

NEVADA STATE BANK

Economic Briefing

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In a speech to business leaders from Las Vegas as well as across the Western region, the president of the San Francisco Branch of the Federal Reserve, John C. Williams, outlined his vision for the near future in terms of monetary policy. He reiterated that the Federal Reserve's massive asset purchase program, known as quantitative easing (QE), is likely to soon come to an end. QE was an extraordinary and untested monetary policy, meant to inject funds into the economy after more traditional monetary policy options had been exhausted.

As the nation's economy continues to recover from the worst economic recession since the Great Depression, the Federal Reserve is now scaling back the extraordinary policies put in place to keep the nation's economy afloat. Rising interest rates, providing the economy continues to grow, seem a likely next step in 2015. That said, as Mr. Williams put it, these actions should be "data-driven", not "date-driven", so the timing remains far from certain.

The discussion over higher interest rates comes in response to stronger economic growth and falling rates of unemployment. Gross domestic product at the end of the second quarter of 2014 grew 4.3 percent over the previous year; in real or inflation-adjusted terms, it increased 2.6 percent. Perhaps the most significant, although statistically imperfect, signal of recovery is the unemployment rate, which reached 5.7 percent in September, 1.3 percentage points below a year ago and the lowest rate reported since June 2008. Meanwhile, the inflation rate has remained at or below the targeted 2.0 percent annual rate since 2012.

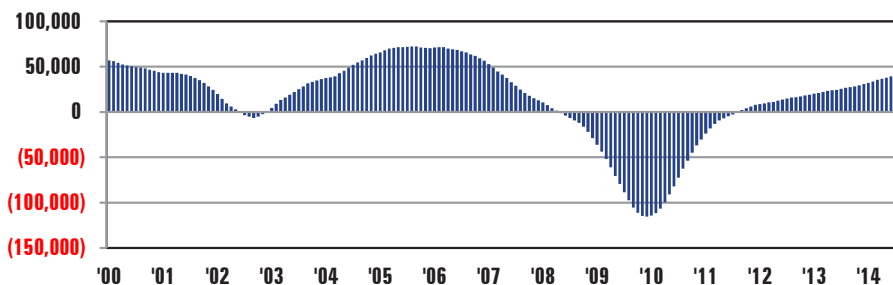
There is some concern that the tide is changing. As the supply of labor tightens, employers may decide to raise wages to attract in-demand employees. Such wage inflation may in turn drive prices higher. Tighter monetary policy from the Federal Reserve would be expected to counter this trend; the problem is the timing has to be fairly exact. Too soon, and the central bank risks creating an economic downturn as companies just getting back on their feet have a more difficult time funding expansion plans and hire fewer workers; too late, and rising prices could lead to another asset bubble.

If the nation looked like Nevada, it is likely that the Federal Reserve might delay actions for a longer period. Though the state's recovery in the past year has been significant, Nevada's unemployment rate remains at 7.6 percent, a 2.2 percentage point improvement from a year ago, housing prices remain 38.8 percent below the peak and the state's largest hotel casinos reported a net loss of \$1.3 billion in 2013. Unfortunately, decisions at the Federal Reserve tend to be

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NEVADA EMPLOYMENT GROWTH

TRAILING 12-MONTH AVERAGES



MONTHLY

Employment Indicators

Nevada Employment		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
1,216,400	1,211,700	1,179,500
GROWTH RATE	0.4% ▲	3.1% ▲

Nevada Private Average Weekly Hours Worked		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
33.8	33.5	33.7
GROWTH RATE	0.9% ▲	0.3% ▲

Nevada Unemployment Rate		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
7.6%	7.7%	9.8%
GROWTH RATE	-0.1% ▼	-2.2% ▼

Nevada Initial Unemployment Insurance Claims		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
13,063	15,441	12,853
GROWTH RATE	-15.4% ▼	1.6% ▲

