

Nevada

Regional Intelligence Report

MAY 2022

Prepared by Beacon Economics, LLC
Presented by Bank of Nevada

Economic Outlook: Nevada

Overview

The pandemic recession and recovery ended in the final half of 2021. As far as business cycles go, this one was truly unique—it was the deepest ever, shortest in length and followed by one of the most rapid recoveries ever seen. This was a supply shock-driven recession without the typical longer-term consequences that come from, for example, an asset-bubble-collapse-driven demand shock, which drove the Great Recession.

While Nevada still has some ground to recover for all the jobs lost due to the COVID-19 pandemic, the state should surpass the pre-pandemic peak for non-farm employment in the second half of 2022.

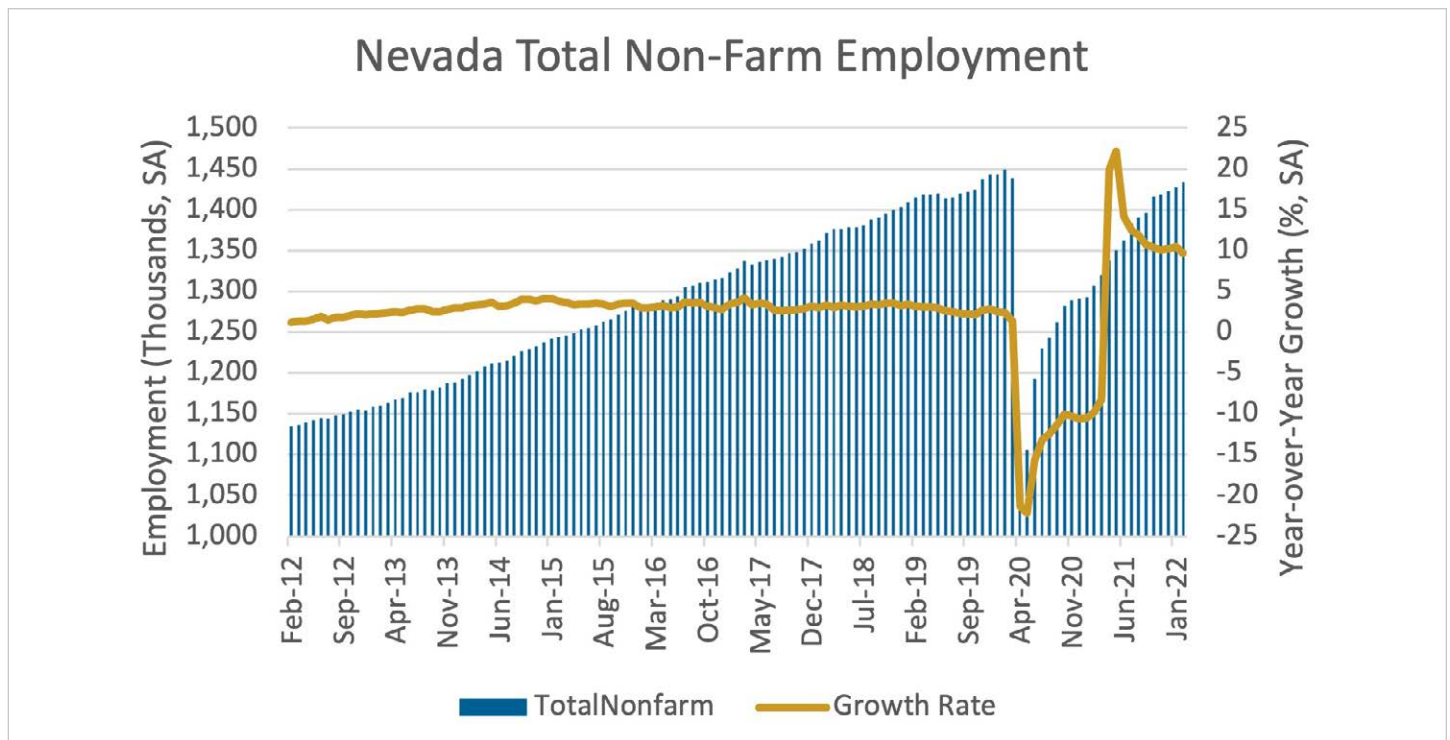
Still, excessive consumer demand is driving inflationary pressures in the U.S. This can be seen in the strong growth in overall consumer spending—growing faster than GDP growth since 2017—with no signs of slowing. Throughout history, periods when consumer spending grows faster than output have always ended ugly. Two key examples include the downturn in the stagflation in the 70's and the Great Recession of 2007-2009.

How sustained will inflation be? The Federal Reserve seems to be suggesting that a few rate hikes and the unsnarling of supply chains will quickly reduce the rate of price growth, and, so far, the bond markets appear to be buying it. But a careful empirical analysis of the history of prices suggests that other factors play an important role, including the Federal deficit, wage growth and, of course, the money supply, which lies at the heart of monetary theory.

