

NEVADA'S Economy

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Stephen P. A. Brown, PhD, Center for Business & Economic Research University of Nevada, Las Vegas

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SLOWING U.S. ECONOMIC GROWTH AFFECTING NEVADA TOURISM

The Nevada tourism industry saw a deeper recession, and segments of it have been slower to recover than the U.S. economy as a whole. As a result, the slower U.S. economic growth evidenced in the first half of 2012 bodes poorly for the tourism-dependent Nevada economy. Will a little bit stronger economic activity in the West help buoy the tourism industry on which Nevada is so dependent?

West Slower to Recover from the Recession

The West generally saw a deeper recession and a slower recovery than the United States as a whole. As shown in *Table 1*, U.S. employment fell by 6.4 percent from its peak to its bottom. At 3.6 percent below its peak in June 2012, U.S. employment has recovered 44 percent of its loss.

Change in Total Employment from Peak to Trough and to June 2012

	Date of Employment Trough	Peak to Trough (Percent)	Peak to June 2012 (Percent)
United States	Feb 2010	-6.4	-3.6
Arizona	Sept 2010	-11.7	-8.5
California	Feb 2010	-9.0	-5.9
Colorado	Jan 2010	-6.4	-3.2
Nevada	Sept 2010	-14.5	-12.7
New Mexico	Sept 2010	-5.9	-5.6
Oregon	Feb 2010	-8.5	-6.0
Utah	Feb 2010	-7.4	-2.4
Washington	Feb 2010	-6.8	-3.6

Of the eight largest economies in the continental West, seven saw bigger declines in employment from their prerecession peaks to the bottom. Only Colorado and Utah have seen stronger recoveries in employment.

Western Weakness Likely Hurt Nevada Tourism

Weakness in the rest of the West likely contributed to the poor economic activity in tourist-dependent Nevada. Many Nevada tourists come from the surrounding states—particularly California and Arizona. As shown in *Table 2*, the U.S. recession more greatly affected the leisure and hospitality industry in Nevada than in the country as a whole.

Change in Leisure and Hospitality Employment from Prerecession Peak to Trough and to June 2012

	Date of Employment Trough	Peak to Trough (Percent)	Peak to June 2012 (Percent)
United States	Jan 2010	-4.7	0.2
Nevada	Nov 2009	-11.1	-5.9
Las Vegas	Nov 2009	-10.4	-3.5

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Employment in the U.S. leisure and hospitality industry fell by less than overall employment during the recession, and it is now greater than before the recession. The Nevada tourism and hospitality industry took a much bigger hit, and employment in the industry remains slightly less than half of what it was at the peak.

The leisure and hospitality industry has fared somewhat better in Las Vegas than in Nevada as a whole. Employment in Las Vegas leisure and hospitality declined by a smaller percentage than in Nevada, and it has recovered to about two-thirds of its prerecession peak.

In fact, the Nevada tourism industry showed stronger growth in 2011 and 2012 than seen in the nation as a whole, *Table 3*. The Las Vegas tourism industry showed stronger growth than Nevada.

Year-Over-Year Gains in Leisure and Hospitality Employment (Percent)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
United States	2.0	2.2	2.0	2.3	2.6	2.1
Nevada	1.6	2.4	3.2	4.1	3.6	2.3
Las Vegas	1.5	2.7	3.8	5.0	4.2	2.7

U.S. Economy Slows, but West Remains Somewhat Stronger

In the first half of 2012, we have seen evidence of slowing U.S. economic growth. U.S. GDP slipped from an annualized growth rate of 3.0 percent in fourth quarter 2011 to a 1.9 percent rate in first quarter 2012. A number of measures—such as personal consumption expenditures, business inventories, and employment—indicate that the growth rate of GDP is likely to prove slower in second quarter 2012 than it did in first quarter. In addition, many analysts expect relatively slow U.S. economic growth in the second half of 2012.

As the U.S. economy has slowed in 2012, economic activity has generally remained stronger in the West. For the United States, as

a whole, the annualized growth rate of employment decelerated from 2.1 percent in first quarter to 0.7 percent in second quarter. As shown in *Table 4*, half of the eight largest western states showed slower employment growth than the United States as a whole

Annualized Employment Growth (Percent)

	Q1 2012	Q2 2012
United States	2.1	0.7
Arizona	5.8	1.2
California	1.8	2.4
Colorado	4.5	-1.1
Nevada	-0.8	1.4
New Mexico	1.7	-2.5
Oregon	5.2	3.1
Utah	1.1	2.7
Washington	2.6	2.2

during first quarter 2012. In contrast, six of these states showed stronger employment growth than the United States in second quarter 2012. Perhaps most importantly for Nevada tourism, California saw accelerating employment growth from first quarter to second quarter 2012.

