

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 SHAPING NEVADA'S ECONOMIC RECOVERY?

In 2007, Nevada saw an abrupt shift from rapid economic growth to a severe downturn. The state's economy is now mired in a sluggish recovery, in which only 21 percent of the jobs lost during its recession have been restored. Although current economic conditions make it difficult to see the potential for strong economic growth in Nevada's future, an understanding of the forces shaping the direction of Nevada's economy reveals that such potential exists.

Three very different forces are shaping Nevada's economy. One of those forces is a long-term trend of U.S. population and economic activity shifting toward the western states, including Nevada. Another important force is the effect of the most recent U.S. recession and subsequent slow recovery on the westward shift of economic activity. The boom, bust and weak recovery of Nevada's own housing market is also playing an important role. The interaction of these three major forces will largely determine the course of Nevada's economic activity over the next three to five years.

A Long-Term Shift to the West

One of the striking features of U.S. history has been a general shift of the nation's population, employment and housing to the West. These trends are quite visible during the post-WWII era. As shown in *Table 1*, western states generally saw the strongest population growth in the United States from 1950 to 2007.

If we define the West as Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Texas, Utah, Washington and Wyoming, eight western states were among the 10

Annual Percent Change in Population (1950-2007)

Table 1	US	1.21								
	NV	4.99	WA	1.76	TN	1.10	IN	0.84	MA	0.56
	AZ	3.75	GA	1.76	WY	1.08	MI	0.78	MS	0.52
	FL	3.35	HI	1.72	NJ	1.02	AL	0.75	RI	0.52
	AK	2.88	ID	1.66	CT	0.99	AR	0.71	NE	0.52
	UT	2.34	NH	1.60	MN	0.97	MO	0.70	NY	0.44
	CO	2.29	OR	1.57	VT	0.88	IL	0.66	SD	0.33
	CA	2.17	MD	1.55	WI	0.86	KS	0.66	PA	0.31
	TX	1.98	VA	1.50	OK	0.86	KY	0.65	IA	0.23
	NM	1.88	NC	1.43	MT	0.86	ME	0.65	ND	0.09
	DE	1.77	SC	1.31	LA	0.85	OH	0.64	WV	-0.16
									DC	-0.59

Source: U.S. Census Bureau and author's calculations

fastest growing states in the nation over the 57-year period from 1950 to 2007. All these western states except Wyoming and Montana saw faster population growth than the nation as a whole. Employment and housing saw similar trends.

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The West's dominant role in the nation's economic growth remained evident during the 73-month expansion that preceded the 2007-09 recession. As shown in *Table 2*, nine of the 10 fastest growing states were in the West during that expansion. All of the western states except California saw faster employment growth than the nation as a whole during the 2001-07 expansion.

Annualized Percent Change in Employment (November 2001 to December 2007)

Table 2	US	0.87								
	NV	3.67	WA	1.75	GA	1.00	NH	0.77	IN	0.46
	AZ	2.90	AK	1.61	AL	1.00	KY	0.73	RI	0.44
	WY	2.87	ND	1.53	OK	0.98	MN	.059	ME	0.42
	UT	2.72	OR	1.53	MD	0.91	NY	0.59	VT	0.40
	ID	2.52	NC	1.34	TN	0.89	WV	0.57	NJ	0.37
	HI	2.32	SD	1.29	DE	0.88	WI	0.55	CT	0.28
	MT	2.19	VA	1.27	AR	0.84	MO	0.53	LA	0.25
	NM	1.89	SC	1.26	NE	0.82	KS	0.52	IL	0.18
	FL	1.80	CO	1.12	IA	0.81	MS	0.51	MA	0.01
	TX	1.80	DC	1.08	CA	0.80	PA	0.47	OH	-0.20
									MI	-0.96

Source: U.S. Bureau of Labor Statistics and author's calculations



U.S. Recession Interrupts Westward Trend

The 2007-09 U.S. recession interrupted economic growth in the high-flying West. The economies of the western states had grown the fastest in the previous six years, but they fell among the worst performers during the recession, *Table 3*. U.S. employment fell by 6.36 percent from its peak in January 2008 to its bottom in February 2010. All western states except Texas lost

Percent Change in Employment (During the Most Recent Recession)