Regional Employment

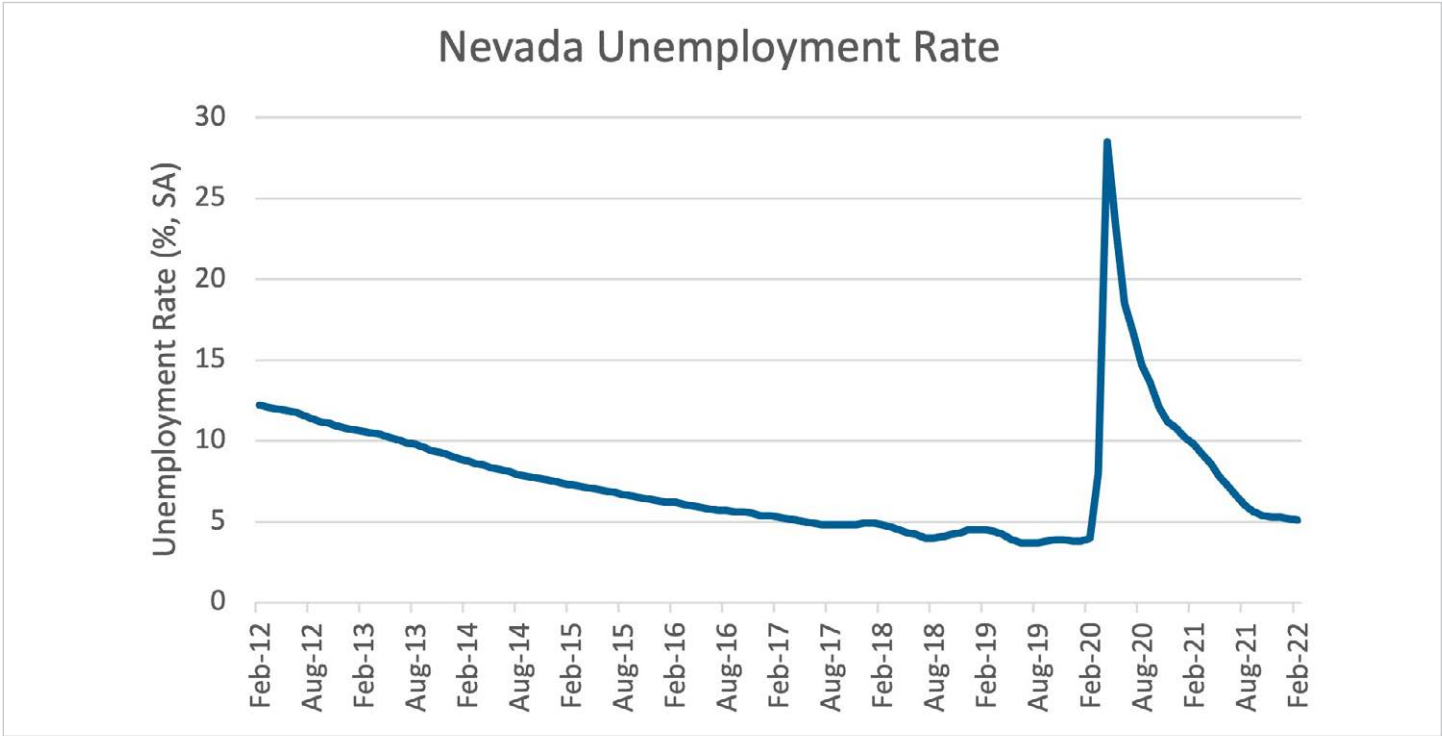
Nevada’s labor market has continued to steadily recover from the COVID-19 pandemic, adding 318,000 jobs since it hit the bottom in April 2020, which is 95% of the jobs lost between February 2020 and April 2020. With the ongoing jobs market recovery, total payroll employment is -1.1% (or 15,500 jobs) below the pre-pandemic peak in February 2020.

Unemployment rates have also improved from the 2020 highs. In Nevada, the unemployment rate was 5.1% in February 2022, which is elevated compared to the 3.8% national rate. While it has grown in recent months, Nevada’s labor supply remains constrained. Since February 2020, the state’s labor force has fallen by 59,300 workers, a 3.8% decline, which is a more significant decline compared to the 0.4% decline in the United States over the same period.



Source: U.S. Bureau of Labor Statistics

Unsurprisingly, the largest job losses in Nevada have been concentrated in the Leisure and Hospitality sector, with 34,000 fewer workers employed compared to February 2020, a -9.4% decline. Other significant job losses have occurred in Other Services (-8.8% or 3,800 jobs), Administrative Support (-6.2% or 6,900 jobs), Government (-3.7% or 6,200 jobs) and Professional, Scientific and Technical Services (-2.1% or 4,200 jobs). These were some of the sectors most impacted by government health mandates and consumer reservations due to COVID-19.



