Economic INsight℠

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RESTREPO CONSULTING GROUP LLC

The Recovery: Two Steps Forward, One Step Back

THIS MONTH

The decline in 2 (approved claims and housing prices) of our 4 indicators moderated in October. While Southern Nevada's economy continued to struggle, it did less so in October - the 23rd month of the recession. Again, the national indicators were mixed in October and November (see *Further Thoughts*), indicating that a sustained recovery remains illusive. The ongoing consensus among economists is that the U.S. will see a slow and plodding recovery especially in the labor market. This will cause the local recovery to lag.

UNLV-CBER just reported that its Southern Nevada Index of Leading Economic Indicators for November (latest estimate-based on September data) rose slightly to 126.23 from October's 125.77 (August data) – clearly good news.

Our focus this month is on the wide range of economic and other statistical indicators that are regularly released by public and private organizations that produce such data. One unique feature of the Great Recession lies in the "two steps forward, one step back" nature of so many of the indicators. The quote below says it all.

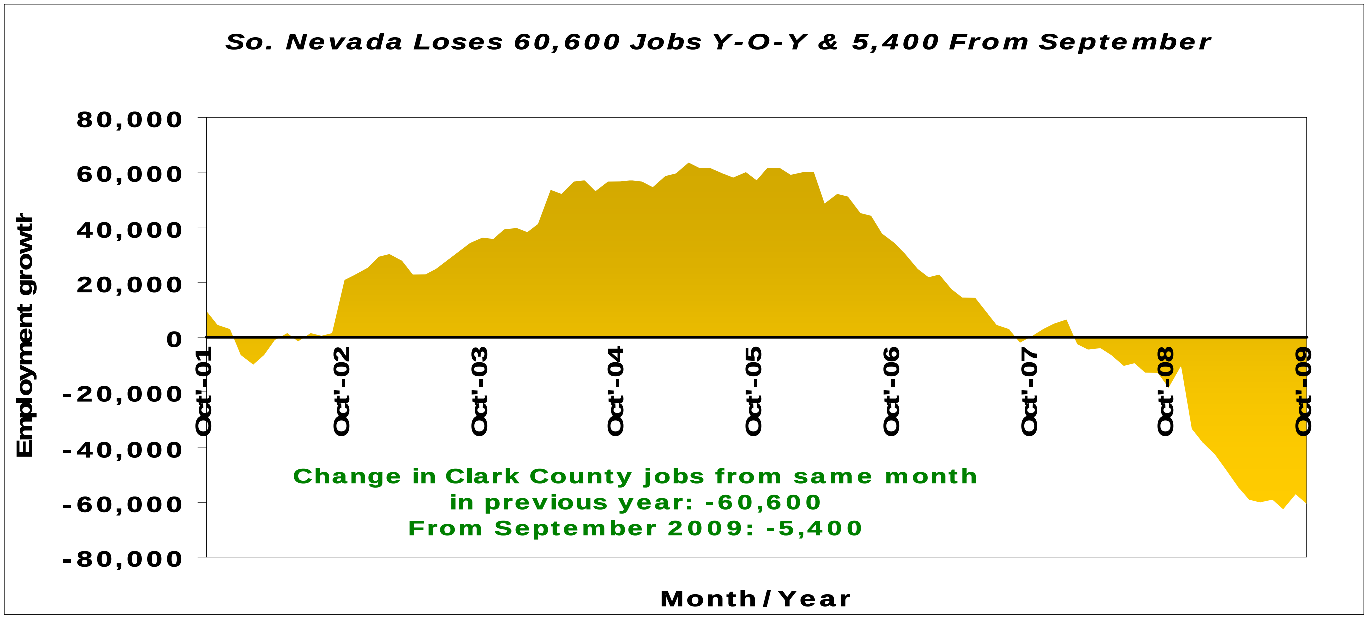
> ***"It's going to be a recovery only a statistician can love." - Mark Vitner, Wells Fargo Senior Economist***

TOTAL JOB CHANGE

DETR recently reported the Las Vegas MSA economy experienced a net job loss of 60,400 establishment-based jobs[1] in October compared to October 2008's 908,900, a drop of 6.7% to 848,300 *(Note: the last time the local economy had roughly this number of jobs was March 2005)*. This was a slight dip from the year-over-year change recorded in September (-6.2%) and reflects 5,400 fewer jobs in the region in October. As we noted last month, the September uptick was caused by state government jobs in Clark County rising by 1,700 jobs and local government jobs jumping by 7,400. We largely attributed these gains to seasonal adjustments (likely, teachers returning to work), as well as jobs generated and "saved" by the federal government's American Recovery and Reinvestment Act.