Table 3	US	-6.36								
	AK	-1.02	MA	-4.33	MD	-5.53	WA	-6.77	IN	-7.95
	ND	-1.60	PA	-4.33	MN	-5.62	CT	-6.86	NC	-7.97
	DC	-2.03	VT	-4.40	MO	-5.57	IL	-6.88	GA	-8.19
	SD	-3.01	NH	-4.63	WI	-5.96	UT	-7.38	OR	-8.50
	WV	-3.31	ME	-4.72	NJ	-6.18	HI	-7.42	SC	-8.60
	NE	-3.38	OK	-4.81	CO	-6.42	AL	-7.70	ID	-8.68
	LA	-3.64	VA	-4.92	KY	-6.45	TN	-7.70	CA	-8.88
	NY	-3.75	AR	-4.97	NM	-6.57	DE	-7.78	MI	-9.71
	TX	-4.02	KS	-5.31	MS	-6.61	OH	-7.85	FL	-11.45
	IA	-4.24	MT	-5.38	WY	-6.69	RI	-7.88	AZ	-11.69
									NV	-14.21

Source: U.S. Bureau of Labor Statistics and author's calculations

jobs at a greater rate than the nation as a whole. Five western states were in the bottom 10.

The housing market collapse was one of the major contributors to falling employment in the West. In addition, slow national economic growth and homeowners with negative equity throughout the nation slowed the population shift from Northeast and Midwest to the West. Together these factors shifted the western states economies from the familiar position of leading economic growth to the unfamiliar position of leading the decline.

Western States' Economies on a Slow Mend

Since hitting bottom, the U.S. economy has regained 53 percent of its job loss. As of November 2012, U.S. employment was 3.04 percent below its prerecession peak. As shown in *Table 4*, only five states and the District of Columbia have seen employment restored to prerecession levels. Those five states are taking part in the energy boom.

Employment in most of the western states has been slower to recover than the nation as a whole. Among the western states, only Texas has seen employment rise above its prerecession levels. On a percentage basis, Colorado, Hawaii and Washington are closer to their prerecession employment levels than the nation as a whole. The remaining 10 western states are farther from their prerecession levels than the nation as a whole. Four western states—Nevada, Arizona, New Mexico and Oregon are still in the bottom 10.

Percent Change in Employment (Prerecession Peak to Present)

Table 4	US	-3.02								
	ND	14.37	PA	-1.21	HI	-2.42	ME	-4.28	WI	-5.34
	DC	3.44	MD	-1.32	WA	-2.79	SC	-4.30	DE	-5.63
	TX	2.42	VT	-1.33	MT	-3.06	IL	-4.45	OR	-5.75
	AK	1.33	NE	-1.39	IN	-3.14	NC	-4.50	MS	-5.83
	LA	1.03	MA	-1.40	AR	-3.14	GA	-4.92	MI	-6.08
	OK	0.39	CO	-1.85	KS	-3.73	NJ	-4.94	NM	-6.10
	NY	-0.29	KY	-1.91	TN	-3.95	CT	-5.07	AL	-6.61
	UT	-0.66	MN	-2.00	WY	-4.03	MO	-5.13	RI	-7.62
	VA	-0.94	IA	-2.20	NH	-4.06	CA	-5.16	AZ	-7.73
	SD	-1.04	WV	-2.34	OH	-4.24	ID	-5.27	FL	-8.33
									NV	-11.21

Source: U.S. Bureau of Labor Statistics and author's calculations

Percent Change in Employment (November 2011 to November 2012)

Table 5	US	1.43								
	ND	4.67	LA	2.08	VA	1.27	PA	0.83	KS	0.41
	UT	3.13	IN	2.05	NV	1.21	MI	0.82	DE	0.17
	HI	2.97	OH	1.97	OR	1.15	AL	0.77	ME	0.08
	TX	2.63	MN	1.93	FL	1.14	SD	0.74	MS	0.07
	SX	2.51	CA	1.90	AR	1.04	NE	0.71	CT	0.06
	OK	2.44	SC	1.89	NY	1.02	MO	0.70	NH	-0.27
	CO	2.29	WA	1.70	TN	0.97	MD	0.62	AK	-0.27
	MT	2.21	GA	1.65	IL	0.94	NJ	0.59	DC	-0.42
	ID	2.12	NC	1.52	VT	0.89	WY	0.45	RI	-0.48
	KY	2.09	MA	1.45	IA	0.83	WI	0.45	NM	-0.66
									WV	-1.82

