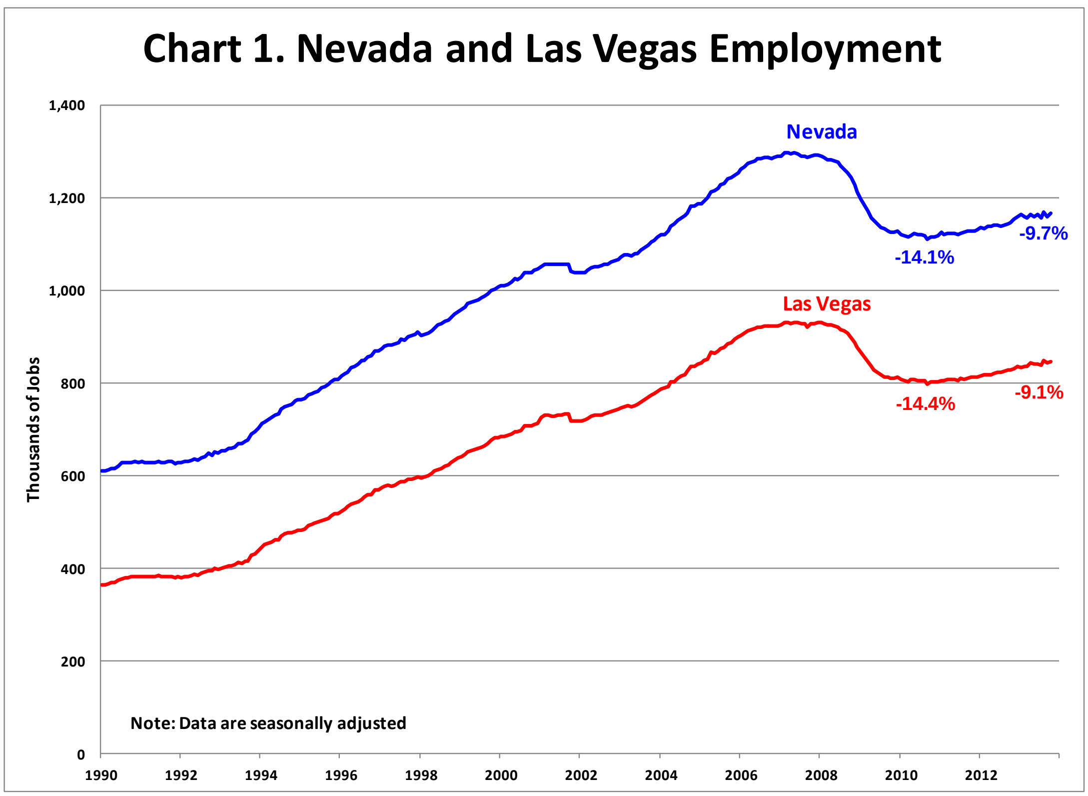
CENTER FOR BUSINESS & ECONOMIC RESEARCH
LEE BUSINESS SCHOOL

December 5, 2013

Tourism and Slow Growth of the Southern Nevada Economy

Stephen P. A. Brown and Ryan Kennelly

As we have explained in previous editions of *Economic Commentary*, the Southern Nevada economy lags well behind the nation in recovering from the Great Recession. Nevada lost 14.1 percent of its jobs during the Great Recession, and as of October, statewide employment was still 9.7 percent below the high-water mark of 1.297 million set in May 2007 (Chart 1). Southern Nevada lost 14.4 percent of its jobs during the Great Recession, and as of October, employment in Southern Nevada was 9.1 percent below the high-water mark of 931.2 thousand set in February 2007. As a point of comparison, the United States as a whole lost 6.3 percent of its jobs during the Great Recession, and as of October, nationwide employment was 1.1 percent below the high-water mark of 138.056 million set in January 2008. The fortunes of Southern Nevada's tourism and hospitality industry account for much of the slow growth in the region's economy.



Sources: Nevada Department of Employment, Training and Rehabilitation; U.S. Bureau of Labor Statistics

The Center for Business and Economic Research, UNLV – Box 456002 – 4505 S. Maryland Parkway – Las Vegas, Nevada 89154-6002
Phone (702) 895-3191 – Fax (702) 895-3606 – cber@unlv.nevada.edu – http://cber.unlv.edu – http://twitter.com/cber_unlv

Tourism and the Southern Nevada Economy

A region's economic growth is largely determined by the growth of the industries in its economic base. The industry that most stands out by providing more than half of Southern Nevada's economic base is the leisure and hospitality industry (Table 1).

