

July 23, 2019

## **Southern Nevada Business Confidence Tumbled with a Slightly Negative View on the U.S. Economic Outlook**

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), experienced a significant loss after a strong rebound in the second quarter, down by 14.2 percent from 140.6 in the second quarter to 120.7 in the third quarter of 2019 (Figure 1). The Index declined to its lowest level in three years amidst increasing trade tensions between the U.S. and China and an anticipated global economic slowdown.

The index includes five components: business leaders' 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. This quarter, the respondents' outlooks kept the five components above 100 despite significantly lower expectations than last quarter. The index values for business expectations of sales, Nevada economic conditions, profits, capital expenditure, and hiring scored 125.8, 125.8, 122.5, 115.7, and 113.5, respectively.<sup>1</sup>

### *Expectations for the U.S. and Nevada Economies*

Local business leaders reported a slightly negative view on the U.S. economic outlook for the first time in many years, while their confidence in the Nevada economy remained at a relatively high level. This suggests that local business leaders mainly worry about increasing trade tensions between the U.S. and China. In fact, the recent National Federation of Independent Business survey mentioned that 30 percent of business owners reported changes in China trade policy negatively affected their businesses. In addition, the CBER's survey results also indicate that more local business leaders think trade wars will negatively affect economic growth compared to last quarter.

Overall, the index value for expectation on the U.S. economic condition fell substantially by 16.7 and 37.7 percent, respectively, quarter-over-quarter and year-over-year to a value of 95.5. The index value for expectations on the Nevada economic condition, nevertheless, remained at a relatively lofty level of 125.8 despite a quarterly and yearly loss of 15.2 and 22.9 percent, respectively. When asked about the U.S. economy, 30.3 percent of respondents forecasted an improved economy, while 34.8 percent expected a worse economy. The remaining 34.8 percent projected no change. When asked about the Nevada economy, 46.1 percent of the respondents projected an improved economy, 33.7 percent forecasted no change, and 20.2 percent expected a worse economy.

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Note: When reporting percentage responses, totals may not add to 100 because of rounding.

<sup>1</sup>The 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 125.8, then this means that 25.8 percent more respondents exhibit a positive attitude (46.1 percent) than those that exhibit a negative attitude (20.2 percent). Note the rounding error for this calculation.

### *Expectations for Sales*

The local business leaders' confidence in sales activity in their industry plummeted after a large rebound in the previous quarter. Although the index value slipped by 17.6 and 14.9 percent, respectively, quarter-over-quarter and year-over-year, the respondents remained favorable about sales activity in their industry for the third quarter of 2019 with a value of 125.8. That is, 49.4 percent of the respondents predicted increased sales in their industry, 27.0 percent expected no change, and only 23.6 percent projected decreased sales.

### *Expectations for Profits*

The index value for expectations on profits plunged considerably compared to last quarter along with decreased optimism on sales activity. Even though the index value declined by 13.8 and 16.9 percent, respectively, relative to a quarter and a year ago, the local business leaders still showed continued optimism with a value of 122.5. When asked about profits in their own industry, 46.1 percent of respondents expected an increase, 30.3 percent predicted no change, and 23.6 percent forecasted a decrease.

### *Expectations for Capital Expenditure*

The survey shows that local business leaders anticipate decreased activity in capital expenditure in their industry, posting a value of 115.7 percent, down by 14.1 percent compared to last quarter. The index value for expectations on capital expenditure also experienced a year-over-year loss of 19.8 percent from last year. When asked about capital expenditure in their own industry, 38.2 percent of the respondents' projected increased capital expenditure, 22.5 percent expected decreased capital expenditure. The remaining 39.3 percent forecasted no change.

