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MAY 2025

NEVADA ECONOMIC FORUM

Revenue Outlook: State 2% Sales and Use Tax, Gaming Percentage Fees

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Revenue Outlook:
State 2% Sales and Use Tax, Gaming Percentage Fees

BY EMILY MANDEL AND KUMAEL BILGRAMI

The following revenue forecasts link Nevada's general sales and use tax revenue (NRS 372) and its gaming percentage fee revenue (NRS 463) to measures of underlying economic growth. A slower-growing economy and weaker near-term prospects for tourism will drive reduced revenues relative to previous projections. While tariffs will increase price levels, heightened uncertainty among businesses and flagging consumer confidence will contribute to slower growth in sales tax revenues. Gaming percentage fee revenues, which are more cyclical, are forecast to decline as trade war tensions cause international visitation to backtrack and some Americans rethink travel plans. The economy avoids a recession in this forecast, but near-term growth will be minimal and is dependent upon the de-escalation of the global trade war.

REGIONAL ECONOMY

The near-term economic outlook has dimmed. The U.S. economy entered 2025 performing exceptionally well, characterized by strong growth, low and stable unemployment, and moderating inflation and interest rates. However, sharp policy shifts by the Trump administration, including a mounting global trade war and Department of Government Efficiency cuts to federal jobs and spending, have created unprecedented uncertainty and are weighing on consumer and business confidence. More restrictive immigration measures are another cornerstone of the administration's policy, and while the stepped-up deportation of immigrants has yet to significantly intensify, this poses a substantial headwind to labor force growth.

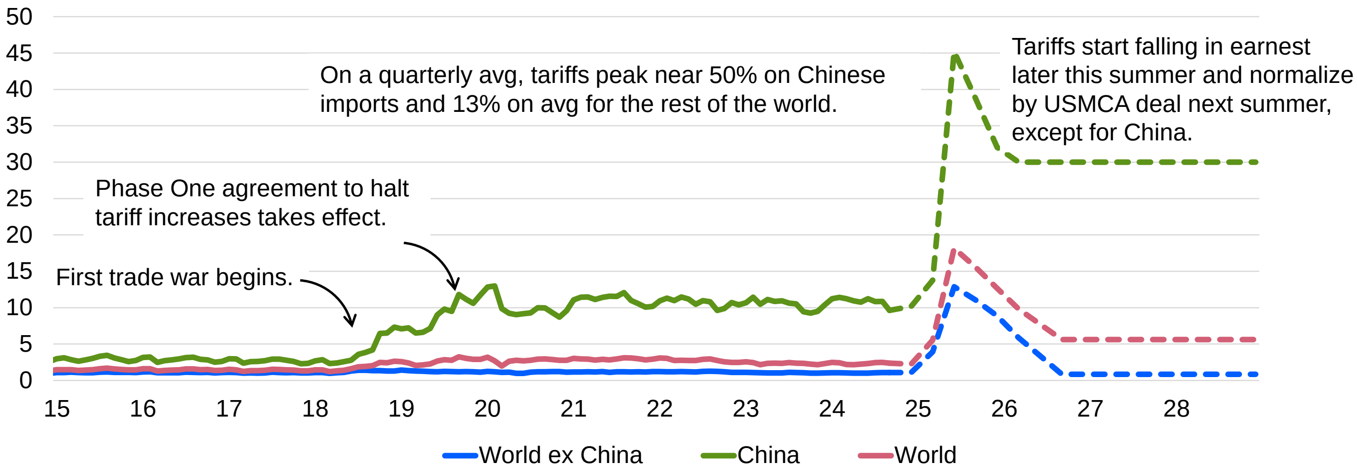
Trade policy is the most significant driver of the markdown to the baseline outlook. The effective tariff rate is expected to rise from nearly 3% at the start of the year to a peak of close to 20% this summer before falling back to 5% by late 2026 (see Chart 1). A helpful rule of thumb is that for every sustained 1-percentage point increase in the U.S. effective tariff rate, consumer price inflation in the subsequent year will increase by 10 basis points, and real GDP will decline by almost 7 basis points. This reflects the pass-through of the tariffs to consumer prices, including the effects of currency movements, the expected retaliation by other countries, the fallout on the stock market and other financial conditions, and the angst among consumers, businesses and investors created by heightened uncertainty and the actual economic consequences of the trade war. Based on our assumptions and given these rules of thumb, we expect the national economy to narrowly skirt a recession. However, this is predicated on the expectation that the president will ease up on tariffs and unwind all but those imposed on China by the summer of 2026.