Nevada Tourism Showing Signs of Slowing

After strong gains in 2011, a number of indicators show that Nevada tourism is slowing in second quarter 2012, *Table 5*. The growth rates of visitor volume ticked up in first quarter 2012, but the growth rates of gaming and airline passengers enplaning and deplaning in Nevada declined in first quarter 2012. Second quarter shows outright declines in gaming revenue, which owes

Year-Over-Year Gains in Nevada Tourism Measures (Percent)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012*
NV Visitors	3.8	3.5	3.2	1.9	2.1	0.3
Clark County Visitors	4.6	4.4	3.5	1.9	2.8	0.4
Las Vegas Visitors	5.2	5.0	4.2	2.8	3.6	0.8
NV Air Passengers	3.0	3.7	5.3	3.3	0.8	0.3
McCarran Air Passengers	3.1	4.3	5.8	4.1	3.0	1.5
NV Gaming	-0.9	10.5	-3.0	5.8	3.9	-2.8
Clark County Gaming	-0.2	12.7	-3.7	6.5	4.4	-1.7

* Preliminary estimate based on two months data.

mostly to a decline in volatile baccarat play. Baccarat is a game played by high rollers, and the timing of their visits to Las Vegas has a considerable effect on gaming revenue.

As shown in *Table 5*, the rebound in Nevada tourism during 2011 and 2012 has been concentrated in Las Vegas. As we move to the broader jurisdiction of Clark County, the growth rate of visitor volume is weaker. As we move from Clark County to the

broader jurisdiction of Nevada, the growth rates of visitor volume and gaming are both weaker.

For first quarter, we find evidence that additional tourists from the West helped the Nevada economy. In that quarter, visitor volume rose—even as the growth rate of air passengers enplaning and deplaning in Nevada slipped. By second quarter, evidence of that help has disappeared.

Nevada Economic Conditions

U.S. economic growth slowed substantially in first quarter 2012 and appears to have slowed further in second quarter. Nevada's tourism and gaming industries continue to drive the state's economic recovery, but show signs of slowing. Nevada's construction sector remains mired at relatively low levels. Rising employment and reduced labor force participation meant a lower statewide unemployment rate in April.

U.S. Economy Shows Weakening Growth

The U.S. economy continues to show signs of slow growth. Revised data show U.S. real GDP grew at an annualized rate of 1.9 percent during first quarter 2012, a substantial slowing from the fourth-quarter rate of 3.0 percent. Consumer spending drove most of the gains with business fixed investment, residential investment and inventories also making contributions. Government spending and net exports made negative contributions. U.S. nonfarm employment rose by only 80,000 in June after poor showings of 77,000 jobs in May and 68,000 in April. The unemployment rate held steady at 8.2 percent in June. More favorably, housing prices and sales of new homes rose in May. A lack of supply limited sales of existing homes. Both consumer sentiment and consumer confidence slipped in June. Personal consumption expenditures and retail sales slipped in May. The Kansas City Financial Stress Index remained near its long-run average in June, which suggests no financial headwinds or tailwinds. The quantity of commercial paper outstanding remains

low, however, an indication that little external financing is being used to support business investment, *Table 6*.

Nevada Shows Uneven Economic Growth

The Nevada economy shows evidence of uneven growth. Seasonally adjusted, statewide employment decreased by 5,900 jobs (0.5 percent) from April to May. The Nevada unemployment rate decreased from 11.7 percent in April to 11.6 percent in May. Visitor volume was 1.8 percent higher in May than a year earlier. Nonetheless, gaming revenue was 10.1 percent lower in May than a year earlier—mostly as a result of reduced baccarat play. Taxable sales were 5.1 percent higher in April than a year earlier, *Table 7*.

Story continues after graphs



Table 6	U.S.	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M06	million, SA	133.088	133.008	0.1%	131.311	1.4%
	Unemployment Rate*	2012M06	%, SA	8.2	8.2	0.0%	9.1	-0.9%
	Consumer Price Index	2012M05	82-84=100, SA	228.5	229.2	-0.3%	224.6	1.7%
	Core CPI	2012M05	82-84=100, SA	229.4	229.0	0.2%	224.4	2.3%
	Employment Cost Index	2012Q1	89.06=100, SA	115.3	114.7	0.5%	113.2	1.9%
	Productivity Index	2012Q1	2005=100, SA	110.5	110.7	-0.2%	110.1	0.4%
	Retail Sales	2012M05	\$billion, SA	404.6	405.3	-0.2%	384.2	5.3%
	Auto and Truck Sales	2012M05	million, SA	13.73	14.37	-4.5%	11.69	17.4%
	Housing Starts	2012M05	million, SA	0.708	0.744	-4.8%	0.551	28.5%
	Real GDP***	2012Q1	2005\$billion, SA	13,491.0	13,429.0	1.9%	13,227.9	2.0%
	U.S. Dollar	2012M06	97.01=100	102.162	100.725	1.4%	95.290	7.2%
	Trade Balance	2012M05	\$billion, SA	-48.684	-50.597	-3.8%	-47.669	2.1%
	S and P 500	2012M06	monthly close	1,362.16	1,310.33	4.0%	1,320.64	3.1%
	Real Short-term Rates*	2012M06	%, NSA	-3.01	-2.91	-0.1%	-3.76	0.8%
	Treasury Yield Spread*	2012M06	%, NSA	1.53	1.71	-0.2%	2.96	-1.4%

