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Economics Group

Special Commentary

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COVID-19 Puts Las Vegas on Lockdown

Nationwide travel halts in response to COVID-19 pose a dire threat to the Las Vegas economy, which is still highly dependent on tourism and visitor spending.

Perhaps no other regional economy stands to feel the adverse effects of the coronavirus as intensely as Las Vegas. As travel, tourism, conferences, trades shows and professional sporting events have grinded to a halt in an effort to suppress the spread of the virus, the Las Vegas economy has come to a standstill. On top of this, all nonessential businesses in Nevada, which includes all 220 Las Vegas casinos, have received an order to close for a 30-day period, and while hotels are not included, most major hotels appear to be following suit. Additionally, if not already forced to close, the many retailers, restaurants and entertainment venues in Las Vegas will at the very least see a severe drop-off in demand. To a large extent, the duration of these closures depends on the success of these containment measures, but layoffs and furloughs at many of these establishments have already begun.

Despite some diversification, Las Vegas is still driven by tourism.

While new industries have expanded significantly in the region, the Las Vegas economy is still primarily driven by tourism and visitor spending, and will clearly be tested by the COVID-19 outbreak. In 2018, visitor spending amounted to $34.5 billion, which equates to roughly 28% of economic output in the metro. The leisure & hospitality industry employed almost 300,000 workers in Las Vegas as of January of, which accounts for roughly 28% of total payrolls. This metric does not fully capture the extent of the industry's impact. Suppliers and professional services, which support the tourism industry, will likewise feel the ripple effects of the collapse in demand, not to mention the many local retailers which depend on the incomes of those that are primarily affected. What's more, wages in the leisure & hospitality industry tend to fall on the lower end of the spectrum, which means laid-off workers may be especially vulnerable to the loss of their primary income and may face immediate hardships. Overall, the closures and drop-off in travelers will clearly be enough to put a sizable dent in hiring and economic growth more broadly. How rapidly the Las Vegas area recovers will depend on how quickly the virus can be contained around the country and around the world.

Figure 1

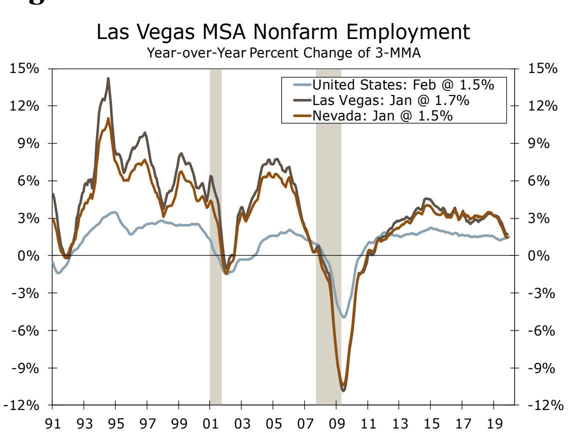
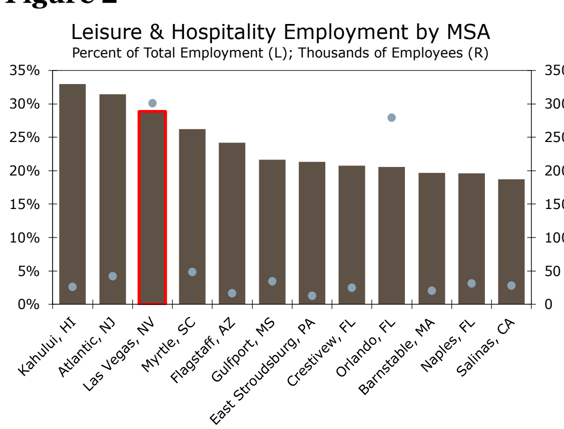


Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities

Dicey Timing for Las Vegas

The virtual shutdown also comes at a somewhat precarious time for the Las Vegas economy. Heading into the crisis, employment growth in the metro appears to have cooled off a bit, to 1.7% on a year-over-year basis in January, roughly on par with the national average. For much of the past decade, however, hiring in Las Vegas has significantly outpaced the rest of the country. Part of the reason for the recent moderation can be attributed to a slowdown in the leisure & hospitality sector and outright declines in retail trade, two sectors which will be disproportionately affected by the COVID-19 lockdowns. Over the past year, retailers have shed over 3,500 jobs, the most since the Great Recession, while leisure & hospitality added just 700 new jobs. Employment growth beginning to soften even before the effects of COVID-19 materialize is worrisome as it may be a sign that the Las Vegas economy is not as well positioned as it could be to absorb the shock.

