Economy In Brief

Research & Analysis Bureau

Sept 2013

Nevada's Premier Source of Workforce & Economic Information and Analysis

The Research and Analysis Bureau in Nevada's Department of Employment, Training & Rehabilitation partners with the U.S. Department of Labor to oversee the State's labor market information program. As a result of the Federal government shutdown, primary labor data (unemployment rate, job growth, etc.) for September is not available for dissemination at this time, as it normally would be.

Our practice is to supplement our core labor market information each month with a variety of other indicators of economic activity in the State to provide a more complete picture of the health of the economy. In our September analysis below, we will utilize these special topics to offer a brief commentary on economic conditions in the State, including a look forward, highlighting our current labor market forecast recently presented to the Employment Security Council.

Economic Summary

Discounting the shutdown stalemate in Washington, overall macroeconomic fundamentals appear favorable for Nevada. For instance, real consumption expenditures have been trending up for 16 consecutive quarters nationwide. This trend has certainly benefitted the State's tourism/gaming/entertainment sector, which is heavily reliant on the willingness/ability of consumers to spend their discretionary incomes.

Based upon available evidence, Nevada's economy remains on a path of overall modest, but sustainable, improvement. With July's 6.2 percent gain, taxable sales have risen in each of the past 37 months. August brought with it an 11.2 percent gain in gaming win. When all of the month-to-month variations are averaged out through the first eight months of the year, it stands 0.8 percent higher than during the same period in 2012. With August's 0.9 percent advance, Las Vegas visitor volume is on pace to hold steady with last year's record level.

One of the broadest measures of the State's economic health is personal income. It represents the sum of wages and salaries; dividends, interest, and rents; and transfer receipts (payments like social security and unemployment insurance). Trends in personal income in Nevada over time very clearly show the path of the boom-bust cycle of the past decade and the beginning of the recovery. While we have not yet returned to pre-recessionary levels, there is steady progress in the quarterly growth rate. As of 2013:IIQ, Nevada's personal income growth rate is a positive 2.7 percent, relative to a year ago.

As we've noted in previous overviews, the improving economy has translated into more encouraging news on the labor market front. Information obtained through the Quarterly Census of Employment and Wages (QCEW) Program provides a nearly complete job count based upon quarterly wage records submitted by employers covered under the Unemployment Insurance System. Because generating this information is a time- consuming process, it is only available with a 4-5 month lag.

Examining this information over time, and for all 50 states (plus the District of Columbia), highlights Nevada's relative performance during the pre-recessionary boom, through the downturn, and into the early stages of the recovery. In the years preceding the economic downturn, Nevada led the country in private sector employment growth. Indeed, Nevada had the highest employment growth rates in the country in 2004 and 2005 (6.4 percent in each year). Conversely, during the recession, Nevada was the most affected state in terms of private sector employment growth. In fact, Nevada's employment growth was the lowest in the nation in 2009 (-10.1 percent) and 2010 (-2.8 percent). Nevada has gradually regained lost ground over the past two years. In 2011 the private sector grew at a rate of 1.2 percent, faster than 14 other states; and in 2012 we grew at a rate of 1.9 percent, faster than 24 other states. When we consider 2013:IQ, the latest available data, we can see that Nevada's recovery is steadily continuing. The private sector is currently growing at an annual rate of 2.3 percent, faster than in 34 other states.

In assessing the health of the labor market, the focus is typically on the jobs/employment side of the picture. However, a look at trends in the number of employers in the State also offers considerable insight into the impacts of the recession in Nevada and the unfolding recovery.

Economic Summary

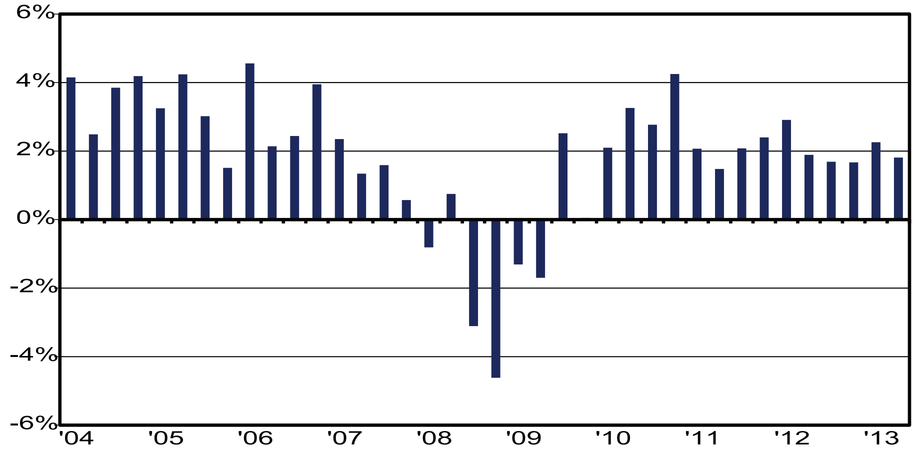
All told, there are 57,600 employers in Nevada, as of the second quarter of this year. Prior to the downturn, there were 60,500. Employer counts bottomed out at 56,000 at the height of the recession. They have now risen in eight consecutive quarters.

