

April 20, 2016

Local Businesses Show a Higher Confidence in the Second Quarter Compared to the First

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 3.4 percent on a quarterly basis from 130.7 to 135.1 in the first and second quarters of 2016, respectively (Figure 1). 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 well above 100, which implies that respondents, on average, feel more positive than negative about the five components. Moreover, the index has exceeded 100 for the past five years. All five components also exceeded 100 for the second quarter of 2016 (Figure 2). The index values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 142.7, 146.2, 140.2, 125.4, and 121.0, respectively.¹

Expectations for the U.S. and Nevada Economies

When asked about their expectations for general economic conditions in the second quarter of 2016, Southern Nevada business leaders continued to express a more optimistic outlook on the local economy than the U.S. economy. When asked about the U.S. economy, 46.5 percent of the respondents expected an improvement, 34.1 percent expected no change, and 19.4 percent expected some weakening. When asked about Nevada, 57.9 percent of Southern Nevada business leaders expected an improving economy, 26.9 percent expected no change, and 15.2 percent expected a weakening.

Respondents held a more optimistic outlook in the second quarter of 2016 as compared to the first quarter for the U.S. economy; they felt slightly less optimistic about the Nevada economy compared to last quarter (i.e., 143.9 to 142.7). The higher values of U.S. economic condition in the second quarter might reflect a better-than-expected domestic economy (e.g., employment growth, stable consumer spending, improved housing market). Moreover, the stock market completely recovered from its losses at the beginning of the year, and the Fed gave more confidence to investors by deciding not to raise the federal funds rate last month. Uncertainty about the global economy still exists as the Chinese and emerging market economies experience slower growth. In addition, the stronger dollar casts a shadow over the strength of U.S. economic growth.

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 the above two sectors. Respondents from the real estate/finance sector were more optimistic about economic conditions in

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 135, then this means that 35 percent more respondents exhibit a positive attitude (say 50 percent) than those that exhibit a negative attitude (say 15 percent).

Nevada, scoring 170.0, while respondents in the professional & business services sector scored 140.8, which nearly matched the overall index of 142.7.

Expectations for Sales

The index value for expectations on sales has increased for three straight quarters as more respondents forecasted continuing improvement in sales. The sales index rose by 7.8 percent quarter-over-quarter from 135.6 to 146.2. That is, 60.2 percent of respondents expected an increase in sales in their industry, 25.7 percent expected no change, and 14.1 percent expected a decline. The respondents in the real estate/finance sector were far more optimistic than all respondents with a score of 160.0, while the respondents in the professional & business services sector forecasted a less optimistic outlook than average respondents with a value of 138.8.

Expectations for Profits

The Sothern Nevada business leaders expressed optimism for profits as the index value for expectations on profits jumped 16.2 percent compared to the first quarter of 2016. The index value for profits increased from 120.7 to 140.2. When asked about profits, 53.3 percent of the respondents expected an improvement, 33.7 percent expected no change, and 13.1 percent expected a worsening. The respondents in the real estate/finance and professional & business services sectors were somewhat more optimistic than all respondents with scores of 147.5 and 149.0, respectively.

Expectations for Capital Expenditures

The index value for expectations on capital expenditures decreased from 128.0 to 121.0. When asked about capital expenditures, 33.5 percent of the respondents expected increases for their industry, compared to 12.6 percent who expected decreases. The remaining 53.9 percent expected no change for the second quarter of 2016. The respondents in the professional & business services and real estate/finance sectors had somewhat more optimistic forecasts on their capital expenditures than all respondents, scoring 126.5 and 134.2, respectively.

Expectations for Hiring

The respondents' expectations about hiring in their industry had the same index value for this quarter as for the first quarter of 2016 (i.e., 125.4). Taken as a whole, 39.0 percent of the respondents predicted an increase in hiring, 47.3 percent expected no change, and 13.7 percent expected a decrease. The respondents in the professional & business services and real estate/finance sectors were slightly less optimistic than all respondents as their values for this component equaled 118.4 and 123.1, 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/2016Q2BCI.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

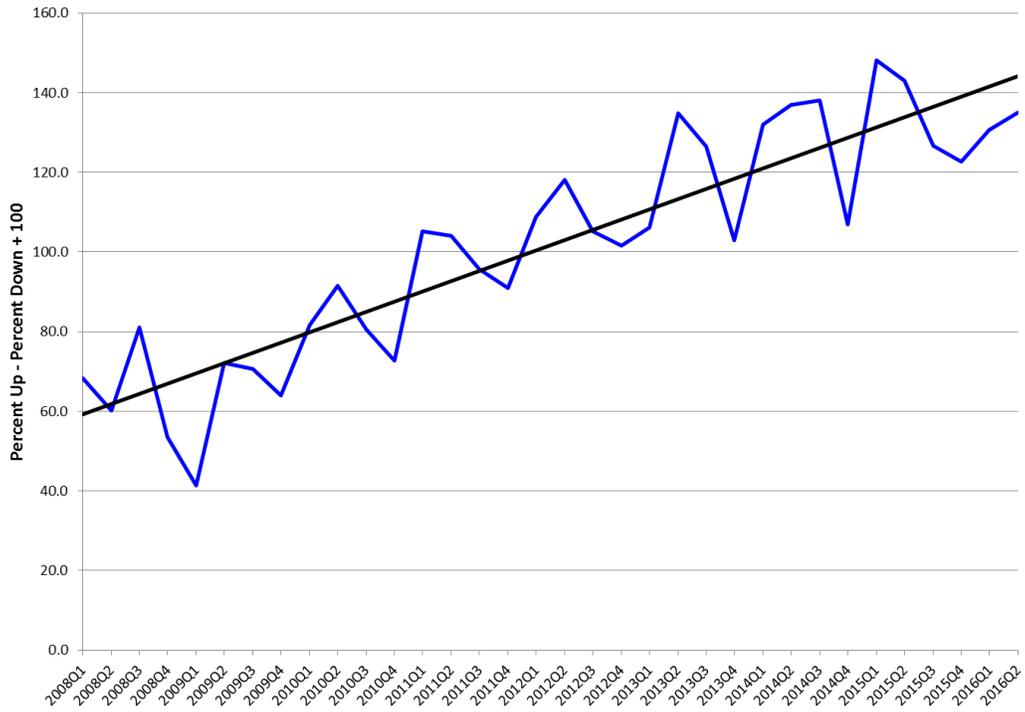


Figure 2. Components of CBER's Southern Nevada Business Confidence Index

