

April 14, 2020

Local Businesses Report Deep Pessimism due to Covid-19

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), plummeted by 47.0 percent from 136.3 in the first quarter to 72.3 in the second quarter of 2020 (Figure 1). In addition, the index experienced a year-over-year decline of 48.6 percent and dropped below 100 for the first time since 2011Q4. The index, however, maybe overstated, since a substantial majority of responses were received before the nonessential business shutdown order was issued.

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. Overall, respondents' optimism totally disappeared this quarter compared to last quarter with the sudden coronavirus attack. The index values for all five components plummeted below 100, implying local businesses are very pessimistic about the ongoing challenges, at least for the short term. The index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 45.1, 80.8, 77.8, 76.4, and 81.4, respectively.¹

Expectations for the U.S. and Nevada Economies

Southern Nevada Business leaders expressed deep pessimism on both the U.S. and Nevada economic outlook. Even before the statewide nonessential business shutdowns, it seems that the local businesses already felt an upcoming economic downturn due to the coronavirus. The index value for Nevada economic conditions slipped by 67.8 and 69.6 percent, respectively, quarter-over-quarter and year-over-year. The value hit its lowest level in a decade at 45.1, which nearly matches the similar level of 45.4 in 2008Q2. The index value for U.S. economic conditions also plummeted to its lowest level in 11 years at 43.1. When asked about the U.S. economy, only 15.3 percent forecasted a better economy, while a majority of respondents (72.2 percent) forecasted a much or somewhat worse economy. The remaining 12.5 percent expected no change. When asked the same question about the Nevada economy, 15.5 percent of respondents forecasted an improved economy, 14.1 percent projected no change, 70.4 percent expected a worse economy.

Expectations for Sales

Local businesses reported deep pessimism in sales activity in their industry, with 44.3 and 47.1 percent decreases from last quarter and last year, respectively, with a value of 80.8. Before March 8, more than half of respondents actually expressed high optimism on expected increased sales, while it turned totally negatively after March 8, as only 18.4 percent predicted increased sales amid the worsening situation

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 45.1, then this means that 54.9 percent more respondents exhibit a negative attitude (70.4 percent) than those that exhibit a positive attitude (15.5 percent).

with the coronavirus. When asked about sales, 34.2 percent of the respondents predicted increased sales in their industry, 12.3 percent expected no change, and 53.4 percent projected decreased sales.

Expectations for Profits

The index value for expectations on profits also experienced both substantial quarterly and yearly losses, along with high pessimism on sales activity. The value of profit scored 77.8, the lowest level since 2010Q4. When asked about profits in their own industry, 29.2 percent of respondents expected an increase, 19.4 percent predicted no change, and 51.4 percent forecasted a decrease.

Expectations for Hiring

After a strong quarterly gain of 17.6 percent in the previous quarter, the index value for expectations on hiring plunged by 43.4 percent to a value of 76.4. The index value, however, posted the smallest year-over-year loss of 39.0 percent compared to the other four components. This reflects the lower optimism on hiring over the last several quarters among the five components, caused by the persistent challenge of finding qualified employees due to the strong labor market. The local businesses are now driven into a situation that cannot avoid layoffs or furloughs due to stay-at-home or shutdown orders caused by Covid-19. When asked about hiring in their own industry, 20.8 percent respondents predicted an increase in hiring, 34.7 percent expected no change, and 44.4 percent projected a decrease.

Expectations for Capital Expenditure

The survey respondents expressed pessimism on capital expenditure even before the coronavirus pandemic worsened in the United States. The appendix shows that more respondents expected decreased than increased capital expenditure. This indicates that the local business leaders seemed to have a strong sense of the upcoming economic uncertainty from Covid-19. Overall, the value substantially decreased by 38.2 and 39.6 percent, respectively, quarter-over-quarter and year-over-year. When asked about capital expenditure in their own industry, 22.9 percent of the respondents' forecasted increased capital expenditure, while 41.4 percent expected decreased capital expenditure. The remaining 35.7 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/2020Q2BCI.pdf>. The CBER website is <https://cber.unlv.edu>.

