

# 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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## WRAP-UP OF 2011 ECONOMIC CONDITION AND OUTLOOK FOR 2012

As shown in *Table 1*, the growth rate of the U.S. economy slowed down sharply from fourth quarter 2010 to first quarter 2011. After that, U.S. economic growth accelerated for the next two quarters. A variety of monthly measures—including strong spending and increased manufacturing output—suggest that the growth rate of real GDP will prove to have been quite strong during fourth quarter 2011.

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

Table 1		2010	2011	2011	2011	2011		
		Q4	Q1	Q2	Q3	Q4	2012	2013
	Real GDP (percent change annual rate)	2.3%	0.4%	1.3%	1.8%	3.0%	2.8%	3.2%
	<b>Contributions to Real GDP Growth</b>							
	Final Domestic Sales	2.78%	0.38%	1.38%	2.74%	2.3%	2.7%	3.0%
	Consumption	2.48%	1.47%	0.49%	1.24%	1.4%	1.5%	1.6%
	Business Fixed Investment	0.82%	0.20%	0.98%	1.49%	1.3%	1.3%	1.2%
	Residential Investment	0.06%	-0.06%	0.09%	0.03%	0.1%	0.3%	0.4%
	Government Purchases	-0.58%	-1.23%	-0.18%	-0.02%	-0.5%	-0.4%	-0.2%
	Net Exports	1.37%	-0.34%	0.24%	0.43%	0.2%	-0.2%	-0.2%
	Exports	0.98%	1.01%	0.48%	0.64%	0.4%	0.5%	0.7%
	Imports	0.39%	-1.35%	-0.24%	-0.21%	-0.2%	-0.7%	-0.9%
	Inventory Investment	-1.79%	0.32%	-0.28%	-1.35%	0.3%	0.3%	0.4%

Sources: U.S. Bureau of Economic Analysis; Center for Business and Economic Research, UNLV.

### U.S. Economic Outlook

In the first half of 2012, GDP growth is likely to be moderate. After that, the economy should gradually pick-up steam, with growth accelerating from 2012 into 2013. The pace of economic growth is likely to be strong enough to yield fairly robust employment growth. The unemployment rate should fall from the 8.5 percent figure evidenced in December 2011 to about 7.5 percent at the end of 2013.

### Economic Conditions in Western States

Most of the western states experienced weaker economic conditions in 2010 than the nation as a whole. Although U.S. economic activity increased in

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## Western States' Economic Growth

Table 2	Employment Growth (percent change)				Income Growth (percent change)			
	2010	2011*	2012	2013	2010	2011*	2012	2013
United States	-0.7%	1.0%	na	na	3.7%	4.8%	na	na
Arizona	-2.1%	0.9%	1.7%	2.5%	2.9%	4.9%	4.8%	5.8%
California	-1.4%	1.3%	1.4%	1.7%	4.0%	5.8%	4.1%	3.8%
Colorado	-1.1%	0.8%	1.3%	1.8%	3.8%	5.7%	4.0%	5.3%
Nevada	-2.8%	0.1%	0.9%	1.3%	1.8%	3.9%	2.4%	2.8%
New Mexico	-1.3%	0.2%	1.8%	2.5%	4.5%	5.1%	3.3%	3.6%
Oregon	-0.7%	1.5%	2.1%	2.6%	3.2%	5.3%	4.4%	4.4%
Utah	-0.6%	2.1%	3.1%	na	3.8%	5.5%	5.5%	na
Washington	-1.5%	1.3%	1.9%	2.5%	3.0%	4.9%	4.5%	5.5%

Notes: \*2011 based on preliminary data; na indicates not available.

Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis; Western Blue Chip.

2010, total U.S. nonfarm employment dropped by 0.7 percent from 2009 to 2010. Most western states saw bigger declines, as shown in *Table 2*.