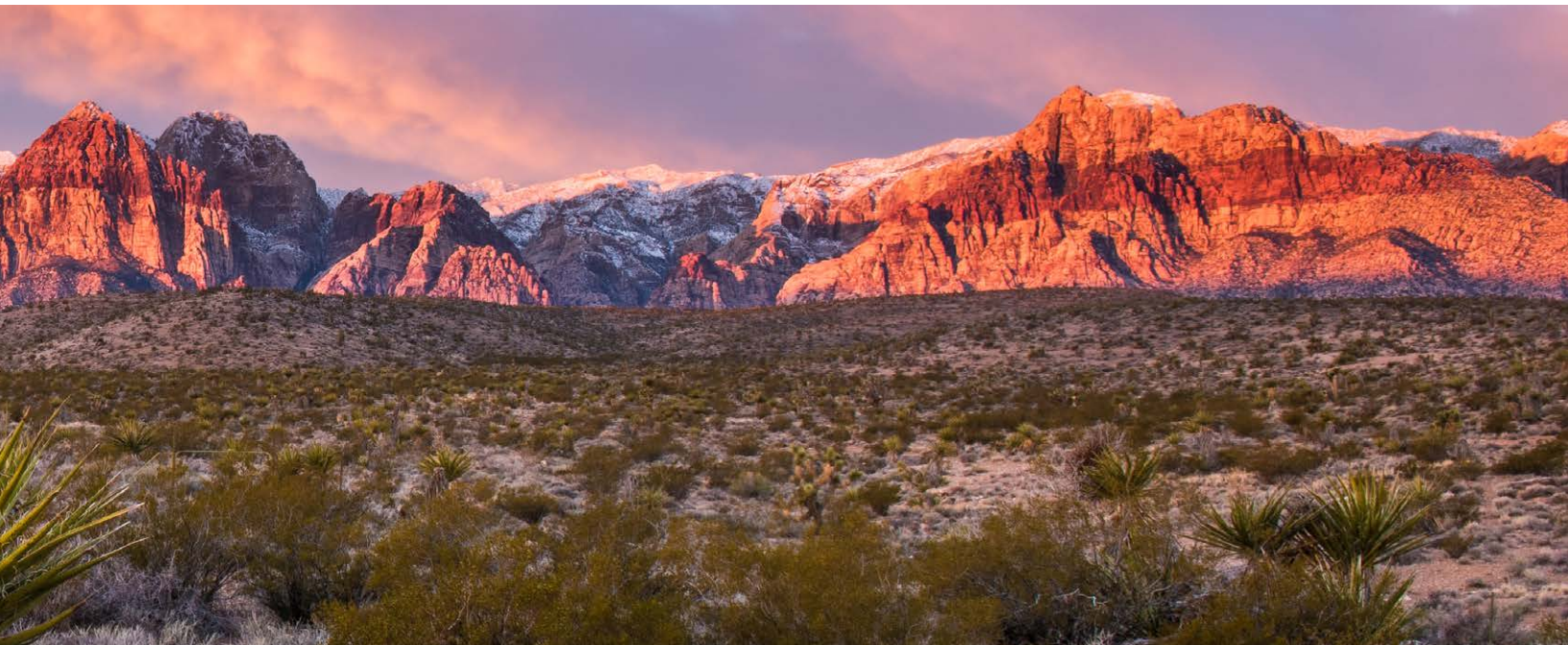
Source: U.S. Bureau of Labor Statistics



INDUSTRY EMPLOYMENT: NEVADA

Sector	Feb. 22 Emplt. (000s)	Chg. Since Feb. 20 (%)	Chg. Since Feb. 20 (000s)
Transport, Warehouse, Util.	97.6	26.6	20.5
Manufacturing	63.5	6.7	4.0
Retail Trade	153.0	2.6	3.9
Financial Activities	73.6	5.1	3.6
Education/Health	152.1	2.2	3.3
Information	15.7	3.3	0.5
Wholesale Trade	38.6	-0.8	-0.3
Construction	98.1	-1.2	-1.2
Other Services	39.6	-8.8	-3.8
Professional/Business	198.9	-2.1	-4.2
Government	161.4	-3.7	-6.2
Admin Support	104.2	-6.2	-6.9
Leisure and Hospitality	327.7	-9.4	-34.0
Total Nonfarm	1,434.1	-1.1	-15.5