A region's economic base is determined by which of its sectors export goods or services to other parts of the country. Tourism is a little different in that the industry brings its customers into a region to provide them with services.

Economists typically measure the sectors forming a region's economic base by using location quotients. A location quotient provides information about whether the region has more or less of a particular industry than is the national average.[1] With the idea that people across the country generally consume similar items, industries that are present in a region above the national average are expected to export to the rest of the country. These industries have a location quotient greater than one and form the region's economic base.

Table 1. Nevada and Las Vegas Location Quotients (2012)

	Location Quotients	
Industry	**Nevada**	**Las Vegas**
Natural Resources and Mining	0.89	0.03
Mining, Except Oil and Gas	5.83	0.17
Construction	1.20	1.23
Manufacturing	0.37	0.26
Trade, Transportation and Utilities	0.95	0.91
Air Transportation	1.48	1.85
Transit and Ground Transportation	3.51	4.48
Scenic and Sightseeing Transportation	4.37	5.72
Support Activities for Transportation	1.08	1.06
Information	0.51	0.51
Financial Activities	0.78	0.81
Real Estate, Rental and Leasing	1.46	1.47
Professional and Business Services	0.90	0.90
Education and Health Services	0.59	0.56
Management of Companies and Enterprises	1.05	1.12
Leisure and Hospitality	2.63	2.94
Other Services	0.69	0.67

Source: U.S. Bureau of Labor Statistics

After tourism-related activities, next come real estate and construction. In 2006, the construction industry also stood out with location quotients of 1.88 and 1.96 in Nevada and Clark County, respectively. Now, both location quotients are closer to one.

The only other sector that stands out is management of companies and enterprises. This sector captures corporate headquarters—that is, the brains of interstate and international operations.

[1] A location quotient for a given industry in a region is calculated as $L_{i,j} = (E_{i,j}/E_j)/(E_{i,US}/E_{US})$ where $E_{i,j}$ represents employment in industry i in region j, E_j is total employment in region j, and US refers to U.S. employment.

Employment in this sector includes headquarters for the gaming industry, energy companies, bank-holding companies, and other similar activities.

Just how much does tourism contribute to the Southern Nevada economy? To answer this question we can look at tourist expenditure and the associated economic multipliers.

Table 2: The Economic Impact of Visitor Expenditures on Metropolitan Las Vegas

	Average Visitor Expenditure (dollars)	Total Visitor Expenditure (millions of dollars)	RIMS II Economic Multiplier	Total Economic Impact (millions of dollars)
Lodging	146.35	5,814	1.7437	10,138
Food & Beverage	265.11	10,532	1.7825	18,773
Local Transportation	57.77	2,295	1.8239	4,186
Retail Shopping	149.29	5,931	1.7332	10,279
Sightseeing	9.63	383	1.8239	698
Entertainment/Shows	42.89	1,704	1.913	3,260
Gaming	175.72	6,981	1.7569	12,265
Totals	**846.76**	**33,639**		**59,598**

Sources: Las Vegas Convention and Visitors Authority; U.S. Bureau of Economic Analysis; Center for Business and Economic Research, UNLV

According to a survey conducted by the Las Vegas Convention and Visitors Authority, the average visitor to Las Vegas spent an average of $671.04 on nongaming activities in 2012. The Center for Business and Economic Research at UNLV estimates the average visitor spent another $175.72 on gaming in 2012, for an average visitor expenditure of $846.76. With an estimated 39,727,022 visitors in 2012, total Las Vegas visitor expenditure was $33.6 billion in 2012—amounting to 35.2 percent of the $95.6 billion Las Vegas metropolitan gross domestic product (GDP) in 2012.

The visitors' direct impact of $33.6 billion provides spinoff impacts that ripple through the Las Vegas economy. These spinoff impacts are the result of additional rounds of spending that take place after the direct spending has occurred. For example, casino employees spend their paychecks at other local businesses for housing, groceries, and clothing. Local business employees then spend those dollars again for their own housing, groceries, and clothing, and so on. As a result, the full impact on the economy is more than $33.6 billion. When the $33.6 billion ripples through the economy, it creates another $26.0 billion for a total economic contribution of $59.6 billion, which amounts to 62.3 percent of Las Vegas metropolitan GDP in 2012.[2]

