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Confidence of Local Businesses Declines as Economic Uncertainty Rises

The Southern Nevada Business Confidence Index, constructed by the Center for Business and Economic Research (CBER) at the University of Nevada, Las Vegas (UNLV), dropped by 14.5 percent from 143.6 in the fourth quarter of 2018 to 122.8 in the first quarter of 2019 (Figure 1). Local businesses' expectations in the first quarter of each year tend to increase compared to the fourth quarter due to seasonality. The unusual large loss of index from last quarter, therefore, may signal that local businesses started to worry about a potential economic slowdown or recession. The index also plummeted by 13.0 percent year-over-year and recorded its lowest value since the fourth quarter of 2016.

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 optimistic views on the five components as they all exceeded 100, although all components experienced both quarterly and yearly losses. The index values for business expectations of Nevada economic conditions, sales, hiring, profits, and, capital expenditure scored 128.9, 126.8, 122.4, 121.4, and 114.6, respectively.¹ For comparison, the same index values for the fourth quarter of 2018 equaled 158.5, 147.4, 132.3, 149.5, and 130.5, respectively. Thus, although all index values remain above 100, business expectations took a big hit as 2018 ended and business leaders looked forward into the first quarter of 2019.

Expectations for the U.S. and Nevada Economies

The index value for expectations on the U.S. economic conditions plunged by 23.4 and 29.7 percent quarter-over-quarter and year-over-year, respectively. Since the survey was distributed in December, a substantial decrease in the value may reflect stock market volatility due to a narrowing yield spread and global economic uncertainty. When asked about the U.S. economy, 41.2 percent of respondents projected an improved economy, while 34.0 percent expected a worse economy. The remaining 24.7 percent projected no change.

Southern Nevada business leaders expressed a less favorable economic outlook for Nevada, down by 18.7 and 23.3 percent from last quarter and last year, respectively. Moreover, the index value of Nevada economic conditions had its lowest first quarter in five years. This reflected increased concerns about a potential slowdown of the U.S. economy. When asked about the Nevada economy, 52.6 percent of the respondents expected a better economy, 23.7 percent expected no change, and 23.7 percent forecasted a worse economy. Nevertheless, business leaders expressed more optimism about the Nevada economy than the U.S. economy by index values of 128.9 to 107.2.

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 128.9, then this means that 28.9 percent more respondents exhibit a positive attitude (52.6 percent) than those that exhibit a negative attitude (23.7 percent).

Expectations for Sales

The index value for expectations on sales continued its loss for the last three consecutive quarters and marked its lowest value since the third quarter of 2015. The value declined largely by 14.0 and 9.2 percent, respectively, compared to a quarter and a year ago, but a slim majority of respondents still remained favorable in terms of a projection in sales in their industry. That is, 49.5 percent of the respondents forecasted increased sales in their industry, 27.8 percent expected no change, and 22.7 percent forecasted decreased sales.

Expectations for Hiring

The local businesses predicted reduced hiring activity in their industry compared to last quarter. The expectations for hiring by respondents decreased by 7.5 and 8.2 percent, respectively, quarter-over-quarter and year-over-year. The decline may partly reflect the current tight labor market, which causes a shortage of qualified workers and rising hiring costs. Local business leaders, however, remained positive in that the index exceeds 100 at 122.4. When asked about hiring, 36.7 percent respondents predicted an increase in hiring in their industry, while 14.3 percent projected a decrease. The remaining 49.0 percent expected no change.

Expectations for Profits

After a new record-high level of optimism for profits in the last quarter, the index value for expectations on profits experienced a substantial loss, down by 18.8 percent from last quarter (i.e. 149.5 to 121.4). The index value is also 9.4 percent lower than last year. When asked about profits in their own industry, 42.9 percent of respondents forecasted an increase, 35.7 percent expected no change, and 21.4 percent forecasted a decrease.

Expectations for Capital Expenditure

Local businesses reported the least confidence on capital expenditure among the five components. Even though the index value of expectation on capital expenditure fell by 12.2 percent compared to last quarter and last year, local businesses remained somewhat optimistic with a value of 114.6. The survey also shows that a slim majority of local businesses would keep their capital expenditure at a similar level from last quarter. That is, 35.4 percent of the respondents' projected increased capital expenditure, 20.8 percent expected decreased capital expenditure. The remaining 43.8 percent projected no change relative to last quarter.

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/2019Q1BCI.pdf>. The CBER website is <http://cber.unlv.edu>.

