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Nevada’s Economic Outlook for 2012

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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 2011. In the latter part of 2011, 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. The Washoe County economy remains weak, but some favorable signs are finally being seen in visitor volume and gaming in that part of the state. Nevada’s real estate and construction sectors remain close to bottom.

U.S. Economic Conditions

With construction at rock bottom, and economic diversification more a factor for long-term growth, the Nevada economy remains heavily dependent on tourism and hospitality for its near-term impetus to growth. As might be expected, growth in that industry depends upon overall economic conditions in the United States—particularly in the West. The U.S. economy and those in the western states are improving, which bodes well for Nevada’s economic prospects in 2012.

As shown in Table 1, the growth rate of the U.S. economy slowed down sharply in 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.

Table 1. Contributions to the Growth of U.S. Real GDP

	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012	2013
Real GDP (percent change annual rate)	2.3	0.4	1.3	1.8	3.0	2.8	3.2
Contributions to Real GDP Growth							
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.

In the first half of 2012, GDP growth is likely to 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 the 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 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.

Table 2. Western States' Economic Growth

	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 in some cases; na indicates not available.

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

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.

Table 3. Nevada Economic Indicators (percent change)

	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
NV Housing Permits	15.2	-9.4	3.8	5.0

Note: *Unemployment rate in December.

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.

Visitor volume and gaming revenue can be expected 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 small 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 to see substantial growth in real estate demand before real estate prices rise.

Nevada building permits for new housing declined in 2011. Small 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 over the next few years. As the recoveries in the United States and western states' economies advance, they will further stimulate Southern Nevada tourism. Northern Nevada tourism is likely to lag considerably.

Risks to the Outlook

The favorable outlook for the Nevada economy is based on the idea that improving 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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