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Southern Nevada Businesses Showed Less Optimism Compared to Last Quarter

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 by 2.2 percent from 135.1 in the second quarter of 2016 to 132.1 in the third quarter in 2016. The index includes five components: business expectations of (i) general economic conditions in Nevada, (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditures. Although the index experienced a quarterly loss, it still exceeded 100 and also stands 4.3 percent higher than its value one year ago. Although the index experienced a year-over-year gain, this result does not account for the Brexit uncertainty, since nearly all responses occurred before the Brexit referendum. The index remains above 100, which implies that respondents, on average, feel more positive than negative about the five components. Local businesses also showed positive perspectives in all five components of indexes for the third quarter of 2016. The index values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 148.5, 136.2, 128.6, 129.5, and 117.8, respectively.¹

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders continued to express an optimistic outlook on both the local and the U.S. economies when asked about their expectations for general economic conditions in the third quarter of 2016. The respondents, however, forecasted a more positive outlook for economic activity in Nevada (i.e., 132.1), than for the U.S. economy (i.e., 112.5) in the third quarter. When asked about the U.S. economy, 39.1 percent of the respondents expected improvement, 34.4 percent expected no change, and 26.6 percent expected weakening. When asked about Nevada, 61.7 percent of Southern Nevada business leaders expected an improving economy, 25.0 percent expected no change, and 13.3 percent expected a weakening. Among the five components of the index, local business leaders scored the general economic conditions in Southern Nevada the highest. This result, however, does not account for the uncertainty of Brexit as noted above because the majority of responses occurred before the Brexit decision became known.

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 were more optimistic about economic conditions in Nevada, but less optimistic about the U.S. economic conditions compared to overall respondents, by scoring 166.7 and 109.1, respectively. Respondents in the professional & business services sector were more optimistic about the U.S. economic conditions and less optimistic about the economic outlook for Nevada than all respondents with values of 122.2 and 140.7, respectively.

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).

Expectations for Sales

The index value for expectations on sales dropped 6.8 percent compared to the second quarter of 2016 after three straight quarters of upward movement. This finding may reflect the recent deceleration of year-over-year growth in taxable sales in Clark County. The sales index, however, still scored the second highest, after the index of expectations on Nevada economic conditions, among the five components and experienced a 10.0 percent year-over-year gain from 123.8 to 136.2. When asked about sales, 54.1 percent of respondents expected an increase in sales in their industry, 28.1 percent expected no change, and 17.9 percent expected a decline. The respondents in the real estate/finance sector continued to show far more optimism than all other respondents with a score of 148.5, while the respondents in the professional & business services sector saw a less optimistic outlook than average respondents with a value of 124.1.

Expectations for Profits

The Southern Nevada business leaders expressed less optimism, but still optimism, for profits as the index value for expectations on profits decreased by 8.3 percent from last quarter, but remained unchanged from a year ago at 128.6. That is, 47.4 percent of the respondents expected an improvement, 33.7 percent expected no change, and 18.9 percent expected a worsening. The businesses in the real estate/finance sector posted a much higher expectation on their profits than other industries with a score of 145.5, whereas professional and business services fell near the overall outcome at 129.6.

Expectations for Capital Expenditures

The index value for expectations on capital expenditures decreased for two consecutive quarters, and it was the only index that scored lower than in last year's survey among the five components. The capital expenditures index fell from 121.0 to 117.8 in the third quarter of 2016. When asked about capital expenditures, 33.0 percent of the respondents forecasted increases for their industry compared to 15.2 percent who expected decreases. More than a half of survey respondents (51.8 percent) expected no change. The respondents in the financial activities & real estate sector expressed more positive views on increasing capital expenditures with a value of 133.3, while local businesses in the professional & business services sector had much less optimistic forecasts on their capital expenditures than all respondents, scoring 107.4.

Expectations for Hiring

The respondents' expectations about hiring in their industry were more optimistic in third quarter 2016 than in the second quarter of 2016, up by 3.3 percent from 125.4 to 129.5. Taken as a whole, 45.1 percent of the respondents predicted an increase in hiring, 39.4 percent expected no change, and 15.5 percent expected a decrease. The respondents in the real estate/finance sector scored slightly higher at 134.4 due to a lower proportion of respondents (6.3 percent) who expected a decrease in their sector. Respondents in the professional & business services industry expressed a slightly less optimistic outlook on hiring in their industry than all respondents with a value of 120.8.

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/2016Q3BCI.pdf>. The CBER website is <http://cber.unlv.edu>.

