

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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NEVADA'S ECONOMIC RECOVERY: GAMING AND TOURISM

Improving world economic conditions over the past three years have led to a partial recovery of Las Vegas tourism. Nonetheless, most measures of Las Vegas tourism, particularly spending, have not yet reached their prerecession peaks. The slow recovery in Las Vegas tourism is due to a number of factors, including sluggish U.S. economic growth, the late recovery in the Arizona and California economies, economic problems in the Eurozone, and a slowing of economic growth in Asia. As these economies improve, Las Vegas tourism will continue growing.

Las Vegas Tourism

The state of Southern Nevada's tourist-based economy is reflected in a number of different indicators—Clark County visitor volume, total passengers at McCarran airport, Las Vegas Strip gaming revenue and Clark County taxable sales. Strong growth in all these areas is necessary for the Southern Nevada economy to do well for residents and businesses alike.

As shown in *Chart 1*, both Clark County visitor volume and total passengers at McCarran airport have shown moderate growth in recent years. The total number of passengers passing through McCarran has increased only 4.17 percent since hitting bottom in early 2011. The number of visitors to Southern Nevada increased by only 7.36 percent since hitting bottom in 2010.

Both Las Vegas Strip gaming revenue and consumer

spending in Clark County have shown fairly strong growth in recent years. Although both took substantial hits in 2008, they have fared much better since late 2010, *Chart 2*. Gaming revenue on the Las Vegas Strip has increased by 13.85 percent since its bottom. Clark County taxable sales have increased by 14.04 percent since hitting bottom.¹

Although the growth of these four measures of Southern Nevada economic activity is encouraging, none of these series has reached its prerecession peak. Clark County taxable sales and Las Vegas Strip gaming revenue remain 13.15 and 9.40 percent below their peaks, respectively. Similarly, total passenger volume at McCarran airport is 14.20 percent below its late 2007 level. Clark County visitor volume is the closest—3.76 percent below its prerecession peak.²

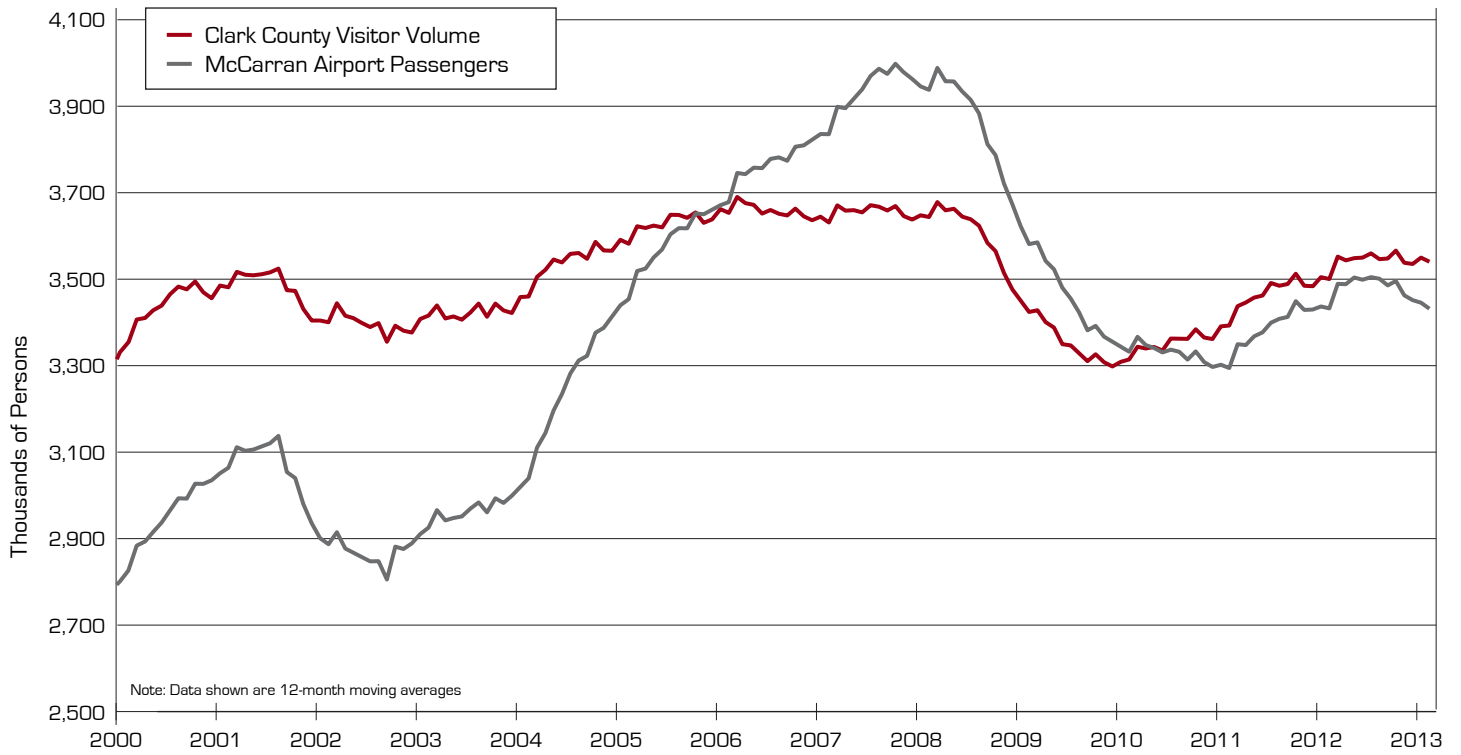
1 The lag between Las Vegas gaming revenue and Clark County taxable sales underscores the importance of tourism to the health of the Southern Nevada economy.

