

# 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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## HOW TOURISM IS CONTRIBUTING TO NEVADA'S ECONOMIC RECOVERY

As we wrote several months ago, 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. Nonetheless, its dominance of the Nevada economy means that its recovery remains highly important to economic growth in the Silver State. How much is tourism contributing to Nevada's economic recovery? Considerably more than it seems.

### Several Factors Likely Hurt Nevada Tourism

Several factors likely contributed to the sharp decline in Nevada tourism during the Great Recession of 2007-2009. As we explained last month, the West generally saw a deeper recession and a slower recovery than the United States as a whole. U.S. employment fell by 6.4 percent from its peak to its bottom, *Table 1*. Declines were much sharper in the West.

#### Change in Total Employment from Peak to Trough and to December 2012

| Table 1     | Date of Employment Trough | Peak to Trough (Percent) | Peak to December 2012 (Percent) | Employment Loss Recovered (Percent) |
|-------------|---------------------------|--------------------------|---------------------------------|-------------------------------------|
|             | United States             | Feb 2010                 | -6.36                           | -2.90                               |
| Arizona     | Sept 2010                 | -11.69                   | -7.64                           | 34.6                                |
| California  | Feb 2010                  | -9.07                    | -5.41                           | 40.4                                |
| Colorado    | Jan 2010                  | -6.36                    | -1.81                           | 71.5                                |
| Nevada      | Sept 2010                 | -14.49                   | -11.33                          | 21.8                                |
| Las Vegas   | Sept 2010                 | -14.45                   | -11.27                          | 22.0                                |
| Reno-Sparks | Nov 2010                  | -16.33                   | -14.73                          | 9.8                                 |
| New Mexico  | Sept 2010                 | -5.96                    | -5.81                           | 2.5                                 |
| Oregon      | Feb 2010                  | -8.50                    | -5.72                           | 32.7                                |
| Utah        | Feb 2010                  | -7.38                    | -0.40                           | 94.6                                |
| Washington  | Feb 2010                  | -6.77                    | -2.99                           | 55.8                                |

Source: Author's calculations using data from the U.S. Bureau of Labor Statistics

As of December 2012, U.S. employment was 2.90 percent below its prerecession peak, recovering only 54.4 percent of its loss. As of December, only three of the eight largest economies in the West—Colorado, Utah and Washington—have seen stronger recoveries in employment. Because many of Nevada's tourists come from the surrounding states—particularly California and Arizona—the economic weakness in the West hurt Nevada's tourism.

In addition, the housing bubble that preceded the recession gave many homeowners in the West an exaggerated sense of wealth. Some of that wealth was translated into spending on tourism and gaming—both of which grew much faster in Las Vegas than did the national economy. The bursting of the housing bubble ended the strong spending on tourism and gaming, as consumers shifted their efforts toward restoring their wealth.

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As shown in *Table 2*, the convergence of these two trends greatly affected the leisure and hospitality industry in Nevada. Employment in the U.S. leisure and hospitality industry fell by less than overall employment during the recession, and it has more than recovered. The Nevada tourism and hospitality industry took a much bigger hit, and it has regained about 60 percent of its employment loss.

**Change in Leisure and Hospitality Employment from Pre-Recession Peak to Trough and to December 2012**

|               | Date of Employment Trough | Peak to Trough (Percent) | Peak to December 2012 (Percent) | Employment Loss Recovered (Percent) |
|---------------|---------------------------|--------------------------|---------------------------------|-------------------------------------|
| United States | Jan 2010                  | -4.7                     | 1.7                             | 136.2                               |
| Nevada        | Nov 2009                  | -11.1                    | -4.1                            | 63.1                                |
| Las Vegas     | Nov 2009                  | -10.3                    | -1.8                            | 82.5                                |
| Reno-Sparks   | Dec 2009                  | -19.3                    | -9.3                            | 51.8                                |

Source: Author's calculations using data from the U.S. Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis

The leisure and hospitality industry 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 80 percent of its loss. In contrast, the leisure and hospitality industry fared worse in Reno-Sparks than Nevada as a whole. Employment in Reno-Sparks leisure and hospitality declined by a much greater percentage than in Nevada, and it has recovered to only about 50 percent of its loss.

**Misleading Signs of Weakness in Nevada Tourism**

In 2011 and the first half of 2012, the tourism industry showed more growth in Nevada than in the nation as a whole, *Table 3*. The Las Vegas tourism industry showed even stronger employment growth. After midyear, however, employment in Nevada leisure and hospitality slowed—even though growth of U.S. employment in the sector remained robust. Much of the weakness in hiring was concentrated in Southern Nevada.