The average monthly rate of job losses between January and October was 5,140 compared to the 5,044 YTD estimate last month.

[1] *Per DETR, establishment-based employment "does not coincide with the labor force concept. Includes multiple job holders."*



The number of jobs lost during the three months ending in Clark County in October was 3,500 or 11% of the 33,100 "net" jobs lost YTD. Finally, there were 84,600 fewer jobs in October than existed in December 2007, the official starting month of the recession. It is also important to note that October's jobs were 88,200 lower than that recorded in the 10-year peak month of May 2007 (936,500 jobs).

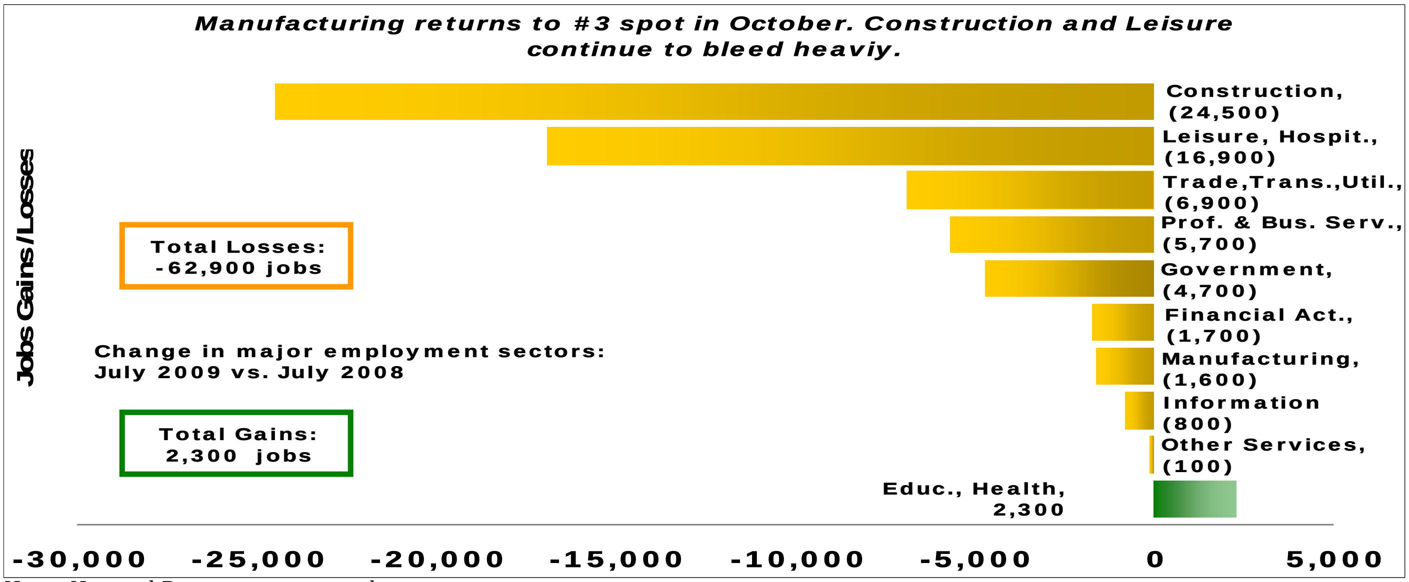
Regarding Clark County's unemployment rate, the reported estimate was 13% in October, .9 points lower than September, 70% higher than the 7.7% recorded in October 2008 and more than double the 5.6% recorded in December 2007. Our research and empirical information indicates that Clark County's actual rate is 6 to 7 points higher, if discouraged and forced part time workers are included. In October, the Nevada unemployment rate was also 13% and the U.S. rate was 10.2%.

Note: The U.S. unemployment rate dropped to 10% in November, a reason for some optimism, as we will discuss in the Further Thoughts section. The Nevada and Clark County November rates are not out yet. In comparison, Arizona's rate was 9.3% and Phoenix's was 8.7% in October. 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. In October, Phoenix had an unemployment rate 4 points lower than Las Vegas.