2 Las Vegas visitor volume exceeded its pre-recession peak in 2012.

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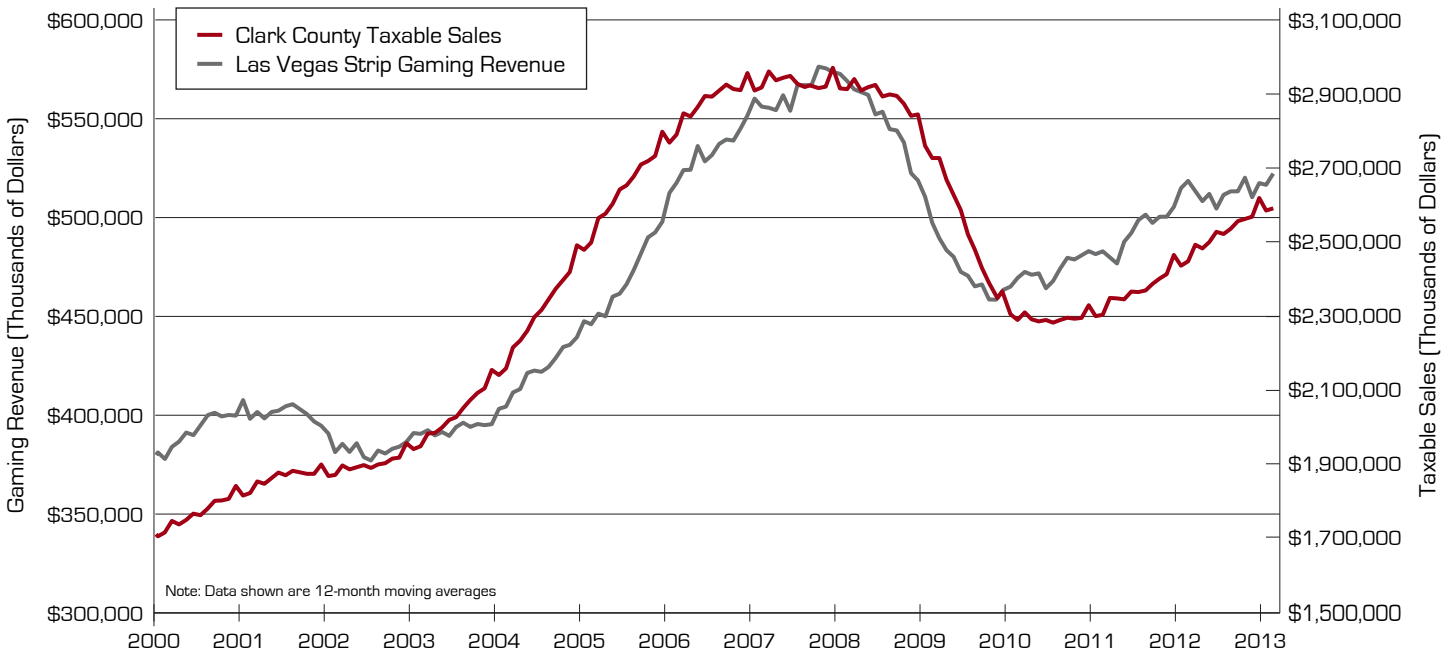