Leisure and hospitality employment is a lagging indicator of the health of tourism. The hotels and casinos hire after they see increases in demand. Consequently, an examination of other measures is warranted. Visitor volume showed strong growth in fourth quarter—particularly in Las Vegas, *Table 4*. Gaming, airline passengers enplaning and deplaning in Nevada and Clark County, and taxi trips all declined in fourth quarter 2012. Together, these statistics paint a picture of fewer visitors from afar; more visitors driving in from neighboring states as their economies recover, and less gambling.

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

|               | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 |
|---------------|---------|---------|---------|---------|---------|---------|---------|---------|
| United States | 2.0     | 2.2     | 2.0     | 2.3     | 2.7     | 2.2     | 2.4     | 2.4     |
| Nevada        | 1.6     | 2.4     | 3.2     | 4.1     | 3.6     | 2.2     | 0.9     | 0.9     |
| Las Vegas     | 1.5     | 2.7     | 3.8     | 5.0     | 4.1     | 2.6     | 1.9     | 1.2     |
| Reno-Sparks   | 1.6     | 1.9     | -1.5    | 4.8     | 7.0     | 3.8     | 3.5     | 2.8     |

Source: Author's calculations using data from the U.S. Bureau of Labor Statistics

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

|                         | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012* |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|----------|
| Nevada Visitors         | 3.8     | 3.5     | 3.2     | 1.9     | 2.1     | 0.8     | 0.7     | 2.0      |
| Clark County Visitors   | 4.6     | 4.4     | 3.5     | 1.9     | 2.8     | 0.9     | 0.3     | 2.1      |
| Las Vegas Visitors      | 5.1     | 5.0     | 4.2     | 2.8     | 3.6     | 1.2     | 0.8     | 2.7      |
| Nevada Air Passengers   | 3.0     | 3.7     | 5.3     | 3.3     | 0.9     | -0.1    | -1.8    | -1.6     |
| McCarran Air Passengers | 3.1     | 4.3     | 5.8     | 4.1     | 3.0     | 0.9     | -1.2    | -0.9     |
| Clark County Taxi Trips | 7.1     | 7.8     | 7.8     | 6.4     | 2.2     | 0.4     | -1.9    | -3.2     |
| Nevada Gaming           | -0.9    | 10.5    | -3.0    | 5.8     | 3.9     | -3.8    | 5.6     | -4.3     |
| Clark County Gaming     | -0.2    | 12.7    | -3.7    | 6.5     | 4.4     | -3.7    | 6.9     | -4.7     |

Source: Author's calculations using data from Las Vegas Convention and Visitors Authority, McCarran International Airport, Reno-Tahoe International Airport and the Nevada State Gaming Control Board  
\*Preliminary estimate based on two months data

The gaming figures likely provide a misleading picture of tourist spending. Nevada gaming revenue took a big decline in November 2012 from the previous year as a result of circumstances rather than trends. In November 2011, the sports books took in an unusually large amount of betting as a result of the Pacquiao-Marquez fight in Las Vegas. That month also saw a surge in baccarat play, a game played by high rollers whose visits create highly volatile gaming revenue. In addition, surveys show that Las Vegas tourists have shifted their spending away from gambling toward clubs, pools and shopping. Adjusting for these two phenomena yields an upward trend in visitor spending for fourth quarter 2012, which are a little bit stronger than the favorable gains in visitor volume.

## The Favorable Trends in Nevada Tourism

Gross gaming revenue and employment in leisure and hospitality provide a misleading picture of continued weakness in Nevada tourism. Employment in leisure and hospitality is a lagging indicator of tourism, and the gaming numbers provide an incomplete and often volatile picture of visitor spending. Visitor volume is rising—with visitors from neighboring states more than offsetting the decline in visitors from afar. Moreover, visitor spending is likely growing faster than visitor volume—despite the sharp decline in gaming revenue that occurred in November 2012. Together, these factors suggest that tourism is contributing much-needed vitality to Nevada's economy.

## Nevada Economic Conditions

U.S. economic growth accelerated in third quarter 2012 with U.S. real GDP rising by a 3.1 percent annual rate. The growth was driven by increases in personal consumption expenditures, federal government spending, net exports, and residential investment. Strong gains in inventories and what is thought to be a temporary boost in federal government spending suggest a likely slowing in fourth quarter. Nevada's economy showed mostly favorable signs with gains in retail spending, employment and tourism. November gaming revenues were well below a year earlier as the result of reduced sports betting and table play. Industry observers attributed the decline to the timing of sports events.