Two other indicators are also worth noting. The MSA's labor force was 994,900 in October, down by 1.6% from September's 1,011,500 persons, and down by .83% from October's 2008's 1,003,200 job seekers. The ratio of total employment (865,200) to labor force was 87% in October, similar to the 86% in September.

This is one place where, two steps forward, one-step back recovery comes into play. The primary reason for the drop in the unemployment rate in Clark County (-16,600) and Nevada (-21,000) in October, was due to a decline in the number of persons in the workforce, *not* job creation. This decline was the result of the unemployed giving up looking for work, therefore, not being counted in the stats, or the unemployed leaving the region and state. At the end of day, there were 5,300 fewer employees (total, not establishment-based) in Clark County in October compared to September, which accounted for 95% of Nevada's decrease of 5,600.

JOB CHANGE BY INDUSTRY



Note: Natural Resources saw no change.

Job losses continued in 9 of the 11 major employment sectors this October compared to October 2008. Again, the single gain was 3.4% (2,300 jobs) in Education (includes private colleges like the University of Phoenix) and Health employment. Natural Resource jobs continued to remain stable.

Construction (-24,500), Leisure and Hospitality (-16,900) and Trade, Transportation & Utilities (-6,900) led with 77% of the losses, but lower than the 81% share last month. On a percentage change basis, Construction led with a year-over-year drop of 26.9% followed by Information at 7.3%. Manufacturing at, 6.5%, edged out Leisure and Hospitality at 6.4%.

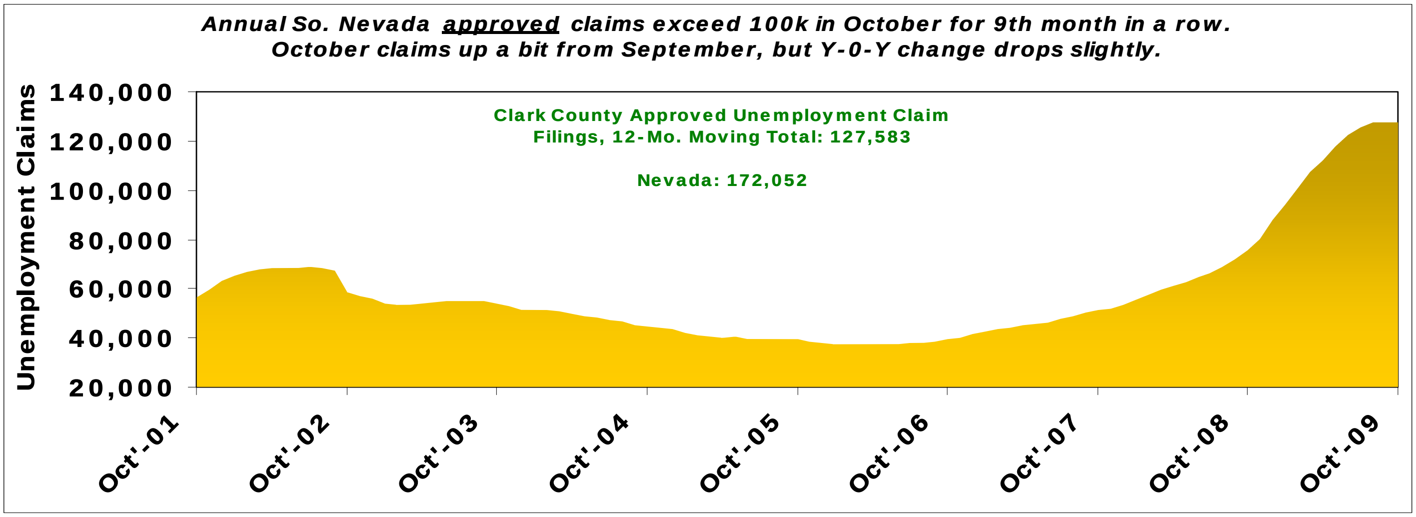
On YTD basis, Construction continued to lead in shedding jobs with 16,200 losses. Leisure and Hospitality followed with 8,900 and Trade, Transportation, Utilities with 4,700. On a percent basis, Construction also led YTD with a 19.5% drop, followed by Manufacturing at 4.9% and Professional & Business Services at 4.1%.

October was a retrenchment from the temporary September “bump” of 9,100 jobs in state and local government recorded between August and September.