Economic conditions throughout the West improved in 2011. According to the Western Blue Chip Economic Forecast, a survey of experts conducted by the W.P. Carey School of Business at Arizona State University, employment in the West should continue improving in 2012 and 2013. These gains should help Nevada's tourism-based economy.

### Nevada Economic Conditions

As shown in *Table 3*, a variety of measures show that Nevada economic activity began a slow recovery in 2011. The Nevada economy should continue to see improvement in 2012 and 2013. The gains will be stronger in the second half of 2012 than in the first, and the gains in 2013 will be stronger than in 2012.

Visitor volume and gaming revenue can be expected

### Nevada Economic Indicators (percent change)

Table 3	2010	2011	2012	2013
So. Nevada Visitor Volume	2.7%	4.8%	5.1%	5.3%
NV Gross Gaming Revenue	0.1%	2.9%	4.3%	4.5%
So. Nevada Hotel Rooms	0.0%	0.7%	-0.1%	0.2%
NV Population	0.5%	0.2%	0.8%	1.2%
NV Employment	-2.8%	0.1%	1.0%	1.5%
NV Unemployment Rate*	14.9%	12.6%	11.1%	9.6%
NV Personal Income	1.8%	3.9%	4.2%	4.5%
Housing Units Permitted	15.2%	-9.4%	3.8%	5.0%

Note: \*Unemployment rate at year's end.

Sources: Las Vegas Convention and Visitors Authority; State of Nevada Gaming Control Board; Nevada State Demographer; Nevada Department of Employment Training and Rehabilitation; Federal Reserve Bank of St. Louis; Center for Business and Economic Research, UNLV.

to continue rising—particularly in Southern Nevada. In recent years, gains in visitor volume outpaced those of gaming revenue—as visitors showed up with less money to spend. That trend showed signs of coming to an end with particularly strong growth in gaming revenue in late 2011. Consequently, gaming revenue and visitor volume are likely to grow at more closely related rates in 2012 and 2013.

Even as visitor volume grows, the hospitality industry will still see the effects of its excess capacity during all but the busiest times of year. Southern Nevada hotel capacity increased slightly in 2011, as projects on the books more than offset the closures. Given the excess capacity, a small reduction in hotel capacity seems likely for 2012. Gains are possible in 2013.

Nevada's population growth is likely to be moderate in the near future, and it will not be a driver of economic growth as it was throughout much of Nevada's history. Rather, economic growth will drive population for the next few years. After that, Nevada's housing affordability could lead to strong population gains.

Employment showed small gains in 2011. Stronger growth is to be expected in 2012 and 2013, but the gains will be sufficiently smaller that the unemployment rate will be slow to fall.

Nevada real estate prices will see a later recovery. Residential sales have already begun rising in the Las

Vegas metropolitan area, but the urban areas of the Nevada real estate market have a substantial overhang of residential and commercial property. Nevada will need a substantial growth in real estate demand before real estate prices rise.

Housing units permitted declined in 2011. Increases are possible in 2012 and 2013.

### Summary of the Nevada Economic Outlook

To sum it up, the Nevada economy has begun a long-awaited recovery. Because the Nevada economy is heavily dependent on tourism, its outlook is tied to the growth of the U.S. and western states' economies. Nevada cannot look to real estate for its economic growth right now. Diversification will pay dividends in the future.

We are already seeing a recovery in tourism—particularly in Southern Nevada. Continued gains can be expected to continue into 2012 and 2013. The national economy is on a path for a gradual acceleration of economic growth. As the recoveries in the U.S. and western states' economies advance, they will stimulate Southern Nevada tourism. Northern Nevada tourism is likely to lag considerably.

### Risks to the Outlook

Our favorable outlook for the Nevada economy is based on the idea that improved economic conditions in the United States, particularly in the West, will benefit Nevada. The recovery of the Nevada economy could be slowed if U.S. economic conditions do not continue improving. If growth of the U.S. economy suddenly accelerates, the recovery of the Nevada economy will be stronger.

