

# 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

ISSUE 20 AUGUST 2012

To receive this newsletter by e-mail,  
please subscribe at  
[www.comre.com/subscribe](http://www.comre.com/subscribe)

## WHERE IS THE U.S. ECONOMY HEADED?

The growth rate of U.S. real gross domestic product (GDP) slowed from a 4.0 percent annualized rate in fourth quarter 2011 to a 2.0 percent rate in first quarter 2012 and then a 1.3 percent rate in second quarter 2012. As of second quarter 2012, U.S. real GDP remained 6.0 percent below its potential. Is economic growth likely to accelerate and close the gap with potential GDP, or is it likely to languish? To answer this question, we examine the recent course of spending in the economy and its likely course over the next few quarters.

### Contributions to GDP Growth

In the first two quarters of 2012, much of the growth in U.S. economic activity was the result of personal consumption spending, *Table 1*. In fact, consumption spending grew at a faster rate than GDP in both quarters. In the first half of 2012, personal consumption spending accounted for 1.8 percentage points more of GDP than it did over the time period from 1995 through 2012.

Overall private investment—business fixed investment, residential investment, and inventory investment—also contributed to GDP growth in the first half of 2012. Dominated by the movements in business fixed investment and inventory investment, total investment spending decelerated sharply from fourth quarter 2011 to second quarter 2012. Residential investment rose strongly from fourth quarter 2011 to first quarter 2012, but saw slower growth in second quarter 2012.

The decline in total government purchases—including federal, state, and local—contributed to a slowing of GDP growth from third quarter 2010 through second quarter 2012. From first quarter 2011 through first

quarter 2012, much of the decline came from the federal government. In second quarter 2012, most of the decline came from state and local government.

### The Necessity of a Spending Acceleration

For the economy to show stronger growth, we must see an acceleration of overall spending—whether the spending comes from consumers, investors, the government, or an improved export-import balance. In the next few sections, we examine the prospects for accelerated spending in each of these categories.

### The Outlook for Consumption Spending

Consumer spending, which excludes residential investment, accounts for about 71 percent of GDP. As such, it is the single largest component of spending.

This report is commissioned by  
Commerce Real Estate Solutions  
[info@comre.com](mailto:info@comre.com) • 801-322-2000



## Contributions to the Growth of U.S. Real GDP

Table 1	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Real GDP (percent change annual rate)	0.1	2.5	1.3	4.1	2.0	1.3
<b>Contributions to Real GDP Growth</b>						
Final Domestic Sales	0.59	1.93	2.32	2.21	2.29	1.47
Personal Consumption	2.22	0.70	1.18	1.45	1.72	1.06
Business Fixed Investment	-0.11	1.30	1.71	0.93	0.74	0.36
Residential Investment	-0.03	0.09	0.03	0.26	0.43	0.19
Government Purchases	-1.49	-0.16	-0.60	-0.43	-0.60	-0.14
Net Exports	-0.03	0.54	0.02	-0.64	0.06	0.23
Exports	0.75	0.56	0.83	0.21	0.60	0.72
Imports	-0.72	-0.02	-0.81	-0.85	-0.54	-0.49
Inventory Investment	-0.54	0.01	-1.07	2.53	-0.39	-0.46

Note: Data are reported at seasonally adjusted annual rates  
Source: U.S. Bureau of Economic Analysis

During the recession and recovery, consumer spending maintained a slightly stronger pace than overall GDP. Consumer spending did not slip by as much as GDP during the recession, and it did not grow by as much during the recovery. In addition, the variation in consumption spending during the recovery has contributed some of the volatility in GDP growth.

As we look forward, personal consumption and retail sales show signs of strong acceleration into third quarter 2012. Surveys of consumer attitudes offer conflicting signals—with consumer sentiment rising and consumer confidence slipping. Slow employment growth certainly remains a concern for consumer spending. Combined, these indicators suggest strengthening consumption spending in third quarter with the possibility of slower growth in fourth quarter.

### Investment Spending

Investment spending currently accounts for about 14 percent of GDP. During the recession and recovery, investment spending was much more volatile than GDP. It saw a much sharper decline and a stronger recovery. Nonetheless, investment spending was 10.6 percent lower in second quarter 2012 than it was at GDP's prerecession peak (fourth quarter 2007).