Interesting insights are also gained via an analysis of the distribution of Nevada business establishments across worksite size classifications. In Nevada's private sector, there are about 72,800 individual worksites. Those worksites with less than five employees account for close to 45,000 of those establishments. Those businesses with 5-9 employees total 12,200. At the other end of the spectrum, there are just 75 worksites with at least 1,000 employees.

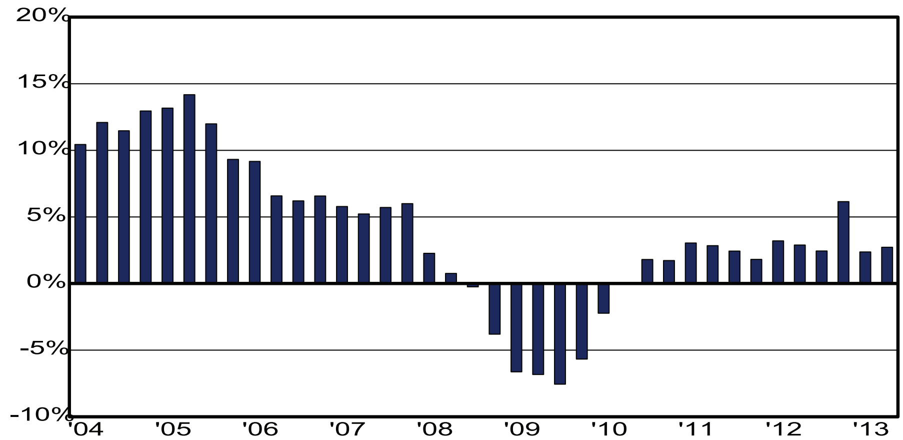
In our opinion, sustained upward pressure on wages has yet to surface so far during the recovery, despite overall improvement in the labor market. Complete-count QCEW information through the first quarter of this year illustrates this. Private sector weekly wages averaged $824 during the first three months of the year, essentially unchanged from a year ago. Since 2007, average weekly wages have grown just five percent, well short of that necessary to keep up with inflation. Furthermore, over the same period, wages at the national level rose 12 percent. Arguably, these wage trends are, perhaps, the most concerning part of the overall labor market picture in Nevada.

There is an alternative measure of average weekly wages from the Current Employment Statistics (CES) Program. These estimates show that wage trends in Nevada have fallen short of those in the nation as a whole, just as the QCEW complete-count information highlights. However, the CES series also suggests that wages remain well below pre-recession levels in nominal terms, which is inconsistent with QCEW trends. Specifically, August readings

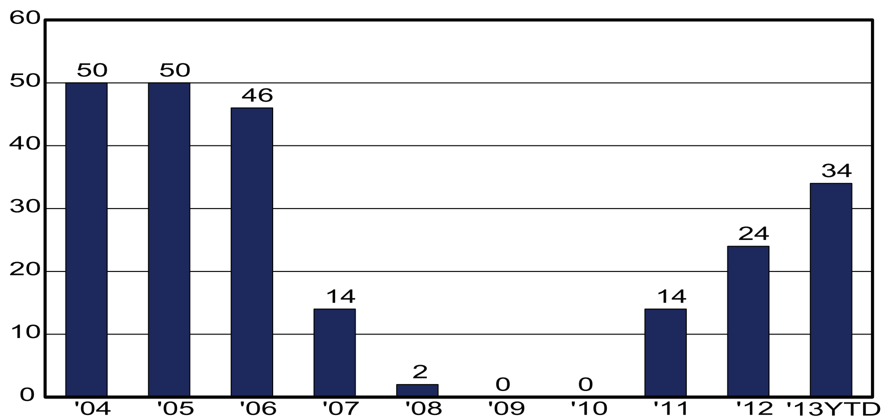
U.S. Personal Consumption Expenditures Growth
(seasonally adjusted annual rate)



Nevada Personal Income Growth
(year-over-year)