Nevada's tourism and immigrant-heavy economy stands to feel the effects of trade tensions and increasingly restrictive immigration policies acutely. The state is entering this period of increased headwinds in a more precarious position as key economic indicators have slackened recently. Payrolls have made minimal progress over the past year, leaving job growth trailing that of the region and nation. Industries tied to the key tourism industry are showing particular signs of strain. Growth in leisure and hospitality employment has stalled, while retail is shedding jobs. Healthcare remains a bright spot and state government is rapidly adding to payrolls, but the breadth of job creation has grown increasingly narrow.

The tourism industry will remain key to Nevada even as the near term is fraught with challenges. The industry has had a mixed start to 2025, with softening visitation and a decline in passenger traffic through Harry Reid International Airport. As job, wage and wealth gains slow nationally,

Chart 1: Tariffs Will Take a Toll Before Administration Pivots

U.S. import duties as a % of U.S. imports, Apr 2025 baseline scenario



Sources: Census Bureau, Moody's Analytics

people's ability to vacation will diminish. The heightened uncertainty will wear on already jittery consumers, driving them to rein in vacation spending or pull back on travel entirely. According to the Conference Board, domestic vacation sentiment is already bending, and recent declines in prices for airfares and hotels nationally hint at expectations of weaker demand for travel.

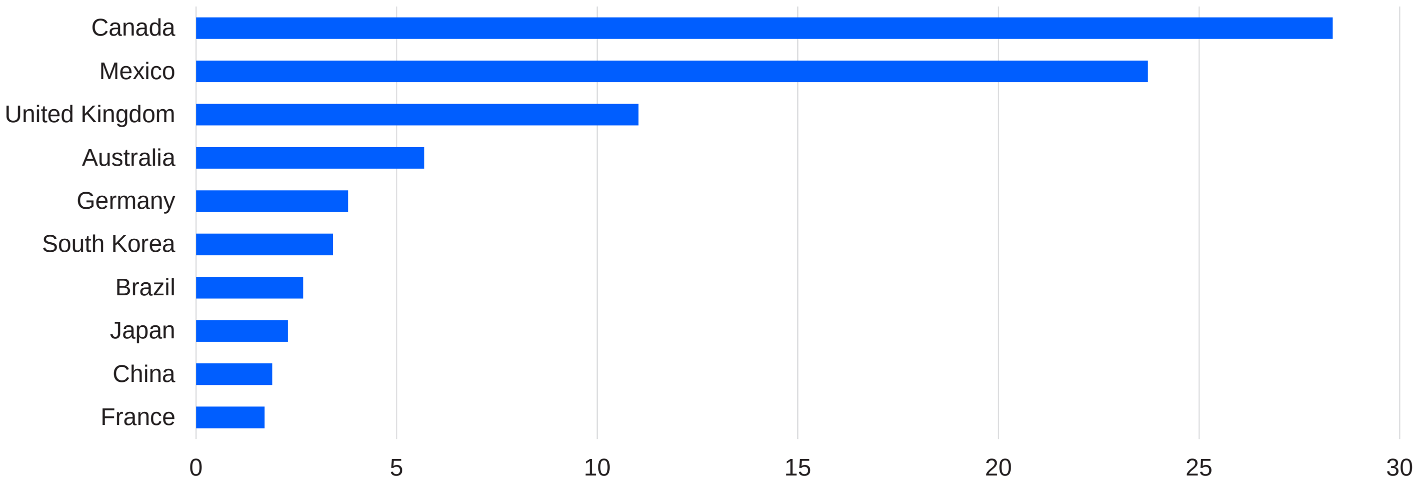
International visitation, a growing and important source of visitors, stands to contract more sharply. Recent tariff announcements and increasingly confrontational trade rhetoric are already weighing on tourism flows. International visitors account for more than 10% of total visitation to Nevada, and travelers are concentrated among three of the U.S.'s major trading partners, all hit with tariffs: Canada, Mexico and the U.K. (see Chart 2). Air travel bookings from Canada, the state's biggest source of international visitors, are down 70% through the end of this year, according to OAG data.