9/11 is a point of comparison, but this figures to be much worse.

Quantifying the economic impact is all the more challenging given the current situation is historically unprecedented. The closest comparison for what may be ahead is probably the September 11 terrorist attacks, when travel similarly came to a standstill. In the month after the attacks, the Las Vegas unemployment rate rose from 5.6% to 6.2%, while the metro lost over 18,000 jobs, about 10,000 of which were in leisure & hospitality. While total employment loses were recouped in slightly less than a year, it took the leisure & hospitality sector nearly two years to regain the jobs that were lost. Not surprisingly, visitor volume fell 2.5% in 2001 as a whole and took about three years to return to 2000 levels, even when there were no shutdowns or travel moratoriums in place.

The impacts of the coronavirus crisis will be even worse. While the September 11 terrorist attacks were devastating in their own right, the COVID-19 pandemic presents a more persistent threat with an unknowable end date. In an optimistic scenario, nonessential business begin to reopen in April as the spread of the virus slows alongside national quarantines and social distancing measures. One silver lining may be that once travel restrictions are lifted, there will be a wave of pent-up demand unleashed as those quarantined at home seek an escape. Similarly, travelers who canceled or postponed vacations abroad will likely opt for a domestic locale. For those reasons, we expect domestic travel to bounce back fairly swiftly. Overall visitor volume, however, will be slow to fully recover, as canceled trade shows cannot be easily rescheduled and restrictions on international travel are likely to remain in place for an extended period even after the virus is contained in the United States. Las Vegas welcomed 5.8 million foreign travelers in 2018, about 15% of all visitors. Furthermore, China, Japan and South Korea—countries hard-hit by the coronavirus—are among the top overseas origins for those travelers.

It may take years for Las Vegas to fully recover.

Overall, the next few months will be challenging for Las Vegas. Even as the metro's economy has diversified somewhat over the past decade and now derives more growth from other service-based industries such as finance, profession & business services and education & health, tourism spending remains the primary driver. In coming months, we expect to see an abrupt decline in nonfarm employment and the unemployment rate to spike. Once the virus is contained, the metro economy should quickly begin to recover but it may take a few years for Las Vegas to fully climb back to prior levels.

Figure 3

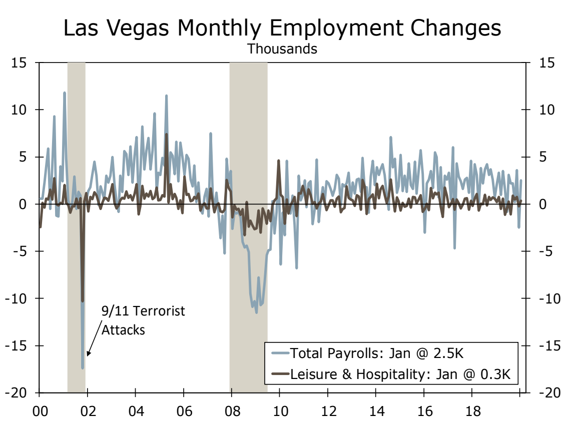
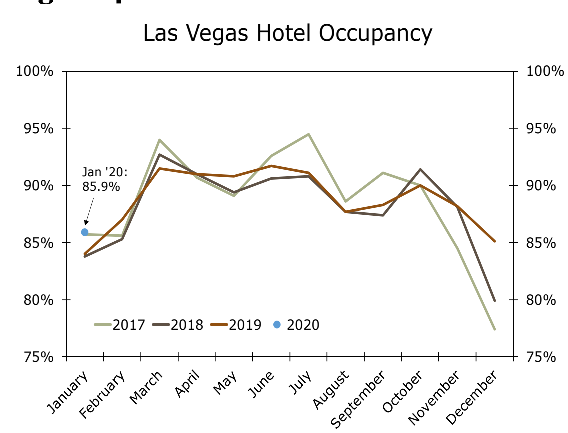


Figure 4



Source: U.S. Department of Labor, Las Vegas Convention & Visitors Authority and Wells Fargo Securities

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