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Local Businesses Express Slight Pessimism About the Local Economic Recovery

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), fell notably by 13.4 percent from 115.3 in the third quarter to 99.8 in the fourth quarter of 2020 (Figure 1). The index also experienced a year-over-year loss of 20.6 percent. In the previous quarter, the index values were higher-than-expected as the economy just began reopening after the mandated stay-at-home orders; therefore, decreases in the index for this quarter was expected due to the continuing COVID-19 pandemic. The index scored slightly below 100, which suggests that overall business conditions in Southern Nevada won't change much compared to the previous quarter.

The index includes five components: business leaders' expectations of (i) general economic conditions in Nevada, as well as expectations on their own industry's (ii) sales, (iii) profits, (iv) hiring, and (v) capital expenditure. The index falls below 100, which suggests that respondents, on average, feel more negative than positive about the five components. The respondents showed optimism for sales but reported a neutral view for profits. The other components—hiring, capital expenditure, and general economic conditions—fell below 100, implying local businesses still struggle with recoveries amid the COVID-19 pandemic. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 95.8, 108.3, 100.0, 98.3, and 96.7, respectively.¹

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders expressed slight pessimism for Nevada economic activity but optimism for U.S. economic conditions. This may reflect a slower local recovery as the local economy depends highly on tourism. Although the U.S. retail sales surpassed their pre-COVID levels in recent months thanks to increased personal income due to the CARES Act, the tourism sector still experiences a substantial loss with limited travel amid the COVID-19 pandemic. As a result, the values for U.S. and Nevada economic activity scored 107.5 and 95.8 percent, respectively. The values also experienced quarter-over-quarter losses, which may partly reflect the expiration of coronavirus relief benefits and the stalled negotiations for a new stimulus package.

When asked about the U.S. economy, 45.0 percent forecasted a better economy, while 37.5 percent forecasted a much or somewhat worse economy. The remaining 17.5 percent expected no change. When asked the same question about the Nevada economy, 40.0 percent of respondents forecasted an improved economy, 15.8 percent projected no change, and 44.2 percent expected a worse economy.

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 Nevada economic conditions component equals 95.8, then this means that 4.2 percent more respondents exhibit a negative attitude (44.2 percent) than those that exhibit a positive attitude (40.0 percent).

Expectations for Sales

Local businesses reported optimism in sales activity in their industry with a value of 108.3. Sales was the only component that scored higher than 100, which may reflect increased retail sales after excluding the leisure and hospitality sector thanks to the CARES Act. Although Clark County taxable sales in July decreased by 9.0 percent from last year, taxable sales excluding the leisure and hospitality sector² climbed by 4.0 percent over the same period. When asked about sales, 38.3 percent of the respondents predicted increased sales in their industry, 31.7 percent expected no change, and 30.0 percent projected decreased sales.

Expectations for Profits

The index value for expectations on profits scored 100, meaning the percentages of positive and negative respondents are the same. Among all sectors, pessimism on profits was prevalent in the leisure and hospitality and education and health services sectors. When asked about profits in their own industry, 34.2 percent of respondents expected an increase, 31.7 percent predicted no change, and 34.2 percent forecasted a decrease.

Expectations for Hiring

Southern Nevada business leaders predicted slightly reduced hiring activities in their industry with a value of 98.3. The leisure and hospitality industry continues to experience tepid recovery amid the pandemic, since people do not travel much due to restrictions and cautions related to the virus. Consequently, mass layoffs loom in the tourism sector such as airlines and theme parks. In Las Vegas, several casinos already notified furloughed workers of permanent layoffs since they could not rehire due to decreased sales. When asked about hiring in their own industry, 28.0 percent expected an increase, 42.4 percent expected no change, and 29.7 percent projected a decrease.

Expectations for Capital Expenditure

Many local businesses continue to follow a conservative path with their capital expenditure, with a value of 96.7, due to high economic and political uncertainty. Capital expenditure, however, was the only component that experienced an increase from last quarter. Specifically, 25.8 percent of respondents forecasted increased capital expenditure in their industry, 45.0 percent expected no change, and 29.2 percent projected decreased capital expenditure.

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 <https://cber.unlv.edu/publications/2020Q4BCI.pdf>. The CBER website is <https://cber.unlv.edu>.

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²We excluded business codes 711, 712, 713, 721 and 722 from the total Clark County taxable sales.