Number of States with a Lower Private Sector Job Growth Rate than Nevada



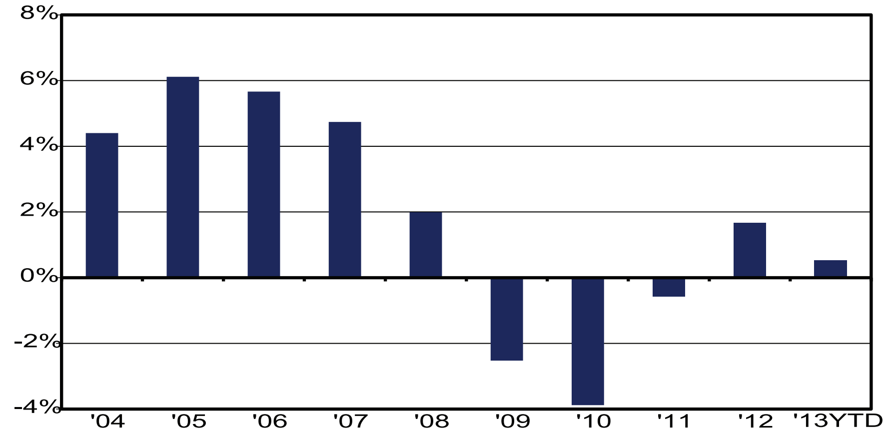
Economic Summary

show wages down nearly eight percent from 2007.

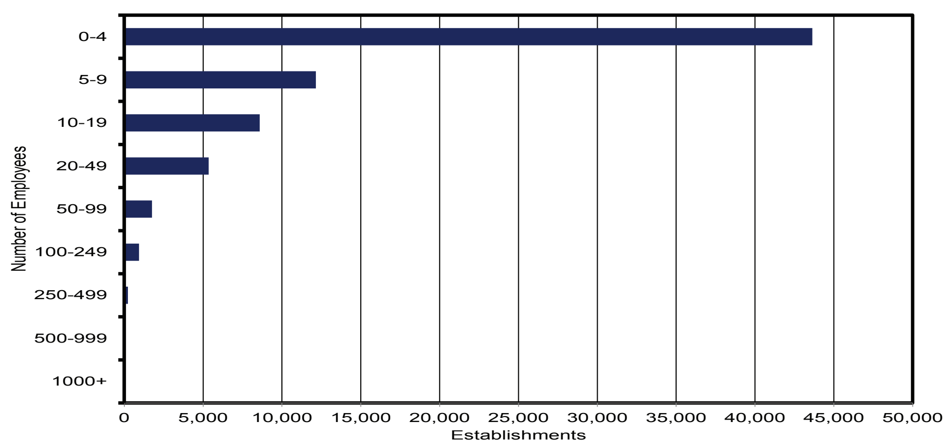
There are a variety of issues with the Current Employment Statistics estimates which suggest that it is not a very useful measure of trends over time, especially when measured relative to our complete-count information. Perhaps most importantly, it needs to be noted that the CES series is solely sample-based. It is based off of a monthly survey of less than 1,000 employers in Nevada, out of a universe of close to 60,000. Furthermore, unlike other barometers of the labor market's health, CES wage estimates are not "benchmarked" (updated) as additional information becomes available. For this and other reasons, we argue that, in assessing wage trends in Nevada, the focus should be upon the complete-count QCEW information.

The unemployment rate among blacks is almost twice that for whites. The Census Bureau's Local Employment Dynamics (LED) Program provides valuable insight into workforce demographics and, thus, may provide some insight into the stubbornly high unemployment rate. This month, we examine employment trends amongst Nevada's black workforce. Just before the start of the most recent recession, black employment totaled 107,300 in Nevada. The extent of the economic damage inflicted by the recession was very severe in Nevada. In the third quarter of 2010, employment levels amongst black Nevadans had dropped by 17.4 percent, a loss of 18,700 jobs. Five years after the economic meltdown, employment of blacks in Nevada is on the rise. Currently, the level is at 98,100 but is still 8.6 percent below the peak reached at the end of 2007. The majority of black Nevadans work in the accommodation and food services industry, followed by retail trade, health care/social assistance, and the administrative support/waste management industry.

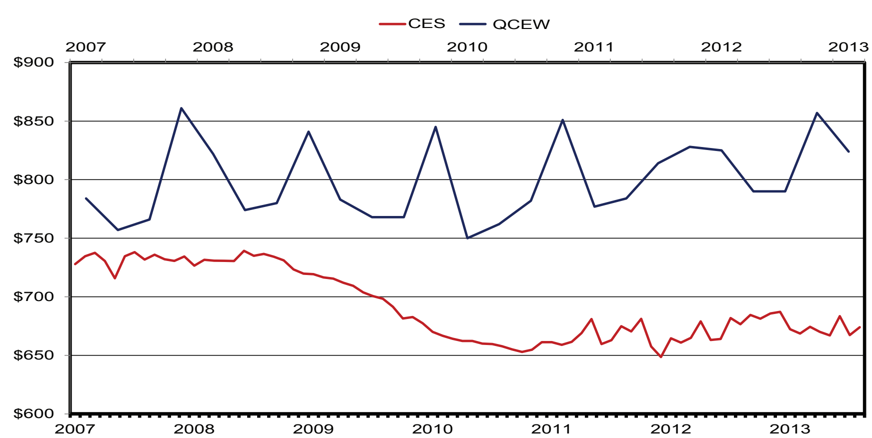
Nevada Employers Growth (year-over-year)



