

Law Enforcement Industry

February 10, 2022

Adjusted NICS Checks Continued Decline in January

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Adjusted National Instant Criminal Background Check System (NICS) firearm background checks declined in January versus a year ago. Total checks declined 41% versus January of 2021, and checks excluding new permits and permit renewals, a proxy for firearm purchases, declined 42% in January compared to the same month a year ago. This is a continuation of the deceleration in growth since March of 2021. Comps will become easier beginning this month.

The National Instant Criminal Background Check System (NICS) was created to comply with The Brady Handgun Violence Prevention Act of 1993. Total NICS checks include requests for permits and permit renewals, and excluding these two categories, or adjusted NICS checks, provides a proxy for gun purchases in the U.S.

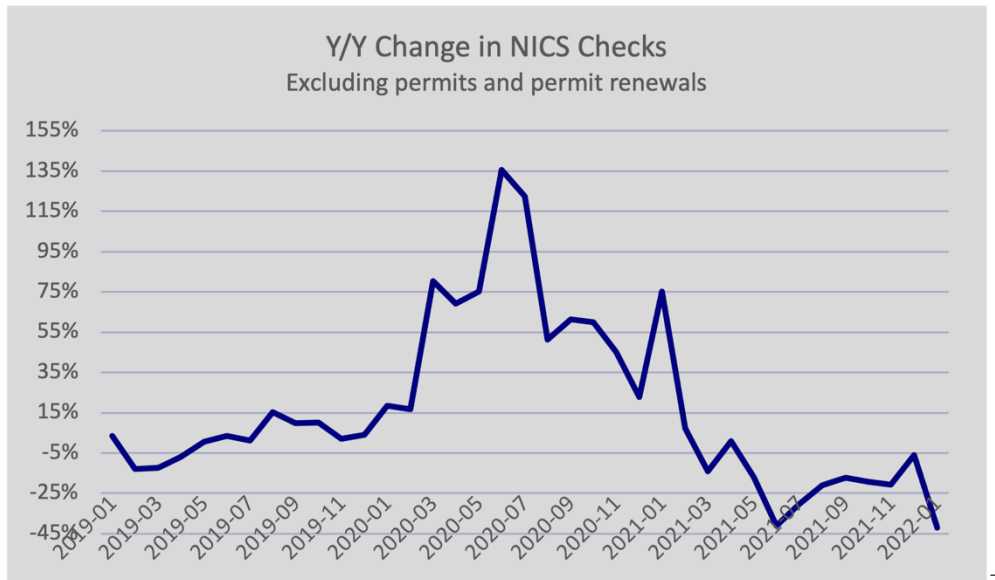
Adjusted NICS checks accelerated beginning March of 2020 and the year-over-year growth rate peaked in June of 2020 at 136%. Since then, the rate of change has declined, and turned negative in March 2021. The year-over-year change in adjusted NICS checks were negative in all but one of the ten subsequent months, including the 42% decline in January 2022.

In our opinion, there are five driving factors for the sharp increase in NICS checks in 2020: 1) checks were down 16% from the end of 2016 through the end of 2019 and the subsequent increase is a reversion to the mean. Catalysts for that reversion include: 2) the uncertainty created by the pandemic; 3) the wave of riots and violence and increased crime in many U.S. cities in 2020; and 4) uncertainty over firearm regulations. 5) Pressure on police budgets.

For the rest of this year, if the month-to-month change in NICS adjusted checks is similar to the monthly average of the past 23 years (since 1999), the total NICS adjusted checks would be 15.9 million, down 14% from the 18.5 million checks in 2021. To the extent adjusted NICS checks are a proxy for firearm purchases, this is an indication firearm and ammunition sales will face a challenging 2022.

