



Economic Slide Moderating, But Is Bottom In Sight For Southern Nevada?

THIS MONTH

We are excited to report in this month's *Economic INsightSM* that the decline in our 4 indicators moderated at varying rates. Southern Nevada's economy remained challenged, albeit less challenged, in July - the 20th month of the recession. There is a growing but mixed consensus among economists and other analysts that the national economy will start to see some type of recovery in late-2009 or early-2010. However, there is very little consensus about what type of recovery it will be.

The August Consumer Confidence Index from the Conference Board jumped dramatically by 14% to 54.1 (1985=100) vs. 47.4 in July. According to the Conference Board, "Consumers were more upbeat in their short-term outlook for both the economy and the job market in August, but only slightly more upbeat in their income expectations. And, as long as earnings continue to weigh heavily on consumers' minds, spending is likely to remain constrained." Also, from a spending standpoint, the personal savings rate in July rose to 4.2 from 2.5 in July 2008 (it reached a 15-year high of 6% in May). This rise is a good thing for individual households, many of which are debt-ridden, but not a good thing for the economy at large.

Finally, UNLV-CBER just reported that its Southern Nevada Index of Leading Economic Indicators for August (based on June data) dropped slightly to 125.91 from July's published 126.12 (May data), indicating a relatively moderate decline.

"Our indicators are showing signs of strengthening, but remember one month does make a trend. And the specter of a jobless recovery remains."

TOTAL JOB CHANGE

DETR reported in July that the Las Vegas MSA economy saw a net job loss of 60,000 establishment-based jobs compared to July 2008's 910,800, a drop of 6.6% to 850,800 (Note: the last time the local economy had this many jobs was March 2005). This set another year-over-year record. Additionally, there were 11,900 fewer jobs recorded in July compared to June. This was up sharply from the 6,167 average monthly rate of decline between January and June. The number of jobs lost over the three months ending July was 20,700 or 68% of the 30,600 jobs lost YTD.

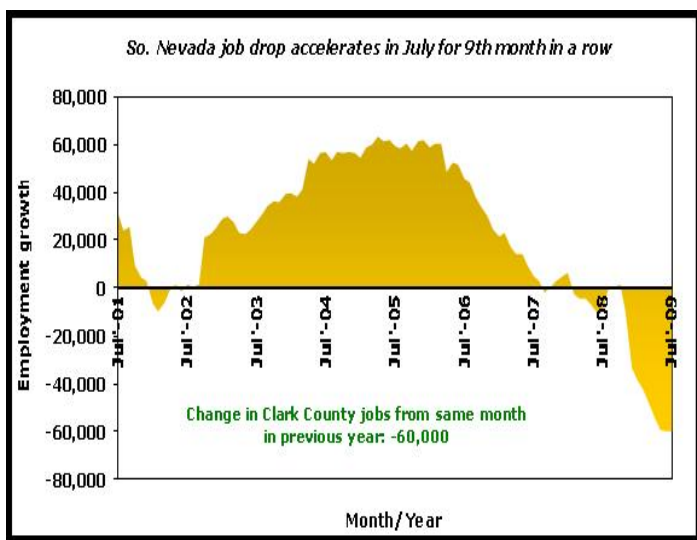
It is important to note that July's jobs were 157,600 higher than that recorded in July 2000 (693,200 jobs). So on a net basis, more jobs have been created in Clark County in the last 9-year period than have been lost.

Regarding Clark County's unemployment rate, the official reported estimate was 13.1% in July, .8 points higher than June, and nearly double the 6.9% recorded in July 2008. This was attributable to the rise in the number people filing for unemployment. Our research and anecdotal information indicates that Clark County's actual rate is 6 to 7

points higher, if discouraged and forced part time workers are included. In July, the Nevada unemployment rate was 12.5% and the U.S. rate was 9.4%. In contrast, Arizona's rate was 9.2% and Phoenix's was 8.4% in July.

We will continue monitoring the Arizona unemployment rate, because of the many similarities between the two states, especially their two largest metro areas – Las Vegas and Phoenix. Despite the significant real estate problems in Phoenix, the region has an unemployment rate that is nearly 5 points lower than Las Vegas, because of its more diverse economy, even with a less “business friendly” tax structure compared to Nevada.