As economic conditions worsen, both domestically and internationally, Nevada will experience lower visitor volumes into next year. Alongside reduced consumer spending and gambling revenues, this will strain the key leisure and hospitality industry's ability to maintain payrolls, which are forecast to contract modestly through 2026. Despite near-term exposure, longer-term prospects remain positive. Sustained investment in Las Vegas' world-class entertainment offerings will help Nevada keep its edge and allow leisure and hospitality employment to recover as visitation ticks back up.

Headwinds to immigration will introduce additional choppiness. Robust net migration helped propel population growth to the sixth-fastest pace in the nation in 2024. The Silver State offers many of the same benefits as popular West Coast cities at a lower price point, making it attractive for those moving west and regional residents seeking a lower tax burden. This has deepened the labor pool since most new residents are prime-age workers. The growing labor force has been a boon for the state's diversification efforts into industries such as manufacturing and healthcare, while supporting demand in the housing market and consumer-dependent industries. While supportive demographics underlie Nevada's substantial long-term economic potential, restrictive immigration policy threatens to temporarily undermine a key pillar propping up the state's impressive recent growth.

Chart 2: Canadian Boycott of Travel to the U.S. Could Hurt Las Vegas

Visitation to Las Vegas by country as a % of total international visitation, 2024 preliminary data



Sources: Las Vegas Convention and Visitors Authority, Moody's Analytics

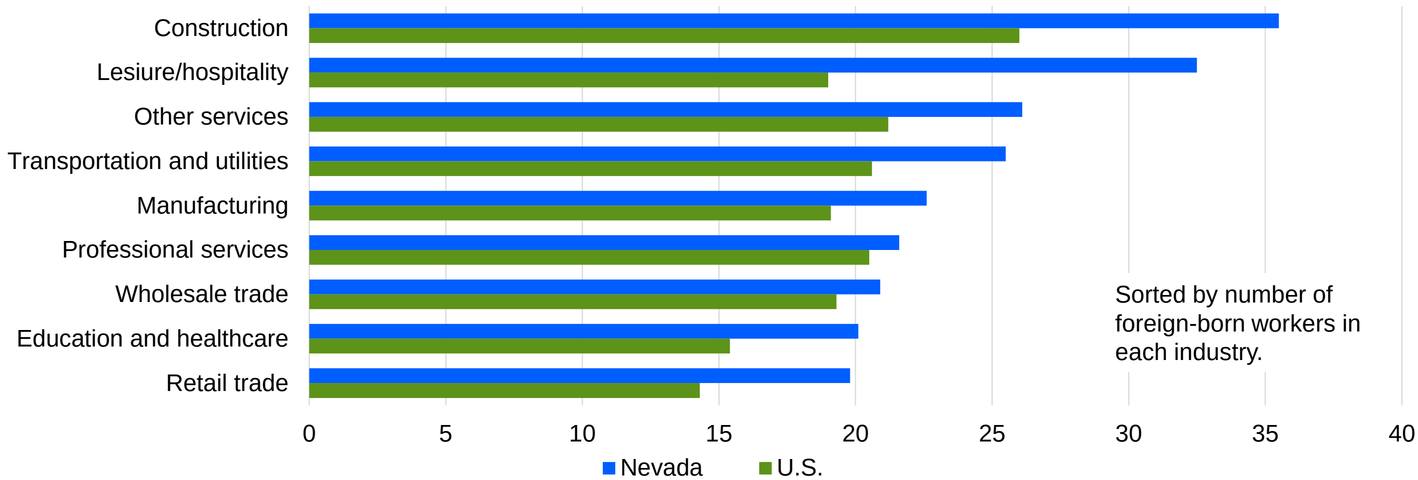
Nevada is one of the most immigrant-dependent economies in the nation, ranking fifth for its foreign-born share of civilian employment. Furthermore, one in five Nevadans is foreign-born and estimates from the American Immigration Council show undocumented immigrants make up 9% of the state's workforce, one of the highest shares nationally. Reduced immigration and increased deportations will raise costs and slow hiring in key industries with large concentrations of foreign labor, including leisure and hospitality and construction (see Chart 3). Overall, population growth will still best that of the region and nation, but the margin will narrow.