Source: U.S. Bureau of Labor Statistics and author's calculations



Accelerating Growth in the West

As the U.S. economy strengthens toward its potential, housing prices recover and employment opportunities expand, the West is reemerging as one of the fastest growing areas of the country. As shown in *Table 5*,

seven western states—Utah, Hawaii, Texas, Arizona, Colorado, Montana and Idaho—were in the top 10 for growth rates during the past year. California and Washington also saw stronger employment growth than the nation as whole. Nevada, Oregon and Wyoming saw somewhat slower employment growth, and Alaska and New Mexico saw employment losses.

Why Nevada's Economy Has Been Slow to Recover

Being among the laggards is an unfamiliar position for the Nevada economy. Long-term trends have favored the Nevada economy since WWII. As part of the West, Nevada saw the strongest population growth of any state from 1950 to 2007. It's employment saw the highest growth rate in the expansion prior to the most recent recession. Therefore, it pays to examine what is holding back the Nevada economy.

As shown in *Table 6*, most sectors of the U.S. and Nevada economies show net employment losses from the prerecession peak to the present. The notable exceptions for both Nevada and the nation as a whole are natural resources, mining, education and health services. The United States also saw employment gains in professional and business services and leisure and hospitality, which were not shared in Nevada.

A region's economic growth is largely shaped by its economic base. That base is determined by which of its sectors provide goods or services to people from other parts of the country. For Nevada, leisure and hospitality and construction have been the most

Percent Change in Employment (Prerecession Peak to Present)

Industry	United States	Nevada
Total Nonfarm Employment	-3.02	-11.21
Natural Resources and Mining	11.66	35.00
Construction	-28.63*	-66.33*
Manufacturing	-12.89	-24.19
Trade, Transportation and Public Utilities	-4.38	-5.90
Information Services	-12.93	-16.99
Financial Activities	-5.52	-17.06
Professional and Business Services	0.02	-10.41
Education and Health Services	9.93	16.29
Leisure and Hospitality	1.33	-4.87
Other Private Services	-2.26	-8.82
Government	-1.85	-6.50

Source: U.S. Bureau of Labor Statistics and author's calculations

*As measured from own peak in 2006



important components of the economic base. As a tourist destination, Nevada provides leisure and hospitality services to its visitors. The inclusion of construction in the state's economic base reflects the strong pull of people relocating to Nevada. Most other sectors in the Nevada economy go along for the ride.

As shown in *Table 6*, Nevada's construction and leisure and hospitality sectors have not performed nearly as well as their national counterparts since the prerecession peak. Had these two sectors performed as well as

their national counterparts during the recession and recovery, they would account for an additional 74,400 jobs in Nevada—19,800 in leisure and hospitality and 54,600 in construction. Allowing for multiplier effects yields an additional 44,600 jobs statewide, for a total of about 119,000.

With 119,000 additional jobs, Nevada's employment would be about 1,267,200, which is only 2.0 percent below the state's prerecession peak employment of 1,293,100. These figures suggest that the deep recession and slow economic growth in Nevada are largely the result of weakness in leisure and hospitality and construction. Had these two sectors achieved the same performance as their national counterparts, Nevada would be seeing a stronger economic performance than the United States as whole.

Hence, we can attribute much of the weakness of the Nevada economy to the interruption of the great westward movement caused by the U.S. recession and to the overbuilding that occurred during the 2000-07 real estate boom. The Nevada leisure and hospitality sector has been hampered by weak economic conditions in its neighboring western states. Nevada's construction sector has been hampered by slow population growth and a sizable surplus of housing and commercial space.

Implications for Nevada's Economic Outlook

Without diversification, Nevada's future economic growth depends heavily on tourism and construction. Fortunately, both sectors are likely to shift to higher rates of growth in the coming years. As the economies of the western states improve, Nevada's leisure and hospitality sector will show stronger growth. When U.S. economic activity eventually shifts into a higher gear, the long-term shift of U.S. economic activity to the West will accelerate, and the Nevada housing market will gradually recover. As these two developments materialize, they will set the stage for Nevada to resume a leadership role in the nation's economic growth.