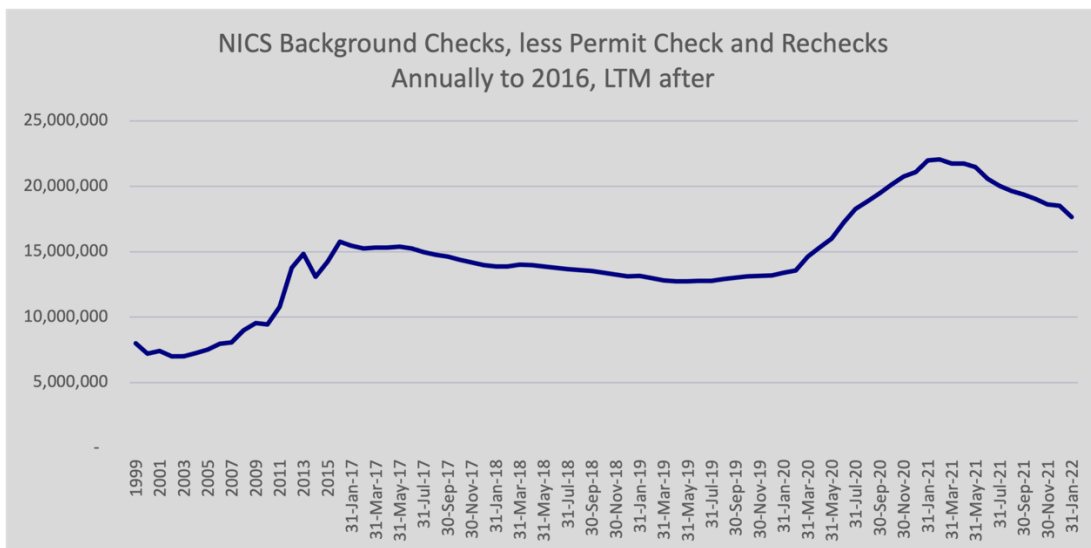
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories in the Interstate Identification Index (III); 2) wanted persons, subjects of protection orders, and other persons who may pose a threat to officer and public safety in the National Crime Information Center (NCIC) database; 3) persons prohibited from possessing or receiving a firearm in the NICS Indices; and 4) non-U.S. citizens attempting to receive firearms. Total NICS checks include requests for permits and permit renewals, and excluding these two categories, or adjusted NICS checks, provides a proxy for gun purchases in the U.S.

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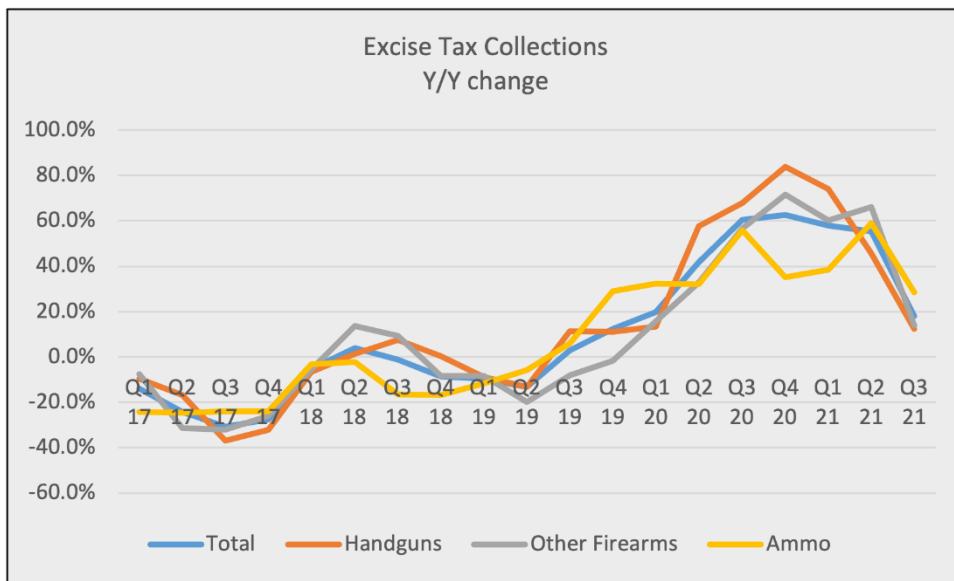
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

