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Southern Nevada Business Confidence Rebounded after Three Straight Quarters of Decline

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 6.6 percent on a quarterly basis from 122.6 in the fourth quarter of 2015 to 130.7 in the first quarter of 2016 (Figure 1). The index rebounded after three straight quarters of decline but remains below its level from a year earlier. 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. The index has exceeded 100 for the past 16 quarters. All five components were also above 100 for the first quarter of 2016 (Figure 2). The values for business expectations of economic conditions, sales, profits, hiring, and capital expenditures scored 143.9, 135.6, 120.7, 125.4, and 128.0, respectively.¹

Expectations for the U.S. and Nevada Economies

When asked about their expectations for general economic conditions in the first quarter of 2016, Southern Nevada business leaders were much more optimistic about the local economy than the U.S. economy. When asked about the U.S. economy, 38.6 percent of the respondents expected an improvement, 39.4 percent expected no change, and 22.0 percent expected some weakening. When asked about Nevada, 56.8 percent of Southern Nevada business leaders expected an improving economy, 30.3 percent expected no change, and 12.9 percent expected a weakening.

Respondents held a more optimistic outlook in the first quarter of 2016 for both the U.S. and Nevada economies than they held in the fourth quarter of 2015. This is a recurring pattern in our survey, which we might call “the new-year effect.” In addition, all components have usually shown higher values in the first quarter when compared to the previous fourth quarter. The values for the first quarter of 2016, however, were lower than those from the first quarter of 2015. This might reflect increased uncertainty about the strength of the world economy due to the Chinese economic slowdown and the attendant spillover effects on the emerging market economies.

Of the business sectors that responded to the survey, the professional & business services and real estate/finance sectors exhibited the largest number of respondents. As such, we can disaggregate the data by these two sectors. Respondents from the professional & business services and financial activities/real estate sectors scored 118.8 and 116.0, respectively, which nearly matched the overall index of 116.7.

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, 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).

Expectations for Sales

The respondents forecasted continuing improvement in sales. The value on sales in Southern Nevada increased only slightly compared to last quarter, from 133.5 to 135.6. More than half of the respondents (52.6 percent) expected an increase in sales in their industry, 30.4 percent expected no change, and 17.0 percent expected a decline. The respondents in the professional & business services and real estate/finance sectors were somewhat more optimistic than all respondents with scores of 148.5 and 152.0, respectively.

Expectations for Capital Expenditures

The value for the capital expenditures component rebounded from 108.7 to 128.0. In addition, this was the only component of the five components in the CBER Business Confidence Index that experienced an increase in its value from a year earlier. When asked about capital expenditures, 40.2 percent of the respondents expected increases for their industry, compared to 12.1 percent who expected decreases. The remaining 47.7 percent expected no change for the first quarter of 2016.

The respondents in the professional & business services sector were less optimistic than average respondents with a value about 10 points lower than average. Respondents in the financial activities/real estate sector, however, were much more positive about increasing their capital expenditures. Only 4.0 percent expected a decline of capital expenditure, while 58.4 percent expected increases in their capital expenditure. The Fed's decision to begin raising the federal fund rate might positively affect the outlook for increasing capital expenditure in the financial activities/real estate sector.

Expectations for Hiring

The respondents' expectations about hiring in their industry improved in the first quarter of 2016. The component's value rose from 116.8 to 125.4. Taken as a whole, 36.6 percent of the respondents predicted an increase in hiring, 52.2 percent expected no change, and 11.1 percent expected a decrease. The respondents in the professional & business services and financial activities/real estate sectors were slightly less optimistic than all respondents, as their values for this component equaled 121.1 and 124.0, respectively.

Expectations for Profits

The respondents were only slightly more optimistic about profits in the first quarter of 2016 compared to the fourth quarter of 2015, as the value on this component of the overall index rose from 118.4 to 120.7. When asked about profits, 43.7 percent of the respondents expected an improvement, 33.3 percent expected no change, and 22.9 percent expected a worsening. The respondents in the real estate/finance and professional services sectors were more optimistic than all respondents with scores of 132.0 and 136.4, 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/2016Q1BCI.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

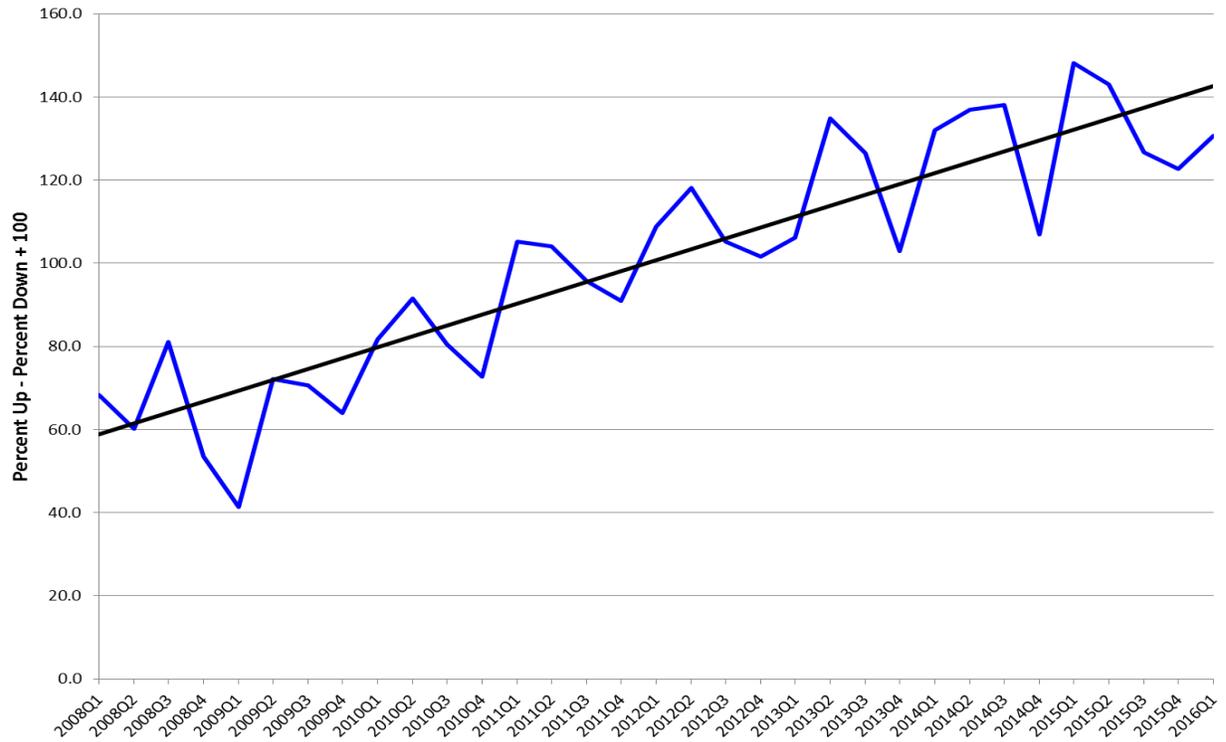


Figure 2. Components of CBER's Southern Nevada Business Confidence Index