TRAILING 12-MONTH

Employment Indicators

Nevada Employment ⁽¹⁾		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
1,203,942	1,200,867	1,163,675
GROWTH RATE	0.3% ▲	3.5% ▲

Nevada Private Average Weekly Hours Worked ⁽¹⁾		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
33.5	33.5	33.7
GROWTH RATE	0.0% ◆	-0.7% ▼

Nevada Unemployment Rate ⁽¹⁾		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
8.5%	8.7%	10.4%
GROWTH RATE	-0.2% ▼	-1.9% ▼

Nevada Initial Unemployment Insurance Claims ⁽²⁾		Aug-14
Current Period	Prev. Period	Same Period Prev. Yr.
172,071	171,861	205,530
GROWTH RATE	0.1% ▲	-16.3% ▼

Notes: (1) Trailing 12-month/4-quarter averages.
(2) Trailing 12-month/4-quarter totals.

MONTHLY & QUARTERLY

Economic Indicator Series

Nevada Residential Housing Units Permitted

Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
1,104	1,431	1,194
GROWTH RATE	-22.9% ▼	-7.5% ▼

Nevada Taxable Retail Sales

Jul-14

Current Period	Prev. Period	Same Period Prev. Yr.
\$4,010,014,207	\$4,149,802,141	\$3,771,336,865
GROWTH RATE	-3.4% ▼	6.3% ▲

Nevada Gross Gaming Revenue

Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
\$920,291,644	\$931,880,143	\$955,231,126
GROWTH RATE	-1.2% ▼	-3.7% ▼

Las Vegas/Reno-Tahoe Enplaned and Deplaned Passengers

Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
4,055,138	4,067,216	3,936,782
GROWTH RATE	-0.3% ▼	3.0% ▲

Clark/Washoe County Visitor Volume

Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
4,269,220	4,300,889	4,098,381
GROWTH RATE	-0.7% ▼	4.2% ▲

Nevada New Business Creation

Q1 '14

Current Period	Prev. Period	Same Period Prev. Yr.
644	432	707
GROWTH RATE	49.1% ▲	-8.9% ▼

Nevada Housing Price Index

(Q1 1991 = 100)

Q2 '14

Current Period	Prev. Period	Same Period Prev. Yr.
169.0	167.5	147.2
GROWTH RATE	0.9% ▲	14.8% ▲

Clark County Office Market Vacancy Rate

Q3 '14

Current Period	Prev. Period	Same Period Prev. Yr.
24.8%	25.2%	25.5%
GROWTH RATE	-0.4% ▼	-0.7% ▼

Nevada Hotel/Motel Occupancy

Q2 '14

Current Period	Prev. Period	Same Period Prev. Yr.
84.5%	80.5%	82.2%
GROWTH RATE	4.0% ▲	2.3% ▲

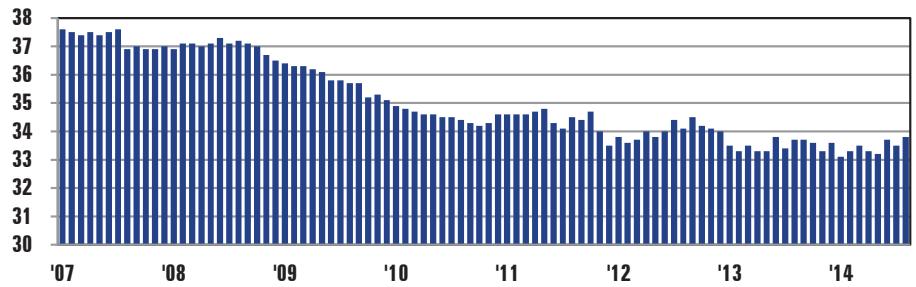
State of Nevada Personal Income

Q2 '14

Current Period	Prev. Period	Same Period Prev. Yr.
\$28,383,270,750	\$27,966,218,000	\$27,310,231,000
GROWTH RATE	1.5% ▲	3.9% ▲

