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What's Shaping Nevada's Economic Recovery

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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 21.1 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.

Table 1. Annual Percent Change in Population (1950-2007)

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

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 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.

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.

Table 2. Annualized Percent Change in Employment (November 2001 to December 2007)

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

Table 3. Percent Change in Employment (During the Most Recent Recession)

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	-5.77	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

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 the 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 52.5 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.

Table 4. Percent Change in Employment (Prerecession Peak to Present)

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

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.

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.

Table 5. Percent Change in Employment (November 2011 to November 2012)									
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
AZ	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

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 World War II. As part of the West, Nevada saw the strongest population growth of any state from 1950 to 2007. Its 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 whole are natural resources and mining and 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.

Table 6. 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

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

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