From 1999 through 2008, background checks (less permits and renewals) increased at a 1.3% compound annual rate. From 2008 through 2016, checks grew at a 7.3% compound annual rate. From the end of 2016 through 2019, the number of checks fell at a 5.8% annual rate. For 2020, background checks (excluding permits and renewals) were 21.1 million, 60% higher than the 13.2 million checks processed in 2019. In 2021, adjusted checks were 18.5 million, down 12% versus the adjusted checks in 2020 and down from the peak level of a 22.0 million annualized rate achieved in January 2021.



Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

The increase in adjusted NICS checks as a proxy for firearm and ammunition sales is verified by excise tax data. Using U.S. Treasury Alcohol and Tobacco Tax and Trade Bureau excise tax collection data, wholesale firearm and ammunition sales grew at a 7.2% compound annual rate from 2000 through 2008, 12% from 2008 to 2016, fell at a 10% compound rate from 2016 through mid 2019. Sales have increased at a 34% compound rate since the trough in 2016, but the rate of growth has declined sharply, and comps will be difficult in the coming quarters.



Source U.S. Treasury, Alcohol and Tobacco Tax and Trade Bureau, <https://www.ttb.gov/foia/electronic-reading-room>.

Within the continental United States, adjusted checks for the three months ending January 2022 were down in almost every state. Iowa and Hawaii were the only states with an increase in adjusted NICS background checks in January.

NICS Background Checks (excluding new and renewal permits) by State and Territory