Source: U.S. Bureau of Labor Statistics

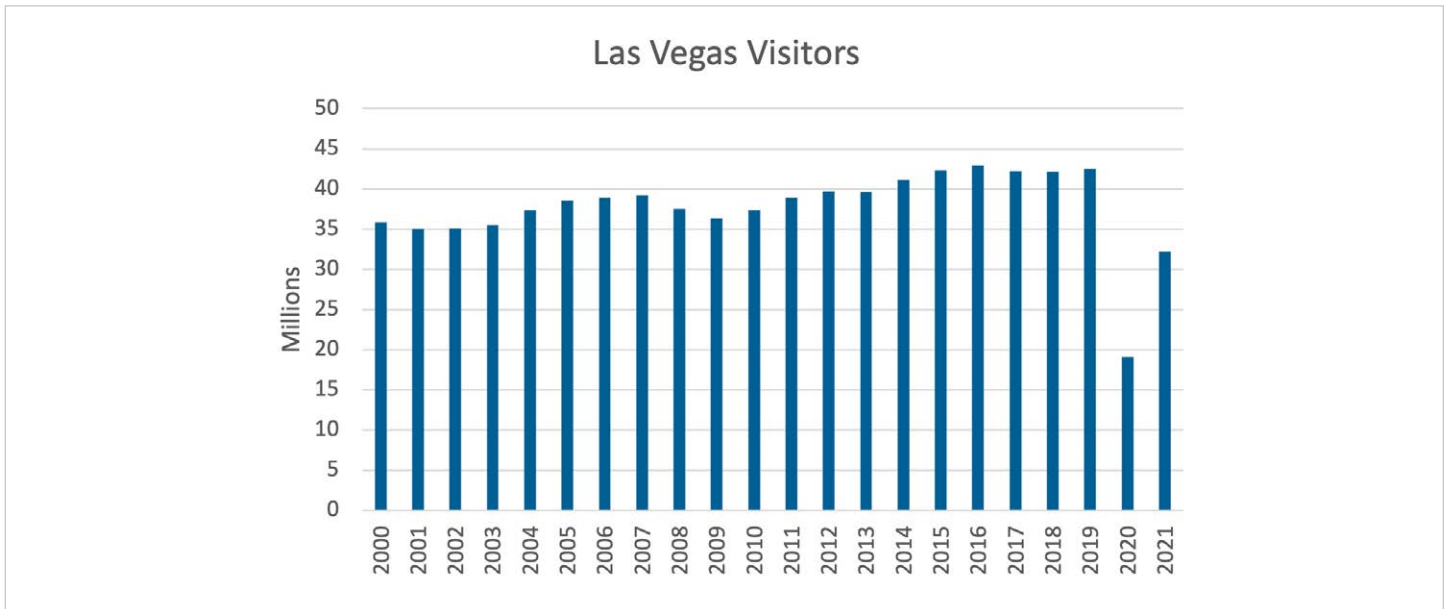


Hospitality and Tourism

Nevada’s Hospitality and Tourism industry is also continuing to recover from the COVID-19 pandemic. In 2021, Las Vegas saw 32.2 million visitors, a 69.4% increase compared to 2020 levels; however, this is still 24.2% below 2019 levels.

With the increase in visitor volume, occupancy rates for hotels in Las Vegas improved to 60.5% in 2021, a substantial increase from 37.4% in 2020 but still below the 86.3% rate in 2019.

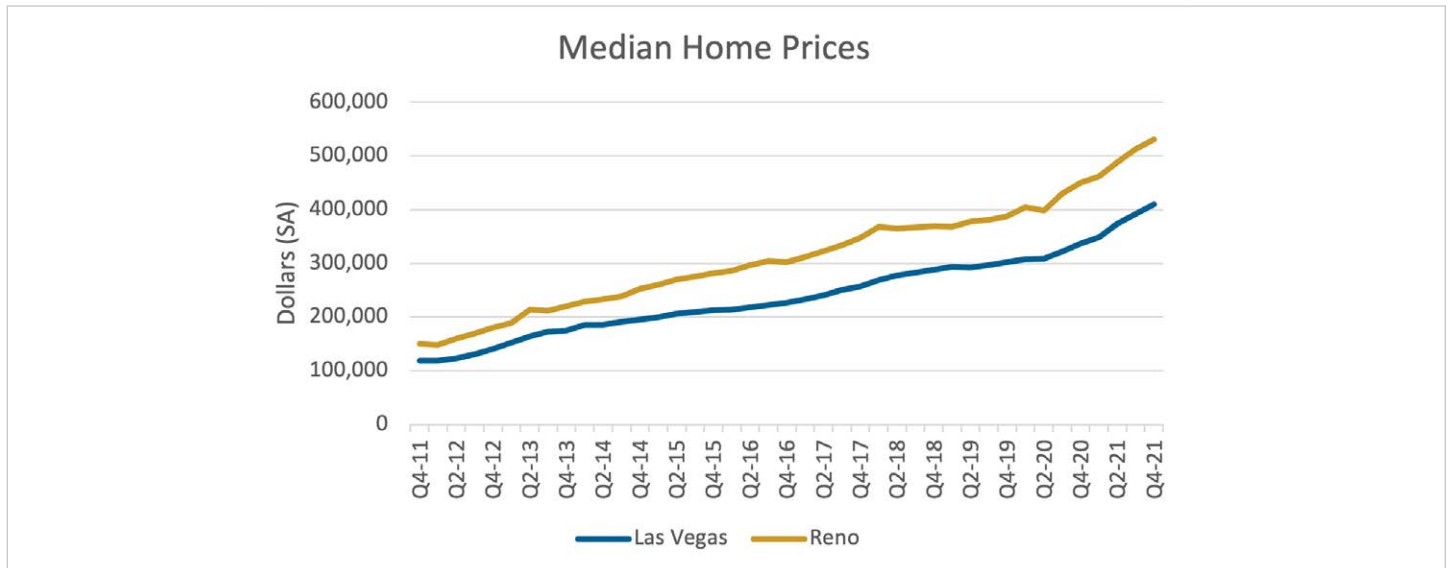
Despite lower visitor volume, the gaming industry in Las Vegas had a record year in 2021. In 2021, gross gaming revenue in Las Vegas totaled \$11.5 billion, a 75% increase over 2020 and the highest on record for Las Vegas. Indeed, 2021’s revenues were 10.6% above 2020 levels, the year with the previous highest annual gaming revenue.