The outlook for investment spending depends on the type of investment. Business fixed investment faces a number of near-term challenges from the industrial

sector. Industrial production remains below its prerecession levels; industrial capacity utilization remains below its historical average; and the purchasing managers' index is below 50. All of these factors suggest relatively little reason for strong investment spending in the industrial sector. On the other hand, private service-producing employment is relatively robust.<sup>1</sup> Together, these factors suggest a continuation of moderate growth in business fixed investment spending.

On the other hand, the housing market is providing evidence of strengthening residential investment. Housing sales, starts, permits, and prices are on a general upward trend. The number of months of existing supply for sale in many markets also suggests a need for new construction. All these signs bode well for increasing residential investment.

After a strong build up in fourth quarter 2011, inventory drawdowns have contributed to weaker economic activity in the first two quarters of 2012. Even with strong retail sales, the inventory-to-sales ratio remains high by post-recession standards. That ratio suggests we can expect inventory investment to make small negative contributions before turning positive in 2013.

### Government Spending

When federal, state, and local government purchases of goods and services are combined they currently account for about 18 percent of GDP.<sup>2</sup> Over the course of the recession and recovery, government spending saw slightly stronger growth than GDP. Unlike other

1 Service production typically requires less capital investment than manufacturing.

2 This government spending figure excludes transfer payments, which account for about 17 percent of GDP.

sources of spending, however, government spending increased during the recession and decreased during the recovery. In fact, overall government spending has declined for eight consecutive quarters, from third quarter 2010 through second quarter 2012. Reduced federal government spending has been an important part of reduced government spending, but state and local government spending also declined as state and local governments faced declining revenues.

Looking forward, we see the potential for a sharp reduction in federal government spending as the result of the so-called fiscal cliff (as discussed in last month's issue of Nevada's Economy). Otherwise, only

moderate cuts in federal government spending are likely. State government tax revenues are increasing with economic activity, and increased spending seems likely as we move forward.

**For the economy to show stronger growth, we must see an acceleration of overall spending**

Local government spending is another issue. In most states, local governments rely highly on property taxes. With property taxes lagging behind property values, local governments are likely to see further reductions in revenues and face continued pressure for fiscal austerity through 2013.

### Net Exports

U.S. net exports are currently about minus 3 percent of U.S. GDP. In the first half of 2012, the United States saw gains in net exports, with a net stimulus to GDP growth. Increases in exports more than offset increased imports. Looking forward, we can expect weakness in the European and Asian economies to weaken export growth. At the same time, however, a weak international economy will reduce the cost of U.S. oil imports. These two factors will mostly offset each other, and changes in net exports will have little effect on overall U.S. economic activity.

### The Overall Direction of the U.S. Economy

Combining the outlooks for consumption, investment, and government spending with that for net exports, we see the likelihood of a slow improvement in the growth rate of U.S. GDP as we assess the second half of 2012 through the end of 2013. Consumer spending is showing signs of acceleration. Investment spending—particularly residential investment—is also evidencing gains. Barring a plunge off the fiscal cliff, government spending is likely to be less of a drag. Net exports can be expected to make relatively little contribution to the direction of the economy.

Third quarter 2012 is shaping up to be stronger than second quarter. Fourth quarter may be a bit weaker than third. It still looks to be quite a few years before GDP closes the gap with potential GDP.



## Nevada Economic Conditions

U.S. economic growth slowed substantially in the first half of 2012. Early data for third quarter suggest the likelihood of a moderate acceleration. Nevada's employment and the tourism and gaming industries show some of the effects of a slowing national economy, but retail spending and high-stakes gaming remain relatively robust. Nevada's construction sector remains mired at relatively low levels. The statewide unemployment rate rose in July—as did those for Clark and Washoe Counties.

### U.S. Economy Continues with Slow Growth

The U.S. economy continues to experience slowing growth. Revised data for U.S. real GDP show an annualized growth rate of 1.3 percent for second quarter, lower than the 2.0 percent rate set in first quarter 2012. Consumer spending drove most of the gains, but it was lower than in first quarter. Business fixed investment and residential investment also made smaller contributions than in previous quarters. Government spending and net exports made negative contributions. U.S. nonfarm employment only rose by 96,000 jobs in August after fairly robust growth in July. The unemployment rate fell slightly from 8.3 percent in July to 8.1 percent in August. Sales of new homes dropped in July, while housing prices increased. Both consumer sentiment and consumer confidence slipped in July. Personal consumption expenditures and retail sales increased in July, but auto/truck sales declined. The Kansas City Financial Stress Index remained near its long-run average in August, which suggests no financial headwinds or tailwinds. Nonetheless, business surveys and anecdotal reports show businesses delaying investment until after the election, *Table 2*.

