

July 14, 2020

Southern Nevada Business Confidence Experienced a Sharp Rebound thanks to the Reopened Economy

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), rebounded sharply by 59.4 percent from 72.3 in the second quarter to 115.3 in the third quarter of 2020 (Figure 1). The index, therefore, is only 4.5 percent lower than its level from last year. The index, however, is not comparable with past indexes in that positive rebounds in index values are expected because economic conditions could hardly become worse from the recent, almost stalled economy. That is, we just experienced the worst economic downturn in history after the Great Depression. The COVID-19 economic downturn is different from the previous recessions in that this is more “man-made” or “government-imposed”, caused by massive shutdowns due to the public health crisis and the attempt to contain the spread of COVID-19.

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 remains above 100, which suggests that respondents, on average, feel more positive than negative about the five components. Overall, respondents expressed more optimism than pessimism on the components except for capital expenditure this quarter compared to last quarter. The index value for capital expenditure, however, remained below 100, implying many local businesses still see high risks in expanding their businesses with ongoing uncertainty about the future effects of the virus. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 134.6, 128.7, 114.8, 104.7, and 93.5, respectively.

Expectations for the U.S. and Nevada Economies

Southern Nevada business leaders expressed high optimism on rebounds in both the US and Nevada economic activity with values of 134.3 and 134.6, respectively. When asked about the U.S. economy, 64.8 percent forecasted a better economy, while 30.6 percent forecasted a much or somewhat worse economy. The remaining 4.6 percent expected no change. When asked the same question about the Nevada economy, 64.5 percent of respondents forecasted an improved economy, 5.6 percent projected no change, 29.9 percent expected a worse economy. As mentioned earlier, higher optimism for this quarter compared to last quarter is expected as economic conditions could hardly worsen, especially with the economy reopening. One-third of respondents, however, reported that the national and state economic conditions could remain unchanged or worsen in the third quarter compared to the second quarter, which probably reflects their concerns on the potential for a second wave of the virus. In fact, about 40 percent of respondents answered that a second wave is highly likely to occur.

Expectations for Sales

Local businesses reported optimism in sales activity in their industry with a value of 128.7, rebounding sharply by 59.3 percent from its previous quarter value of 80.8. When asked about sales, 61.1 percent of the respondents predicted increased sales in their industry, 6.5 percent expected no change, and 32.4 percent projected decreased sales.

Expectations for Profits

The index value for expectations on profits also rebounded with a value of 114.8. This implies that local businesses may provide more incentives to attract customers as businesses reopen. When asked about profits in their own industry, 52.8 percent of respondents expected an increase, 9.3 percent predicted no change, and 38.0 percent forecasted a decrease.

Expectations for Hiring

After massive layoffs or furloughs due to the stay-at-home order in the second quarter, some local business leaders project employees will return to work in the third quarter. The index value, however, scored only 104.7, slightly above 100. This means that many local businesses still predict either no change or a decrease in hiring in their industry. Specifically, 35.8 percent of respondents forecasted an increase in hiring in their industry, 33.0 percent expected no change, and 31.1 percent projected a decrease.

Expectations for Capital Expenditure

Many local businesses seem to follow a conservative path with their capital expenditures due to high economic uncertainty. The survey respondents continued to express overall pessimism on capital expenditure with a value of 93.5. Capital expenditure was the only component that did not score over 100 among the five components despite the economy's resumption. Nonetheless, the index did increase by 14.9 percent from last quarter's level of 81.4. When asked about capital expenditure in their own industry, 30.6 percent of the respondents' forecasted increased capital expenditure, while 37.0 percent expected decreased capital expenditure. The remaining 32.4 percent predicted 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 <https://cber.unlv.edu/publications/2020Q3BCI.pdf>. The CBER website is <https://cber.unlv.edu>.