Figure 1. CBER’s Southern Nevada Business Confidence Index

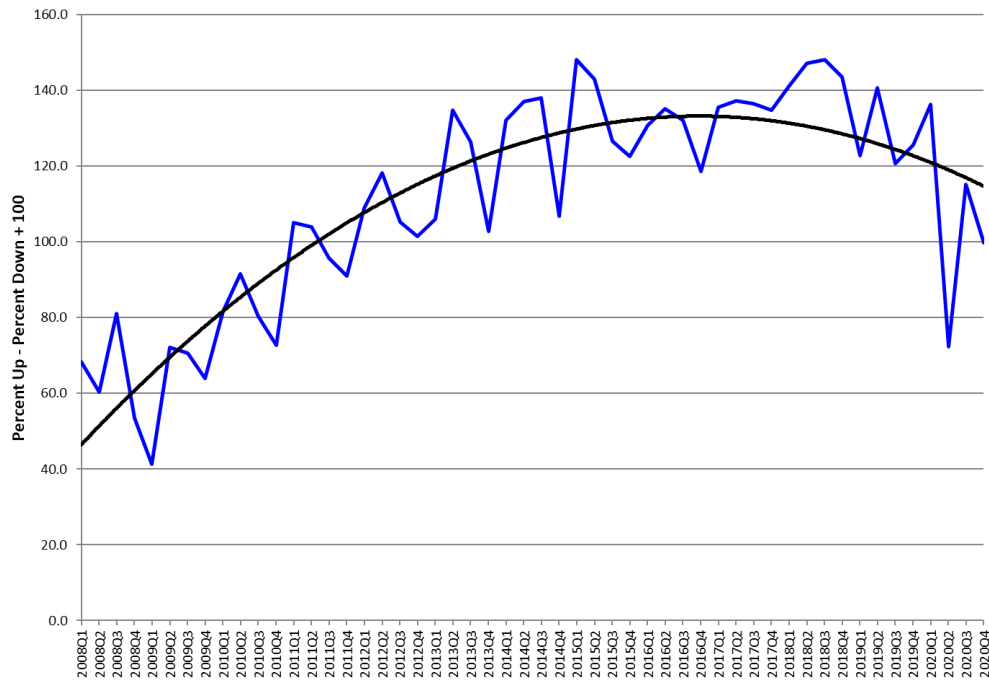
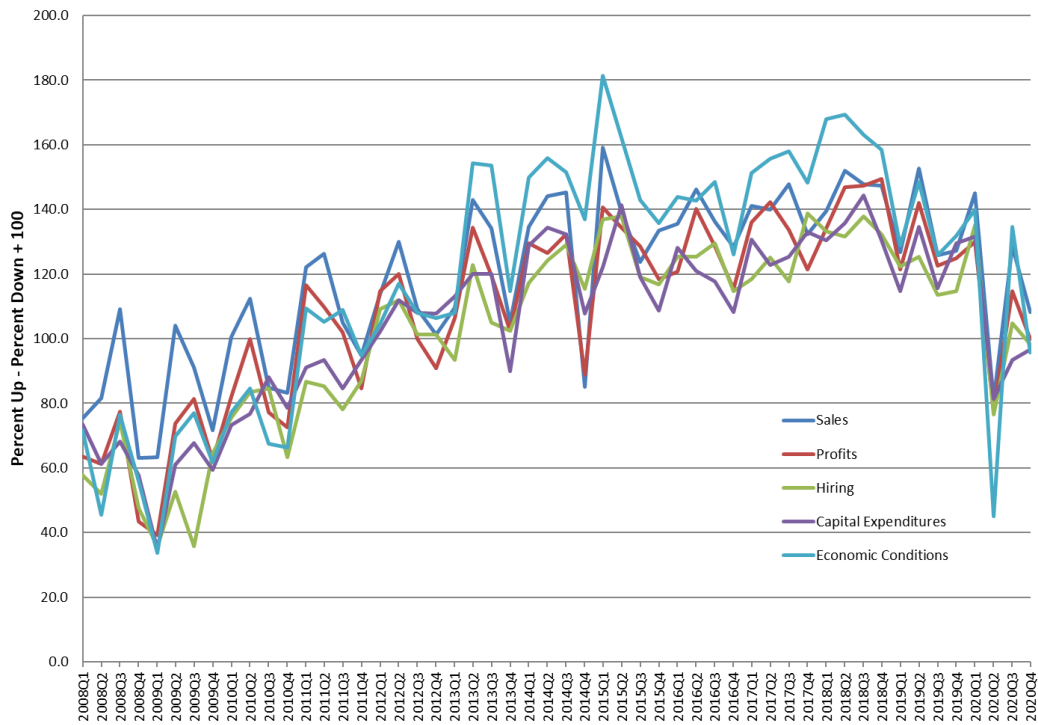


Figure 2. Components of CBER’s Southern Nevada Business Confidence Index



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