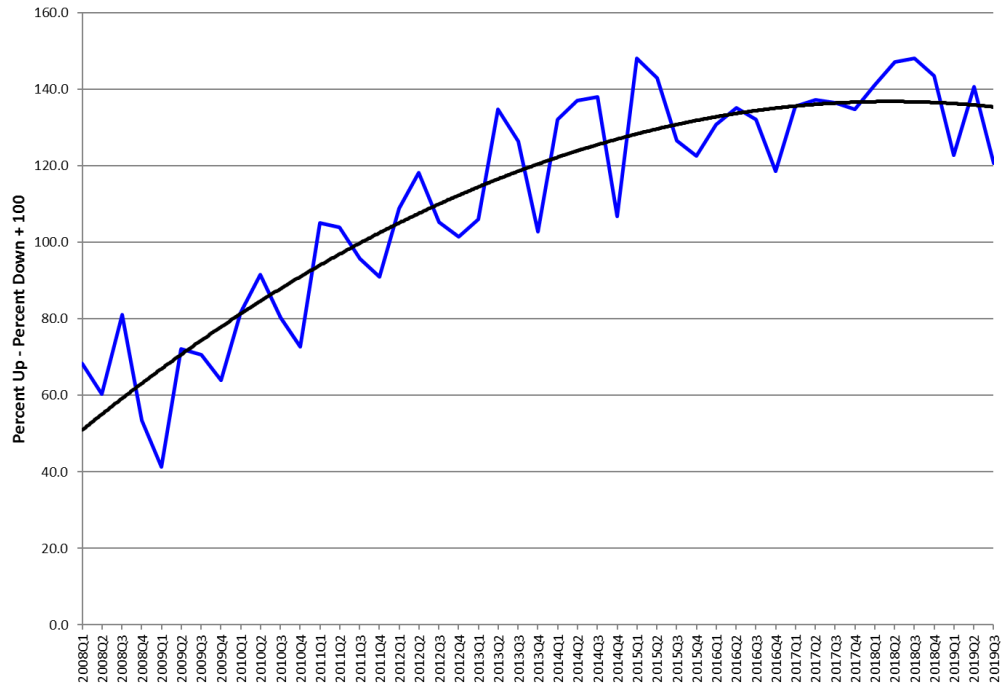
### *Expectations for Hiring*

The expectation on hiring hit its lowest level in nearly 6 years. One possible explanation is that some local businesses may have become more conservative with hiring a new worker or expanding their businesses amid ongoing economic uncertainty due to trade tensions between the U.S. and China. The survey results revealed increased concern with economic uncertainty as an important challenge that local businesses face. A continued challenge with finding a qualified employee, however, also might partly affect a lower expectation in terms of hiring in their industry compared to last quarter. Overall, the index value of 113.5 dropped by 9.4 and 17.7 percent, respectively, compared to last quarter and last year. When asked about hiring, 31.5 percent respondents predicted an increase in hiring in their industry, while 18.0 percent projected a decrease. The remaining 50.6 percent expected no change.

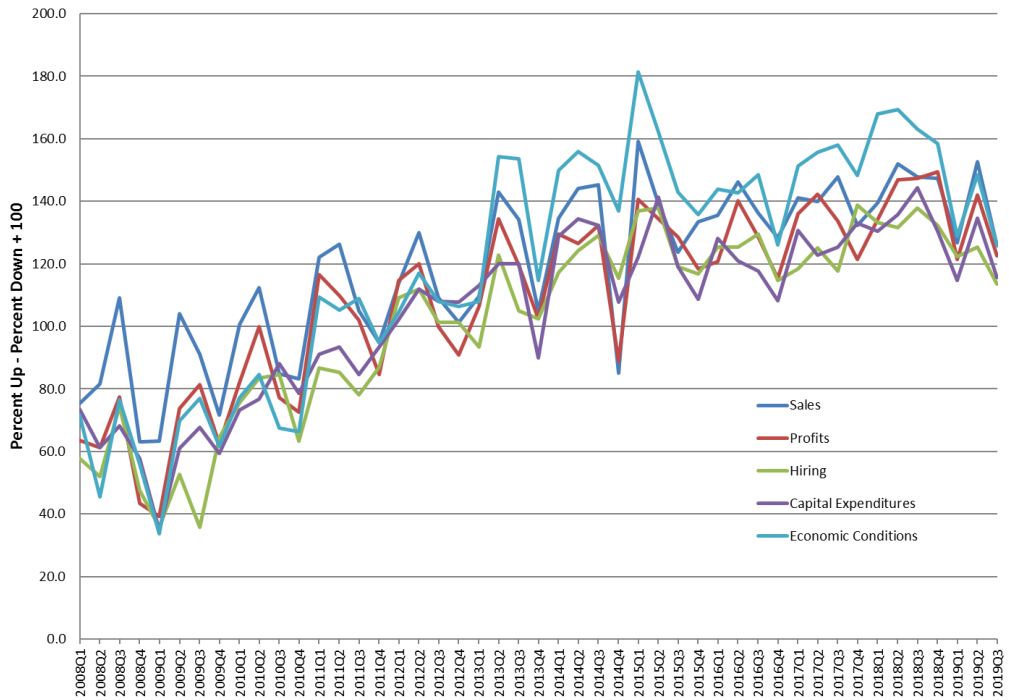
CBER conducts the survey of Southern Nevada businesses on a quarterly basis. The complete results of the most current survey can be found online at <https://cber.unlv.edu/publications/2019Q3BCI.pdf>. The CBER website is <https://cber.unlv.edu>.

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**Figure 1. CBER's Southern Nevada Business Confidence Index**



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



*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.*