### Nevada Economy Shows Mostly Positive Signs

The Nevada economy showed mostly positive signs for July. Seasonally adjusted, statewide employment increased by 2,100 jobs (0.2 percent) from June to July. The Nevada unemployment rate increased slightly to 12.0 percent. Visitor volume was 1.9 percent higher in July than in June. Gaming revenue was 17.0 percent

higher in July than a year earlier, mostly a result of increased baccarat and other table play. In addition, taxable sales were 15.5 percent higher in June than a year earlier, *Table 3*.

### Clark County Also Shows Mostly Positive Signs

Clark County's economy also saw mostly positive signals. Seasonally adjusted, the region's employment increased from June to July by 1,900 jobs. Nonetheless, the seasonally adjusted Las Vegas unemployment rate ticked up from 12.0 percent in June to 12.1 percent in July. Compared to a year ago, July visitor volume was down by 1.2 percent. Gaming revenue was 21.2 percent higher in July than a year earlier, mostly a result of increased baccarat and other table play. Similar to the state's experience, Clark County's taxable sales for June were 18.5 percent above those for a year earlier. Residential construction permits dropped in July after a good showing in June. Commercial construction permits remained volatile at a low level, *Table 4*.

### Washoe County Shows Weakening Economic Activity

Washoe County showed less favorable signals. Seasonally adjusted, Reno-Sparks employment decreased by 1,200 jobs (0.6 percent) from June to July. The seasonally adjusted Reno-Sparks unemployment rate rose, from 11.5 percent in June to 11.7 in July. Compared to a year earlier, July visitor volume was up by 1.9 percent. Gaming revenues for July were down by 8.2 percent over the same period. Residential construction permits increased in July, while commercial construction permits remained at a low level, *Table 5*.

### Nevada Economic Outlook in Brief

U.S. economic growth slipped during second quarter 2012. Preliminary signals—such as weak gains in employment and strong gains in personal consumption expenditures—offer a contradictory view for the third quarter. Most likely, third quarter's economic growth will be stronger than second quarter's. Nevada is seeing some evidence of sluggish U.S. economic growth in the form of weakening visitor volume. Nonetheless, the most recent data suggest relative stability in Nevada's employment and strong gains in spending and gaming.

## WHERE IS THE U.S. ECONOMY HEADED?

Table 2	U.S.	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M08	million, SA	133.300	133.204	0.1%	131.492	1.4%
	Unemployment Rate*	2012M08	%, SA	8.1	8.3	-0.2%	9.1	-1.0%
	Consumer Price Index	2012M07	82-84=100, SA	228.7	228.6	0.0%	225.5	1.4%
	Core CPI	2012M07	82-84=100, SA	230.1	229.9	0.1%	225.4	2.1%
	Employment Cost Index	2012Q2	89.06=100, SA	115.8	115.3	0.4%	113.8	1.8%
	Productivity Index	2012Q2	2005=100, SA	111.2	110.5	0.6%	109.8	1.3%
	Retail Sales	2012M07	\$billion, SA	403.9	400.7	0.8%	387.9	4.1%
	Auto and Truck Sales	2012M07	million, SA	14.04	14.33	-2.0%	13.37	5.0%
	Housing Starts	2012M07	million, SA	0.746	0.754	-1.1%	0.614	21.5%
	Real GDP***	2012Q2	2005\$billion, SA	13,564.5	13,506.4	1.7%	13,264.7	2.3%
	U.S. Dollar	2012M08	97.01=100	100.776	101.676	-0.9%	95.152	5.9%
	Trade Balance	2012M07	\$billion, SA	-42.002	-41.899	0.2%	-45.58	-7.8%
	S and P 500	2012M08	monthly close	1,406.58	1379.32	2.0%	1218.89	15.4%
	Real Short-term Rates*	2012M06	%, NSA	-2.90	-3.01	0.1%	-3.36	0.5%
	Treasury Yield Spread*	2012M08	%, NSA	1.58	1.43	0.2%	2.28	-0.7%