While Nevada's specialization in tourism makes heightened exposure to the business cycle a chronic problem, economic diversification efforts in recent years will provide some insulation in times like this. The Silver State has developed a specialization in lithium battery manufacturing through investment from the likes of Tesla, Lyten, and most recently, Octillion Power Systems. Nevada's significant land area to expand, proximity to California and coastal shipping points, and business-friendly environment are key structural advantages and will sustain recent gains in electric vehicle component and battery manufacturing. This burgeoning manufacturing presence has also driven growth in logistics and warehousing. Given its plentiful and cheap real estate, Nevada has seen significant development of numerous industrial parks, which will drive near-term hiring.

Even under the baseline outlook where the economy avoids recession, Nevada will shift into a lower gear. Recent turmoil from trade policy and weaker national growth prospects spell lower international and domestic visitation. Therefore, tourism will underperform the heady pace of recent years. Increased uncertainty and heightened recession fears will weigh on local consumer spending more broadly, while reduced immigration will soften the state's demographics-driven tailwinds. The magnitude of these impacts will depend heavily on federal policy, which is changing rapidly. Despite near-term volatility, the longer-term outlook remains strong as supportive demographics, world-renowned tourism offerings, and ongoing investment in economic diversification will help Nevada widen its lead over the nation.

Chart 3: Immigrants Are a Pivotal Source of Labor for Nevada

Foreign-born share of labor force by industry, 2023, %



Sources: Migration Policy Institute, Moody's Analytics

SALES AND USE TAXES

Forecast. Sales and use tax collections grew a healthy 4% in fiscal 2024 as demand from Nevada residents and visitors remained strong. This bested the pace of inflation, indicating that consumers were purchasing a greater quantity of goods and services, rather than just paying higher prices for those purchases. Fiscal 2025 is on shakier footing, however, and revenues contracted over the first four months of the year. Beginning in November, the transition to a new software system impacted revenue data reporting. While the scope of the ongoing impact remains unclear, November data were most impacted, with reported revenues falling by half. Excluding that month, revenues through February are tracking 1% below their fiscal 2024 levels.

Table 1 displays the historical data as provided through the second quarter of 2025. We have attempted to compensate for these data issues in our modeling. As a result, the subsequent forecast reflects expectations for the actual level of revenues that would be anticipated absent any further distortions or payback from an unrealistically low second quarter. However, the fiscal 2025 total and related growth rates necessarily reflect these earlier distortions. For comparison's sake, if instead of November's 53% decline, the month's revenues were held equal to the prior year's value, revenues would decline 0.9% in fiscal 2025, rather than 5.3%. Similarly, fiscal 2026's rebound would be just 1.6%, rather than 6.4% (see Chart 4). These growth rates are more reflective of underlying expectations for consumer spending.

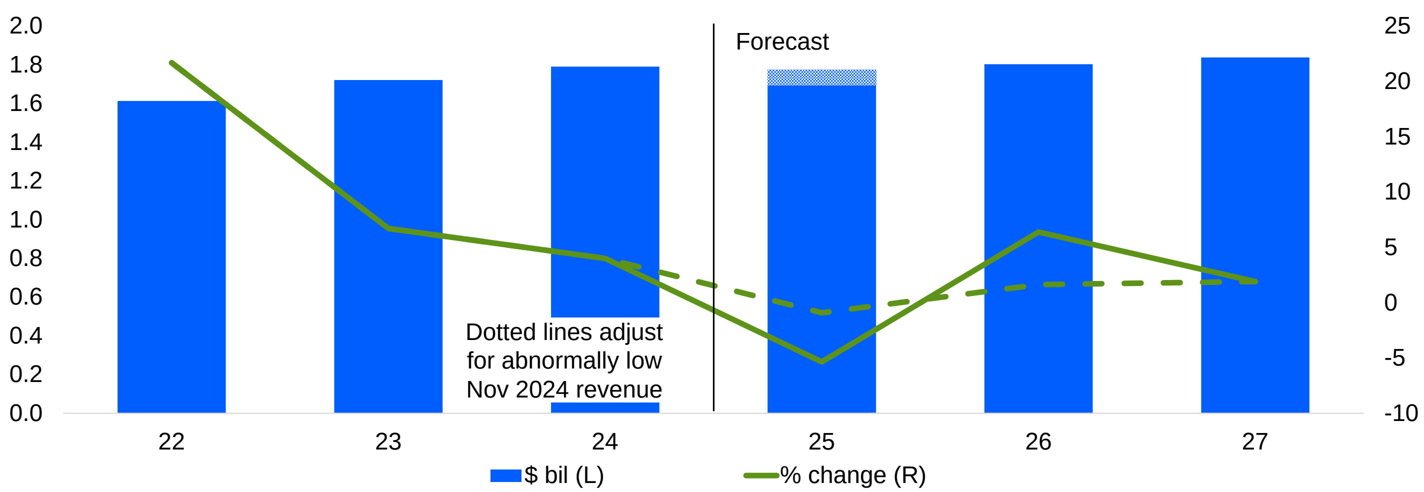
Consumers are being pressured from multiple angles, and this will manifest in weaker spending than previously anticipated, although nominal expenditures will continue to grow. Lending conditions remain restrictive, declines in stock valuations will reverse the wealth effect that had powered recent spending, and job growth is set to slow. There will also be some unique features of the next two years relative to sales tax revenues. Tariffs will raise the prices of many goods as firms pass along a significant portion of their higher costs. Especially in the current environment, when consumers have shown a strong distaste for high prices, they will likely pull back on purchases of these items, reducing the volume sold. However, their remaining purchases of these goods will come with a higher price tag, reducing the hit to nominal sales tax revenues. An anticipated reduction in tariff rates through fiscal 2026 will revive demand while also reducing pressure on prices. As the economy picks up toward the end of the forecast period, sales tax revenues will follow suit.

