

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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WHAT'S UP AT THE PUMP?

High pump prices for gasoline naturally have Nevadans concerned. Nevada residents have seen a growing share of their expenditures go toward gasoline, and they also recognize the impact that higher gasoline prices can have on the state's all-important tourism industry. Fortunately, most market indicators suggest that gasoline prices have peaked and should begin falling soon.

Why Gasoline Prices Increased

In most years, the summer driving season sees the highest gasoline prices. Gasoline prices typically begin falling after Labor Day, as the summer driving season ends.¹ In 2012, however, increased tensions with Iran led to fears of disrupted world oil supplies and a surge in crude oil prices. In addition, U.S. inventories of gasoline have been low since late spring. Combined these two factors led to rising U.S. gasoline prices well after the summer driving season ended.

Tighter Gasoline Markets on the West Coast

On the West Coast, extremely low inventories and refinery outages further boosted gasoline prices. In fact, gasoline markets on the West Coast were tight throughout much of 2012. A series of refinery outages in the region led to persistently low gasoline inventories. The region's gasoline supply problems began with a fire at BP's Cherry Point, Washington, refinery in February, which led to a three-month shutdown. Market pressures were exacerbated when

BP's Carson City, California, refinery went through planned maintenance in March.

These two outages and other smaller market disruptions contributed to sharp inventory draws during the spring months. By mid-May, West Coast gasoline inventories were about 20 percent below the five-year average level for that time of year, marking the lowest level in more than 10 years. Inventories were rebuilt to some extent over the summer months but remained relatively low by seasonal standards.

Late summer and early fall saw three additional refinery outages. Most notable among these was a fire at Chevron's refinery in Richmond, California, in early August, which is expected to keep parts of that refinery out of service through the end of 2012. In September, Tesoro's Golden Eagle, California refinery went through planned maintenance. Adding to the supply problems, ExxonMobil's Torrance, California,

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¹ See Stephen P. A. Brown and Raghav Virmani, "What's Driving Gasoline Prices?" *Economic Letter*, Federal Reserve Bank of Dallas, October 2007.



refinery experienced an unexpected loss of electric power that resulted in a shutdown on October 1. With West Coast inventories already low, concerns about short gasoline supplies in the region drove gasoline prices much higher on the West Coast during the first week of October.

Unlike the earlier refinery disruptions on the West Coast, which affected prices in Washington, Oregon, California, and to some extent Nevada, the effects of the Torrance refinery were mostly limited to California. The Torrance refinery returned to normal operations on October 5, and wholesale gasoline prices were calmed.

The market response to refinery outages on the West Coast was highly regional—with effects mostly confined to gasoline markets on the West Coast. Unlike other U.S. markets, which are interconnected

by pipelines and barges, the West Coast's gasoline market is relatively isolated from the rest of the country and largely supplied by refineries in the region. As a consequence, its prices can see somewhat different movements than in the rest of the United States. Low inventories and refinery outages in the region typically have a more pronounced effect on the region's gasoline prices than are seen in other regions of the country.

A Uniquely California Problem

California sees particularly high and volatile prices because the state uses unique and expensive gasoline blends to meet its air-quality standards. California also requires a different, more-expensive fuel for its summer gasoline than for its winter gasoline. The requirement for summer-blend gasoline extends through the end of October. Because refiners want to avoid holding summer-blend gasoline through the winter, inventories of summer-blend gasoline are drawn down as November approaches. When two of the main refineries producing California's summer-blend gasoline—those in Richmond and Torrance—were forced to suspend production near the end of the summer driving season, California's gasoline prices rose sharply.

Two important developments helped reverse those increases. First, the Torrance refinery was back in operation only four days after it was forced to suspend operations. In addition, California's Governor Jerry Brown directed the California Air Resources Board to allow the use of winter-blend gasoline in early October instead of waiting until November 1. Brown's directive allowed existing stocks of winter-blend gasoline to be added to California's depleted summer-blend supplies. The increased supply of gasoline brought down the state's gasoline prices.

The Gasoline Price Outlook

We are beginning to see downward pressure on U.S. gasoline prices. The futures market shows a downward trajectory for crude oil prices. If that trajectory for crude oil prices is sustained, a simple model based on the relationship between pump prices for gasoline and those for crude oil prices predicts that U.S. pump prices for gasoline also can be expected to decline—from the

current \$3.85 per gallon to about \$3.50 per gallon in December 2013.

