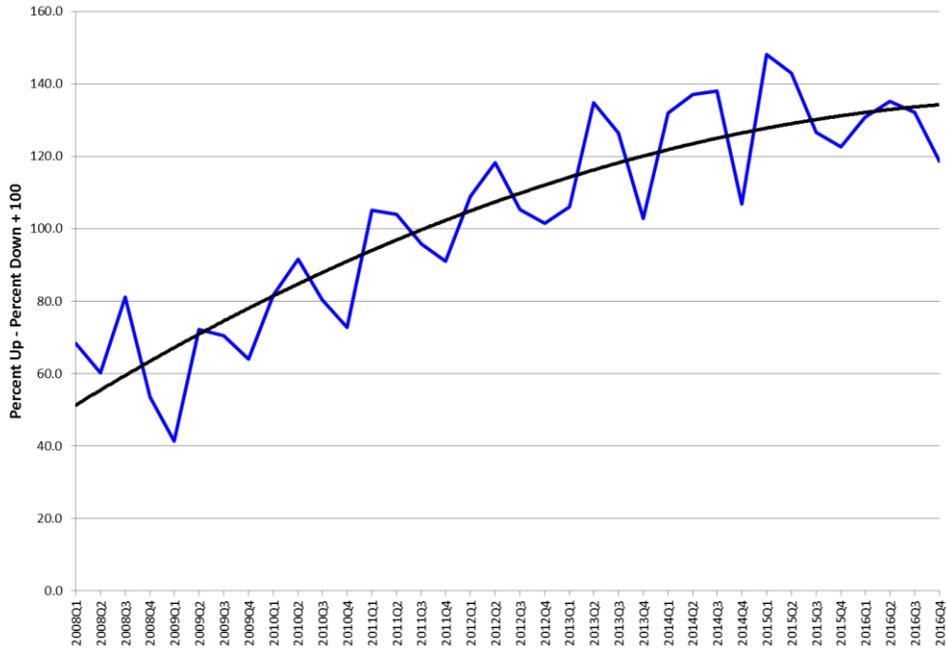
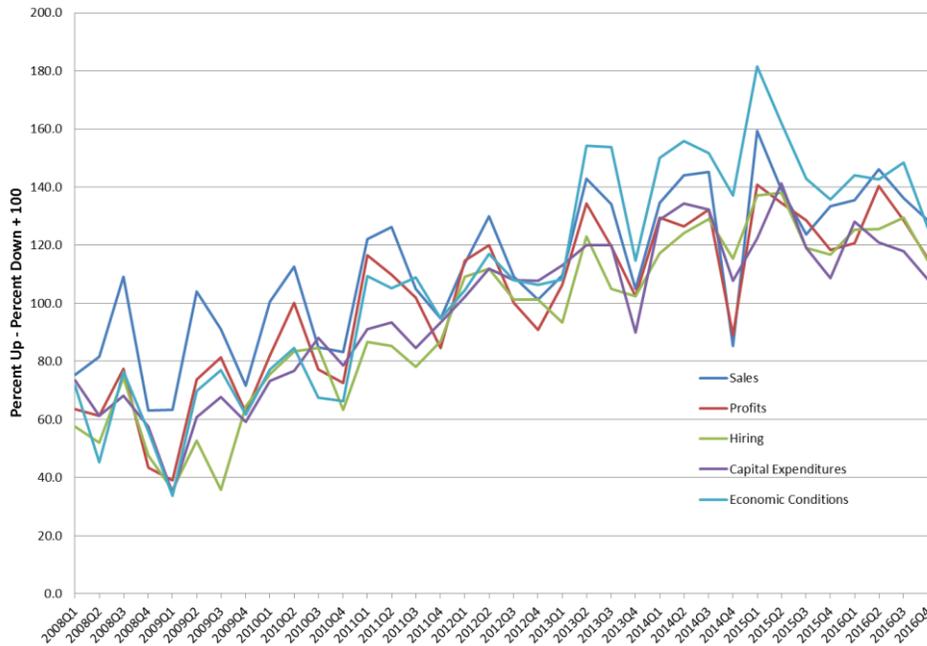


Figure 2. Components of CBER's Southern Nevada Business Confidence Index



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.