Source: Las Vegas Convention and Visitors Authority

Residential Real Estate

The housing market was by far the strongest spot of Nevada’s economy in 2021. Strong performance is likely driven by three factors.



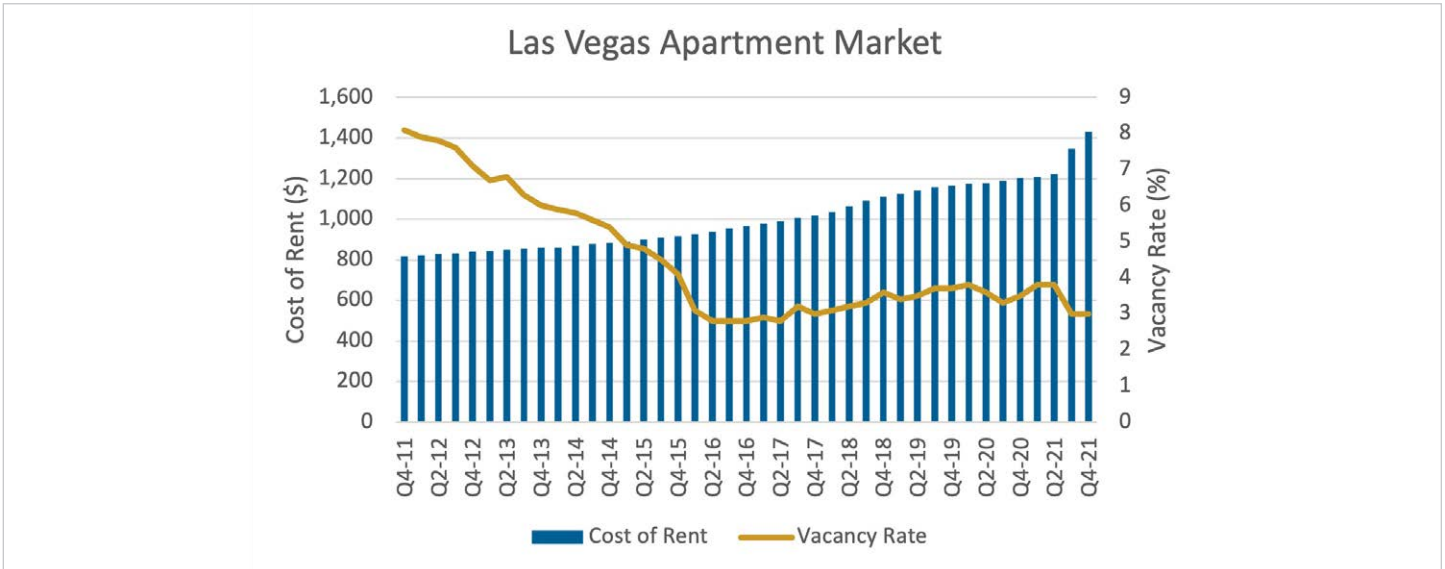
Source: CoreLogic

First, typical homebuyers (higher-income earners) have been less affected by the labor market downturn. Second, mortgage rates were at historically low levels in 2021, spurring purchase activity. Third, inventories are near historic lows. These factors have pushed offers far over the asking price even as buyers waive inspections and other contingencies in an attempt to get a leg-up on the competition.

With this backdrop, home prices in Nevada continue to increase rapidly. From the fourth quarter of 2020 to the fourth quarter of 2022, the median home price rose 21.7% in Las Vegas, reaching \$409,673. In Reno, median home prices rose to \$530,641 in the fourth quarter of 2022, a 17.9% increase from a year earlier.