In October, Clark County’s Construction sector had 66,700 jobs, nearly 31,200 fewer than it had in December 2007. The last time the industry had a similar number of jobs was March 2002 (66,500). Regarding the Leisure and Hospitality sector, October’s estimate was 249,100, a difference of 24,600 from the 273,700 jobs reported in December 2007. The last time this sector had a similar number of jobs was in June 2004(249,400).

Note: The peak employment month in Construction was June 2006 (112,000); for the Leisure and Hospitality it was June 2007 (276,100).

APPROVED UNEMPLOYMENT CLAIM FILINGS ("FIRST PAYMENTS")



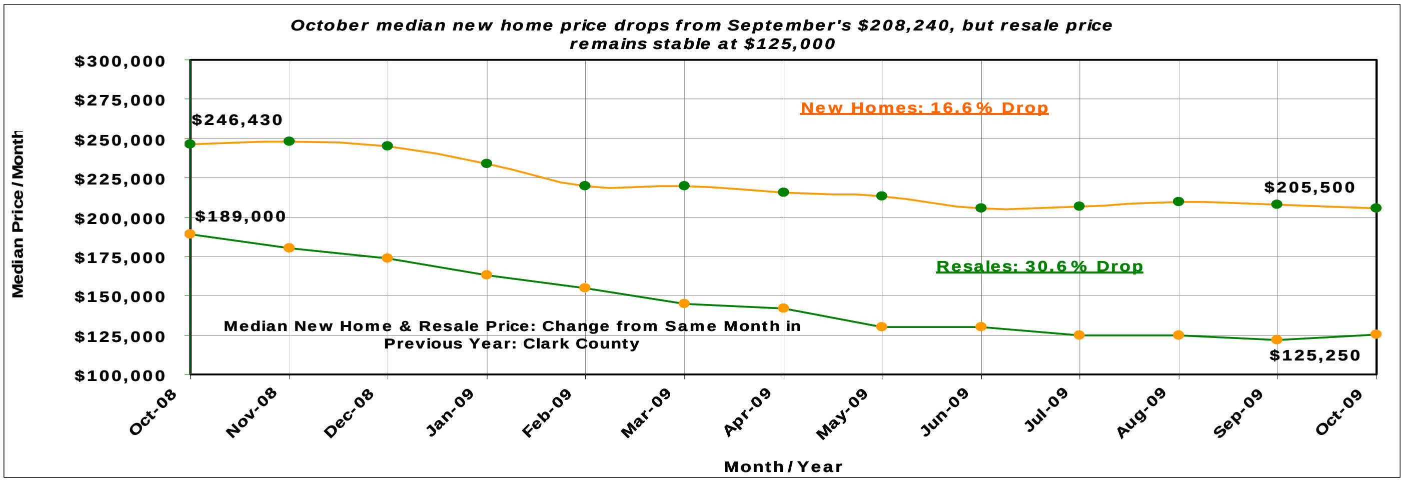
For the 3rd month in a row, the State of Nevada recorded nearly 128,000 approved unemployment claim filings ("first payments") in Clark County during the 12 months ending October 2009. Nevada saw 172,052 approved claims during the period. In October, Clark County represented 75% of the state's approved claims. October was also the 9th month in a row that Southern Nevada saw annual approved claims exceeding 100,000. The year-over-year change in the county for October was 69.1%, a 7.5-point drop from September. The annual change for Nevada was 62.3%, a 6.8% drop from September. These declines are very welcome news for both areas.

When comparing October 2008 to October 2009 claims, the number of approved claims in the county remained relatively flat. The same thing happened at the state level. As a point of reference, approved claims went up by 65% between October 2007 and October 2008 in Clark County, as well as the state. Additionally, for the 2nd month in row, the October 2008-09 changes were significant reductions from the increases recorded in the "same month-previous year" comparisons recorded from January through August 2009, which ranged from 34% to 123%.

October's approved filings of 8,008 for Clark County were 8% above September's 7,411 filings, after a 19% drop in September. This was the largest increase from the previous month in 2009. Approved filings for Nevada were up 9.5% from the 9,782 in September to 10,709, the greatest increase YTD.