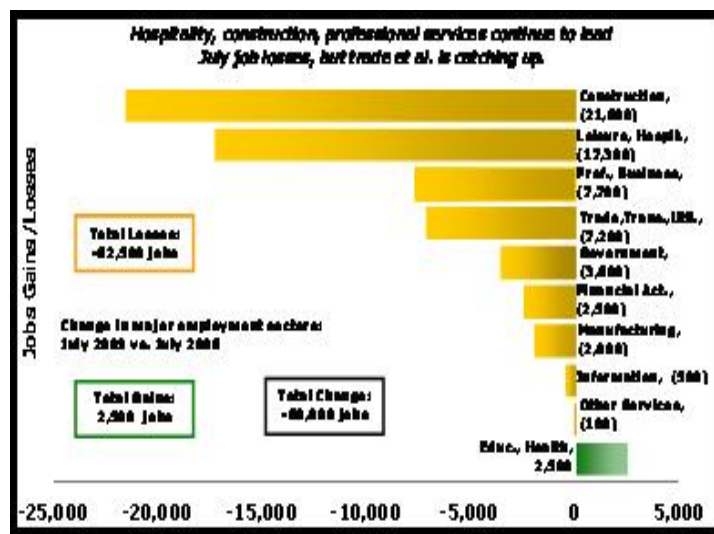
The MSA's labor force was 1,012,900 in July, up by .04% from June's 1,011,200 persons, and up by 2.3% from July 2008's 989,700 job seekers. There was a very small slow down in labor force growth from what we saw between May and June, which is helpful.



JOB CHANGE BY INDUSTRY

Job losses occurred again in 9 of the 11 major employment sectors this July compared to July 2008. The single gain was 3.8% (2,500 jobs) in Education (includes private colleges like the University of Phoenix) and Health employment. Natural Resource jobs continued to remain stable.

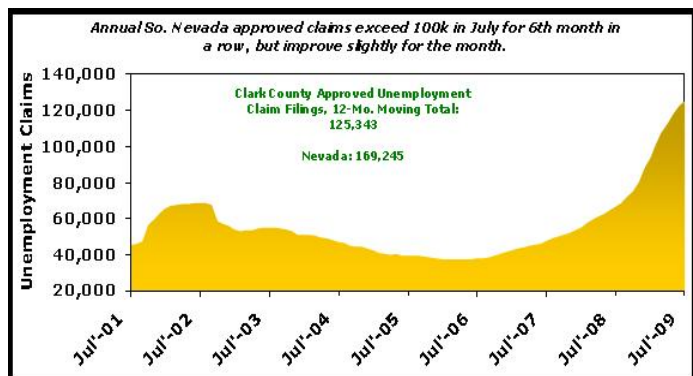
Construction (-21,600), Leisure and Hospitality (-17,300) and Professional and Business Services (7,700) continued to lead with 75% of the losses. The problems in these 3 industries are not abating in any meaningful way, and they continue to be a drag on the economy. On a percentage change basis, Construction led with a year-over-year drop of 22.5% followed by Manufacturing with 7.8% and Professional and Business Services with 7%.



APPROVED UNEMPLOYMENT CLAIM FILINGS (“FIRST PAYMENTS”)

The State of Nevada recorded more than 125,000 approved unemployment claim filings (“first payments”) in Clark County during the 12 months ending July 2009. Nevada saw 169,000 approved claims during the period. Clark County represented 77% of the state’s approved claims. July was the 6th month in a row that Southern Nevada saw annual approved claims exceeding 100,000. This equated to the 2nd largest yearly jump (88%) in the last 9+ years. The annual change for the state was 79%, also the 2nd greatest during the period. When contrasting July 2008 to July 2009, the change (upward) was 42% for Clark County and 41% for the state. These were significant drops from what was recorded in the 12 months ending this past June.

The major problems plaguing the Southern Nevada resort, construction and professional services industries will, in our opinion, continue to inhibit an economic



recovery into late-2010 or early-2011. As we reported last month, the State of Nevada calculated that its fund to pay unemployment claims plummeted to \$70 million from \$806 million from last summer. State officials have also indicated that they might be forced to borrow another \$1 billion in 2010 to keep benefits flowing to laid-off workers in Nevada.