Distribution of Private Sector Business Establishments by Employment Size



Two Measures of Average Weekly Wages in Nevada



Economic Summary

Foreclosure activity has been a much-discussed topic of late. The number of mortgages in the foreclosure process peaked at over 56,000 in 2010:IQ according to the Mortgage Bankers Association. It has been on a steady decline since then. As of this year's second quarter, there were 22,600 loans in the process of foreclosure, a decline of 60 percent from the peak. However, there is some evidence suggesting that foreclosure activity may have picked up markedly in advance of changes impacting the foreclosure process in Nevada which went into effect on October 1st.

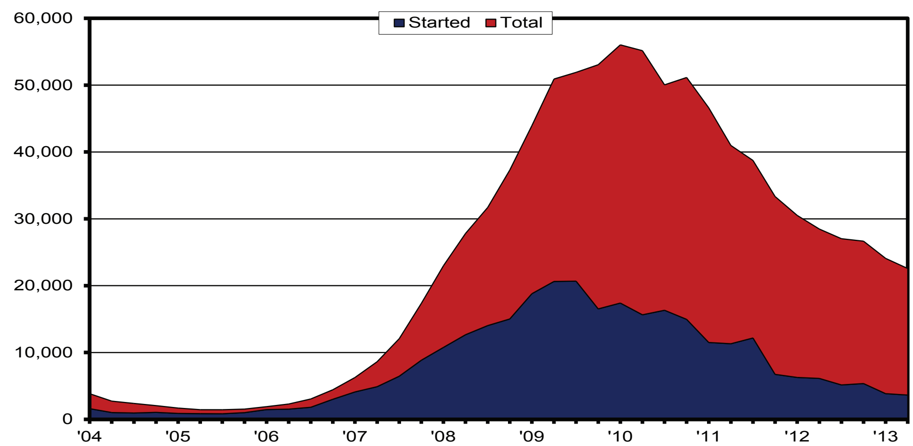
The State lost almost 200,000 jobs from peak to trough during the recession. In 2011, the Nevada economy created 6,800 jobs, a 0.6 percent increase. In 2012, employment grew 1.5 percent, or 17,100 jobs. Job gains have accelerated so far this year. Looking forward, we expect the labor market picture to continue improving in Nevada. Expectations are that total covered employment will expand two percent, or 23,000 jobs, in 2013. Job gains are predicted to be 26,000 and 30,000 in 2014 and 2015, respectively.

While much more difficult to accurately forecast than jobs, we are also expecting further downward pressure on the unemployment rate. The jobless rate peaked at 13.8 percent in 2010. So far this year, it has averaged 9.7 percent, though the rate of decline is showing signs of easing. We feel that the jobs forecast highlighted above will pave the way for continued downward pressure on the jobless rate, with gradual improvement to around 8.8 percent in 2015.

Bill Anderson, Chief Economist
Leanndra Copeland, Supervising Economist

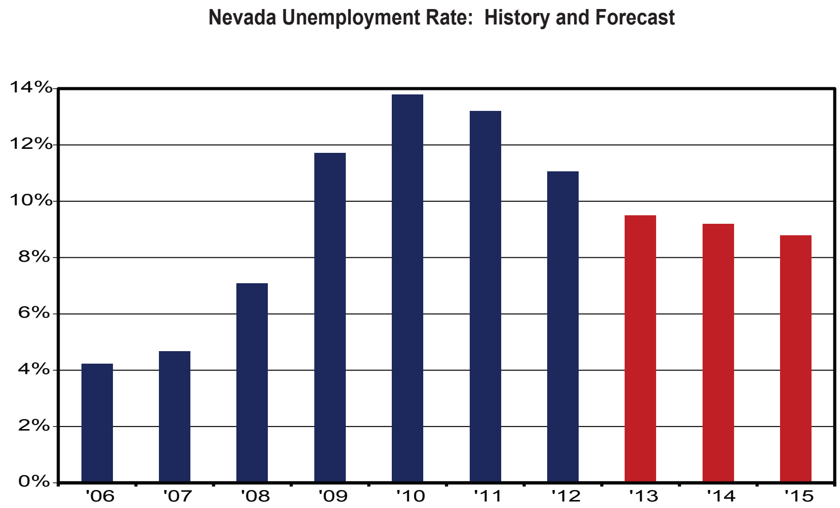
Nevada Labor Market Demographics: Black Employment