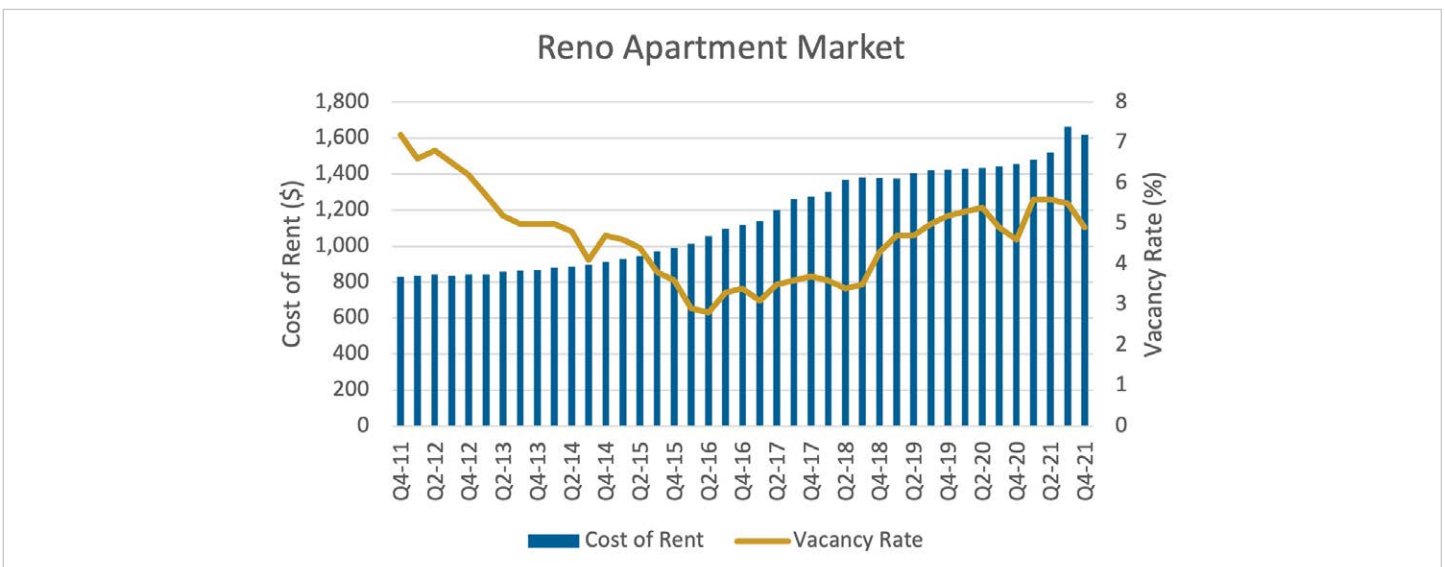
Despite limited inventory, demand for housing remains high and the number of homes sold has increased. In Las Vegas, there were 11,750 homes sold in the fourth quarter of 2021, an 8.3% increase from 2020 levels. In Reno, there were 1,964 homes sold in the fourth quarter of 2021, a 7.0% decrease over 2020.

Economic stimulus and low interest rates have increased demand for housing throughout Nevada; however, supply has not increased to meet this demand. In the first quarter of 2022, there was an average of 6,672 units for sale per month in Las Vegas, which is 24.8% below 2020 levels and 41.4% below 2019 levels. In Reno, there was an average of 981 units for sale per month in the first quarter of 2022, which is 18.1% below 2020 levels and 49.4% below 2019 levels. While housing supply remains constrained in the state, the specter of higher interest rates will weigh on price appreciation in 2022.