For the month: July’s approved filings of 10,318 for Clark County were 2.2% below June’s 10,552 filings, and similar to the May-June 2% drop. Approved filings for Nevada were down .5% from the 13,376 recorded in June to 13,315 in July.

MEDIAN NEW HOME & RESALE PRICE

July estimates released by Home Builders Research (“HBR”) show a 40.5% drop in the median resale home price and 20.5% in the median new home price in Clark County, when comparing July 2009 to July 2008. The median home price for new homes and resales combined was \$131,947 in July, a 40% drop from July 2008, and the lowest in the last 9+ years. Once again, at least 6 months of price increases are needed for a sustained rebound. The bit of good news: the rate of decline in new home price slowed this month from last month.

The highest median price was recorded at \$311,722 in August 2006, a swing of -58% compared to July. We now know that peak price was artificially high and unsustainable, leading to the bubble’s burst.

Housing affordability continues to improve. July’s median new home price of \$206,549 is just below the October 2003 price of \$206,852. In the case of resales, July’s price of \$125,000 is now below pre-2000 prices and stayed at the June price.

Improved affordability is key to the long-term health of our economy. However, in the short to intermediate-terms, it is very traumatic to consumer and business confidence, because of the massive loss of equity that has occurred during the last couple of years.

HBR also reported 4,371 resale closings this July versus 3,169 in July 2008, a very strong rise of 28%. However, in the case of new home closings, there were 407 units sold in July versus 645 in July 2008, a 37% drop, and 2 points below the decline recorded in June. This continues to be a function of the size of the resale inventory, causing the dramatic drop in new home construction. Additionally, total home sales for the 12 months ending this July were 46,044 compared to the 35,179 during 12 months ending July 2008, a very healthy rise of 31%, and 1 point above last month’s change.

According to the Greater Las Vegas Association of Realtors (“GLVAR”), the number of homes listed for sale in July declined by .9% to 25,801 compared to 26,029 listed in June. The inventory of listings is down around 10% from July 2008, another good sign for the market.

In contrast, according to RealtyTrac, “Foreclosure filings were reported on 16,798 Las Vegas properties in July, one in every 47 housing units — more than 7.5 times the national average and the highest foreclosure rate among metro areas with a population of at least 200,000. The city’s foreclosure activity increased nearly 6 percent from the previous month and 89 percent from July 2008.” Clearly, the turmoil in the local housing market will continue for sometime, despite the dramatic improvements in sales volumes.

What is unknown at this point is the effect on the Las Vegas housing market of the Alt-A and Option ARM resets that are expected to surge in 2010-2011. According to Credit Suisse, on a national basis, these numbers could be as high as \$40 billion for ARMs and \$22 billion for Alt-As. We will have to wait and hold our collective breaths for the impact on Southern Nevada.

Note: The Case-Shiller Index (“CSI”) for Las Vegas has declined by 14.5% since the beginning of the year (January-June), nearly five (5) times faster than the 20-city average tracked by the Index, which decline by 3%. So, according to the CSI, the bleeding letting continues in the Las Vegas housing market. Per Standard and Poor’s, publisher of the indices, “The S&P/Case-Shiller Home Price Indices measures the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States. These indices use the repeat sales pricing technique to measure housing markets.”



FURTHER THOUGHTS

The national economic indicators generally improved in July, while our 4 local indicators (the July numbers are the latest) started showing small reductions in their rates of decline – a hopeful sign. Here is what is happening at the national level:

- According to a recent press release by the Bureau of Labor Statistics (“BLS”), “Over the year, nonfarm employment declined in all 38 metropolitan areas with annual average employment levels above 750,000 in 2008. The largest over-the-year percentage decreases in employment in these large metropolitan areas were posted in Phoenix-Mesa-Scottsdale, Ariz. (-7.8 percent), Detroit-Warren-Livonia, Mich. (-7.5 percent), **Las Vegas-Paradise, Nev. (-6.6 percent)**, and Charlotte-Gastonia-Concord, N.C.-S.C. (-6.2 percent).
- The BLS also reported that: “Nonfarm payroll employment fell by 216,000 in August, and the unemployment rate rose to 9.7 percent. Since the recession began in December 2007, payroll employment has dropped by 6.9 million, and the unemployment rate has increased by 4.8 percentage points. Job losses have moderated in many industry sectors in recent months.” The good news — the national employment data have shown a generally slow-down in the rate of decline YTD. The August drop is 1/3 of the drop seen in the peak month of losses (-663,000), March 2009.