Table 1: May 2025 2% Sales and Use Tax Forecast

	Q1	Q2	Q3	Q4	Total
Fiscal 2022, $ mil	385.42	412.13	386.92	428.88	1613.34
% change yr ago	28.56	28.71	20.65	11.36	21.69
Fiscal 2023, $ mil	419.91	448.77	412.03	440.84	1721.54
% change yr ago	8.95	8.89	6.49	2.79	6.71
Fiscal 2024, $ mil	443.08	461.56	434.68	451.12	1790.43
% change yr ago	5.52	2.85	5.50	2.33	4.00
Fiscal 2025, $ mil	440.91	373.38	431.49	449.00	1694.77
% change yr ago	-0.49	-19.10	-0.73	-0.47	-5.34
Fiscal 2026, $ mil	444.85	462.67	433.14	462.48	1803.14
% change yr ago	0.89	23.91	0.38	3.00	6.39
Fiscal 2027, $ mil	456.97	471.42	439.88	469.31	1837.58
% change yr ago	2.73	1.89	1.55	1.48	1.91

Sources: Nevada Legislative Counsel Bureau, Moody's Analytics

Chart 4: 2% Sales and Use Tax Forecast



Source: Moody's Analytics

Drivers. The key state-level drivers of sales and use tax collections are Nevada personal income, unemployment, and personal consumption expenditures on durable goods; recreational spending at the national level is also included in the model. These drivers are designed to capture cyclical and structural relationships between consumers' confidence in the economy, the resources available to them, and demand generated by the tourism sector.

Personal income is set to rise over the forecast horizon, albeit at a relatively muted pace by historical standards. Incomes are a major determinant of consumers' ability to spend, and their upward trajectory will support consumers' ability to absorb higher goods prices. Growth in nominal wage and salary income will gradually decelerate through 2027 and will only narrowly outpace the national average. Nonwage income growth will be relatively strong, but a larger share of these gains will come from transfer payments as income from dividends, interest and rents disappoints.

The business cycle takes on a particularly large role in Nevada, where sales tax revenue is much more volatile than the national average. The inclusion of the unemployment rate helps to account for these amplified shifts. As unemployment rises, confidence suffers, and consumers pull back on spending. If this pullback is sharp enough, a recession is the result. Many businesses will experience rising costs because of substantially increased tariffs. This will combine with heightened uncertainty to drive businesses to rein in hiring. As job creation slows, unemployment will rise. The administration is expected to walk back some of the tariffs before layoffs spike to recessionary levels, but risks are to the downside.

Durable goods expenditures directly capture spending on longer-lasting items such as vehicles, furniture, electronics and appliances. Aggressive tariffs on U.S. imports to insulate domestic goods-producing industries will lift input costs throughout the supply chain. Combined with trading partner retaliation, this will drive up inflation and goods prices in particular. While price levels will be higher, demand for durable goods will suffer, resulting in lower spending than previously expected. We may see a temporary boost as consumers try to bring forward purchases before policies come into full effect, but weaker purchases in subsequent quarters would offset this.