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Figure 1. CBER’s Southern Nevada Business Confidence Index

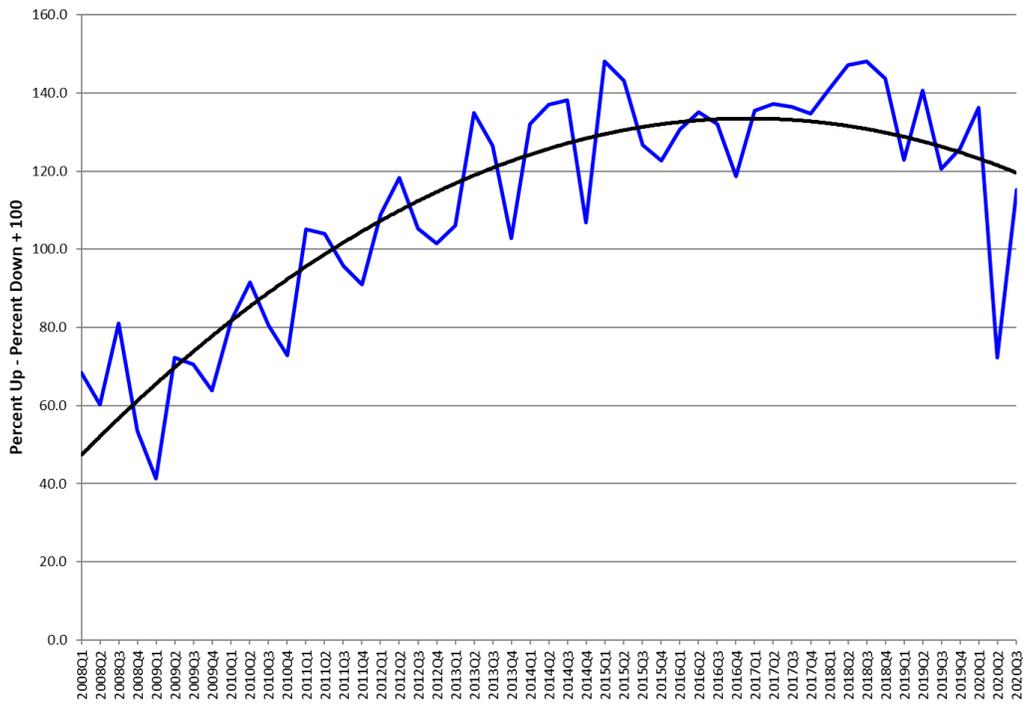
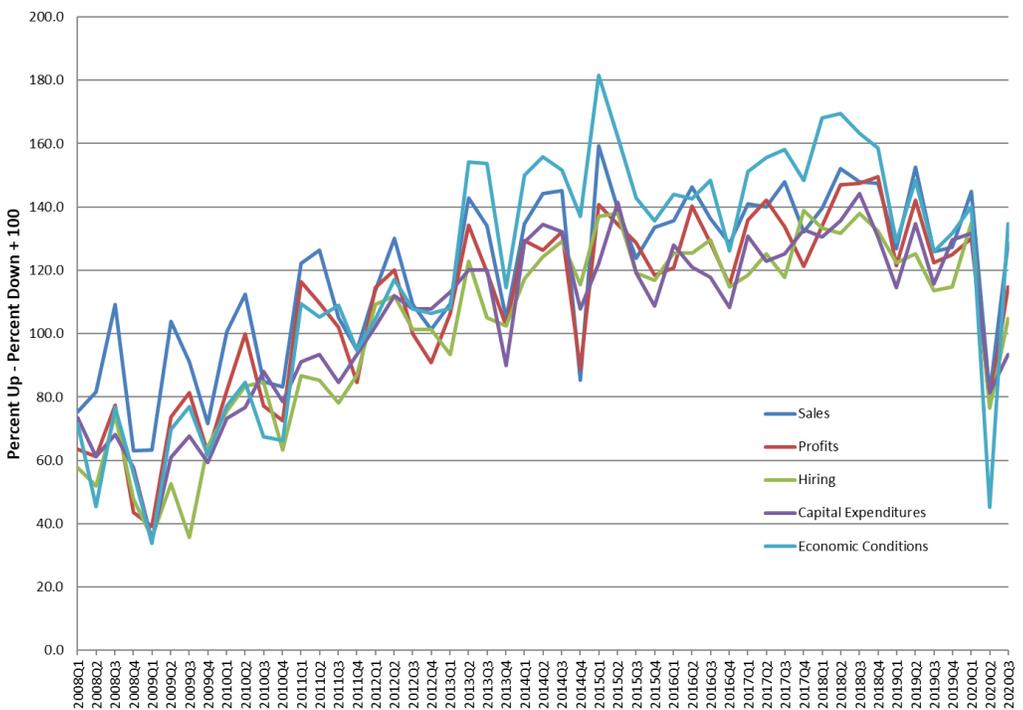


Figure 2. Components of CBER’s Southern Nevada Business Confidence Index



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