- According to the Federal Reserve, the household Debt Service Ratio (“DSR”), declined by 5.5% between Q1, 2008 and Q1, 2009 (the latest data). The DSR is an estimate of the ratio of debt payments to disposable personal income. Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt. Additionally, the Financial Obligations Ratio (“FOR”) dropped by 4.3% between Q1, 2008 and Q1, 2009. The FOR adds to the DSR car lease payments, rents on for-lease dwelling units, homeowners’ insurance and property tax payments. These are positive indicators that consumers are paying down debt.

- Fox News recently reported that credit card defaults spiked by 63% between July 2008 and July 2009. This is a very worrisome leading indicator of the possible tsunami of potential defaults that has been frequently discussed by analysts and the media in the last 12 months.
- The Institute of Supply Management (“ISM”) recently reported that, “The year-and-a-half decline in manufacturing output has come to an end, as 11 of 18 manufacturing industries are reporting growth when comparing August to July. While this is certainly a positive occurrence, we have to keep in mind that it is the beginning of a new cycle and that all industries are not yet participating in the growth. The August index of 52.9 percent is the highest since June 2007. The 4 percentage point increase was driven by significant strength in the New Orders Index, which is up 9.6 points to 64.9 percent, the highest since December 2004. The growth appears sustainable in the short term, as inventories have been reduced for 40 consecutive months and supply chains will have to re-stock to meet this new demand.” An index above 50% suggests the manufacturing sector is, by and large, is expanding.
- In other good news, the ISM just reported that its August services index climbed to 48.4%, 2 points above the July index of 46.4%. An index above 50% means that the services sector is expanding.
- According to Reuters and the University of Michigan, “The Index of Consumer Sentiment was 65.7 in the August 2009 survey, just below the 66.0 in July and the 67.5 in last year’s August survey. The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators, was 65.0 in August, up from 63.2 in July and significantly above the 57.9 recorded last August. The Current Economic Conditions Index fell in August to 66.6, down from 70.5 in July and 71.0 last August. The key August change was in the job situation. Consumers believed the unemployment rate was nearing its cyclical peak, although most thought it would still increase to just above 10%.”
- As previously noted, the July Consumer Confidence Index from the Conference Board rose by 14% to 54.1 (1985=100), up from 47.4 in July. The Conference Board also noted that, “Consumer confidence, which had posted back-to-back monthly declines, appears

to be back on the mend. The Present Situation Index increased slightly, mainly the result of an improvement in consumers' assessment of the job market. The Expectations Index improved considerably and is now at its highest level since December 2007 (Index, 75.8). Consumers were more upbeat in their short-term outlook for both the economy and the job market in August, but only slightly more upbeat in their income expectations. And, as long as earnings continue to weigh heavily on consumers' minds, spending is likely to remain constrained.”

- The U.S. Producer Price Index dropped by 0.9% in July after three consecutive increases, according to the U.S. Labor Department. Most of the drop in July was the result of decreases in energy prices and food prices.
- A recent report by the U.S. Energy Department indicated a drop in crude and gasoline supplies. Additionally, a recent benchmark crude for October was \$68.05 a barrel on the New York Mercantile Exchange. The weak summer travel season has definitely impacted the movement of oil prices.
- And last, but not least, the CMBS market remains frozen. This “shadow” source of residential and commercial real estate financing shows no signs of thawing at all.

So are we near the bottom here in Southern Nevada? A great question. Our indicators are showing signs of strengthening, but remember one month does not make a trend. And the specter of a jobless recovery remains. The following is our current list of “indicators to watch” (We will add and subtract from the list each month as necessary.):

1. Job losses remain our biggest concern. As we noted above, this past July DETR reported that Clark County had a net job loss of 60,000 establishment-based jobs compared to July 2008’s 910,800. We saw a very modest reduction in the rate of job loss between June and July. Unfortunately, the improvements that we are seeing at the national level will take awhile to be felt in Southern Nevada, because of the nature of our discretionary spending-based economy. July saw the second largest number of jobs lost (11,900) this year. January was #2 with 18,300 losses. Unfortunately, a jobless recovery for our region remains a real possibility. Hopefully, the

federal government's second wave of stimulus spending in 2010 will benefit the local economy in a meaningful way.