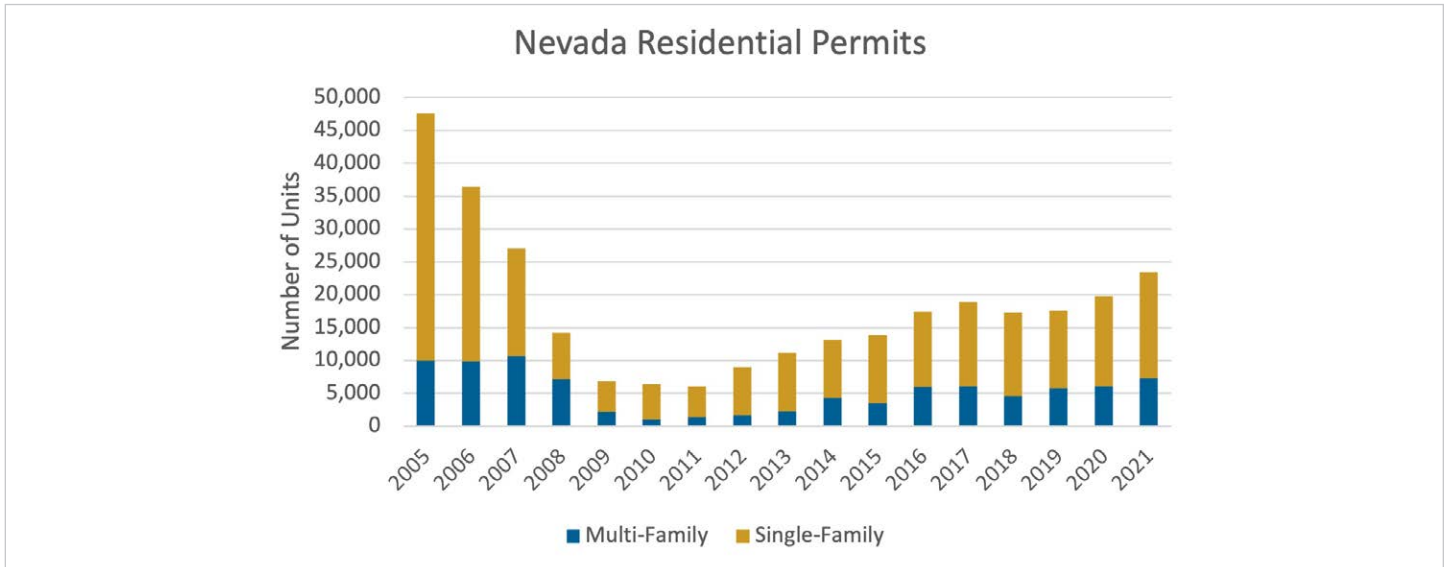
Source: REIS (Moody's Analytics)

Demand for apartment units has also surged over the last year in Nevada. In Las Vegas, the apartment vacancy rate fell to 3.0%, a 0.5 percentage-point decrease from a year ago. Vacancy rates for apartment units increased in Reno over this period, at 4.9%, up 0.3 percentage points from a year earlier. In addition, the average asking rent grew by 18.9% in Las Vegas and by 11.1% in Reno. This pace of growth puts the Las Vegas well ahead of the 11.9% growth in the U.S. over the same period and Reno slightly behind. Despite the significant price appreciation over the last year, asking rents in Las Vegas (\$1,431) and Reno (\$1,619) are still lower compared to the U.S. (\$1,635).



Source: REIS (Moody's Analytics)

Construction permit activity has increased over the last year in Nevada. In 2021, residential permitting activity in Nevada increased 18.6% over 2020 levels. This growth was fueled by a 17.9% increase in single-family permitting and a 20.2% increase in multi-family permitting.

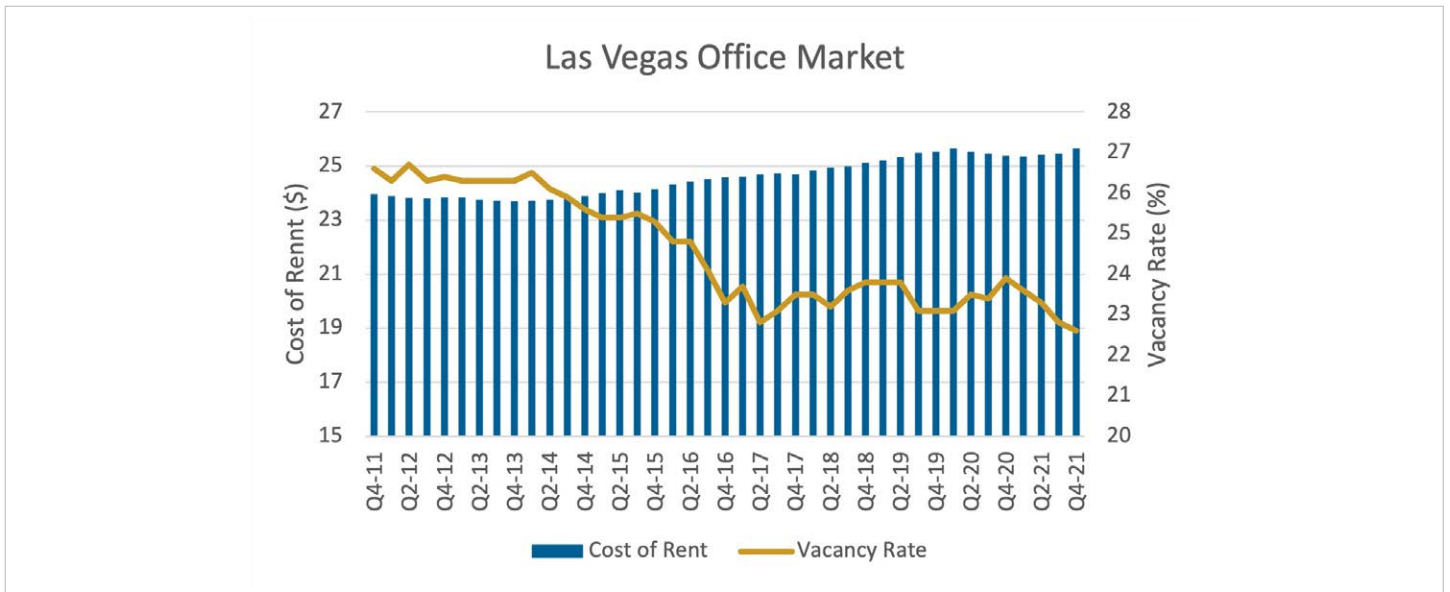


Source: Construction Industry Research Board (CIRB)