Nevada Economic Conditions

The pace of U.S. economic growth picked up in third quarter 2012, but signs point to a slower fourth quarter. Going off the fiscal cliff could mean a downturn in 2013. Nevada's employment and the tourism and gaming industries continue to show gains, with some of the effects of a slowing growth in the national economy. Retail spending remains relatively robust. Nevada's construction sector remains mired at relatively low levels. The Nevada, Clark County and Washoe County unemployment rates all fell in October.

U.S. Economy Showing Signs of Improvement

The U.S. economy is showing signs of improvement. Revised estimates of U.S. real GDP for third quarter 2012 show an annualized growth rate of 2.7 percent, up from the previous estimate of 2.0 percent. Most of the improvement can be attributed to a higher rate of inventory accumulation than previously estimated.

Although real GDP growth was higher than the tepid 1.3 percent growth rate for second quarter, the third quarter rate is well below the average growth rate of 3.4 percent the U.S. economy experienced from 1947 to 2007.

The U.S. economy had slightly stronger growth in third quarter 2012, but is still below its average growth for the prior half century.

Growth in U.S. real GDP during third quarter 2012 was driven by increases in personal consumption expenditures, federal government spending, net exports, and residential investment. Much of the federal government spending came from defense—a possible reaction to the expectations of a potential sequestration of spending in the fourth quarter. If so, we could see corresponding decreases in the fourth quarter data. Nonresidential fixed investment made negative contributions.

U.S. nonfarm employment continues to rise, adding 146,000 jobs from October to November. The unemployment rate declined from 7.9 to 7.7 percent

in the same period. Housing starts are up substantially year-over-year, and housing prices continue to rise. Auto/truck and retail sales decreased for October. Consumer sentiment and consumer confidence increased significantly in October. The Kansas City Financial Stress Index remained near its long-run average in November, which suggests no financial headwinds. Nonetheless, bankers say that regulators are inhibiting business lending. Business surveys and anecdotal reports show businesses delaying investment until after a number of policy uncertainties, including the fiscal cliff, abate, *Table 7*.

Nevada Economy Shows Mostly Positive Signs

The Nevada economy showed mostly positive signs for October. Seasonally adjusted, statewide employment increased by 2,200 jobs (0.2 percent) from September to October. The Nevada unemployment rate decreased from 11.8 percent to 11.5 percent. Visitor volume was 2.5 percent higher in October than a year earlier. Gaming revenue was 1.9 percent higher year-over-year. Taxable sales continue to show strong growth, up 4.2 percent from last year, *Table 8*.

Story continues after graphs



Table 7	U.S.	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M11	million, SA	133.852	133.706	0.1%	131.963	1.4%
Unemployment Rate*	2012M11	%, SA	7.7	7.9	-0.2%	8.7	-1.0%	
Consumer Price Index	2012M10	82-84=100, SA	231.8	231.4	0.1%	226.8	2.2%	
Core CPI	2012M11	82-84=100, SA	231.0	230.6	0.2%	226.5	2.0%	
Employment Cost Index	2012Q3	89.06=100, SA	116.3	115.8	0.4%	114.2	1.8%	
Productivity Index	2012Q3	2005=100, SA	111.7	111.0	0.6%	109.9	1.6%	
Retail Sales	2012M10	\$billion, SA	411.6	412.9	-0.3%	396.4	3.8%	
Auto and Truck Sales	2012M10	million, SA	14.23	14.88	-4.4%	13.29	7.1%	
Housing Starts	2012M10	million, SA	0.894	0.863	3.6%	0.630	41.9%	
Real GDP***	2012Q3	2005\$billion, SA	13,638.1	13,548.5	2.7%	13,306.9	2.5%	
U.S. Dollar	2012M11	97.01=100	99.667	98.962	0.7%	99.519	0.1%	
Trade Balance	2012M10	\$billion, SA	-42.240	-40.277	4.9%	-45.703	-7.6%	
S and P 500	2012M11	monthly close	1,416.18	1412.16	0.3%	1246.96	13.6%	
Real Short-term Rates*	2012M10	%, NSA	-3.00	-3.19	0.2%	-3.19	0.2%	
Treasury Yield Spread*	2012M11	%, NSA	1.56	1.65	-0.09%	2.00	-0.44%	