According to DETR, the three leading industries, relative to the share of *total* initial and continued claims in Clark County during October, were Construction with 23.5% (initial) and 28.2% (continued), followed by Accommodation & Food Services at 22.3% and 18.6%; and Administrative Support and Waste Management Services at 11.5% and 12.5%. On a 12-month basis, the leading three industries were: Construction 35,779 (total initial) and 625,941 (total continued) claims, Accommodation & Food Services (35,440 and 493,694) and Manufacturing (23,194 and 354,472), respectively.

MEDIAN NEW HOME & RESALE PRICE



October data released by Home Builders Research ("HBR") show a 30.6% drop in the median resale home price and 16.6% in the median new home price in Clark County, when comparing October 2009 to October 2008. Fortunately, the rates of decline in new and resale home prices slowed again in October.

The median price for new homes dropped only slightly (1.3%) in October compared to September, and dropped only slightly (.2%) for resales. *Note: Resale prices rose by 2.7% last mon*th. The October changes were largely due to anticipation by buyers that the first time homebuyer credit would be ending. The credit was subsequently extended and expanded to include existing home owners that qualify.

October's median new home price of $205,500 is just below the July 2003 pre-recession price of $205,546. In the case of resales, median price of $125,000 remained at pre-2000 prices. The overall median home price declined slightly in October to $165,250 from $166,745 in September. Once again, at least 6 months of price increases are needed for a sustained rebound.

HBR also reported 4,254 resale closings this October versus 3,140 in October 2008, a very healthy rise of 35.5%. In the case of new home closings, there were 471 units sold in October versus 849 in October 2008, a 45% drop, and nearly 10 points less than the decline recorded in September. The size of the resale inventory continues to plague the recovery of the new home market. Additionally, total home sales for the 12 months ending this October were 47,771. The sales for the same period in 2008 were 39,797, a jump of 20%.

According to the Greater Las Vegas Association of Realtors ("GLVAR"):

"In August, GLVAR began providing additional statistics to more accurately measure the number of homes actually available for purchase. This new set of statistics shows how many local homes without offers are currently listed for sale. In October, this new inventory statistic showed 8,075 such single-family homes and another 1,884 condos and townhomes listed for sale. That's similar to September, when 7,909 such homes and another 2,060 condos and townhomes were listed for sale.

As for the larger, or gross, number of listings, GLVAR's Multiple Listing Service showed 20,998 homes and 4,906 condos and townhomes listed at the end of October. That's up 0.9 percent from 20,801 homes and down 5.3 percent from 5,180 condos and townhomes listed in September.

That gross inventory of 20,998 single-family homes listed for sale in October is down 8.4 percent from 22,929 such listings one year ago. The total, or gross, number of 4,906 condos and townhomes listed for sale is down 11.3 percent from 5,531 such listings one year ago."

RealtyTrac recently reported that: "Despite a 27 percent decrease in foreclosure activity from the previous month, Las Vegas continued to document the nation's highest foreclosure rate among metropolitan areas with a population of at least 200,000. One in every 68 Las Vegas housing units received a foreclosure filing in October — more than five times the national average."

The Case-Shiller Index ("CSI"-not seasonally adjusted) for Las Vegas declined by 16.6% YTD, compared to the 20-city average tracked by the Index, which declined by .1%. Comparing September 2009 to the same month in 2008, the Las Vegas CSI dropped by 29% versus 9% for the 20-city average. So, according to the CSI, the blood letting continued in the Las Vegas housing market in September, but improved dramatically nationally. 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."

The National Economic Picture

More mixed signals at the national level, ergo, the title of this month's *EI*. As we noted last month, it seems each week a positive indicator is announced by some federal agency or trade group only to be followed later that week by the release of a negative indicator and vice versa.

- The U.S. Bureau of Labor Statistics ("BLS") just reported that, "In November, both the number of unemployed persons, at 15.4 million, and the unemployment rate, at 10.0 percent, edged down. At the start of the recession in December 2007, the number of unemployed persons was 7.5 million, and the jobless rate was 4.9 percent."

  Note: A major reason for the decline was the hiring of temporary and health care workers; hopefully this will result in the hiring of permanent workers as some point.

  "Among the major worker groups, unemployment rates for adult men (10.5 percent), adult women (7.9 percent), teenagers (26.7 percent), whites (9.3 per-cent), blacks (15.6 percent), and Hispanics (12.7 percent) showed little change in November. The unemployment rate for Asians was 7.3 percent, not seasonally adjusted."