Nevada Residential Mortgages in the Foreclosure Process: Loans Started and Total Inventory of Loans in the Foreclosure Process



Nevada Jobs: History and Forecast

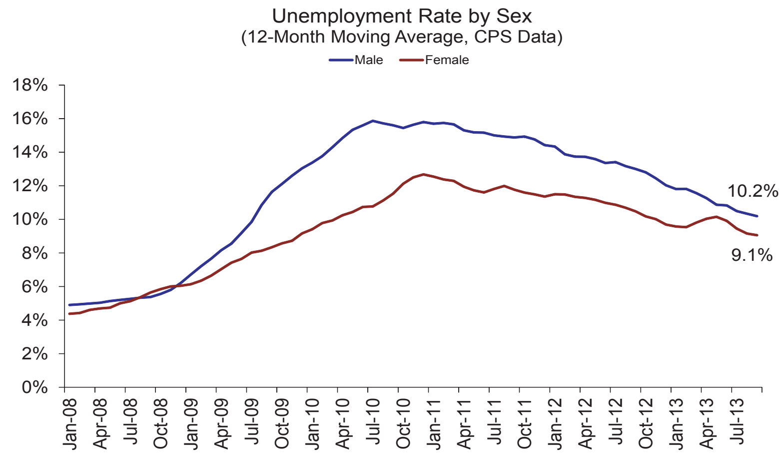
Economic Summary



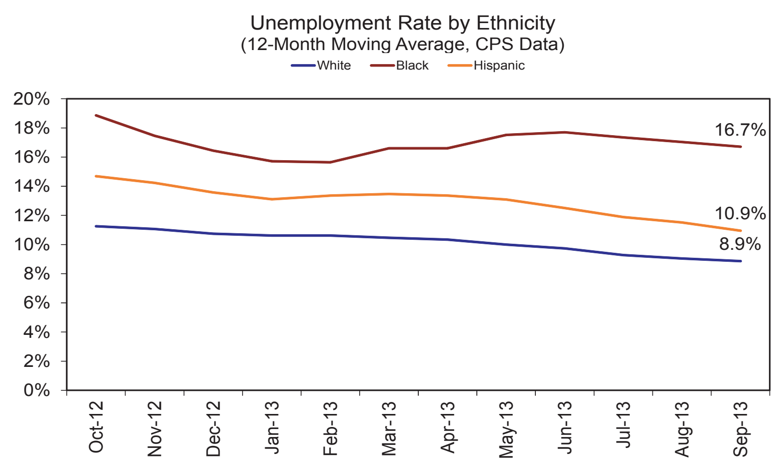
Trends at a Glance

Demographics of the Unemployed

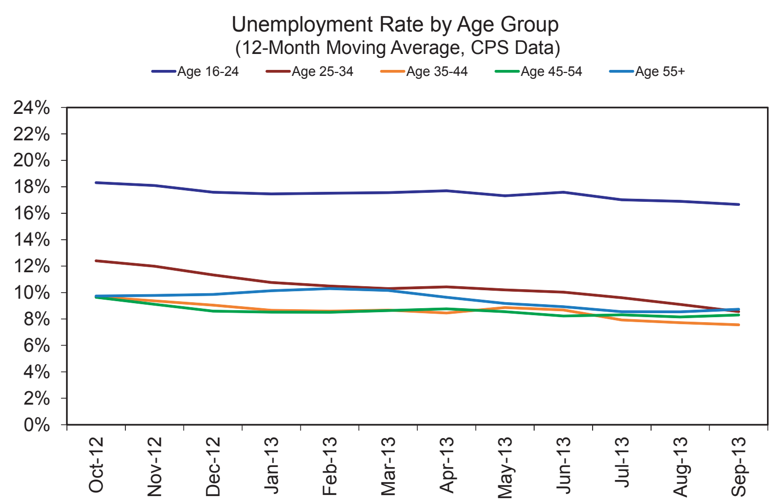
- The unemployment rate for men in Nevada was 10.2 percent in September, down 0.1 percentage point from last month.
- Similarly, the female unemployment rate decreased to 9.1 percent from 9.2 percent.
- This is the lowest the male unemployment rate has been since July of 2009 and the lowest the female unemployment has been since November 2009.



- The unemployment rate for Nevada's Hispanic labor force decreased by 0.6 percentage point to 10.9 percent from August to September.
- The rate for Nevada's unemployed black labor force decreased by 0.3 to 16.7 percent.
- The unemployment rate for Nevada's white labor force decreased by 0.1 percentage point from 9.0 percent.



