



# WHAT GOES UP

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## Must Come Down?

By Michael Lawton

As the Senior Economic Analyst for the Nevada Gaming Control Board, one of my functions is to provide gaming win and collections estimates to the State's Economic Forum, which is the body responsible for producing forecasts for the state's general fund revenues for each two-year budget period. The forecasts are used by the Governor in preparing budget recommendations presented to the legislature in January of odd-numbered years. As I start to think about forecasts later this summer and analyze the incredible run Nevada's gaming win has been on over the past three years, I often ask myself if the amounts will ever come back down off of these current record levels. Starting in March 2021, Nevada has now recorded over \$1.0 billion in monthly gross gaming revenue in thirty-nine consecutive months and set new records for calendar year gaming win in three consecutive years, including 2021, 2022, and 2023. Additionally, calendar year 2024 is off

to a solid start, through May, as gross gaming revenue has increased 3.2% over last year. Furthermore, prior to this current streak, Nevada had only hit the bellweather number of \$1.0 billion in monthly gross gaming win forty-nine times in the state's history. We could conceivably surpass that number in consecutive months in April 2025.

You will never hear me complain about these remarkable figures; however, you might hear me ask myself, "how can we continue to record monthly increases and are these amounts of gross gaming revenue sustainable?" After nearly 3 ½ years, I think we can all agree that this is the new normal. There are several contributing factors to Nevada's success, which in my opinion will continue to act as catalysts for robust gaming activity. First, Nevada has a very healthy economy that's currently experiencing record employment levels, the demand for jobs is sturdy, the state's labor force participation has recovered, and

diversification continues. Secondly, Clark County will continue to host major concerts, sporting events, and artist residencies, which will allow for steady improvement in visitation, with notable room on the runway for a full recovery of convention attendance and international visitation. Furthermore, travel sentiment remains strong among American consumers who were recently surveyed. These are the types of drivers that allow me to sleep well at night and provide some confidence in the sustainability of gaming win at these record heights.

Unfortunately, despite of all these positive indicators, sometimes doubt creeps in and I find reasons to question the numbers we have witnessed in terms of how do we expect gaming revenue to continue to increase. The reason these questions surface is primarily due to where the growth is coming from and a dive into the numbers tell more of the story than just the headline results. Over the

past twelve months (June through May), statewide gaming revenue sits at \$15.7 billion and represents the highest twelve-month total in state history. The win amount is up 3.9% or \$587.6 million, and the Las Vegas Strip's gaming revenue is \$9.0 billion and has risen 5.6% or \$481.1 million. Not surprisingly, the Strip has accounted for 81.9% of the increase during this period and if you were to exclude the Strip, the state is up just 1.6% or \$106.5 million. A closer look into the data will reveal that the state's baccarat win over the last twelve months is \$1.6 billion and is up \$494.7 million or 42.9%, and has accounted for 84.2% of the growth in gaming win. This is concerning due to the fact that baccarat volumes are up just 9.6% and the win amounts are being driven by hold percentage (luck), which is not necessarily sustainable for the long term. Case in point, the baccarat hold percentage over the previous twelve months is 18.03% vs. 13.83% for the prior comparable period. Additionally, if you examine how gaming revenue is performing without baccarat over the same period (slots and non-baccarat games and tables), statewide gaming win excluding baccarat has increased \$92.9 million or 0.7%, which is relatively flat. Moreover, if you were to apply a normalized hold of 14.25% to baccarat volumes over this period, it would result in gross gaming revenue being up just 1.6% or \$242.4 million, vs. the \$587.6 million actual increase, which is a \$345.2 million difference.



The bottom line as to why I have concerns is that the bulk of the expansion we have been experiencing during the last twelve months is being driven by a very volatile table game played by thousands of customers (not millions), on approximately 360 tables at twenty-one locations on the Las Vegas Strip. In my opinion, that growth is not widespread enough and when baccarat hold corrects itself, which I presume it will, Nevada could start to see monthly gaming revenue decreases as opposed to the thirty-three monthly increases we have recorded over the last thirty-nine months when the billion-dollar streak began. Yes, you are reading that statement correctly - Nevada has only recorded six monthly gaming win decreases over the last thirty-nine months.

In conclusion, I do not want anyone to read this article and come away feeling that dark clouds are on the horizon and the other shoe will drop momentarily. Overall, gaming revenue remains extremely healthy and continues to

be well above pre-pandemic totals. Customers are maintaining their resiliency and we are not receiving any indication from the industry that the majority of gaming patrons are beginning to show weakness due to inflationary pressures and high interest rates. To put it into perspective, gaming win over the last twelve months has averaged \$1.3 billion and is 30.7% higher than the pre-pandemic average in 2019. Gaming revenue would have to decrease by an average of \$300 million a month to fall back to those levels. Thankfully, that type of drop-off is not on anyone's radar and answers the question what goes up doesn't necessarily have to come down. However, the incredible success Nevada's gaming industry has experienced is creating a challenging pathway for continued increases in gaming win as we move forward and, ultimately, continued growth in Nevada's Gaming Percentage Fee Collections, which are a vital revenue source for Nevada's general fund. ■



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