RETAIL ASSOCIATION OF NEVADA

RAN
Retail Association of Nevada

Economic Outlook for Nevada Retailers

Five Positive, Five Negative Trends to Watch

The most recent national recession officially ended in June 2009; however, the latest data from the United States Bureau of Economic Analysis suggest Nevada's economy continued to contract not only throughout 2009 but also in 2010. In this analysis, we will look briefly at recent economic conditions and then examine positive and negative trends that will impact our economy during the upcoming year.

Overview

In 2010, Nevada led the nation in the rate of unemployment, foreclosure and bankruptcy. The first half of 2011 has provided some encouraging signs, particularly in the tourism sector where visitor volume, average daily room rates, hotel occupancy and gaming spend have all reported year-over-year improvements. Core employment, defined as jobs in sectors other than construction and government, is up 7,900 positions during the past 12 months; taxable retail sales are up nearly 5.0 percent to $39.6 billion during the same period.

Recent improvements come in spite of formidable headwinds experienced during the past six months of 2011. These include $3.90 gasoline, devastating tornados in the Midwest and a Japanese tsunami with nuclear implications, debt crises throughout the Eurozone and in Washington D.C., and a stock market that appears to be a ride sponsored by Six Flags. Although consumer confidence remains at historically low levels, consumer activity has been resilient – in some ways even defiant – in the face of both tragedy and uncertainty.

For Nevada retailers, the signals are mixed at best. While there is a general consensus that the choppy bottom reflects a new


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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 impact to your business.

normal, there is little agreement regarding the scope, speed or sustainability of recovery. According to public filings and anecdotal reports, some retailers are reporting record sales and profitability while others are barely making ends meet. This asymmetry is a reflection of competing forces within the market – some helping, some hurting. 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

1. *Visitor Spend Rising* – During the past 12 months, Nevada's visitor volume has increased by 1.3 million trips (3.0 percent) to 45.8 million trips. Although gaming spend has remained fairly flat, visitors are spending significantly more on eating, drinking, shopping and entertainment. Foreign visitation is also on the rise, as a relatively weak U.S. dollar makes destinations like Las Vegas and Lake Tahoe a value proposition. We anticipate this trend will continue during the balance of 2011 and into 2012.

2. *Population Growth* – Nevada's nation-leading retail sales growth throughout the better part of the past 20 years was not sourced to wealthier consumers; it was sourced to more consumers. Recently, data on population in-migration have again turned positive, including stronger-than-expected out-of-state driver's license surrenders at local DMVs, more housing units connected to the power grid, and rising school enrollments. The sustainability of these trends is questionable, given elevated rates of unemployment; however, at this time the resident consumer base appears to be expanding, which bodes well for the state's retailers.

3. *Retiree In-migration* – Overlooked by some, retirees are arguably among Nevada's greatest retail strengths. Today's retirees are healthier, wealthier and more active than their counterparts a generation ago. With its mild winter climate and pro-resident tax structure, Nevada continues to rank at or near the top of the nation in terms of retiree in-migration, which is accompanied by the inflow of retirement pensions and benefits. This is expected to be a stable, if not growing, segment of the state's retail base during the next several years.

4. *Pent-up Demand* - Personal consumption decreased

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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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significantly during the recession, as consumers spent less by choice or necessity. This included a decline in the purchase of durable goods like cars, washing machines and refrigerators. These are items that have fairly well-defined lives. While maintenance and repair activities suggest that households are trying to extend the life of their goods, eventually such items must be replaced. There are already signs of normalizing in automobile, electronics and appliances sales. These trends should benefit Nevada retailers.

5. *Diversity* – Nevada's population was not only the fastest growing between 2000 and 2010, it was also the most rapidly diversifying with Hispanic, Asian, and Pacific Islander population gaining significant market share. These segments of the market have historically been underserved, the result of a combination of supply and demand challenges. These barriers are rapidly falling, opening new markets, creating new customers and generating incremental growth for retailers.

- Negative Trends

1. *Consumer Debt Levels* – Although U.S. households have significantly reduced their outstanding debt during the past two years, revolving and non-revolving obligations as a percentage of personal income remain high. Household debt service ratio (debt payments divided by disposable income) was at 11.5 percent during the first quarter of the year. This is significantly lower than the peak ratio of 14.0 percent recorded in the third quarter of 2007, but the declines are heavily influenced by (1) the discharge of debt through bankruptcy and other forms of default and (2) payment ratios being artificially reduced by extended periods of record-low interest rates. Many Nevada consumers are underwater on their homes and are carrying substantial credit card debt; the systematic repayment of these obligations will inevitably cannibalize consumer spending for at least the next several years.

2. *Fragile Consumer Confidence* – Consumers have been inundated with bad economic news for most of the past three years. While they have been resurgent during the past several months, there is no guarantee that this trend will continue. Recent consumer confidence readings have

again pointed to a drop in sentiment relative to current conditions and future expectations. While recent statistics might reflect a steely resolve; consumers are aware, concerned and highly responsive to movements in the economy.

3. *Internet Market Share* – The Internet has been nothing short of evolutionary for the global economy. That said, for Nevada retailers, the rapid growth in market share among on-line retailers will continue to be a challenge for local bricks and mortar outlets. This trend is exacerbated by an unlevel playing field among some Internet retailers that avoid taxation by elevating form over substance, allowing them a competitive advantage over stores that do collect sales taxes on purchases. While overall levels of consumer spending are expected to continue, Nevada-based retailers may struggle to maintain their market share.

4. *Rising Interest Rates* – Interest rates remain at historically low levels, and the Federal Reserve Bank has indicated that it intends to keep rates at or near zero through 2013. The Fed's intentions notwithstanding, recent actions by the Standard & Poor's rating agency, which downgraded the rating for U.S. debt from AAA to AA+, threatens upward pressure on rates. The full implications of these actions are unclear; however, what is abundantly clear is that interest rates cannot remain at or near zero into perpetuity. With the amount of debt outstanding and the number of Nevada households on interest-only or adjustable rate mortgages, even a slight uptick could have serious implications on disposable income levels and the state's retail sector.

5. *Economic Development/Stigma* – Nevada has become the proverbial poster child for the negative effects of the Great Recession. Leading the nation in unemployment, housing price decline, foreclosure and bankruptcy has meant that Nevada is often held out as the most extreme case in regional and national media reports. This has had a chilling effect on new business formation within the state. Should this trend continue, it will slow and extend the recovery, reducing growth in consumer spending. Repositioning Nevada relative to its long-standing position as a well-positioned, pro-business, low-cost market is vital.

Overall, we anticipate that Nevada's retail sector will continue to improve through the balance of 2011. While this improvement will be inconsistent and not extend equally to all retail outlets, overall taxable retail sales growth is projected to be above 4.0 percent with progressive improvements in the all-important holiday season.

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