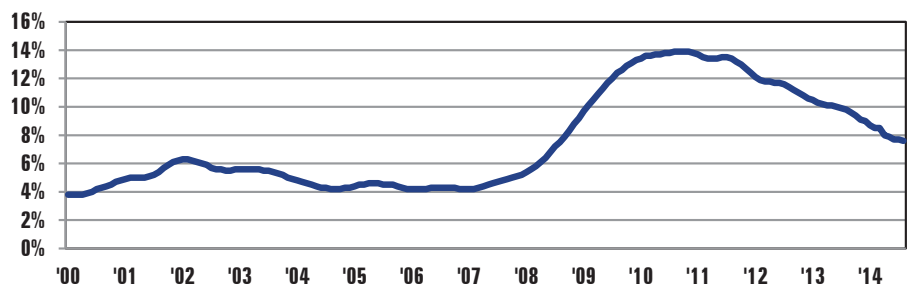
NEVADA PRIVATE AVERAGE WEEKLY HOURS WORKED

MONTHLY SERIES



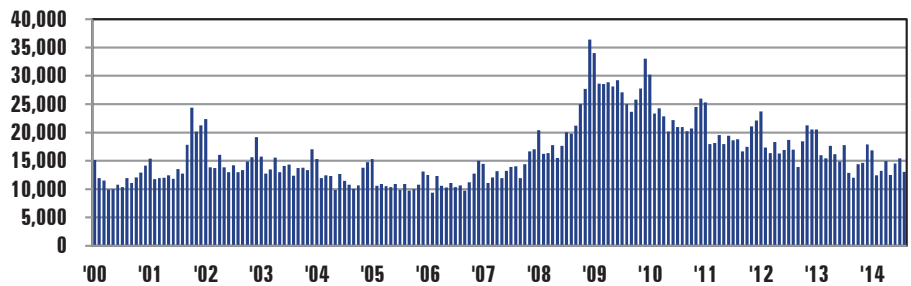
NEVADA UNEMPLOYMENT RATE

MONTHLY SERIES



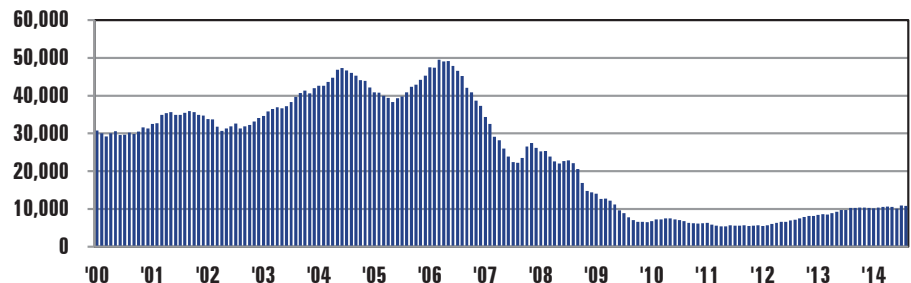
NEVADA UNEMPLOYMENT INSURANCE CLAIMS

MONTHLY SERIES

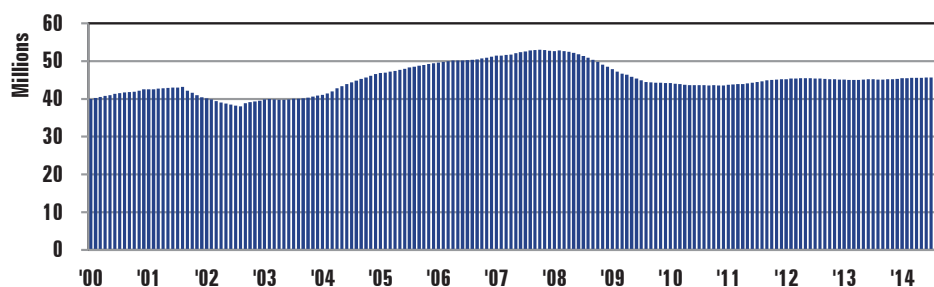


NEVADA RESIDENTIAL UNITS PERMITTED

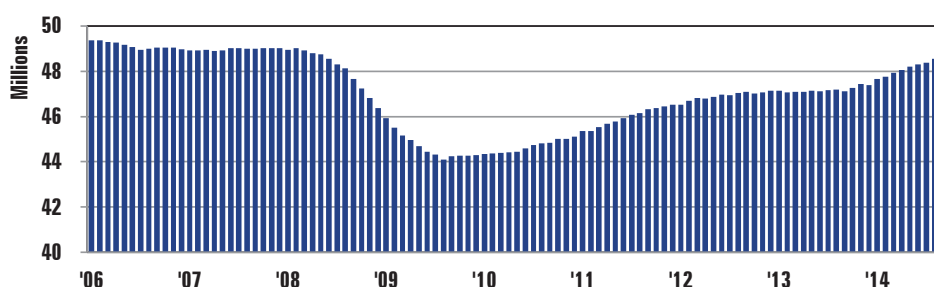
TRAILING 12-MONTH TOTALS



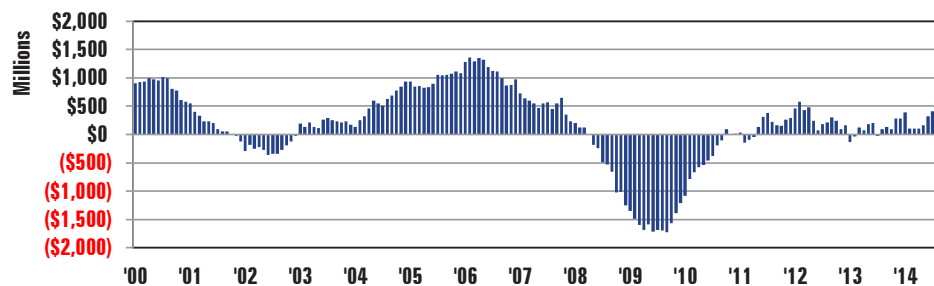
LAS VEGAS/RENO-TAHOE AIRPORT PASSENGER COUNTS TRAILING 12-MONTH TOTALS



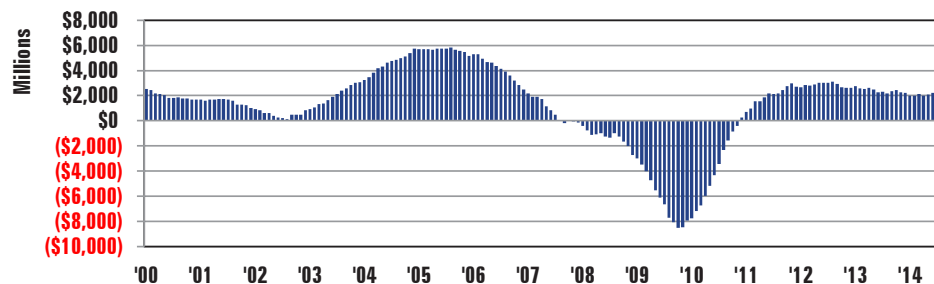
CLARK/WASHOE COUNTY VISITOR VOLUME TRAILING 12-MONTH TOTALS



GROWTH IN NEVADA GROSS GAMING REVENUES TRAILING 12-MONTH TOTALS



GROWTH IN NEVADA TAXABLE RETAIL SALES TRAILING 12-MONTH TOTALS



TRAILING 12-MONTH
Economic Indicator Series

Nevada Residential Housing Units Permitted ⁽²⁾ Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
10,794	10,884	10,235
GROWTH RATE	-0.8% ▼	5.5% ▲

Nevada Taxable Retail Sales ⁽²⁾ Jul-14

Current Period	Prev. Period	Same Period Prev. Yr.
\$47,679,022,509	\$47,440,345,167	\$45,424,716,004
GROWTH RATE	0.5% ▲	5.0% ▲