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Figure 1. CBER's Southern Nevada Business Confidence Index

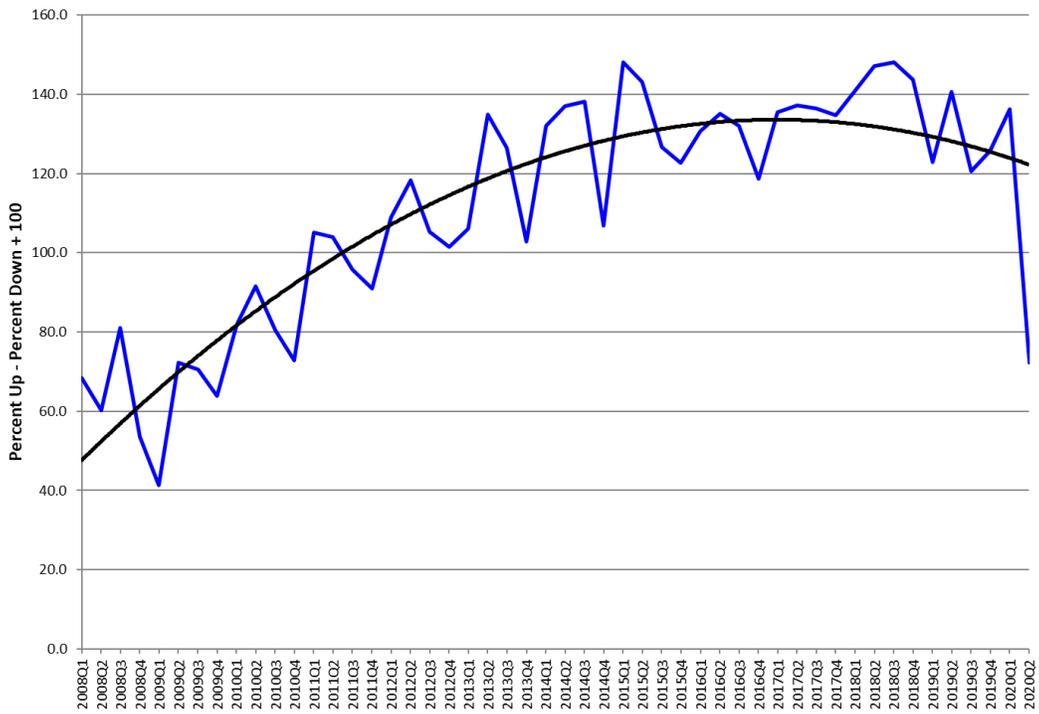
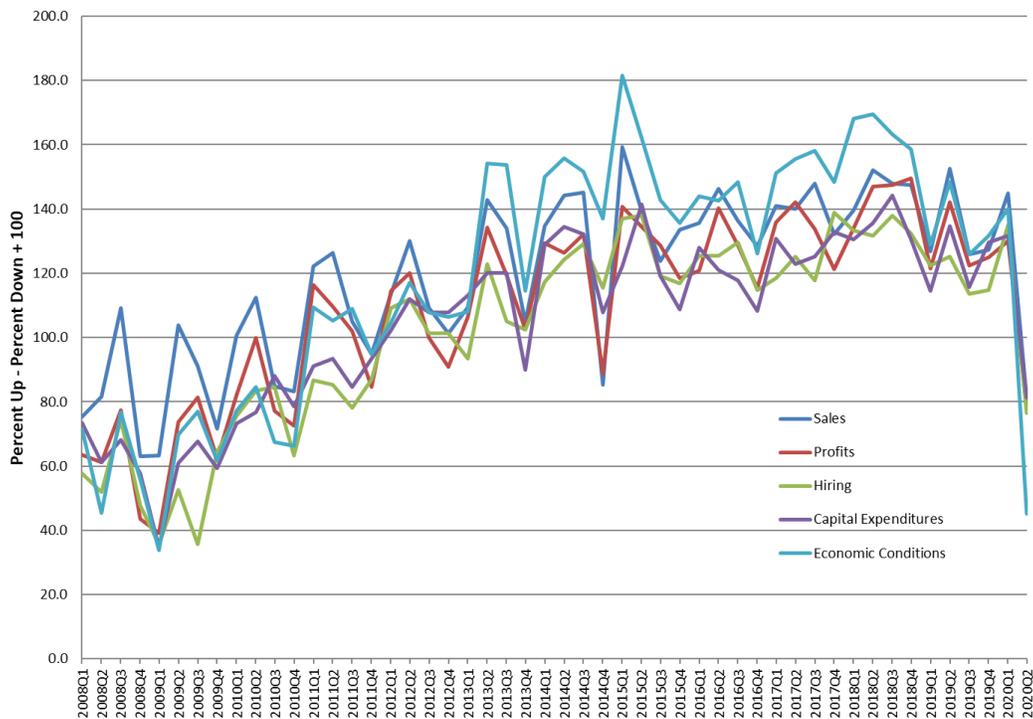


Figure 2. Components of CBER's Southern Nevada Business Confidence Index



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