- The BLS also noted that: "In November, the average workweek for production and nonsupervisory workers on private nonfarm payrolls rose by 0.2 hour to 33.2 hours. The manufacturing workweek increased by 0.3 hour to 40.4 hours. Factory overtime rose by 0.1 hour to 3.4 hours. Since May, the manufacturing workweek has increased by 1.0 hour." The weekly average was 34.1 in December 2007, the start of the recession. At a minimum, the average weekly hours worked will have to rise to the December 2007 number before see substantive hiring starting again.

- Once again (newer data not out yet), we report that according to the Federal Reserve, the household Debt Service Ratio ("DSR") declined slightly from 13.45 in Q2, 2008 to 13.11 in Q2, 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 slightly from 18.28 in Q2, 2008 to 18.05 in Q2, 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 slowly paying down debt.

- The Institute of Supply Management's ("ISM") Purchasing Managers Index ("PMI") dropped after 3 months in growth in November (53.6) compared to October (55.7). ISM recently reported that, "Manufacturing growth decelerated in November as the PMI registered 53.6 percent, a decrease of 2.1 percentage points when compared to October's reading of 55.7 percent. This continues the recovery in the sector, but at a slower rate of growth. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting."

- The ISM also just reported that its November non-manufacturing index declined slightly to 48.7 from October's 50.6. An index above 50% means that the services sector is expanding, which is good news. However, according to the ISM, "Respondents' comments remain cautious about business conditions and reflect concern over the length of time for economic recovery."

- Consumer sentiment has improved dramatically since the dark days of late 2008. According to the most recent release by Reuters and the University of Michigan, “The Index of Consumer Sentiment was 67.4 in the November 2009 survey, down from 70.6 in October and73.5 in September, but substantially above the 55.3 recorded last November (the cyclical low point). The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators, was 66.5 in November, down from 68.6 in October and 73.5 in September, but significantly above last November’s 53.9. The Current Economic Conditions Index was 68.8 in November, down from 73.7 in October and 73.4 in September, but above the 57.5 recorded last November.” As we have been noting for some time, this is a very important indicator for Southern Nevada, because of our discretionary-spending based economy. The Reuters/Michigan release also noted: “Consumers’ assessments of their finances have been the grimmest since 1946, and have remained at those record low levels for most of the past two years. As each month passes, the capacity of families to withstand the cumulative losses has pushed more and more households into financial hardship.”

- The November Consumer Confidence Index from the Conference Board rose to 49.5 (1985=100) from 48.7 in October. According to the Conference Board, "Consumer Confidence posted a slight gain in November. The Present Situation Index, however, was virtually unchanged and remains at levels not seen in 26 years (Index 17.5, Feb. 1983). The moderate improvement in the short-term outlook was the result of a decrease in the percent of consumers expecting business and labor market conditions to worsen, as opposed to an increase in the percent of consumers expecting conditions to improve. Income expectations remain very pessimistic and consumers are entering the holiday season in a very frugal mood.”

- Also, from a spending standpoint, the personal savings rate (seasonally adjusted) in October rose to 4.4 from 2.9 in October 2008 (it reached a 15-year high of 6.4% in May). It was 4.6 in September. This rise is a good thing for individual households, many of which are debt-ridden and need to rebuild balance sheets, but not a good thing for the economy at large, especially Southern Nevada.

- The U.S. Department of Labor said recently that: “Nonfarm business sector labor productivity increased at an 8.1 percent annual rate during the third quarter of 2009. This was the largest gain in productivity since the third quarter of 2003, and reflects a 2.9 percent increase in output and a 4.8 percent decline in hours worked.” It appears that businesses are doing more with less, which is not a good formula for job creation.

- As of mid-November, 1,248 U.S. hotels were distressed to the tune of $31.4 billion in outstanding debt, according to Real Capital Analytics (“RCA”). Smith Travel Research reports that by year-end, occupancy and room rates will decline 8.4% and 9.7% percent, respectively. Additionally, RCA recently reported that: “About $138 billion of commercial U.S. property was in default, bankruptcy or foreclosure at the end of August, more than double the total at the end of 2008.”

- The Mortgage Bankers Association just reported that share of CMBS loans at least 30 days past due rose to 4.1% from 1.2% a year earlier. That is the largest increase since 1997. Approximately 3.4% of bank- owned loans on retail centers, apartment complexes, offices, and other income-producing properties were at least 90 days past due, up from 1.4% a year ago. This situation has been called a “time bomb” by some analysts.