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Figure 1. CBER’s Southern Nevada Business Confidence Index

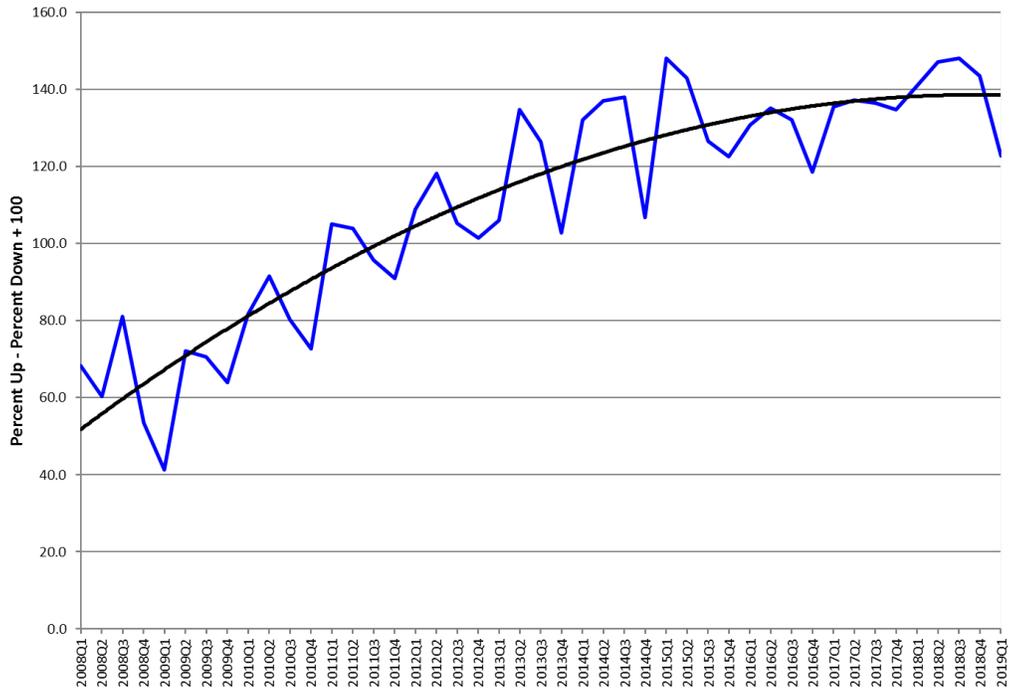
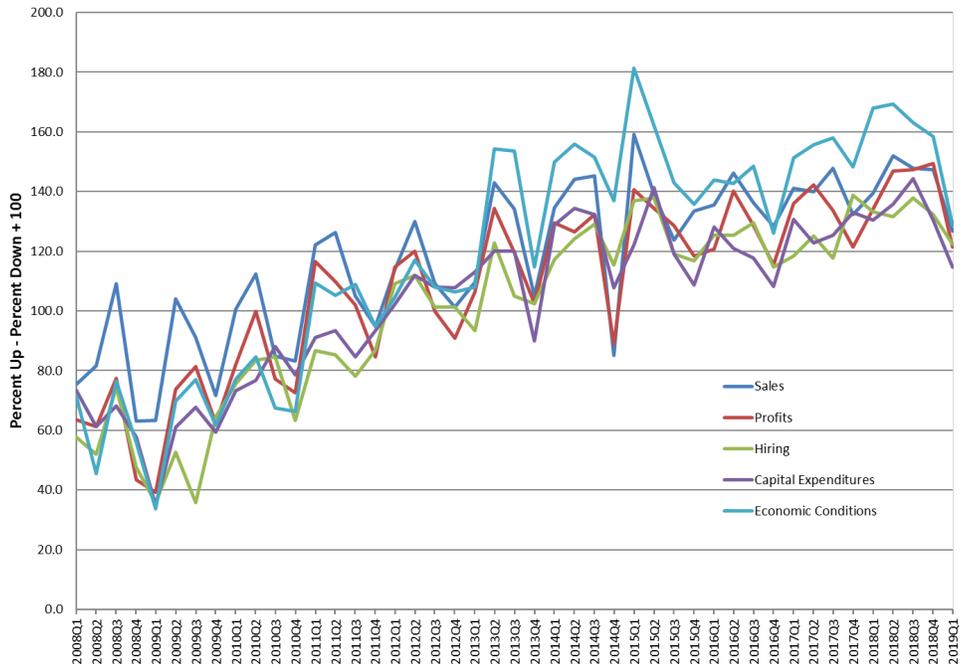


Figure 2. Components of CBER’s Southern Nevada Business Confidence Index



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