Table 8	Nevada	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M10	000s, SA	1,136.1	1,133.9	0.2%	1,130.8	0.5%
Unemployment Rate*	2012M10	%, SA	11.5	11.8	-0.3%	13.4	-1.9%	
Taxable Sales	2012M09	\$billion	3.734	3.669	1.8%	3.583	4.2%	
Gaming Revenue	2012M10	\$million	978.81	892.75	9.6%	960.69	1.9%	
Passengers	2012M10	million persons	4.016	3.770	6.5%	4.103	-2.1%	
Gasoline Sales	2012M09	million gallons	88.33	96.03	-8.0%	90.61	-2.5%	
Visitor Volume	2012M10	million persons	4.348	4.212	3.2%	4.240	2.5%	

Table 9	Clark County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M10	000s, SA	816.2	815.6	0.1%	812.5	0.5%
Unemployment Rate*	2012M10	%, Smoothed SA	11.3	11.7	-0.4%	13.6	-2.3%	
Taxable Sales	2012M09	\$billion	2.694	2.600	3.6%	2.568	4.9%	
Gaming Revenue	2012M10	\$million	859.88	760.55	13.1%	836.51	2.8%	
Residential Permits	2012M10	units permitted	595	615	-3.3%	220	170.5%	
Commercial Permits	2012M10	permits	14	2	600.0%	18	-22.2%	
Passengers	2012M10	million persons	3.687	3.430	7.5%	3.745	-1.5%	
Gasoline Sales	2012M09	million gallons	59.50	64.12	-7.2%	61.00	-2.5%	
Visitor Volume	2012M10	million persons	3.777	3.582	5.4%	3.691	2.3%	

Table 10	Washoe County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment**	2012M10	000s, SA	189.8	189.0	0.4%	188.9	0.5%
Unemployment Rate*	2012M10	%, Smoothed SA	11.3	11.6	-0.3%	13.2	-1.9%	
Taxable Sales	2012M09	\$billion	0.489	0.518	-5.6%	0.448	9.1%	
Gaming Revenue	2012M10	\$million	59.02	68.84	-14.3%	63.52	-7.1%	
Residential Permits	2012M10	units permitted	60	84	-28.6%	34	76.5%	
Commercial Permits	2012M10	permits	20	17	17.6%	6	233.3%	
Passengers	2012M10	million persons	0.277	0.290	-4.6%	0.285	-3.0%	
Gasoline Sales	2012M09	million gallons	13.80	15.27	-9.7%	14.17	-2.6%	
Visitor Volume	2012M10	million persons	0.364	0.430	-15.3%	0.347	4.9%	

*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

Clark County Economy Shows Mostly Favorable Trends

For Clark County, seasonally adjusted employment increased from September to October by 600 jobs. The Las Vegas unemployment rate declined slightly, from 11.7 percent in September to 11.3 percent in October. Total passengers at McCarran Airport are down 1.5 percent from a year earlier. Compared to a year ago, October visitor volume was up by 2.3 percent. Gaming revenue was 2.8 percent higher in October than a year earlier. Clark County's taxable sales for September were 4.9 percent above those from a year earlier. Residential construction permits decreased slightly from September to October. Commercial construction permits remained at a low level, *Table 9*.

Washoe County Economy Shows Mixed Signs

The most recent data for Washoe County mirror those at the state level. Seasonally adjusted, Reno-Sparks' employment increased by 800 jobs (0.4 percent)

from September to October. The seasonally adjusted Reno-Sparks unemployment rate declined slightly, from 11.6 percent in September to 11.3 in October. Compared to a year earlier, October visitor volume was up by 4.9 percent. Gaming revenues for October were 7.1 percent below the same period a year earlier. Residential construction permits decreased in October, while commercial construction permits remained low, *Table 10*.

Nevada Economic Outlook in Brief

The U.S. economy had slightly stronger growth in third quarter 2012, but is still below its average growth for the prior half century. Consumer spending, auto sales, and housing are showing continued improvement. Weak growth at the national level is affecting Nevada in the form of slowing growth in tourism. Despite the slowing in tourism, taxable sales continue to make large gains. Nevada's employment is also showing relatively stable year-over-year gains.

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