Chart 1 McCarran Total Passengers and Clark County Visitor Volume



Source: Las Vegas Convention and Visitors Authority, McCarran International Airport

Chart 2 Clark County Taxable Sales and Las Vegas Strip Gaming Revenues



Source: Nevada Gaming Commission, Nevada Department of Taxation

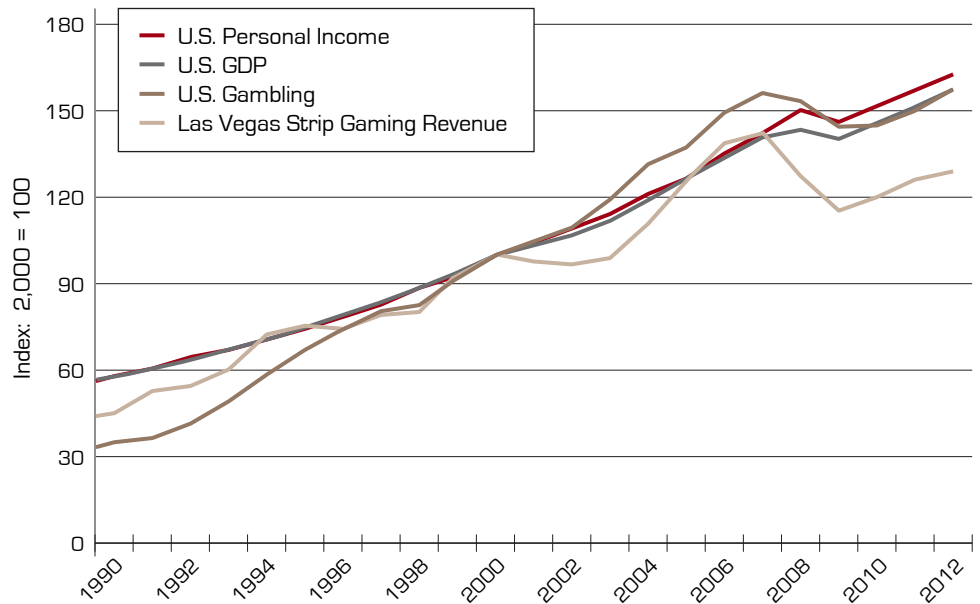
Las Vegas Strip Gross Gaming Revenue

Las Vegas Strip gross gaming revenue took a big hit in the Great Recession, *Chart 3*. It saw greater percentage losses than U.S. real gross domestic product (GDP), U.S. personal income, and U.S. gambling. Since its trough, however, Las Vegas Strip gross gaming revenue has increased by 11.84 percent. In contrast, U.S. gambling has increased 8.76 percent over the same period. U.S. GDP and personal income have increased by 12.23 percent and 11.28 percent, respectively. Despite recent gains, Las Vegas gaming is lagging well behind its national counterpart. U.S. gambling is above its prerecession peak, but Las Vegas Strip gross gaming revenue is still down 9.40 percent.