Table 7	Nevada	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M05	000s, SA	1,135.2	1,129.3	0.5%	1,122.5	1.1%
	Unemployment Rate*	2012M05	%, SA	11.6	11.7	-0.1%	13.7	-2.1%
	Taxable Sales	2012M04	\$billion	3.530	3.910	-9.7%	3.357	5.1%
	Gaming Revenue	2012M05	\$million	885.09	855.71	3.4%	984.01	-10.1%
	Passengers	2012M05	million persons	3.995	3.881	2.9%	4.024	-0.7%
	Gasoline Sales	2012M03	million gallons	88.46	90.40	-2.1%	88.31	0.2%
	Visitor Volume	2012M05	million persons	4.299	4.160	3.3%	4.221	1.8%

Table 8	Clark County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M05	000s, SA	812.1	809.8	0.3%	806.2	0.7%
	Unemployment Rate*	2012M05	%, Smoothed SA	12.2	12.3	-0.1%	14.0	-1.8%
	Taxable Sales	2012M04	\$billion	2.598	2.791	-6.9%	2.467	5.3%
	Gaming Revenue	2012M05	\$million	766.05	743.67	3.0%	853.49	-10.2%
	Residential Permits	2012M05	units permitted	698	612	14.1%	450	55.1%
	Commercial Permits	2012M05	permits	16	5	220.0%	29	-44.8%
	Passengers	2012M05	million persons	3.663	3.554	3.1%	3.652	0.3%
	Gasoline Sales	2012M04	million gallons	60.90	62.72	-2.9%	60.77	0.2%
	Visitor Volume	2012M05	million persons	3.722	3.609	3.1%	3.646	2.1%

Table 9	Washoe County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment**	2012M05	000s, SA	189.4	188.9	0.3%	189.3	0.1%
	Unemployment Rate*	2012M05	%, Smoothed SA	11.5	11.5	0.0%	13.2	-1.7%
	Taxable Sales	2012M04	\$billion	0.436	0.466	-6.3%	0.435	0.2%
	Gaming Revenue	2012M05	\$million	62.33	54.20	15.0%	65.76	-5.2%
	Residential Permits	2012M05	units permitted	60	82	-26.8%	44	36.4%
	Commercial Permits	2012M05	permits	6	5	20.0%	10	-40.0%
	Passengers	2012M05	million persons	0.280	0.276	1.4%	0.304	-8.0%
	Gasoline Sales	2012M04	million gallons	13.38	13.50	-0.9%	13.30	0.6%
	Visitor Volume	2012M05	million persons	0.372	0.353	5.3%	0.374	-0.6%

*Growth data represents change in percentage rate

**Reflects the Reno-Sparks MSA which includes Washoe and Storey Counties

***Recent growth is an annualized rate

Sources: Nevada Department of Taxation; Nevada Department of Employment, Training, and Rehabilitation; UNR Bureau of Business and Economic Research; UNLV Center for Business and Economic Research; McCarran International Airport; Reno/Tahoe International Airport; Las Vegas Convention and Visitors Authority; Reno-Sparks Convention and Visitors Authority; U.S. Department of Commerce; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Federal Reserve Bank.

Note: NSA = Not Seasonally Adjusted, SA = Seasonally Adjusted

Clark County Mostly Shows Signs of Economic Growth

Clark County's economy mostly shows signs of growth. Seasonally adjusted, the region's employment rose by 2,300 jobs (0.3 percent) from April to May. The Las Vegas unemployment rate fell from 12.3 percent in April to 12.2 percent in May. Compared to a year earlier, visitor volume was up by 2.1 percent in May. Nonetheless, gaming revenue was 10.2 percent lower in May than a year earlier—mostly as a result of reduced baccarat play. Taxable sales for April were 5.3 percent above those for a year earlier. Residential construction permits rose sharply in May. Commercial construction permits remained volatile at a low level, *Table 8*.

Mixed Economic Growth Evident in Washoe County

Washoe County shows mixed signs of economic growth. Seasonally adjusted, Reno-Sparks employment rose by 500 jobs (0.3 percent) from April to May. The Reno-Sparks unemployment rate held steady at 11.5 in May. Compared to a year earlier, May visitor volume was down by 0.6 percent. Gaming revenues were down by 5.2 percent over the same period. Residential construction permits dropped in May after a sharp increase in April. Commercial construction permits remained at a low level, *Table 9*.

Nevada Economic Outlook in Brief

The pace of national economic growth slipped during first quarter, and a number of signs—such as employment and the pace of spending—continue to indicate that relatively weak economic growth can be expected in second quarter. The most recent data suggest uneven gains in Nevada's tourism and hospitality sectors. Most areas of the state saw increased employment in May.

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