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CBER's Business Confidence Index Improved with Increased Optimism on the U.S. 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), surged by 8.5 percent from 125.7 in the fourth quarter to 136.3 in the first quarter of 2020 (Figure 1). The index gained for both quarter-over-quarter and year-over-year observations, which may reflect not only an ongoing positive perspective on the U.S.-China trade talks but also a seasonal "New Year" effect. The index increased strongly by 11.0 percent from last year in which the "New Year" effect was muted due to plunged confidence on the U.S. economy with stock market volatility.

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 reported continued optimism in that all five components experienced gains quarter-over-quarter and year-over-year. The index values also remained well above 100, where the index values for business expectations of Nevada economic conditions, sales, profits, hiring, and capital expenditure scored 140.0, 145.0, 130.0, 135.0, and 131.7, respectively.¹

Expectations for the U.S. and Nevada Economies

Southern Nevada Business leaders expressed increased confidence in their economic outlook for the United States. The index values for U.S. economic conditions rose strongly by 17.3 and 18.2 percent, respectively, quarter-over-quarter and year-over-year. The upward movement may largely reflect the recent agreement on Phase One Trade Deal with China. Rising trade tension between the U.S. and China during 2019 kept the expectation on the U.S. economy somewhat muted compared to 2017 and 2018. Although the index value for the U.S. experienced a significant gain, it is still lower than the level from 2017 and 2018. This may reflect the ongoing global economic slowdown and political uncertainty. When asked about the U.S. economy, a half of respondents forecasted an improved economy, 26.7 percent expected no change, and 23.3 percent expected a worse economy.

The local businesses' confidence on Nevada economy also climbed and remained at a high level with a value of 140.0, benefitting from the more favorable perspective on the U.S. economy. The index value for expectation on the Nevada economic condition increased by 6.2 and 8.6 percent, respectively, from last quarter and last year. When asked about the Nevada economy, 51.7 percent of respondents forecasted

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 140.0, then this means that 40.0 percent more respondents exhibit a positive attitude (51.7 percent) than those that exhibit a negative attitude (11.7 percent).

an improved economy, while 11.7 percent expected a worse economy. The remaining 36.7 percent projected no change.

Expectations for Sales

Local businesses expressed the highest confidence in sales activity in their industry among the five components with a value of 145.0. This suggests that the local business leaders anticipate strong consumer spending will continue in the first quarter of 2020. The index value for expectations on sales gained substantially by 13.9 and 14.4 percent, respectively, quarter-over-quarter and year-over-year. That is, 51.7 percent of the respondents predicted increased sales in their industry, 41.7 percent expected no change, and only 6.7 percent projected decreased sales.

Expectations for Profits

The index value for expectations on profits also experienced both quarterly and yearly gains along with higher level of optimism on sales activity. The index value was up by 4.0 and 7.1 percent, respectively, from a quarter and a year earlier. Local businesses leaders expressed the lowest confidence on profits in their industry among the five components with a value of 130. When asked about profits in their own industry, 43.3 percent of respondents expected an increase, 43.3 percent predicted no change, and 13.3 percent forecasted a decrease.

Expectations for Hiring

The index value for expectations on hiring exhibited the strongest quarter-over-quarter gain, up by 17.6 percent. The value also climbed by 10.3 percent year-over-year, producing the second highest first quarter value since the Great Recession. A difficulty of finding qualified workers, however, still persists as it appears again the most important challenge that the local businesses face. When asked about hiring in their own industry, 41.7 percent respondents predicted an increase in hiring, 51.7 percent expected no change, and 6.7 percent projected a decrease.

Expectations for Capital Expenditure

The survey respondents expressed higher optimism on capital expenditure compared to last quarter and last year with a value of 131.7. The value increased slightly by 1.7 percent quarter-over-quarter but rose strongly by 14.9 percent year-over-year. When asked about capital expenditure in their own industry, 46.7 percent of the respondents' forecasted increased capital expenditure, while 15.0 percent expected decreased capital expenditure. The remaining 38.3 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/2020Q1BCI.pdf>. The CBER website is <https://cber.unlv.edu>.