Elevated interest rates have made purchases financed on credit more expensive than just a few years ago. Combined with higher prices, this will give consumers pause as they contemplate big-ticket purchases. The drag will lessen as the Federal Reserve gradually lowers interest rates to support the economy. As the interest rates fall, tariffs are reduced, and consumers once again find themselves in need of new items, these expenditures will pick up toward the end of the forecast period.

Finally, U.S.-level expenditures on recreation spending serve as a proxy for demand from Nevada's large tourism sector. Visitors to the state shop at local stores and eat at local restaurants, contributing to sales tax revenues in the process. This driver will provide less near-term support as softening domestic and international tourism flows amid slower economic growth and trade war tensions will manifest as lighter collections.

GAMING PERCENTAGE FEES

Forecast. Gaming percentage fee collections have broken records each year since fiscal 2022, and strong performance over the first three quarters of fiscal 2025 puts them on track to scrape out another record high this year. After the first full year of lifted restrictions on casinos drove a remarkable 40% revenue increase in fiscal 2022, progress has been slow. Revenue rose just 0.6% in fiscal 2023 and 3.1% in fiscal 2024. A projected decline in the fourth quarter of fiscal 2025 will result in a cumulative 0.6% gain for the year, with revenues coming in a hair above $1 billion (see Table 2).

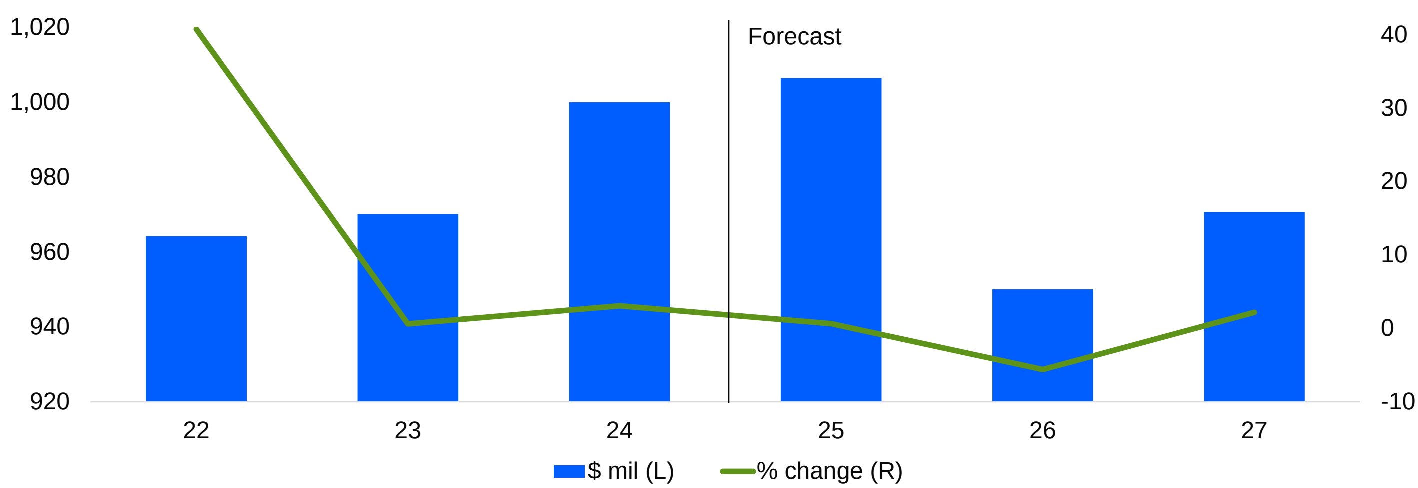
Subsequent performance will be weaker, and revenues are not forecast to regain this level within the 2027 forecast period. Strong headwinds to international tourism and weaker consumer confidence domestically will reduce visitation to Nevada. Meanwhile, a weaker economy accompanied by competing pressure on Americans' wallets from higher prices for many goods will reduce the amount wagered by visitors and residents alike. Collections are expected to decline 5.6% in fiscal 2026 before partially rebounding with a 2.2% gain in fiscal 2027 (see Chart 5). For context, this would be a substantially smaller decline than those suffered during the pandemic and Great Recession, but more severe than the minor contraction sustained during the dot-com bust of the early 2000s.