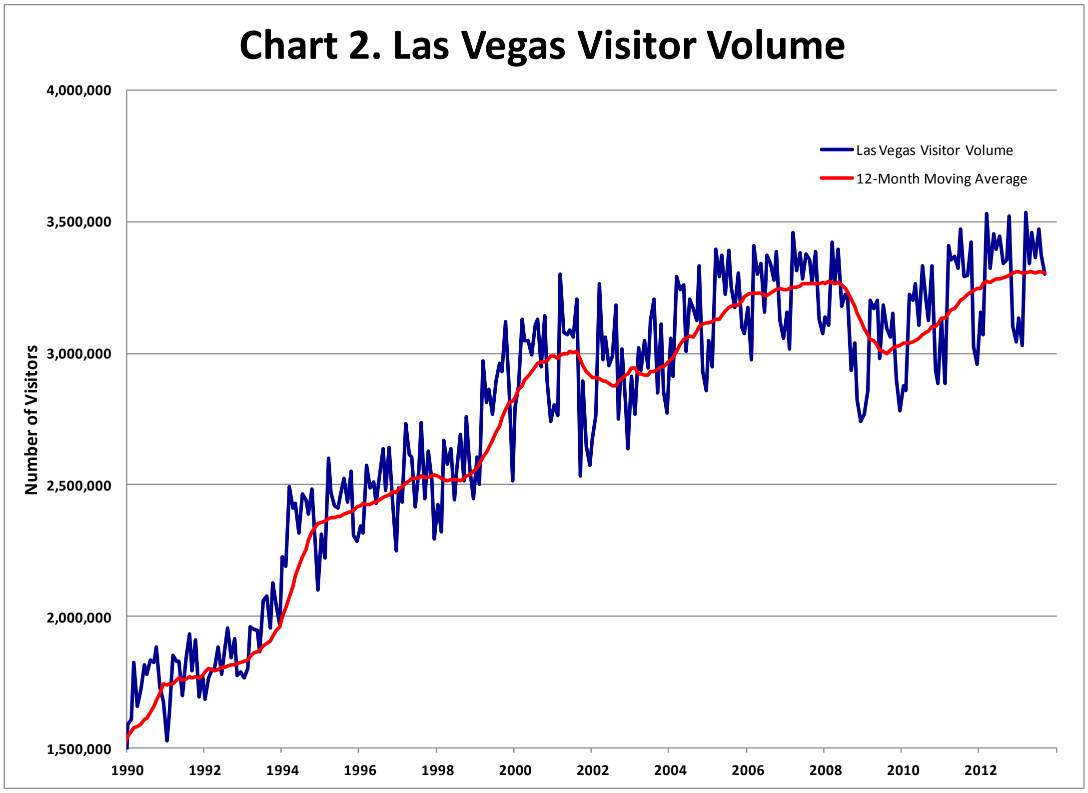
How Las Vegas Visitor Activity Is Faring

With such an outsize contribution to the Las Vegas economy, visitor volume and expenditures remain an important driver of the region's economy. The weak gains in visitor volume and expenditure account for much of the weakness in the Southern Nevada economy in 2013.

[2] Economic impact analysis accounts for changes in final demand, whereas GDP measures value added. For a region like Las Vegas that imports much of what it sells, final demand may differ considerably from value added. As a consequence, we cannot conclude that visitor expenditure accounts for 62.3 percent of the Las Vegas metropolitan GDP. It is likely less.

Visitor Volume

The Great Recession hit Las Vegas visitor volume fairly hard, and it was slow to recover (Chart 2). In 2012, Las Vegas visitor volume finally exceeded the levels seen in 2007, before the Great Recession. In 2012, Las Vegas visitor volume was 2.1 percent higher than it was in 2011. For the first nine months of 2013, however, Las Vegas visitor volume has averaged 0.2 percent less than for the same period in 2012. With the conventions and other events scheduled for late 2013, Las Vegas visitor volume for 2013 should end up about the same as or a little higher than in 2012.



