October 11, 2018

CBER’s Business Confidence Index Remained at a Highly Favorable Level

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 3.0 percent from 148.1 in the third quarter to 143.6 in the fourth quarter of 2018 (Figure 1). After three straight quarters of gains, the index experienced a loss probably due to seasonality. The index, however, reached the highest ever-reported fourth-quarter value, with a yearly increase of 6.6 percent. The index includes five components: business expectations of (i) general economic conditions in Nevada, (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditure. The index remains above 100, which implies that respondents, on average, feel more positive than negative about the five components. Overall, respondents reported highly optimistic views on the five components as they all exceeded 100 by significant margins. The index values for business expectations of Nevada economic conditions, profits, sales, hiring, and, capital expenditure scored 158.5, 149.5, 147.4, 132.3, and 130.5, respectively.¹

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders expressed a less favorable economic outlook for both Nevada and the U.S., down by 2.9 and 8.6 percent respectively compared to a quarter ago. The index values, however, recorded the highest values for fourth-quarter responses, up by 6.8 and 14.1 percent, respectively, from last year. Overall, the local business leaders remain highly positive about future national and statewide economic conditions, while ongoing economic uncertainty with a potential trade war lurks in the background.

When asked about the Nevada economy, 70.2 percent of the respondents expected a better economy, while 11.7 percent expected a worse economy in the fourth quarter of 2018. The remaining 18.1 percent forecasted no change. When asked about the U.S. economy, 55.8 percent of respondents projected an improved economy, 28.4 percent expected no change, and 15.8 percent projected a worse economy.

Expectations for Sales

The index value for expectations on sales decreased for the last two quarters, but the current expectations for the fourth quarter value is at its highest level (score of 147.4) since the Great Recession. The value fell slightly by 0.3 percent quarter-over-quarter, while it sharply jumped by 11.5 percent year-over-year. When asked about sales, 60.8 percent of the respondents forecasted increased sales in their industry, 25.8 percent expected no change, and 13.4 percent forecasted decreased sales.

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 Nevada economic conditions component equals 158.5, then this means that 58.5 percent more respondents exhibit a positive attitude (70.2 percent) than those that exhibit a negative attitude (11.7 percent).
Expectations for Profits
A new record-high level of optimism for profits was expressed by the local businesses. The index value for expectations on profits has now posted three straight quarterly gains. The value increased by 1.4 and 23.2 percent, respectively, compared to last quarter and last year. When asked about profits, 59.8 percent of respondents expected increased profits in their industry compared to 10.3 percent who expected decreased profits. The remaining 29.9 percent projected no change in profits.

Expectations for Capital Expenditure
The survey shows that fewer local businesses anticipate growth in capital expenditure for the fourth quarter in their industry compared to last quarter and last year. The value for expectations on capital expenditures experienced both quarterly and yearly losses, declining by 9.6 and 1.8 percent respectively, after hitting its highest level last quarter. When asked about capital expenditures in their own industry, 43.2 percent of the respondents projected an increase, 44.2 percent expected no change, and 12.6 percent projected a decrease.

Expectations for Hiring
The expectations for hiring by local businesses declined by 4.1 and 4.7 percent, respectively, quarter-over-quarter and year-over-year, but remained well above 100 with a value of 132.3. That is, local businesses expect less difficulty in finding qualified workers compared to last quarter. The decrease in the index value probably reflects seasonality in the data as well as our movement toward full employment. That is, the fourth quarter tends to see a downward movement in the index and as we approach full employment, more businesses will report that they do not plan to hire additional workers. Specifically, 40.6 percent respondents predicted an increase in hiring in their industry, while only 8.3 percent projected a decrease. The remaining 51.0 percent expected no change.

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/2018Q4BCI.pdf. The CBER website is http://cber.unlv.edu.

Stephen M. Miller, Director
Jinju Lee, Economic Analyst
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.