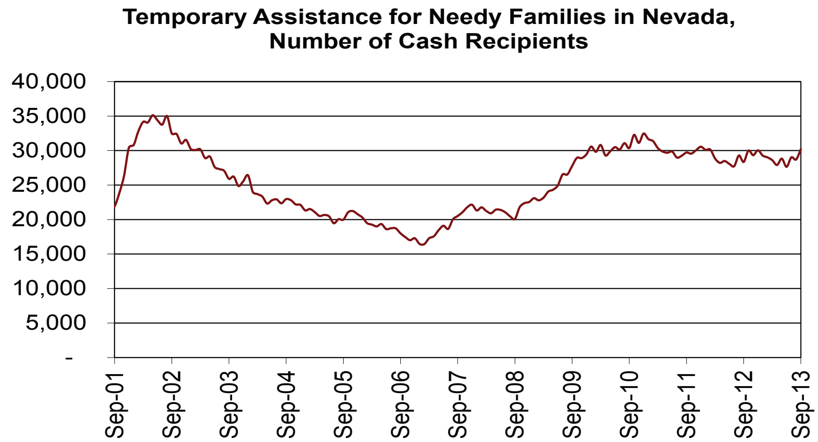
- Nevada's youngest workers, age 16-24 experienced the highest unemployment rate of any age group in the state, coming in at 16.7 percent in September.
- The unemployment rate for workers age 25-34 was 8.6 percent and is down by 0.5 percentage point since last month.
- The lowest unemployment rate for any age group in Nevada goes to the 35-44 year olds. For September this group had an unemployment rate of 7.6 percent.



Trends at a Glance

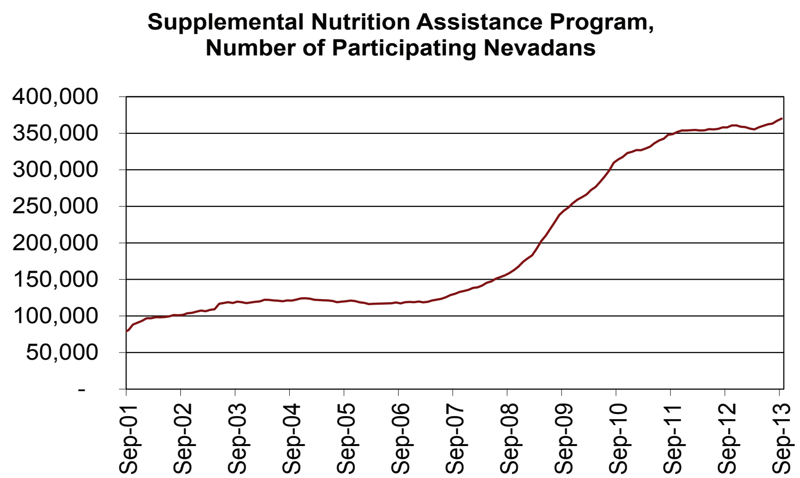
Welfare Indicators

- The Temporary Assistance for Needy Families (TANF) program provides time-limited cash assistance to low-income families with children so they can be cared for in their own home. TANF also seeks to reduce dependency by promoting job preparation, reducing out-of-wedlock pregnancies and encouraging the formation and maintenance of two-parent families. As an economic indicator, TANF reveals information on the relative well-being of Nevada's low-income families. The number of recipients in the program is strongly influenced by the ups and downs of the business cycle.
- In September, 30,193 individuals were receiving assistance. Since September of last year, the level of assistance increased by 6.5 percent, or 1, 844 more recipients.



Source: Nevada Department of Health and Human Services

- The Supplemental Nutrition Assistance Program (SNAP), formerly known as "food stamps", provides the means to increase food purchasing power to raise the nutritional level among low-income households and is the first line of defense against hunger for thousands of Nevadans.
- In September, 370,042 Nevadans participated in the program. Over-the-year, the number of participants receiving assistance had an increase of 3.4 percent, or 12,027 more recipients.



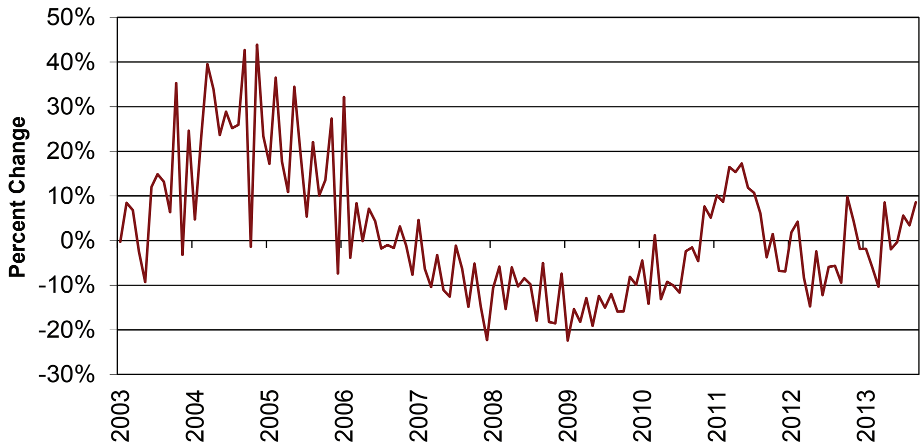
Source: Nevada Department of Health and Human Services