Another simple model based on prices on the gasoline futures market provides a more nuanced outlook for U.S. gasoline pump prices, while highlighting the seasonality of U.S. gasoline prices. According to the second model, U.S. pump prices for regular gasoline can be expected to drop fairly quickly from the current \$3.85 per gallon to \$3.61 per gallon in December 2012. Prices will slip further to \$3.58 in February 2013. After February, prices will take a seasonal rise reaching \$3.75 in April before beginning to slip downward with crude oil prices. In October 2013, gasoline prices will begin a seasonal decline and reach \$3.35 per gallon in December.

Nevada Economic Conditions

U.S. economic growth slowed substantially in the first half of 2012. Employment, sales and residential construction 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 remains relatively robust. Nevada's construction sector remains mired at relatively low levels. The statewide unemployment rate ticked upward in August—as did that for Washoe County. The Clark County unemployment rate dropped slightly.

U.S. Economy Continues with Weak Growth

The U.S. economy continues to experience weak growth. Recently revised data for U.S. real GDP show an annualized growth rate of 1.3 percent for second quarter 2012, somewhat below the previous estimate of 1.7 percent. 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. Revisions to U.S. nonfarm employment data paint a more positive picture than previously

West Coast Gasoline Prices May Prove Slower to Fall

On the West Coast, however, gasoline prices are likely to be a little slower to fall. Gasoline inventories on the West Coast are little farther below normal than are gasoline inventories in other parts of the country. Given the isolation of the West Coast gasoline market from other U.S. gasoline markets, the low gasoline inventories on the West Coast are likely to slow the rate at which the region's gasoline prices decline. Nonetheless, Nevada gasoline prices should begin declining in the near future.

thought. Numbers for August saw significant changes, with gains in employment being revised from 96,000 to 142,000 jobs. For September, U.S. nonfarm employment rose by 114,000 jobs. The unemployment rate fell from 8.1 percent in August to 7.8 percent in September. Both housing starts and housing prices increased for August. Consumer sentiment increased, while consumer confidence slipped in August. Personal consumption expenditures, auto/truck sales,

Story continues after graphs



Table 1	U.S.	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M09	million, SA	133.500	133.386	0.1%	131.694	1.4%
	Unemployment Rate*	2012M09	%, SA	7.8	8.1	-0.3%	9.0	-1.2%
	Consumer Price Index	2012M08	82-84=100, SA	230.1	228.7	0.6%	226.3	1.7%
	Core CPI	2012M08	82-84=100, SA	230.2	230.1	0.1%	225.9	1.9%
	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	2012M08	\$billion, SA	406.7	403.2	0.9%	388.6	4.7%
	Auto and Truck Sales	2012M08	million, SA	14.47	14.04	3.1%	12.42	16.5%
	Housing Starts	2012M08	million, SA	0.750	0.733	2.3%	0.581	29.1%
	Real GDP***	2012Q2	2005\$billion, SA	13,548.5	13,506.4	1.3%	13,264.7	2.1%
	U.S. Dollar	2012M09	97.01=100	99.194	100.776	-1.6%	97.989	1.2%
	Trade Balance	2012M08	\$billion, SA	-44.217	-42.466	4.1%	-44.775	-1.2%
	S and P 500	2012M09	monthly close	1,440.67	1406.58	2.4%	1131.42	27.3%
	Real Short-term Rates*	2012M08	%, NSA	-3.50	-2.90	-0.6%	-3.48	0.0%
	Treasury Yield Spread*	2012M09	%, NSA	1.61	1.58	0.0%	1.97	-0.4%

Table 2	Nevada	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M08	000s, SA	1,130.5	1,131.5	-0.1%	1,125.3	0.5%
	Unemployment Rate*	2012M08	%, SA	12.1	12.0	0.1%	13.8	-1.7%
	Taxable Sales	2012M07	\$billion	3.550	3.916	-9.3%	3.410	4.1%
	Gaming Revenue	2012M08	\$million	859.24	1,005.88	-14.6%	886.86	-3.1%
	Passengers	2012M08	million persons	4.048	4.071	-0.6%	4.057	-0.2%
	Gasoline Sales	2012M07	million gallons	95.57	93.32	2.4%	96.68	-1.1%
	Visitor Volume	2012M08	million persons	4.249	4.372	-2.8%	4.182	1.6%