Table 2: May 2025 Gaming Percentage Fee Forecast

	Q1	Q2	Q3	Q4	Total
Fiscal 2022, $ mil	256.53	239.53	208.67	259.48	964.21
% change yr ago	130.67	42.03	72.29	-8.69	40.73
Fiscal 2023, $ mil	245.13	234.89	240.89	249.22	970.13
% change yr ago	-4.45	-1.94	15.44	-3.95	0.61
Fiscal 2024, $ mil	252.28	246.97	255.45	245.25	999.95
% change yr ago	2.92	5.14	6.04	-1.59	3.07
Fiscal 2025, $ mil	220.76	268.30	274.73	242.59	1006.38
% change yr ago	-12.49	8.64	7.55	-1.08	0.64
Fiscal 2026, $ mil	231.28	232.86	239.22	246.65	950.01
% change yr ago	4.76	-13.21	-12.92	1.67	-5.60
Fiscal 2027, $ mil	234.51	237.71	244.60	253.86	970.68
% change yr ago	1.40	2.08	2.25	2.92	2.18

Sources: Nevada Legislative Counsel Bureau, Moody's Analytics

Chart 5: Gaming Percentage Fee Forecast



Source: Moody's Analytics

Drivers. Gaming percentage fees have a high correlation with national and global economic trends in contrast to sales taxes, which are highly dependent on local consumer spending. Gaming percentage fees are also more sensitive to the business cycle. To capture these dependencies, the model for gaming percentage fees relies on a two-step process. First, the number of visitors to Las Vegas is modeled based on real recreational service spending in Nevada, the strength of the U.S. dollar, and the national unemployment rate. This metric is then used to forecast gaming revenues, in conjunction with Nevada disposable income and the Nevada unemployment rate.

Visitor volumes are facing some rough spots in the near term. Domestic travel has been the main driver of Nevada's tourism recovery, with international visitation also picking up more recently. While total visitor numbers are approaching pre-pandemic levels, conference traffic and international visitor volumes have not fully recovered. Moreover, total traffic this year to the Las Vegas area will likely underperform the heady levels of recent years. Last year's calendar was packed with events, including the Super Bowl and the inaugural Las Vegas Grand Prix, providing a difficult comparison base. Moderating national growth and trade war tensions will drive still-weaker performance through 2025. Because of the structural concentration of Nevada's international visitors, the state will feel the pinch as residents of top sources such as Canada and Mexico travel less to the U.S. This is made all the bleaker since international visitors spend more on average than their domestic counterparts and help to fill hotels midweek, threatening gaming revenues.

Incomes and the labor market more broadly will also provide weaker support. Growth in disposable personal income has cooled over the past two years after strong performance coming out of the pandemic. These earlier income gains substantially increased household savings, giving consumers additional resources to devote to leisure travel. Remaining savings appear to be increasingly concentrated at the high end of the income distribution, but those households tend to spend the most on a per capita basis. Likewise, rapid gains in housing values and equity prices have left high-income households significantly better off. With equity markets now in correction territory, however, the tailwind to vacation spending from the wealth effect will rapidly evaporate. Disposable incomes will continue to rise, but slower growth will reduce residents' available resources for discretionary pursuits such as gaming. Furthermore, the state and national unemployment rates are forecast to rise through fiscal 2026. With jobs harder to get, people will grow more hesitant in their spending.

Outside of the economic impacts, several structural issues play a part in the forecast. Sports betting has rapidly expanded across the country, though the loss of monopoly power has not slowed Nevada's broader gaming industry. Sports betting revenue is not rising nearly as rapidly in Nevada as elsewhere but remains substantially above its level in 2018 before sports betting was legalized outside the state. Revenue from sports betting pales in comparison to gaming fee revenue from other types of gambling, so this development is unlikely to be a game-changer. Las Vegas has also been relatively successful in addressing the changing gambling and entertainment landscape by diversifying beyond its traditional gaming image and branding itself more as a comprehensive vacation destination that appeals to a wider range of visitors. As a result, live entertainment and sales and use taxes will grow at the expense of gaming percentage fees.

ABOUT THE AUTHOR

Emily Mandel is an associate director and senior economist at Moody's Analytics where she leads public sector revenue forecasting projects and produces research around public finance as well as state and local government fiscal policy. In this capacity she works closely with a number of governments in an advisory role. In addition, Emily is responsible for covering the economies of Vermont and New Mexico and regularly produces regional macroeconomic forecasts and written analysis. Emily received a master's degree in international and development economics from Yale University and holds a bachelor's degree in economics and international studies from Dickinson College.

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