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## Nevada Economic Conditions

U.S. economic activity strengthened in third quarter 2011, and preliminary data suggest fourth quarter will prove much stronger. Nevada's tourism and gaming were particularly strong in November in comparison to previous years. Nevada's construction sector is bumping along bottom. Seasonal factors contributed to reduced Nevada employment in December.

### U.S. Economy Strengthened

According to revised data, U.S. real GDP grew at an annualized rate of 1.8 percent during third quarter 2011, which represents a gain over the second-quarter figure of 1.3 percent. Consumption spending and business fixed investments were particularly strong. Preliminary indicators—such as retail sales and industrial production—suggest the growth of U.S. real GDP will prove to be even stronger in fourth quarter 2011. U.S. nonfarm employment rose by 200,000 jobs in December, and the unemployment rate fell to 8.5 percent. Both consumer confidence and sentiment rose sharply in November and December. Sales of existing homes rose by 4.0 percent in November, and are well above a year earlier. Sales of new homes slipped

in November after holding steady for two straight months. Personal consumption expenditures rose in November for the fifth straight month, and retail sales rose in December for the seventh straight month. The Kansas City Financial Stress Index edged downward in December but remained above its long-run average, suggesting that financial headwinds continue to slow U.S. economic growth, *Table 4*.

### Nevada Economy Showing Growth

The Nevada economy continues to show signs of growth. Taking a seasonal decline in November, visitor volume was 2.5 percent higher than a year earlier. Gaming revenue was 7.1 percent higher in November than a year earlier. Taxable sales were up by 12.1 percent in October above a year earlier. From December 2010 to December 2011, Nevada saw a gain of only 3,500 jobs (0.3 percent), mostly the result of gains in leisure and hospitality, business services, and health and education services. The Nevada unemployment rate rose seasonally from 12.2 percent in November to 12.4 percent in December, *Table 5*.

*Story continues after graphs*

Table 4	U.S.	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2011M12	million, SA	131.900	131.700	0.2%	130.260	1.3%
	Unemployment Rate	2011M12	%, SA	8.5	8.7	-0.2%	9.4	-0.9%
	Consumer Price Index	2011M11	82-84=100, NSA	226.7	226.8	0.0%	219.2	3.4%
	Core CPI	2011M11	82-84=100, NSA	226.8	226.4	0.2%	222.1	2.2%
	Employment Cost Index	2011Q3	89.06=100, SA	114.2	113.8	0.4%	112.3	1.7%
	Productivity Index	2011Q3	2005=100, SA	110.9	110.4	0.5%	110.3	0.6%
	Retail Sales	2011M12	\$billion, SA	400.614	400.268	0.1%	376.208	6.5%
	Auto and Truck Sales	2011M11	million, SA	13.60	13.22	2.9%	12.24	11.1%
	Housing Starts	2011M11	million, SA	0.685	0.627	9.3%	0.551	24.3%
	Real GDP***	2011Q3	2000\$billion, SA	13,331.6	13,271.8	1.8%	13,139.6	1.5%
	U.S. Dollar	2011M12	97.01=100	100.464	99.544	0.9%	99.784	0.7%
	Trade Balance	2011M11	\$billion, SA	-47.752	-43.466	9.9%	-38.842	22.9%
	S and P 500	2011M12	monthly close	1,257.60	1,246.96	0.9%	1,257.64	0.0%
	Real Short-term Rates*	2011M12	%, NSA	-3.09	-3.19	0.1%	-2.86	-0.3%
	Treasury Yield Spread	2011M12	%, NSA	1.97	2.00	-1.5%	3.15	-37.5%