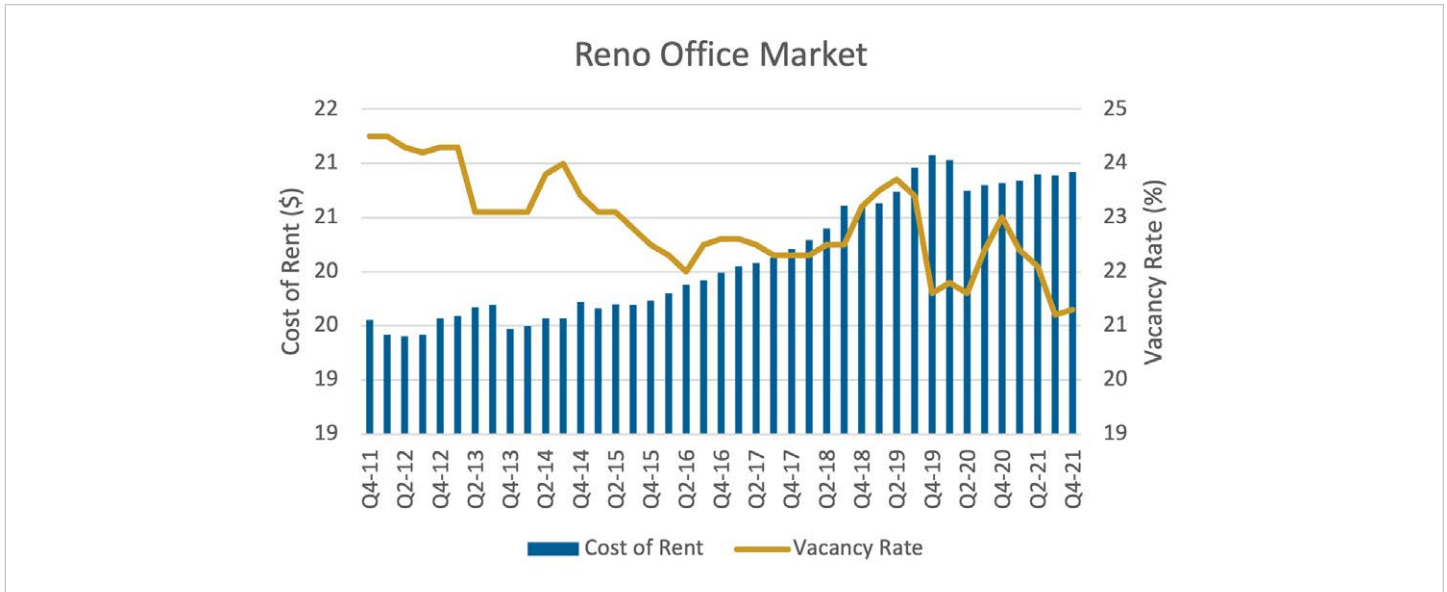


Commercial Real Estate

With more companies returning to normal operations, demand for office properties has grown over the last year in Nevada. In Las Vegas, the office vacancy rate hit 22.6% in the fourth quarter of 2021, down 1.3 percentage points from a year earlier. Vacancy rates for office properties also declined in Reno over this period, at 21.3%, down 1.7 percentage points from a year earlier. The average asking rent expanded by 1.1% in Las Vegas and by 0.5% in Reno, outpacing the 0.2% decline in asking rents in the United States.



Source: REIS (Moody's Analytics)



Source: REIS (Moody's Analytics)

Demand for retail space in Nevada has stabilized over the last year. In Las Vegas, the retail vacancy rate hit 12.7% in the fourth quarter of 2021, down 0.4 percentage points from a year earlier. Vacancy rates for retail properties also declined in Reno over this period, at 13.9%, down 0.5 percentage points from a year earlier. The average asking rent declined 0.1% in Las Vegas and was unchanged in Reno, similar to the 0.1% increase in asking rents in the U.S.

The increase in demand for e-commerce has increased demand for warehouse space in Nevada. In Las Vegas, the warehouse vacancy rate dropped to 3.6% in the fourth quarter of 2021, down 4.2 percentage points from a year earlier. Vacancy rates for warehouse properties also declined in Reno over this period, at 7.6%, down 3.1 percentage points from a year earlier. Accordingly, the average asking rent grew 7.0% in Las Vegas and by 5.8% in Reno, outpacing the 4.7% growth in the U.S. over this period.

Prepared By Beacon Economics

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