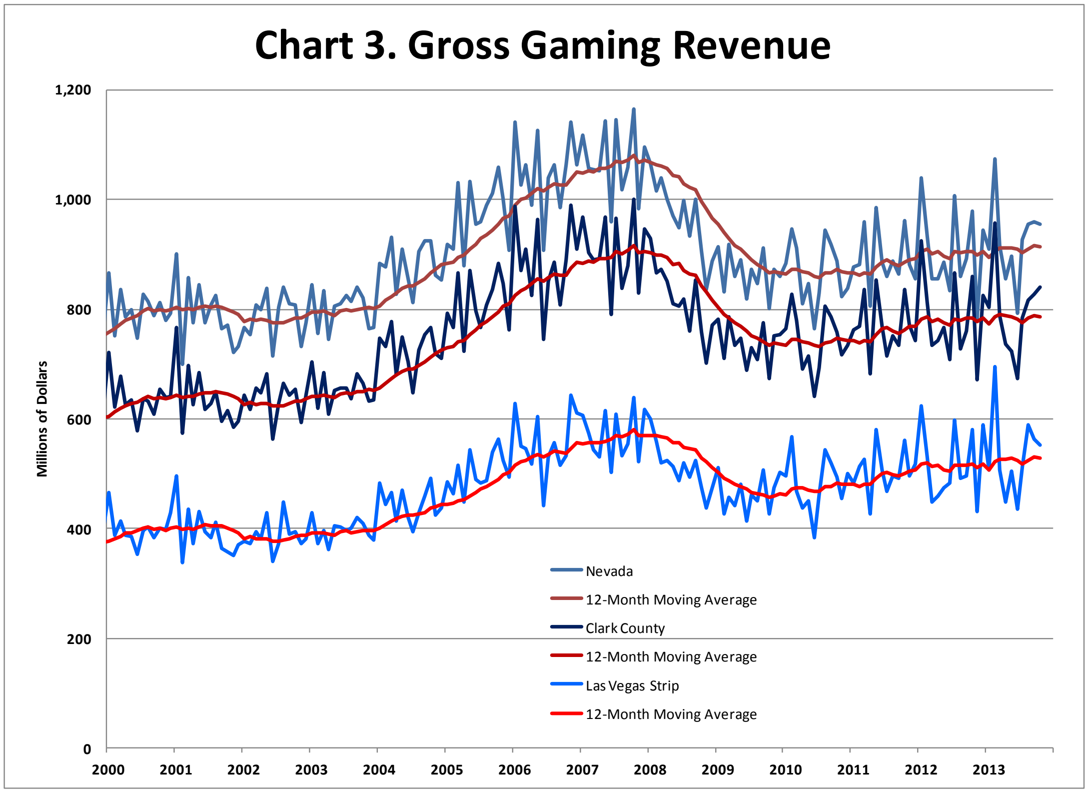
Sources: Las Vegas Convention and Visitors Authority; Center for Business and Economic Research, UNLV

The improving economy in the West has been evident in the changing of the composition of visitors to Las Vegas. In 2012, western states provided 54 percent of the domestic visitors to Las Vegas. 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. This trend looks to continue in 2013, as the number of visitors arriving by automobile during the first nine months of the year was 1.7 percent higher than for the same period in 2012. The number arriving at the California-Nevada border was up by 0.7 percent.

Gaming

Gaming revenues are not back to prerecession levels. As of October, Nevada, Clark County, and Las Vegas Strip gaming revenues were 15.5, 14.1, and 9.0 percent below their respective peaks (Chart 3). For the first ten months of 2013, Nevada gaming revenues were 1.1 percent higher than for the same period in 2012. Similarly, Clark County gaming revenues were 0.6 percent higher. Gaming revenue on the Las Vegas Strip has experienced slightly higher growth so far in 2013, up 2.5 percent from the same period last year.

Las Vegas gaming revenues saw greater percentage losses than U.S. real GDP, U.S. personal income, and U.S. gambling during the Great Recession. Since its trough, however, Las Vegas Strip gross gaming revenue has increased by 11.8 percent. In contrast, U.S. gambling has increased 8.8 percent over the same period. U.S. GDP and personal income have increased by 12.2 percent and 11.3 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 by 9.4 percent.



Sources: Nevada Gaming Control Board; Center for Business and Economic Research, UNLV

Nongaming Spending

Visitor spending on nongaming activities in Las Vegas is more than three times that of gaming revenue. During the Great Recession, visitor spending on nongaming activities in Las Vegas dropped much more sharply than U.S. GDP, U.S. personal income, or U.S. spending on food and accommodations. 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 nongaming spending increased by 28.2 percent over the same period, but it remains 2.3 percent below its prerecession peak.

Slow Recovery of the Southern Nevada Economy

With visitor spending and its multiplier effects amounting to more than 60 percent of the Las Vegas metropolitan economy, it is not surprising that the sluggish performance in the leisure and hospitality sector has meant a sluggish performance in the Las Vegas economy in 2013.

The weak national and international economies account for much of the slowness in visitor volume, as does increased competition for the gaming dollar. As the national and international economies gradually improve, Las Vegas visitor volume and gaming and nongaming expenditures will also improve. As a result, the Las Vegas economy will see stronger economic growth.

Stephen P. A. Brown, Ph.D.
Director
Center for Business and Economic Research
University of Nevada, Las Vegas

Ryan Kennelly
Economic Analyst
Center for Business and Economic Research
University of Nevada, Las Vegas