Table 5	Nevada	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2011M12	000 employees	1,124.2	1,132.7	-0.8%	1,120.7	0.3%
	Unemployment Rate*	2011M12	%, NSA	12.4	12.2	0.2%	14.7	-2.3%
	Taxable Sales	2011M10	\$billion	3.516	3.583	-1.9%	3.137	12.1%
	Gaming Revenue	2011M11	\$million	880.14	960.69	-8.4%	822.10	7.1%
	Passengers	2011M11	passengers	3,644	4,103	-11.2%	3,533	3.1%
	Gasoline Sales	2011M10	million gallons	90.82	90.61	0.2%	92.35	-1.7%
	Visitor Volume	2011M11	million visitors	3,743	4,240	-11.7%	3,654	2.5%

Table 6	Clark County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2011M12	000 employees	806.7	813.8	-0.9%	802.4	0.5%
	Unemployment Rate*	2011M12	%, NSA	12.7	12.4	0.3%	15.1	-2.4%
	Taxable Sales	2011M10	\$billion	2.524	2.568	-1.7%	2.309	9.3%
	Gaming Revenue	2011M11	\$million	771.88	836.51	-7.7%	715.83	7.8%
	Residential Permits	2011M12	units permitted	550	289	90.3%	496	10.9%
	Commercial Permits	2011M12	permits	13	13	0.0%	14	-7.1%
	Passengers	2011M11	million persons	3,381	3,813	-11.3%	3,260	3.7%
	Gasoline Sales	2011M10	million gallons	61.58	61.00	0.9%	63.03	-2.3%
	Visitor Volume	2011M11	million visitors	3,262	3,691	-11.6%	3,189	2.3%

Table 7	Washoe County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment**	2011M12	000 employees	189.8	190.8	-0.5%	192.4	-1.4%
	Unemployment Rate*	2011M12	%, NSA	11.9	11.6	0.3%	13.8	-1.9%
	Taxable Sales	2011M10	\$billion	0.475	0.448	5.9%	0.413	14.9%
	Gaming Revenue	2011M11	\$million	53.51	63.52	-15.8%	52.49	2.0%
	Residential Permits	2011M12	units permitted	30	59	-49.2%	29	3.4%
	Commercial Permits	2011M12	permits	6	11	-45.5%	6	0.0%
	Passengers	2011M11	million persons	0.259	0.285	-9.1%	0.270	-3.8%
	Gasoline Sales	2011M10	million gallons	14.19	14.17	0.1%	14.22	-0.2%
	Visitor Volume	2011M11	million visitors	0.303	0.347	-12.7%	0.291	4.2%

\*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 Economic Activity Slowly Growing

Clark County's economic activity continues to expand at a slow pace. Compared to a year earlier, visitor volume was up by 2.3 percent in November. Gaming revenues were up by 7.8 percent over the same period. Taxable sales for October were 9.3 percent above those for the same month a year earlier. Residential construction permits rose from November to December, and commercial construction permits held steady at a low level. In addition, employment in the Las Vegas metropolitan area increased by 4,300 jobs (0.5 percent) from December 2010 to December 2011. The Las Vegas unemployment rate rose seasonally from 12.4 percent in November to 12.7 percent in December, *Table 6*.

### Washoe County Economic Picture Is Mixed

Washoe County's overall economic conditions appear mixed. Compared to a year earlier, November visitor volume was up by 4.2 percent, and gaming was up by 2.0 percent. Both residential and commercial construction

permits slipped from November to December, and both remain near historically low levels. Reno-Sparks employment fell by 2,600 jobs (1.4 percent) from December 2010 to December 2011. The Reno-Sparks unemployment rate rose seasonally from 11.6 percent in November to 11.9 percent in December, *Table 7*.

### Nevada Economic Outlook in Brief

Driven by strong gains in spending, national economic conditions improved in third quarter 2011. U.S. economic growth is likely to prove stronger in fourth quarter. The Southern Nevada tourism, hospitality, and gaming industries continued to show gains—as did other parts of the region's economy. The Southern Nevada economy is likely to show further gains as the U.S. economy strengthens. Nevada's real estate and construction sectors remain close to bottom. The economy remains weak in Washoe County, but some favorable signs are finally being seen in visitor volume and gaming.

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