Nevada Gross Gaming Revenue ⁽²⁾ Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
\$11,197,907,467	\$11,232,846,949	\$10,921,519,709
GROWTH RATE	-0.3% ▼	2.5% ▲

Las Vegas/Reno-Tahoe Enplaned and Deplaned Passengers ⁽²⁾ Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
45,816,564	45,698,208	45,116,753
GROWTH RATE	0.3% ▲	1.6% ▲

Clark/Washoe County Visitor Volume ⁽²⁾ Aug-14

Current Period	Prev. Period	Same Period Prev. Yr.
48,554,727	48,383,888	47,187,692
GROWTH RATE	0.4% ▲	2.9% ▲

Nevada New Business Creation ⁽²⁾ Q1 '14

Current Period	Prev. Period	Same Period Prev. Yr.
1,485	1,548	2,150
GROWTH RATE	-4.1% ▼	-30.9% ▼

Nevada Housing Price Index ⁽¹⁾ Q2 '14

Current Period	Prev. Period	Same Period Prev. Yr.
164.0	158.6	135.2
GROWTH RATE	3.4% ▲	21.3% ▲

Clark County Office Market Vacancy Rate ⁽¹⁾ Q3 '14

Current Period	Prev. Period	Same Period Prev. Yr.
25.2%	25.4%	25.7%
GROWTH RATE	-0.2% ▼	-0.5% ▼

Nevada Hotel/Motel Occupancy ⁽¹⁾ Q2 '14

Current Period	Prev. Period	Same Period Prev. Yr.
80.5%	79.9%	79.4%
GROWTH RATE	0.6% ▲	1.1% ▲

State of Nevada Personal Income ⁽²⁾ Q2 '14

Current Period	Prev. Period	Same Period Prev. Yr.
\$113,533,083,000	\$111,864,872,000	\$109,240,924,000
GROWTH RATE	1.5% ▲	3.9% ▲

Notes: (1) Trailing 12-month/4-quarter averages.
(2) Trailing 12-month/4-quarter totals.

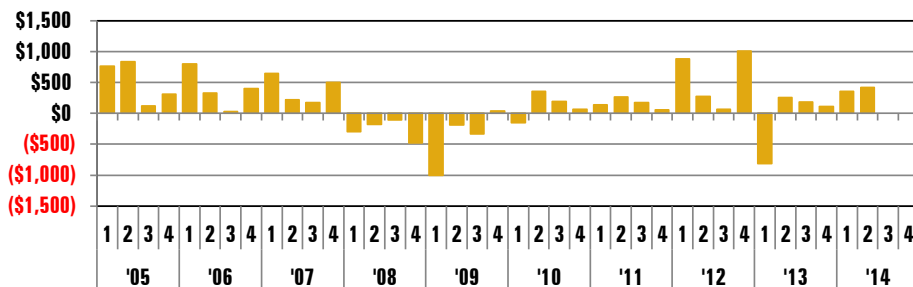
made for the national average, which means that the tighter monetary policy may have some negative ramifications due to coming too soon for Nevada, if our economy continues to lag. That said, Nevada's economy is highly dependent on national and international visitation, particularly from California, which seems ripe for expected tapering of QE and subsequent increases in interest rates.

Notably, low cost of capital is driving many of the projects currently planned, proposed or underway in the state and higher interest rates run the risk of negatively impacting some. Large projects already in the beginning stages, including Tesla in Storey County, Genting Resorts World in Las Vegas, Union Village in Henderson, the Global Business District, and a host of others already far along in the development process, will likely continue to move forward. We anticipate that the low interest rate environment produced by the Federal Reserve's actions will remain long enough for these projects to benefit. However, those coming up behind them will almost certainly face higher capital costs.