Visitor Spending on Non-Gaming Activities

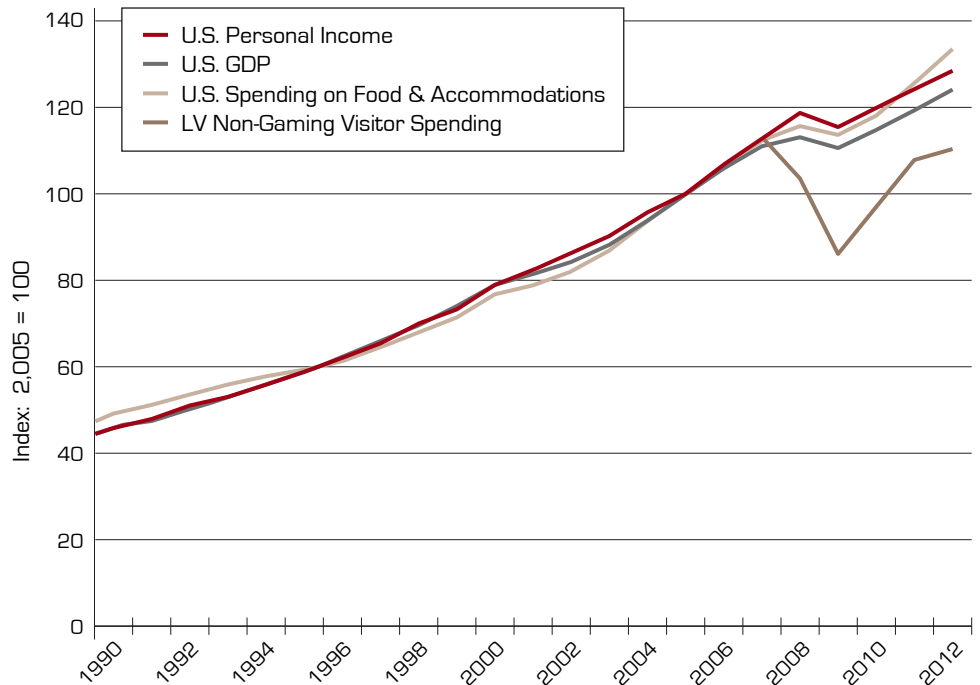
Visitor spending on non-gaming activities in Las Vegas is more than three times that of gaming revenue. During the Great Recession, visitor spending on non-gaming activities in Las Vegas dropped much more sharply than U.S. GDP, U.S. personal income, or U.S. spending on food and accommodations, *Chart 4*. Since reaching bottom in 2009, U.S. spending on food and accommodation has risen by 17.5 percent and is above its prerecession peak. Las Vegas visitor non-gaming spending increased by 28.18 percent over the same period, but it remains 2.28 percent below its prerecession peak.

Chart 3 U.S. Gambling and Las Vegas Strip Gaming



Source: U.S. Bureau of Economic Analysis, Nevada Gaming Commission

Chart 4 U.S. Spending on Food & Accommodations and Las Vegas Visitor Non-Gaming Spending



Source: U.S. Bureau of Economic Analysis, Nevada Gaming Commission

The U.S. Economy

The health of the U.S. economy is a large determinate of Southern Nevada tourism. Initial data show U.S. real GDP grew at a 2.5 percent annual rate in first

quarter 2013, *Chart 5*. That rate of growth marks a considerable acceleration from the fourth quarter 2012 rate of 0.4 percent, and it allays concerns that the economy is headed toward a recession. Nonetheless, the U.S. economy remains well below its potential, and a much stronger acceleration in economic growth is needed if we are to quickly close the gap between U.S. real GDP and its potential.