Trends at a Glance

Business Activity

- New business entity formations are comprised of both domestic and foreign entities forming/registering in the State. Trends indicate directional insight into business formation and investments.
- In September, new business filings were up 8.6 percent over September 2012. Year-to-date the formation of new businesses are up 0.4 percent compared to the same period last year.

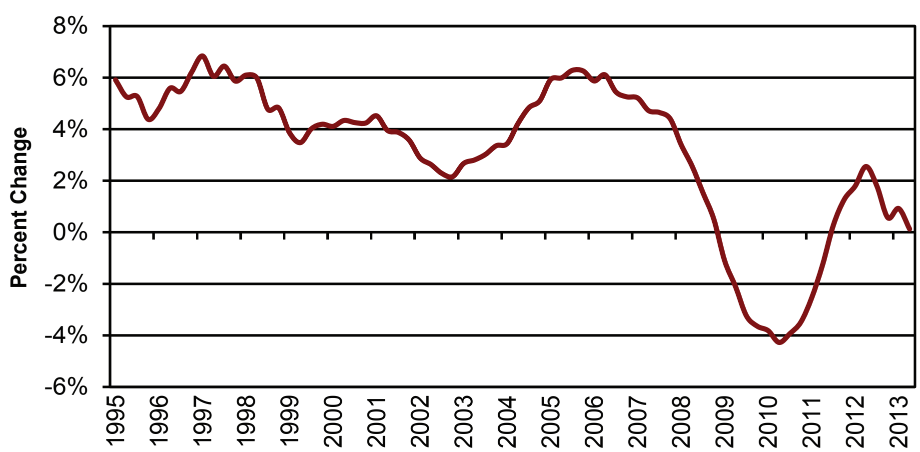
Business Entity Formations
(Year-Over-Year Percentage Change)



Source: Nevada Secretary of State

- The State unemployment insurance (UI) contribution operations report identifies the number of UI-liable employers processed each quarter.
- During the second quarter of 2013 there were 57,595 employers subject to UI taxes. Compared to the same quarter in 2012, there are 72 more employers in the program, a 0.1 percent increase.

U.I. Contributory Employers
(Year-Over-Year Percentage Change)



Macroeconomic Fundamentals

Congress could not agree on a spending plan to fund the government when the new fiscal year started on October 1, leading to a partial government shutdown. Sixteen days later, Congress was able to work a deal to reopen the government and extend the debt ceiling, yet another looming deadline during the negotiations as the U.S. was on the verge of maxing out its debt limit on October 17. Congress agreed to fund the government through January 15 and extend the debt limit until February 7. Uncertainty about fiscal policy will continue to weigh on hiring and investment. The government impasse has derailed confidence and economic activity which will impact the U.S. economy in the final months of 2013 due to losses in government services, deferred federal wages, and lost tourism and sales revenues. Most of the impact will be regional, concentrated in the D.C/Maryland/Virginia area.

In September, employers added 148,000 jobs, signaling a slowdown in the pace of hiring. The private sector accounted for 126,000 jobs, with gains in construction, wholesale, and transportation and warehousing. Government jobs rose by 22,000. Economists had expected the payrolls to rise by more. The September report suggests a loss of momentum in the economy before the budget quarrel. While August payrolls were revised up from 169,000 to 193,000, July was revised down from 104,000 to 89,000, the weakest count since June 2012. Over the past year, employment growth averaged 185,000 per month, a level slightly above the threshold of 150,000 jobs per month that is needed to absorb new people entering the workforce. The unemployment rate reached a five-year low of 7.2 percent, mostly due to moderate job gains and weak growth in the labor force. Both the labor force participation rate and employment-to-population ratio held steady at 63.2 and 58.6 percent, respectively.

