RETAIL ASSOCIATION OF NEVADA

Economic Outlook for Nevada Retailers

Five Positive, Five Negative Trends to Watch

The overall economy has improved during the past 12 months, but there are mounting concerns regarding the sustainability of the recovery. In this analysis, we will look briefly at recent economic conditions and then examine the positive and negative trends that will impact our economy during the upcoming year.

Overview

Nevada's post-recession economy has become highly polarized. The divide between the ranks of the employed and the unemployed, businesses that are growing and those that are shrinking, and the policies forwarded by those on the left and those on the right has arguably never been wider. The Great Recession has given way to the Great Reset, where Nevada is faced with the difficult reality that it must evolve to prosper.

For Nevada retailers, the improvement in spending projected in RAN's 2011 outlook materialized as expected. Looking back at our positive trends, visitor spending broke records, population growth turned positive, and pent-up demand for durables helped bolster sales volumes in key retail categories. Concerns such as high levels of consumer debt, fragile consumer confidence, and limited economic development activity played a lesser role. Below we briefly outline the five positive and five negative trends we believe will most directly impact the state's retailers over the next 12 months.

+ Positive Trends


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Mission Statement:

Our Mission is to strengthen the business environment for Nevada Retailers and Associates by providing a government relationship program which supports retail industry needs through effective lobbying at federal, state and local levels.

Looking out for Business

At RAN we make it our business to support and protect your business. From monitoring local, county, state and some federal issues RAN is there to inform you on the events that can have a real

1. *Residential Resurgence* – Home construction is on the rise. Although estimates vary between sources, the average consumer spends between $5,000 and $7,000 after purchasing a new home to furnish and decorate the new residence. Builders are reporting that buyers are highly qualified, and the combination of historically low interest rates and mid-1990s prices suggest buying will continue. Although remaining at modest levels when compared to 2006-07 peaks, new home sales are expected to be roughly double last year's volumes during the next 12 months.

2. *Rising Incomes* – Nevadans' personal incomes have risen consistently for the past two years. Although the 1.8 percent year-over-year increase reported in the first quarter of 2012 was the lowest gain in recent years, Nevadans' aggregate personal income is up nearly $6.4 billion since 2010. There were an increasing number of reports of major companies giving employees raises in 2011 after several years of holding wages and salaries flat. This trend is continuing in 2012 and should continue to push disposable income levels higher.

3. *New Business Formation* - As of the fourth quarter of 2011 (latest data available), there were 71,777 businesses in Nevada. Perhaps more important than this number was the fact that more than 1,500 new businesses were formed between the third and fourth quarters of 2011, the highest net business formation increase reported since 2006. New business formation ranks among the most important indicators of economic investment and expansion. While employment numbers lag, business investment – and particularly small business investment – bodes well for the retail sector.

4. *More Visitors, Spending More* - For the 12 months ending May 2012, Las Vegas recorded 39.32 million visitor trips. Reported with relatively little fanfare, May's annualized visitor tally represented the most visitors ever to Las Vegas in a 12-month period, breaking the all-time record of 39.27 million trips recorded back in February 2008. The record was broken again in June (39.39 million) and July was close behind (39.36 million). Visitors also reported record spending levels on eating and drinking, shopping, sightseeing and transportation.

5. *Economic Development 2.0* – The Governor's Office of

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About The Author

Applied Analysis, founded in 1997, is a Nevada-based advisory services firm providing information and analyses for both the public and private sectors.

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Economic Development (GOED) is just over a year old, but already the organization has helped to restructure the way Nevada will attract and retain businesses. Recent news that Apple will invest roughly $1.0 billion in a northern Nevada data center is the first sign that these efforts are working. Reports suggest the Apple deal was just the first in a series of forthcoming investment in technology, transportation, defense and energy. Nevada's economy remains among the least diversified in the United States and showing that the Apple deal was the beginning of a trend and not mere circumstance will go a long way toward building momentum in the right direction.

- Negative Trends

1. *The AB284 Effect* – There are roughly 471,600 outstanding residential mortgages in Nevada. Of that total, 75,600 are past due or in foreclosure. While there are some who are not making their housing payments because they simply do not have the money to do so, many others are choosing not to make their mortgage payments because laws such as Assembly Bill 284 make it extremely difficult for banks and other mortgage holders to foreclose on delinquent homeowners. An estimated $1.8 billion remains unpaid annually as a result of these delinquent payments. These dollars are artificially adding to consumers' disposable incomes and, in turn, retail sales. This trend is unsustainable, and whether the Nevada Legislature addresses the issue in its 2013 Regular Session or banks find a way to work around the issue, it is just a matter of time until this incremental spending goes away.

2. *Fiscal Crises Abroad and at Home* – The global economy is steeped in turmoil. Europe's fiscal crisis remains unresolved, and the vast majority of its banks would be insolvent by US standards. China is heavily overbuilt and its economy is slowing. Emerging nations such as Brazil and India are also reporting slower growth, higher rates of unemployment, and increased risk of inflation. The US has its own fiscal cliff: the combination of expiring tax cuts and reduced spending levels that, when combined with record deficits, threaten to push the nation back into recession. Currently, the US appears to be the best bad place to be, but the global slowdown remains a very real threat to US expansion in 2013.

3. *Tax Increases* – An initiative petition is being circulated by the Nevada State Education Association and the AFL-CIO that would create a margins tax in Nevada. As currently designed, the tax would impose the highest rate of its kind in the nation and dramatically increase Nevada's business tax burden. If passed, Nevada would instantly be transformed from a low-tax state to a high-tax state, likely curtailing business investment.

4. *The Employment Divide* – Nevada is not creating many jobs for the unemployed. The state's unemployment rate currently stands at 12.0 percent, the highest rate in the nation according to the US Bureau of Labor Statistics. At present, roughly 60 percent of available jobs require a college education; however, less than one quarter of Nevada's adult population has earned a bachelor's degree or higher. While more than 160,000 people actively look for work, businesses from health care to hospitality are reporting challenges in finding skilled employees, with particular deficits in tech and skilled nursing. Nevada's skills gap will continue to limit the region's ability to rebound and will ultimately delay growth in disposable income.

5. *A Weakening Social Safety Net* – Since 2008, the number, size and scope of available social services have increased dramatically throughout the United States. During the past five years, while Nevada has suffered from the nation's highest rate of unemployment and increasing rates of food and housing insecurity, the increase in available social services has helped bolster retail spending. The outcome of the 2012 presidential election has the potential to significantly impact these redistributions. While a good policy argument can certainly be made supporting the long-term benefit of changing who qualifies for social welfare programs and how much they are paid; in the short term, such changes would likely have a negative impact on Nevada's retail businesses.

Overall, we anticipate that Nevada's retail sector will continue to improve in 2012 and into 2013. That said, we expect more modest growth rates to emerge as the economy struggles to find solid footing. Cyclical and structural deficits are clearly converging. The growing separation between those with the human capital to take advantage of the new economy – as individuals or as businesses – and those left behind by it will be more pronounced in 2013 and will be the defining factor of the next decade.

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