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Figure 1. CBER’s Southern Nevada Business Confidence Index

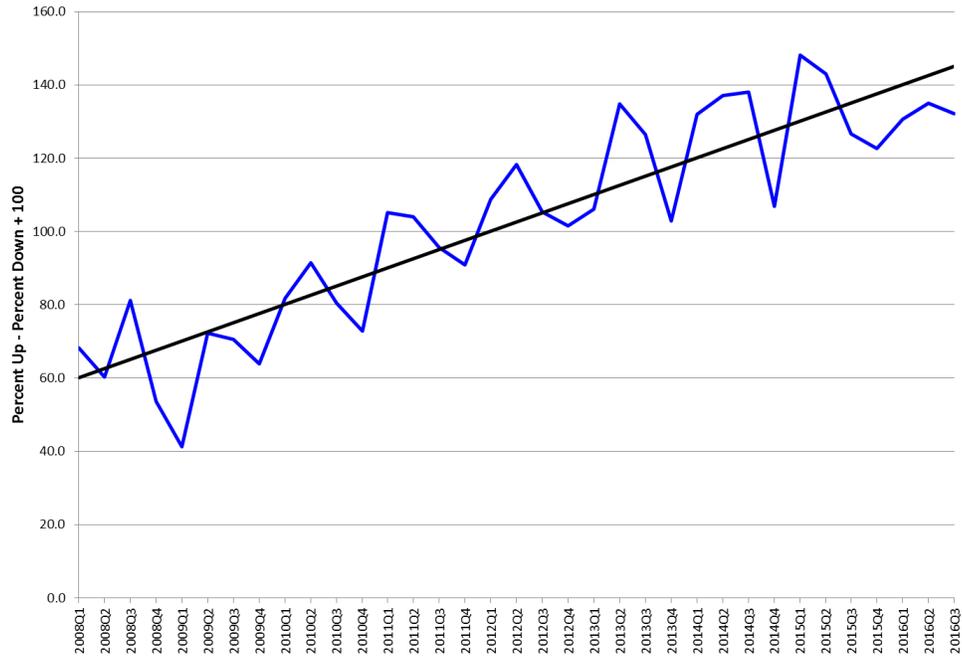
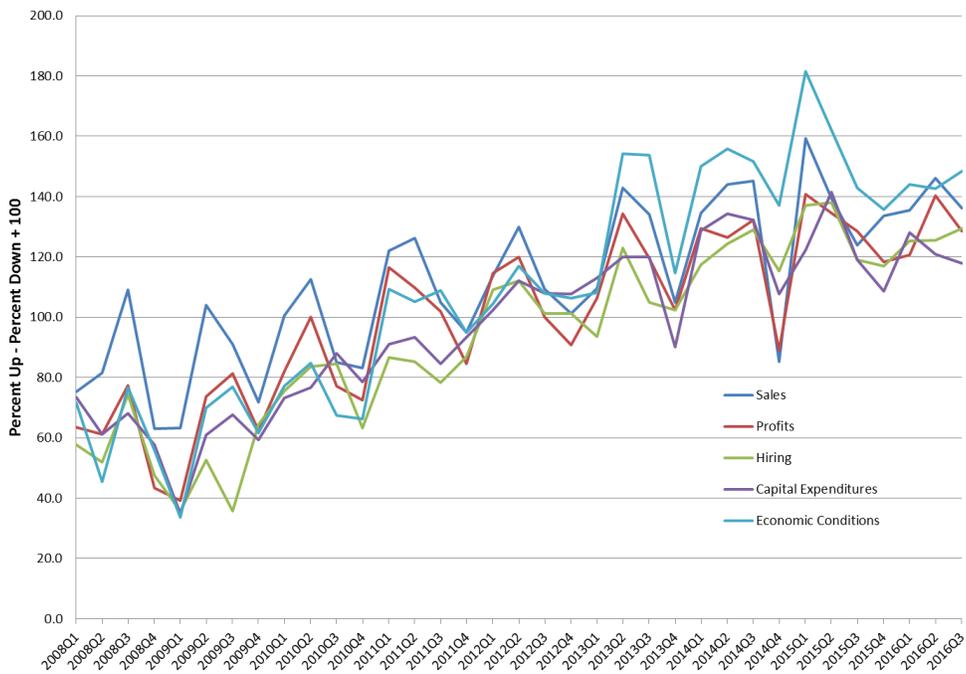


Figure 2. Components of CBER’s Southern Nevada Business Confidence Index



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.