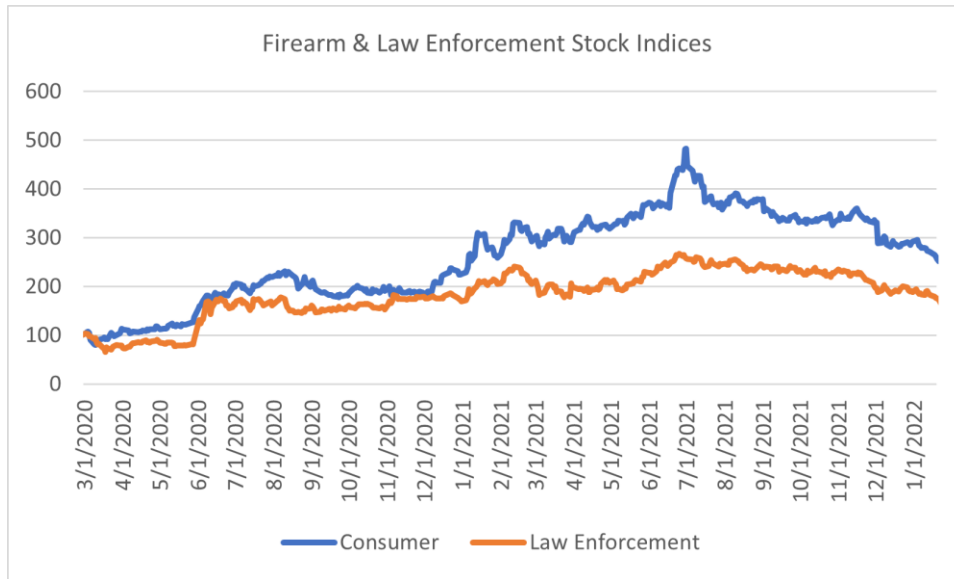
State/Territory	3 Mos. Ending Jan 2021	3 Mos. Ending Jan 2022	Change	Percent Change	State/Territory	3 Mos. Ending Jan 2021	3 Mos. Ending Jan 2022	Change	Percent Change
Mariana Islands	69	122	53	77%	Totals	5,908,187	4,527,031	(1,381,156)	-23%
Puerto Rico	12,420	19,690	7,270	59%	Virginia	206,819	158,362	(48,457)	-23%
District of Columbia	1,106	1,641	535	48%	West Virginia	67,609	51,409	(16,200)	-24%
Iowa	16,269	21,843	5,574	34%	Kentucky	120,300	90,840	(29,460)	-24%
Hawaii	6	7	1	17%	Idaho	63,349	47,653	(15,696)	-25%
Guam	935	1,041	106	11%	Oregon	115,393	86,677	(28,716)	-25%
Texas	463,837	399,932	(63,905)	-14%	North Carolina	108,459	80,326	(28,133)	-26%
New Mexico	51,308	43,018	(8,290)	-16%	Kansas	70,084	51,559	(18,525)	-26%
California	318,508	265,667	(52,841)	-17%	Nebraska	12,268	8,956	(3,312)	-27%
Virgin Islands	154	127	(27)	-18%	South Carolina	105,741	77,183	(28,558)	-27%
Connecticut	37,715	30,947	(6,768)	-18%	Utah	58,443	42,441	(16,002)	-27%
Mississippi	97,696	79,058	(18,638)	-19%	Wyoming	26,342	19,007	(7,335)	-28%
Tennessee	224,256	179,219	(45,037)	-20%	Delaware	21,068	15,112	(5,956)	-28%
Arkansas	78,854	62,688	(16,166)	-21%	Ohio	221,068	158,282	(62,786)	-28%
Washington	160,864	127,198	(33,666)	-21%	Pennsylvania	320,077	228,590	(91,487)	-29%
Arizona	140,673	111,214	(29,459)	-21%	Minnesota	107,818	76,899	(30,919)	-29%
Illinois	151,986	119,789	(32,197)	-21%	Vermont	16,079	11,450	(4,629)	-29%
Oklahoma	129,541	102,034	(27,507)	-21%	Maryland	66,927	47,654	(19,273)	-29%
Maine	35,939	28,228	(7,711)	-21%	Massachusetts	45,489	32,227	(13,262)	-29%
Montana	43,057	33,758	(9,299)	-22%	New York	127,766	90,067	(37,699)	-30%
Louisiana	119,304	93,160	(26,144)	-22%	New Hampshire	45,094	31,450	(13,644)	-30%
Wisconsin	141,860	110,410	(31,450)	-22%	Georgia	162,241	112,855	(49,386)	-30%
Alabama	192,768	149,121	(43,647)	-23%	Nevada	45,341	31,488	(13,853)	-31%
Missouri	191,080	147,766	(43,314)	-23%	North Dakota	23,028	15,840	(7,188)	-31%
Colorado	157,395	121,542	(35,853)	-23%	Michigan	220,736	146,274	(74,462)	-34%
Florida	435,076	335,722	(99,354)	-23%	South Dakota	34,285	21,471	(12,814)	-37%
Alaska	25,597	19,725	(5,872)	-23%	New Jersey	72,343	41,114	(31,229)	-43%
Indiana	181,589	139,541	(42,048)	-23%	Rhode Island	14,158	7,637	(6,521)	-46%

Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

We have created two indices to capture the share performance of firearm/self-defense and accessory companies primarily serving 1) the consumer market: American Outdoor Brands, Ammo, Inc., Byrna, Smith & Wesson Brands, Sturm, Ruger & Company, Inc. and 2) those primarily serving the law enforcement market: Axon, Digital Ally, ShotSpotter, VirTra and Wrap Technologies.

The indices are equal-weighted, chain-linked and begin in March of 2020, about the start of the pandemic. From March 2020 to their respective peaks in June 2021 the consumer index increased over 640%, much of the increase due to the increase in

Byrna. Excluding Byrna from the group, the consumer index would have increased over 380%. The law enforcement index increased 167%. The index of the consumer group has declined 43% since its peak versus a 34% decline for the law enforcement index from its peak.



Source: Factset

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