The future is, of course, uncertain. Mr. Williams and his colleagues have taken extraordinary measures to ensure the US economy regains stable footing. The main risk of such actions – inflation – remains very much in check. Rising interest rates will be viewed as a negative by some, but they will be in response to sustained higher rates of economic growth and lower rates of employment. Respecting that the Fed does not have a crystal ball, the data-driven approach noted by Mr. Williams appears appropriate, responsible, and most likely in Nevada's best interest. 📊

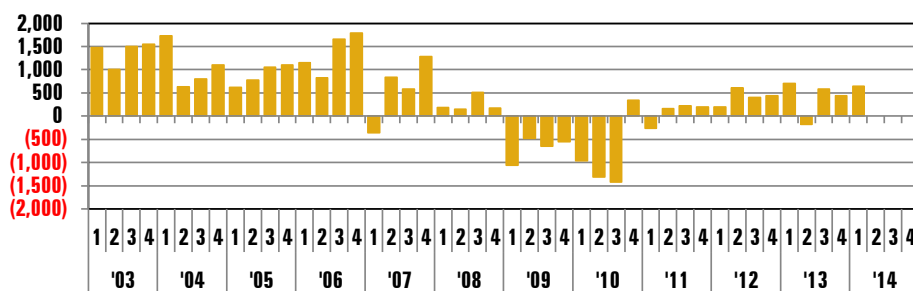
STATE OF NEVADA PERSONAL INCOME GROWTH

QUARTER-OVER-QUARTER



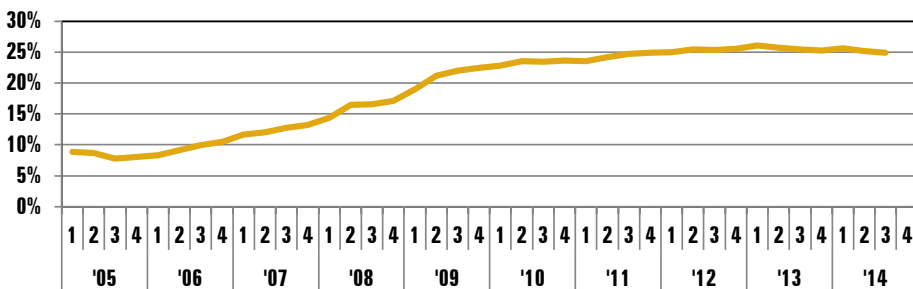
NEVADA NEW BUSINESS CREATION

QUARTER-OVER-QUARTER



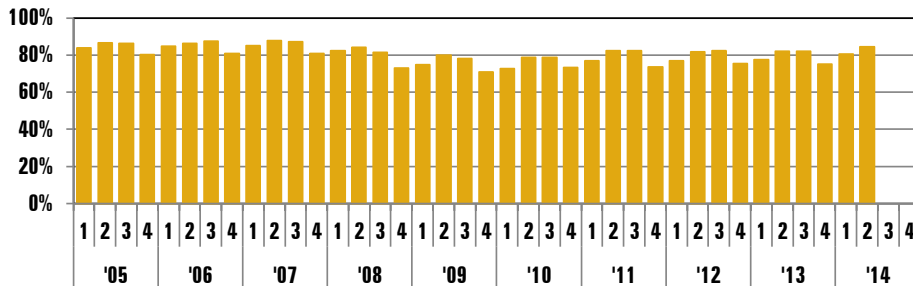
LAS VEGAS OFFICE MARKET VACANCY RATE

QUARTERLY SERIES



NEVADA HOTEL/MOTEL OCCUPANCY

QUARTERLY SERIES



Prepared by:



appliedanalysis.com

Methodology: Applied Analysis ("AA") was retained by Nevada State Bank to summarize and analyze a series of key economic indicators on a recurring basis. Relevant data were obtained from AA's internal databases as well as national, regional and local data providers, including, without limitation, state and local governments. While we have no reason to doubt the accuracy of any of the data reported, we have not performed an audit or assurance procedures on these data, and as such, we cannot attest to their completeness. Generally speaking, data reported are for Nevada, Clark County, Washoe County, or the metropolitan areas therein. Please note that these geographies may differ slightly between data providers.