Table 3	Nevada	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M07	000s, SA	1,134.7	1,132.6	0.2%	1,124.4	0.9%
	Unemployment Rate*	2012M07	%, SA	12.0	11.6	0.4%	13.8	-1.8%
	Taxable Sales	2012M06	\$billion	3.916	3.711	5.5%	3.392	15.5%
	Gaming Revenue	2012M07	\$million	1,005.88	832.52	20.8%	860.09	17.0%
	Passengers	2012M07	million persons	4.071	3.966	2.6%	4.118	-1.1%
	Gasoline Sales	2012M06	million gallons	93.32	93.12	0.2%	95.73	-2.5%
	Visitor Volume	2012M07	million persons	4.372	4.289	1.9%	4.411	-0.9%

Table 4	Clark County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M07	000s, SA	816.4	814.5	0.2%	807.7	1.1%
	Unemployment Rate*	2012M07	%, Smoothed SA	12.1	12.0	0.1%	14.0	-1.9%
	Taxable Sales	2012M06	\$billion	2.855	2.714	5.2%	2.410	18.5%
	Gaming Revenue	2012M07	\$million	866.98	707.31	22.6%	715.53	21.2%
	Residential Permits	2012M07	units permitted	568	996	-43.0%	293	93.9%
	Commercial Permits	2012M07	permits	22	14	57.1%	19	15.8%
	Passengers	2012M07	million persons	3.671	3.589	2.3%	3.692	-0.6%
	Gasoline Sales	2012M06	million gallons	63.27	63.59	-0.5%	64.62	-2.1%
	Visitor Volume	2012M07	million persons	3.731	3.663	1.9%	3.777	-1.2%

Table 5	Washoe County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment**	2012M07	000s, SA	187.8	189.0	-0.6%	189.2	-0.7%
	Unemployment Rate*	2012M07	%, Smoothed SA	11.7	11.5	0.2%	13.3	-1.6%
	Taxable Sales	2012M06	\$billion	0.497	0.464	7.1%	0.464	7.2%
	Gaming Revenue	2012M07	\$million	64.90	66.78	-2.8%	70.70	-8.2%
	Residential Permits	2012M07	units permitted	100	76	31.6%	51	96.1%
	Commercial Permits	2012M07	permits	6	6	0.0%	27	-77.8%
	Passengers	2012M07	million persons	0.347	0.325	6.7%	0.365	-4.9%
	Gasoline Sales	2012M06	million gallons	14.00	14.18	-1.2%	15.05	-7.0%
	Visitor Volume	2012M07	million persons	0.433	0.421	2.7%	0.424	1.9%

\*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

This information is provided compliments of

**Michael M. Lawson**

*PRESIDENT AND CEO OF COMMERCE REAL ESTATE SOLUTIONS*

**Ed Turpin**

*MANAGING DIRECTOR - BRANCH MANAGER, LAS VEGAS OFFICE*

**Brian Armon, SIOR, CCIM**

*MANAGING PARTNER, NORTHERN NEVADA OFFICE*

*TO RECEIVE THIS NEWSLETTER BY E-MAIL, PLEASE SUBSCRIBE  
AT [WWW.COMRE.COM/SUBSCRIBE](http://WWW.COMRE.COM/SUBSCRIBE)*

COMMERCE is a regional real estate firm with international ties, dedicated first and foremost to our clients. With the industry's premier professionals, and industry leading technology, our mission is to exceed our clients' expectations through service excellence.

For further information on the Nevada commercial real estate market, visit [www.comre.com](http://www.comre.com) or call 702-796-7900.



**COMMERCE REAL ESTATE SOLUTIONS**

3980 Howard Hughes Parkway, Suite 100  
Las Vegas, NV 89169

Tel (702) 796-7900 • Fax (702) 796-7920  
[www.comre.com](http://www.comre.com)

**COMMERCE REAL ESTATE SOLUTIONS  
NORTHERN NEVADA**

6121 Lakeside Drive, Suite 205  
Reno, NV 89511

Tel (775) 851-9500 • Fax (775) 851-9551  
[www.comre.com](http://www.comre.com)

This report has been prepared solely for information purposes. It does not purport to be a complete description of the markets or developments contained in this material.

The information contained in this report, while not guaranteed, has been secured from sources we believe to be reliable.