2. The average number of hours worked in Nevada during June (latest data) was 35.8 according to the BLS, compared to 37.3 in June 2008. Until we see at least 6 months of 40-hour work weeks, Nevada companies will not be hiring new employees in any meaningful way. Rather, companies will just increase hours of existing employees, many of which have had their hours cut.
3. Real Capital Analytics recently noted in its August (data was for June) report that Las Vegas had 168 commercial real estate assets facing challenges (including restructurings, extensions and foreclosures) with a value of \$9.2 billion. This is a modest 2.1 drop from the \$9.4 billion reported in July (reporting period-May). According To RCA, Las Vegas retained the #1 spot, nationally, in terms of number of challenged properties.
4. A steady (at least 6 months) improvement in housing prices is key to a sustained recovery. When this will happen remains illusive. While the median home price dropped by 40% between July 2008 and July 2009, it was a 2-point improvement from last month.
5. The good news: at least in the short term, gasoline prices in Las Vegas are relatively low. The bad news: it's largely due to the very weak economy. According to AAA, the recent (September 3) price of regular gas locally was \$2.70 per gallon compared to \$3.69 last year at this time. Referring to economic data released by the federal government on September 4, 2009, AAA also notes: "It should be cautioned that it will take much more than one positive economic development to move prices appreciably upwards. It will take a steady stream of solid economic data before prices are likely to break out of the summer's range of \$60-\$80 per barrel. Even then, prices are likely to be tempered by still significant oil supplies, prospect of a slow economic recovery, and the seasonal reduction in gasoline demand."
6. We continue to believe that a sustained recovery is not likely to be seen in Southern Nevada until sometime in late-2010 or early-2011. The local and state economic indicators, national trends and the

nature of our economy strongly suggest that it will take until then to see 6 months of steady job growth. This assumes no additional crises befall our economy.

This month, I would like to end with some very positive news that was announced today. UNLV has established a strategic alliance with the Brookings Institution, named the Brookings Mountain West Initiative, in the field of public policy research and analysis. Brookings will place Dr. Robert Lang, one of its leading scholars at UNLV on a full time basis. Dr. Land has a Ph.D. in Sociology and the focus of his research is in urban planning/studies. This is an important step in Las Vegas' ongoing evolution as an urban economy of the future.

The initiative's website can be accessed at www.brookingsmountainwest.unlv.edu.

ABOUT THE PUBLICATION

The data included in our Economic INsightSM charts are provided by the Nevada Department of Employment, Training & Rehabilitation (“DETR”) and Home Builders Research (“HR”), and analyzed by RCG. There can be up to a two-month lag in the release of some of the data. The job (establishment-based) estimates are derived primarily from data reported via unemployment insurance (“UI”) tax reports that nearly all employers are required to file with the State of Nevada. The historical monthly estimates are revised by RCG each month as DETR revises its previous calculations. The job estimates included herein represented approximately 96.6% of all jobs in Clark County in July 2009.

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Restrepo Consulting Group LLC is the most established and prominent Nevada-based urban economics and real estate consulting firm in the state. John Restrepo, principal of the firm, has been providing economic, demographic, real estate market and public policy research services research in Nevada since 1988. RCG advises a variety of public and private organizations. The firm uses its deep expertise in regional economics, demographics, modeling, market analysis and database management to assist its clients. RGC has prepared numerous demographic and economic forecasts, highest and best use studies, market analyses, and regional economic reports. The firm’s other services lines include financial advisory services, public policy research, strategic planning, and gaming industry consulting. The firm is sought after by many of Nevada’s most prominent companies and public agencies. RCG has offices at 3980 Howard Hughes Parkway, Suite 290 89169, and can be reached at 702.967.3188. The firm’s website can be accessed at: www.rcg1.com.

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