### U.S. Economy Shows Signs of Moderate Improvement

The U.S. economy is showing signs of moderate improvement. Revised estimates of U.S. real GDP for third quarter 2012 show an annualized growth rate of 3.1 percent, up from the previous estimate of 2.0 percent. Most of the revision 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 still below the average growth rate of 3.4 percent the U.S. economy experienced from 1947 to 2007. 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.

*Story continues after graphs*



| Table 5 | U.S.                   | Date    | Units             | Current  | Previous | Change | Year Ago | Change |
|---------|------------------------|---------|-------------------|----------|----------|--------|----------|--------|
|         | Employment             | 2012M12 | million, SA       | 134.021  | 133.866  | 0.1%   | 132.186  | 1.4%   |
|         | Unemployment Rate*     | 2012M12 | %, SA             | 7.8      | 7.8      | 0.0%   | 8.5      | -0.7%  |
|         | Consumer Price Index   | 2012M11 | 82-84=100, SA     | 231.0    | 231.8    | -0.3%  | 227.0    | 1.8%   |
|         | Core CPI               | 2012M12 | 82-84=100, SA     | 231.3    | 231.0    | 0.1%   | 226.9    | 1.9%   |
|         | 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           | 2012M11 | \$billion, SA     | 412.4    | 411.3    | 0.3%   | 397.7    | 3.7%   |
|         | Auto and Truck Sales   | 2012M11 | million, SA       | 15.48    | 14.23    | 8.8%   | 13.51    | 14.6%  |
|         | Housing Starts         | 2012M11 | million, SA       | 0.861    | 0.888    | -3.0%  | 0.708    | 21.6%  |
|         | Real GDP***            | 2012Q3  | 2005\$billion, SA | 13,652.5 | 13,548.5 | 3.1%   | 13,306.9 | 2.6%   |
|         | U.S. Dollar            | 2012M12 | 97.01=100         | 98.997   | 99.586   | -0.6%  | 100.451  | -1.4%  |
|         | Trade Balance          | 2012M11 | \$billion, SA     | -48.731  | -42.064  | 15.8%  | -48.835  | -0.2%  |
|         | S and P 500            | 2012M12 | monthly close     | 1,426.19 | 1416.18  | 0.7%   | 1257.60  | 13.4%  |
|         | Real Short-term Rates* | 2012M11 | %, NSA            | -3.01    | -3.00    | 0.0%   | -3.19    | 0.2%   |
|         | Treasury Yield Spread* | 2012M12 | %, NSA            | 1.65     | 1.56     | 0.09%  | 1.97     | -0.32% |

| Table 6 | Nevada             | Date    | Units           | Current | Previous | Change | Year Ago | Change |
|---------|--------------------|---------|-----------------|---------|----------|--------|----------|--------|
|         | Employment         | 2012M11 | 000s, SA        | 1,148.2 | 1,139.0  | 0.8%   | 1,134.5  | 1.2%   |
|         | Unemployment Rate* | 2012M11 | %, SA           | 10.8    | 11.5     | -0.7%  | 13.2     | -2.4%  |
|         | Taxable Sales      | 2012M10 | \$billion       | 3.670   | 3.734    | -1.7%  | 3.516    | 4.4%   |
|         | Gaming Revenue     | 2012M11 | \$million       | 782.63  | 978.81   | -20.0% | 880.14   | -11.1% |
|         | Passengers         | 2012M11 | million persons | 3.606   | 4.016    | -10.2% | 3.644    | -1.0%  |
|         | Gasoline Sales     | 2012M10 | million gallons | 93.26   | 88.33    | 5.6%   | 90.82    | 2.7%   |
|         | Visitor Volume     | 2012M11 | million persons | 3.797   | 4.348    | -12.7% | 3.743    | 1.4%   |

| Table 7 | Clark County        | Date    | Units           | Current | Previous | Change | Year Ago | Change |
|---------|---------------------|---------|-----------------|---------|----------|--------|----------|--------|
|         | Employment          | 2012M11 | 000s, SA        | 819.9   | 818.0    | 0.2%   | 813.9    | 0.7%   |
|         | Unemployment Rate*  | 2012M11 | %, Smoothed SA  | 10.9    | 11.3     | -0.4%  | 13.5     | -2.6%  |
|         | Taxable Sales       | 2012M10 | \$billion       | 2.656   | 2.694    | -1.4%  | 2.524    | 5.2%   |
|         | Gaming Revenue      | 2012M11 | \$million       | 671.61  | 859.88   | -21.9% | 771.88   | -13.0% |
|         | Residential Permits | 2012M11 | units permitted | 531     | 595      | -10.8% | 289      | 83.7%  |
|         | Commercial Permits  | 2012M11 | permits         | 21      | 14       | 50.0%  | 13       | 61.5%  |
|         | Passengers          | 2012M11 | million persons | 3.311   | 3.687    | -10.2% | 3.319    | -0.2%  |
|         | Gasoline Sales      | 2012M10 | million gallons | 64.04   | 59.50    | 7.6%   | 61.58    | 4.0%   |
|         | Visitor Volume      | 2012M11 | million persons | 3.325   | 3.777    | -12.0% | 3.262    | 1.9%   |