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Figure 1. CBER’s Southern Nevada Business Confidence Index

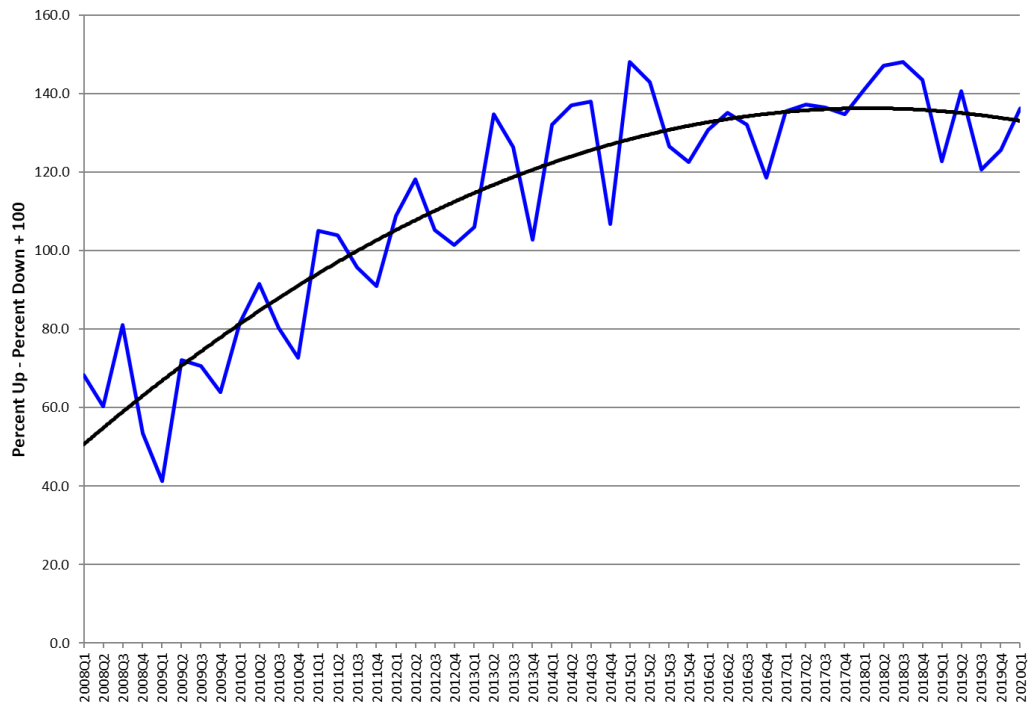
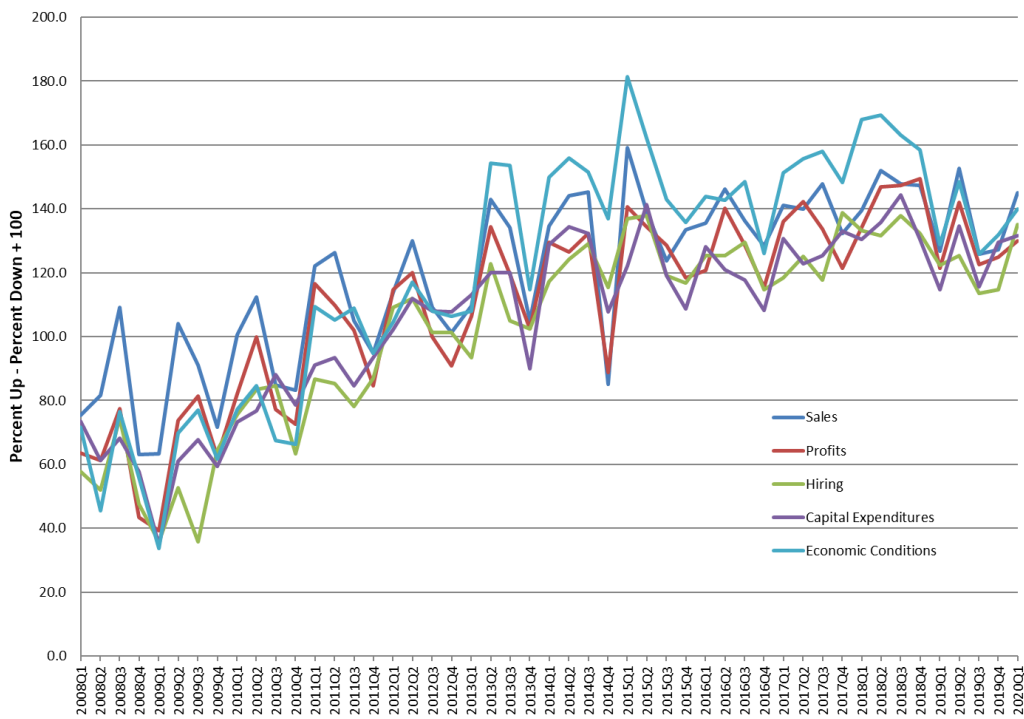


Figure 2. Components of CBER’s Southern Nevada Business Confidence Index



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.