The Federal Reserve has injected enormous amounts of liquidity into the financial system since September 2008. Five years later as the financial crisis has receded, the Federal Reserve has signaled it will begin to taper its bond-buying program by the year's end, with an end to non-conventional monetary policy accommodation in mid-2014. The Fed has indicated that it will keep the federal funds rate near zero as long as unemployment exceeds 6.5 percent and the outlook for inflation doesn't go above 2.5 percent in the next year or two. In September, the Fed did not signal any changes to the quantitative easing program as they decided to a wait more evidence for the sustainability of the current progress. The fiscal paralysis has delayed a lot of economic data needed to measure the recovery, complicating the Fed's decision making. Further, the federal shutdown will slow economic growth, at least to some extent. As a result, the Fed may be cautious in tapering the quantitative easing.

The pace of the U.S. economic recovery has been lackluster since it began in mid-2009. The U.S. economy grew at an annual rate of 2.5 percent in the second quarter of 2013, driven by investment and consumer spending. The economy has improved at a slow, grinding rate. The second quarter growth is on par with 2012, when the real GDP rose 2.8 percent, up from 1.8 percent in 2011. Economic activity has continued to expand on a moderate growth path, consistent with a gradually improving labor market.

The September report on industrial production was positive. The ISM manufacturing index expanded at its fastest pace in over two years. The index rose from 55.7 to 56.2 in September. Readings greater than 50 indicate expansion. Service industries expanded at a slower pace, indicating the economy lost some momentum in September. The nonmanufacturing index fell to 54.4 from 58.6 in August.

The second quarter GDP report showed that the personal consumption expenditures (PCE) price index fell 0.1 percent, annualized, after rising 1.1 percent in the prior quarter. A better measure of inflation is the core PCE deflator, which excludes food and energy due to their volatility, which is why it is favored as an inflation yardstick by the Federal Reserve. The core measure rose only by 0.6 percent annualized. When compared to the same period last year, the PCE and core PCE price indexes are up 1.1 and 1.2 percent, respectively. Inflation remains well below the Fed's long-run goal of two percent.

The income growth needed to boost spending sustainably has been slow moving as a result of the sluggish labor market. On a year-ago basis, personal income growth has crept higher. Meanwhile, the year-over-year pace in consumption suggests a modest rebound from the slower pace in the spring. In August, income and consumption were up 3.7 and 3.2 percent from a year earlier, respectively. With personal income growing faster than spending, the savings rate rose to 4.6 percent in August, a one-tenth of a percentage point increase from a month earlier. When adjusted for inflation, real disposable income growth advanced 1.6 percent while real spending growth is near two percent on a year ago basis.

Housing starts have recovered from their low of 478,000 in April 2009 and have been gradually trending upward, reaching levels last seen about five years ago. The market for existing homes is not facing much competition from new housing units yet, even though single-family construction activity has started to pick up over the

Macroeconomic Fundamentals

last year. Rising mortgage rates have slowed down the demand for home buying. In August, there were 891,000 annualized housing starts, a gain of 0.9 percent from the prior month and 19 percent change year-over year. Permit activity was dragged down by the multifamily segment. Permits declined by 3.8 percent, even though single-family permits increased by three percent.

Rising home prices have aided the economic recovery and they continued to increase in August. The Federal Housing Finance Agency's purchase-only index increased 0.3 percent and is up 8.5 percent from a year earlier. The August index marks the nineteenth consecutive mostly price increase. Price gains have been driven by affordability, investor demand, and low supply. The momentum for the ongoing housing recovery is expected to continue and will be supported with rising household formations and improving household balance sheets, despite several remaining headwinds. Distressed inventory will need to be worked off and stronger job and income growth are required for sustainable strength in the housing market.

Consumers felt gloomier in September as economic expectations dragged down the Conference Board's Consumer Confidence Index to 79.7 in September from 81.8 in August. Consumer confidence is an important indicator of near-term economic growth because consumer spending accounts for about two-thirds of U.S. economic activity. This decline in August is consistent with the Consumer Sentiment Index, measured by the University of Michigan. In October, the stalemate in Washington pushed the headline value down to 75.2, falling 2.3 points from the month earlier, on weaker perceptions of the economic outlook. With uneven job and income growth and the policy uncertainty in Washington, consumers may be reluctant to open their wallets come the holiday shopping season.

The political brinkmanship in the U.S. and the continued uncertainty over the fiscal policy are putting a drag on the economic growth in the U.S. While the global economic outlook continues to be subpar, there are some promising signs in the global economy. The slowdown in the rate of economic growth in China is stabilizing and Japan has had solid growth. The recession in the euro area has come to an end, but the growth is restrained by high unemployment and tight credit.

Susanna Powers, Economist

State of Nevada
Department of Employment, Training & Rehabilitation
Research & Analysis Bureau
500 E. Third Street
Carson City, NV 89713-0001

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Phone: (775) 684-0450
Fax: (775) 684-0342
E-mail: detrlmi@nvdetr.org

Websites:
www.nevadaworkforce.com
www.nevadajobconnect.com
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