| Table 8 | Washoe County       | Date    | Units           | Current | Previous | Change | Year Ago | Change |
|---------|---------------------|---------|-----------------|---------|----------|--------|----------|--------|
|         | Employment**        | 2012M11 | 000s, SA        | 192.6   | 189.9    | 1.4%   | 189.8    | 1.5%   |
|         | Unemployment Rate*  | 2012M11 | %, Smoothed SA  | 10.8    | 11.3     | -0.5%  | 12.4     | -1.6%  |
|         | Taxable Sales       | 2012M10 | \$billion       | 0.465   | 0.489    | -4.9%  | 0.475    | -2.0%  |
|         | Gaming Revenue      | 2012M11 | \$million       | 51.85   | 59.02    | -12.2% | 53.51    | -3.1%  |
|         | Residential Permits | 2012M11 | units permitted | 70      | 60       | 16.7%  | 59       | 18.6%  |
|         | Commercial Permits  | 2012M11 | permits         | 9       | 20       | -55.0% | 11       | -18.2% |
|         | Passengers          | 2012M11 | million persons | 0.248   | 0.277    | -10.5% | 0.259    | -4.4%  |
|         | Gasoline Sales      | 2012M10 | million gallons | 13.95   | 13.80    | 1.1%   | 14.19    | -1.7%  |
|         | Visitor Volume      | 2012M11 | million persons | 0.291   | 0.364    | -19.9% | 0.303    | -3.8%  |

\*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

Much of the federal government spending came from defense—a possible reaction to the expectations of a potential sequestration of spending in fourth quarter. If so, we could see corresponding decreases come fourth quarter. Nonresidential fixed investment made negative contributions.

U.S. nonfarm employment continues to rise, gaining 155,000 jobs from November to December. The unemployment rate held steady at 7.8 percent in the same period.

Housing starts are up substantially year-over-year, and housing prices continue to rise. Auto/truck and retail sales increased for November. Consumer sentiment and consumer confidence recently showed sharp declines. The Kansas City Financial Stress Index remained near its long-run average in December, which suggests no financial headwinds, but bankers say that regulators are inhibiting business lending. Business surveys and anecdotal reports also show businesses delaying investment until after a number of policy uncertainties are resolved, *Table 5*.

### **Nevada Economy Shows Mostly Positive Signs**

The Nevada economy evidenced mostly positive signs for November. Seasonally adjusted, statewide employment increased by 9,200 jobs (0.8 percent) from October to November. The Nevada unemployment rate decreased from 11.5 percent to 10.8 percent. Visitor volume was 1.4 percent higher in November than a year earlier. Taxable sales continue to show strong growth, up 4.4 percent from last year. Gaming revenue did not have a strong month and was down 11.1 percent from November 2011—mostly the result of reduced sports betting and table play along the Las Vegas strip, *Table 6*.

### **Clark County Sees Mostly Favorable Economic Conditions**

Clark County saw seasonally adjusted employment increased from October to November by 1,900 jobs. The Las Vegas unemployment rate declined, from 11.3 percent in October to 10.9 percent in November. The total volume of passengers at McCarran Airport was down 0.2 percent from a year earlier. Total visitor

volume was up by 1.9 percent over a year earlier. Gaming revenue was 13.0 percent lower in November than a year earlier with analysts attributing at least some of the decline to the high level of baccarat play and sports betting that resulted from the Pacquiao-Marquez fight in November 2011. Clark County's taxable sales for October were 5.2 percent above those from a year earlier. Residential construction permits decreased slightly from October to November. Commercial construction permits remained at a low level, *Table 7*.

### **Washoe County Economy Shows Mixed Signs**

Washoe County's economy found mixed signals in its most recent data. Seasonally adjusted, Reno-Sparks' employment increased by 2,700 jobs (1.4 percent) from October to November. The seasonally adjusted Reno-Sparks unemployment rate declined slightly, from 11.3 in October to 10.8 in November. Compared to a year earlier, November visitor volume and total passengers were down by 3.8 and 4.4 percent, respectively. Gaming revenues for November were 3.1 percent below the same period a year earlier. Residential construction permits increased slightly in November, while commercial construction permits remained low, *Table 8*.

### **Nevada Economic Outlook in Brief**

The U.S. economy had slightly stronger growth in third quarter 2012, but it 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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