Table 3	Clark County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M08	000s, SA	817.3	814.9	0.3%	808.5	1.1%
	Unemployment Rate*	2012M08	%, Smoothed SA	12.0	12.1	-0.1%	13.9	-1.9%
	Taxable Sales	2012M07	\$billion	2.539	2.855	-11.1%	2.406	5.6%
	Gaming Revenue	2012M08	\$million	727.03	866.98	-16.1%	752.24	-3.4%
	Residential Permits	2012M08	units permitted	589	567	3.9%	388	51.8%
	Commercial Permits	2012M08	permits	2	19	-89.5%	27	-92.6%
	Passengers	2012M08	million persons	3.644	3.671	-0.7%	3.633	0.3%
	Gasoline Sales	2012M07	million gallons	64.50	63.27	1.9%	64.80	-0.5%
	Visitor Volume	2012M08	million persons	3.600	3.763	-4.3%	3.564	1.0%

Table 4	Washoe County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment**	2012M08	000s, SA	187.8	187.9	-0.1%	188.9	-0.6%
	Unemployment Rate*	2012M08	%, Smoothed SA	11.8	11.7	0.1%	13.3	-1.5%
	Taxable Sales	2012M07	\$billion	0.490	0.497	-1.5%	0.469	4.5%
	Gaming Revenue	2012M08	\$million	68.08	64.90	4.9%	64.76	5.1%
	Residential Permits	2012M08	units permitted	40	100	-60.0%	42	-4.8%
	Commercial Permits	2012M08	permits	21	9	133.3%	13	61.5%
	Passengers	2012M08	million persons	0.351	0.347	1.1%	0.361	-2.9%
	Gasoline Sales	2012M07	million gallons	14.58	14.00	4.1%	15.47	-5.7%
	Visitor Volume	2012M08	million persons	0.446	0.433	3.2%	0.419	6.4%

*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

and retail sales all increased in August. The Kansas City Financial Stress Index remained near its long-run average in September, which suggests no financial headwinds or tailwinds. Nonetheless, business surveys and anecdotal reports show businesses delaying investments until after the election, *Table 1*.

Nevada Economy Shows Mixed Signs

The Nevada economy showed mixed signals for August. Seasonally adjusted, statewide employment decreased by 1,000 jobs (0.1 percent) from July to August. The Nevada unemployment rate increased slightly from

12.0 percent to 12.1 percent. Visitor volume was 1.6 percent higher in August than a year earlier. Gaming revenue was 3.1 percent lower in August than a year earlier, mostly a result of decreased slot play. In addition, taxable sales were 4.1 percent higher in July than a year earlier, *Table 2*.

Preliminary signals—such as increases in employment and strong gains in personal consumption expenditures—offer a more favorable view for third quarter.

Clark County Shows Mostly Positive Signs

Clark County's economy saw mostly positive signals. Seasonally adjusted, the region's employment increased from July to August by 2,400 jobs. Seasonally adjusted, the Las Vegas unemployment rate declined slightly from 12.1 percent in July to 12.0 percent in August. Compared to a year ago, August visitor volume was

up by 1.0 percent. Gaming revenue was 3.4 percent lower in August than a year earlier, mostly a result of decreased slot play. Clark County's taxable sales for June were 5.6 percent above those for a year earlier. Residential construction permits increased slightly from July to August. Commercial construction permits remained volatile at a low level, *Table 3*.

Washoe County Economy Shows Slowing

Washoe County showed less favorable economic signs than Clark County. Seasonally adjusted, Reno-Sparks' employment decreased by 100 jobs (0.1 percent) from July to August. The seasonally adjusted Reno-Sparks unemployment rate rose slightly, from 11.7 percent in July to 11.8 in August. Compared to a year earlier, August visitor volume was up by 6.4 percent. Gaming revenues for August were up by 5.1 percent over the same period a year earlier. Residential construction permits decreased in August, while commercial construction permits remained at a low level, *Table 4*.

Nevada Economic Outlook in Brief

U.S. economic growth slipped slightly during second quarter 2012. Preliminary signals—such as increases in employment and strong gains in personal consumption expenditures—offer a more favorable view for third quarter. Nevada is seeing some evidence of sluggish U.S. economic growth in the form of slowly growing tourism. Nonetheless, the most recent data suggest relative stability in Nevada's employment and strong gains in spending.

This information is provided compliments of

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