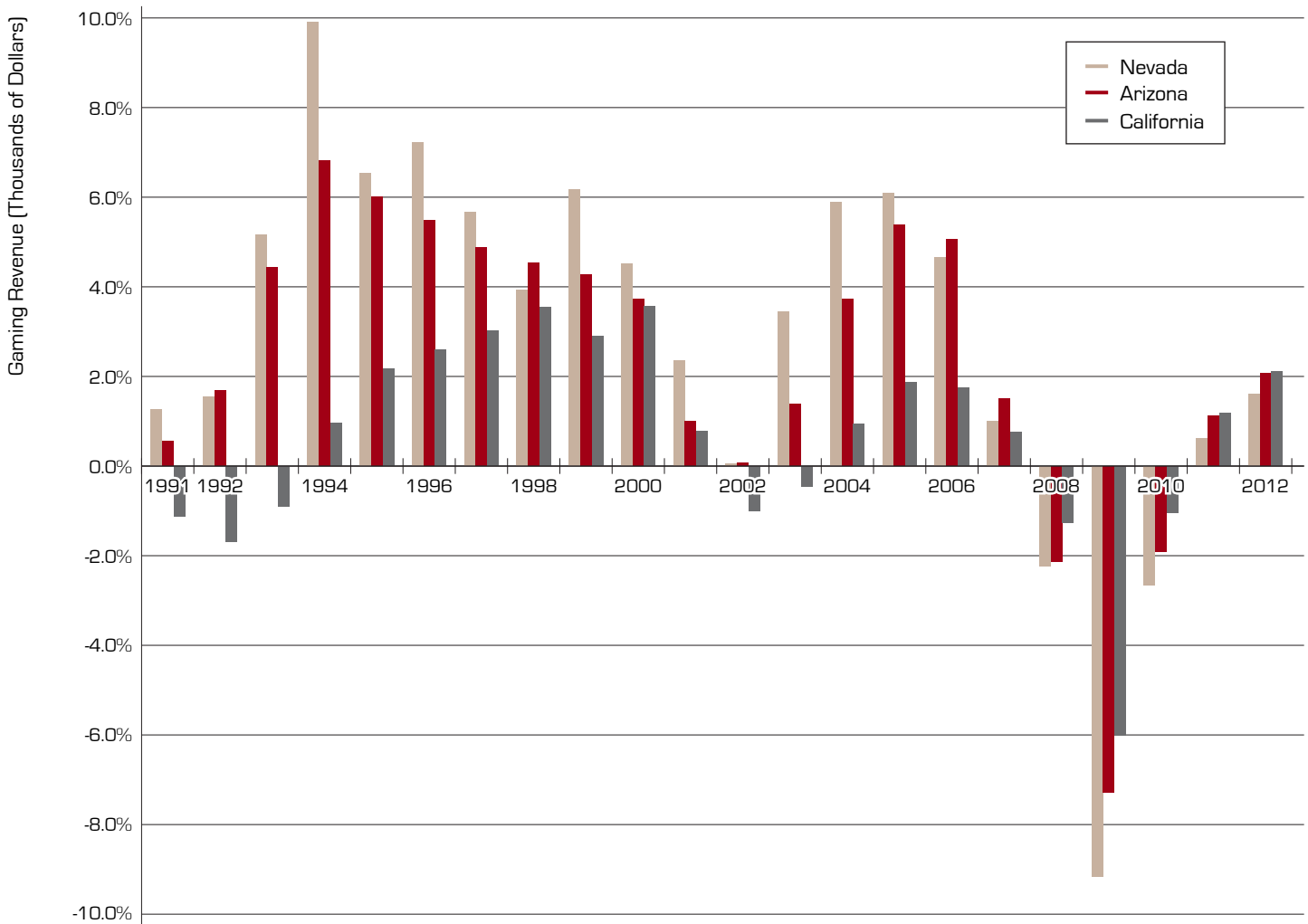
Arizona and California

Arizona and California have a much greater impact on Las Vegas tourism than other regions of the United States. In 2012, western states provided 54 percent

of the domestic visitors to Las Vegas.³ The greatest number of visitors from the West came from California (accounting for 33 percent all visitors to Las Vegas) and Arizona (accounting for 6 percent of all visitors to Las Vegas). The stronger the economies of Nevada's two neighboring states are, the greater Las Vegas' tourism will be. Higher employment and income in these two states translates into greater visitor volume and more visitor spending in Southern Nevada.