- Finally, according to Bloomberg: “Credit-card defaults may match a record reached earlier this year as more consumers fell behind on payments in October and unemployment surged above 10 percent, Fitch Ratings said Dec. 2.” Bloomberg continued, “JPMorgan Chase & Co., the biggest U.S. card lender, as well as Capital One Financial Corp. and Discover Financial Services posted October data that included their highest delinquency rates for 2009. . . . ““Consumer spending has stabilized as Americans searched for bargains. Purchases rebounded in October, rising 0.7 percent after a 0.6 percent decline a month earlier, the Commerce Department said on Nov. 25. Incomes also increased, rising 0.2 percent in October.”

Southern Nevada & Nevada

The Southern Nevada economic recovery remains relatively moribund compared to what is happening nationally. In addition to the trends noted above in our four indicators:

- Gasoline prices in Las Vegas remain relatively low. The bad news: it's largely due to the very weak economic recovery. According to AAA, the recent (December 6) price of regular gas, locally, was $2.69 per gallon compared to $2.71 last month and $1.87 last year at this time. The peak was recorded on June 21, 2008 at $4.28.

- The housing market, another lynchpin of our economy, continues to experience noteworthy improvements in monthly sales rates and an anemic slowing in the rate of price deceleration.

- As we reported last month (no new data yet), Real Capital Analytics noted in its October report that Las Vegas continued to lead the nation in distressed commercial assets at $17 billion up from $9.2 billion in August, Miami was second with $6 billion and Detroit was third with $2.8 billion. The firm only tracks assets worth $5 million+.

- According to Bloomberg news, Dubai World may sell assets in the United Arab Emirates and overseas to pay down its debt. This may give MGM Mirage the opportunity to own all of CityCenter since it has the right of first refusal according to its agreement with Dubai World.

- Based on its reorganization plans, it doesn't appear that General Growth Properties ("GGP") will have to sell the Fashion Show and Shoppes at the Palazzo malls in Las Vegas. GGP's best-performing malls include the Grand Canal Shoppes and Fashion Show Mall.

- Barclays Capital gained control of Crescent Real Estate Equities portfolio from Morgan Stanley, which purchased Crescent in 2007, at the peak of the boom. Morgan Stanley paid $6.5 billion for Crescent. Barclays Capital, a division of Barclays Bank, created a joint venture with Goff Capital to own and operate the portfolio. Obviously, this affects Crescent's holdings in Las Vegas, especially Hughes Center.

- The State of Nevada reported this week that gaming revenues at the state level dropped by 11.6% in October to $800.3 million from $904.9 million in October 2008. This was the 22nd month of declining gaming revenues. Clark County gaming revenues declined by 11.1% to $673.4 million in October from $757.5 from the same last year.

- According to the Las Vegas Convention and Visitors Authority ("LVCVA"), visitation to Las Vegas in October was nearly 3.2 million, a rise of 3.7% from October 2008. September (4.3%) was the first month since May 2009 that visitor volumes increased. By way of comparison, the October 2007-October 2008 change was -10%, clearly consumers are returning, they are just not spending like they used to.

- The LVCVA also reported that hotel occupancies in Clark County dropped by 1.2 points in October to 82.6% from October 2008. At the same time, the average daily room rate declined by 14% $99.59 from $115.68 during the same period. Finally convention attendance decreased by 8.3% in October to 349,383 from 381,129 the same month last year.

Further Thoughts

In our last issue, we discussed the joint matters of economic development, diversification and growth. This month, our focus was on the mixed message that the national economic indicators are sending. In a way, the fact that they are mixed and are not all declining is a positive sign. As we all should know by now: As the national economy goes, so goes the Southern Nevada economy, albeit with a lag. This month's data clearly point to a "two steps forward, one step back" economic recovery, because of a very weak job market.

Mr. Vitner's quote could not have been more accurate, especially regarding the recovery of the job market. The job market, it *is* the key indicator to the recovery. Accordingly, job growth, not just stabilization, is imperative. We remain convinced that the national, Nevada and Southern Nevada economies will only start seeing a sustained recovery when job creation occurs for at least six months, which we don't project to happen in Southern Nevada until 2011 at the earliest.

About the Publication

The data included in our EI 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.

Restrepo Consulting Group LLC

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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