In the past couple of decades, Arizona's economy has tracked closely with Nevada's. During the early and mid-2000s, Arizona's population and economic growth was one of the highest in the nation, with

Chart 5 Annual Change in Employment for Western States



Source: U.S. Bureau of Labor Statistics

3 GLS Research, *Las Vegas Visitor Profile 2012*, Las Vegas Convention and Visitors Authority, <<http://www.lvcva.com/stats-and-facts>>.

its annual employment increasing by over 5 percent for many years, *Chart 5*. Also like Nevada, the Great Recession affected Arizona more severely than the rest of the country. Since the trough, Arizona's recovery has slightly outpaced Nevada's, which leads to some optimism for continued gains in Las Vegas tourism from Arizona.

California's economy is quite different from Arizona's and Nevada's, particularly considering the sheer size and diversity of the Golden State's economy. California had slower economic growth than most western states during the 1990s and 2000s, but it also experienced much smaller losses from the financial crisis. With employment growth just above 2 percent for 2012, California is already close to the trend rate of growth it saw in its previous economic expansions. As a result, California's share of the total visitors to Las Vegas has risen during the past five years, from 28 percent in 2008 to 33 percent in 2012. Sustained growth in the Golden State will continue to foster a recovery in Southern Nevada tourism.

International Economy

In addition to domestic visitors, foreign visitors are vital to Las Vegas tourism. Foreigners represented 17 percent of the visitors to Las Vegas in 2012.⁴ Of the foreigners, 67 percent were from Canada or Europe, and 22 percent traveled from Asia. A strong global economy, especially in Europe and Asia, is important to Las Vegas tourism.

In 2012, world economic growth was hindered by a number of crises in the Eurozone, a slowdown in the Asian economies brought about by weaker export markets, and uncertainty in U.S. fiscal policy. Things look brighter for 2013, as Japan has enacted stimulus plans to boost short-term growth, China is growing faster, the United States averted its fiscal cliff, and policy actions in Europe look to lessen the economic

risk in the euro area. The latest International Monetary Fund (IMF) projections show global economic growth accelerating to 3.5 percent in 2013.

Nevada Tourism and Gaming Outlook

In 2012, Las Vegas tourism and gaming encountered a number of headwinds and showed only moderate gains. Those headwinds included a weak national economy, the Eurozone crisis, and a slowdown of economic growth in Asian countries. Looking forward, many signals point to a continuing recovery in Las Vegas tourism spending, but a moderate acceleration is currently the most likely scenario.

The U.S. economy appears primed for stronger economic growth barring any policy setbacks or shocks, but it is likely to accelerate only gradually. For U.S. economic activity to accelerate to its potential, spending must increase considerably. Those gains in spending will only come when consumer, business and financial sector confidence in the economy increases enough to support greater spending. When that occurs, a sudden acceleration is likely. In the meantime, any excessive short-term fiscal tightening could slow the recovery.

The Arizona and California economies are improving, and moderate gains in employment are expected in both states over the next few years. Nonetheless, many problems remain in both states' economies, and a robust U.S. economy is likely to prove crucial to much stronger growth in both states.

The sluggish international economy looks likely to improve moderately in 2013. Nonetheless, a number of overhanging concerns remain about the Eurozone and a weak Chinese economy, particularly as IMF forecasts always seem to suggest an acceleration in international economic activity when it is below historically average rates of growth.

⁴ GLS Research, *Las Vegas Visitor Profile 2012*, Las Vegas Convention and Visitors Authority, <<http://www.lvcva.com/stats-and-facts>>.

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Michael M. Lawson

PRESIDENT AND CEO OF COMMERCE REAL ESTATE SOLUTIONS

Ed Turpin

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Brian Armon, SIOR, CCIM

MANAGING PARTNER, NORTHERN NEVADA OFFICE

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COMMERCE REAL ESTATE SOLUTIONS

3773 Howard Hughes Parkway, Suite 100S
Las Vegas, NV 89169

Tel (702) 796-7900 • Fax (702) 796-7920

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

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