Economic INsight℠

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RESTREPO CONSULTING GROUP LLC

Economic Development vs. Economic Growth

THIS MONTH

We are excited to report in this month's *Economic INsight℠ ("EI")* that the decline in 3 of our 4 indicators moderated at varying rates. Southern Nevada's economy struggled on, but less so in September - the 22nd month of the recession. National indicators were mixed in September, indicating that a sustained recovery remains illusive, even with some the indicators improving. The consensus among economists is that the nation will see a slow and plodding recovery of the job market, which will be even more so for the Las Vegas economy.

As we reported last month, UNLV-CBER just reported that its Southern Nevada Index of Leading Economic Indicators for September (latest estimate-based on June data) rose slightly to 126.26 from August's 125.91 (June data).

Our focus this month is on the joint issues of economic development and diversification versus economic growth. Often thought as the same thing, in reality they are not. Development is concerned with the "quality" of economic activity, diversification with broadening the activity and growth with the amount of the activity. For example, an economy that largely produces low value-added products and services, and low-wage jobs, is not an economy that is developing or "evolving", even though it is growing. We are not suggesting that this reflects the Southern Nevada economy, but these are important concepts as we develop a vision for our community. Additionally, as we have learned, there is a certain fragility to an economy that is largely based on discretionary spending.

> *"In the past, these spending preferences were unleashed as soon as the recovery began. Consumers now put debt reduction and increased savings at the top of their agendas rather than the quick resumption of postponed spending plans." - Reuters and the University of Michigan*

TOTAL JOB CHANGE

DETR recently reported the Las Vegas MSA economy saw a net job loss of 56,300 establishment-based jobs[1] this past September compared to September 2008's 910,600, a drop of 6.2% to 854,300 (Note: the last time the local economy had roughly this number of jobs was March 2005). This represented a slight improvement from the year-over-year change (-6.9%) recorded in August. There were 9,600 more jobs in September compared to August. For example, state government jobs in Clark County rose by 1,700 jobs and local government jobs jumped by 7,400. We largely attribute these gains to seasonal adjustments (likely, teachers returning to work), as well as jobs generated and "saved" via the federal government's American Recovery and Reinvestment Act.

The average monthly rate of job losses between January and September was 5,044 compared to 6,600 last month. The number of jobs lost over the three months ending September was 8,400 or 31% of the "net" 27,100 jobs lost YTD. There

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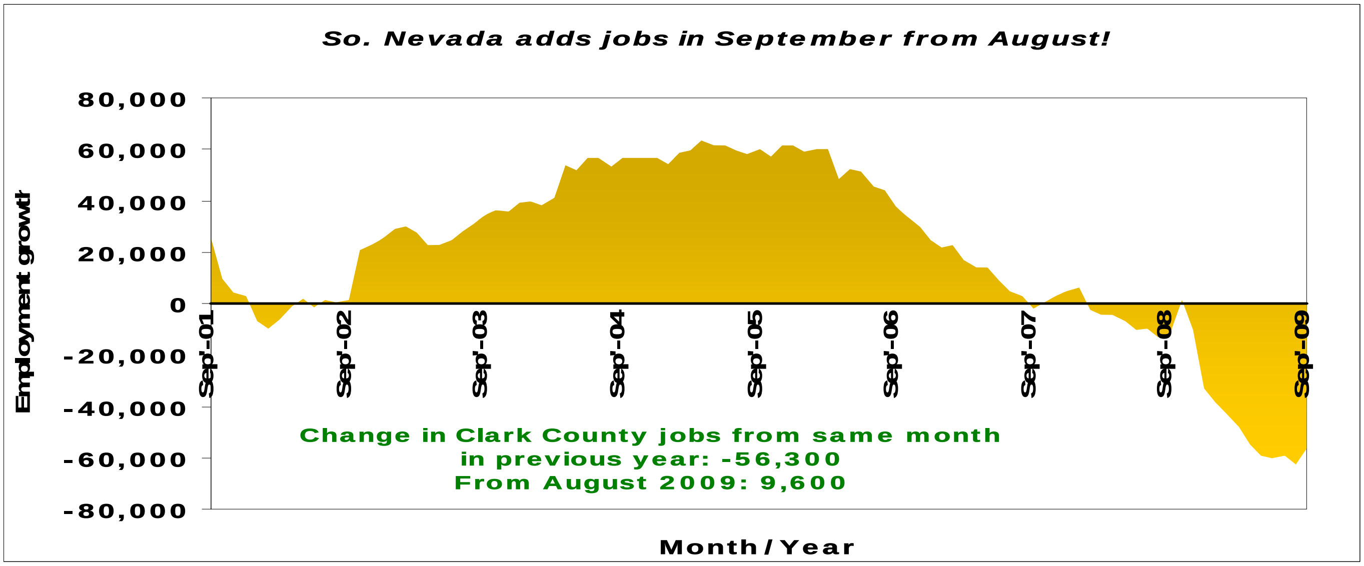
[1] *Per DETR, establishment-based employment "does not coincide with the labor force concept. Includes multiple job holders."*



were 78,600 fewer jobs in September in Clark County than existed in December 2007, the official starting month of the recession.

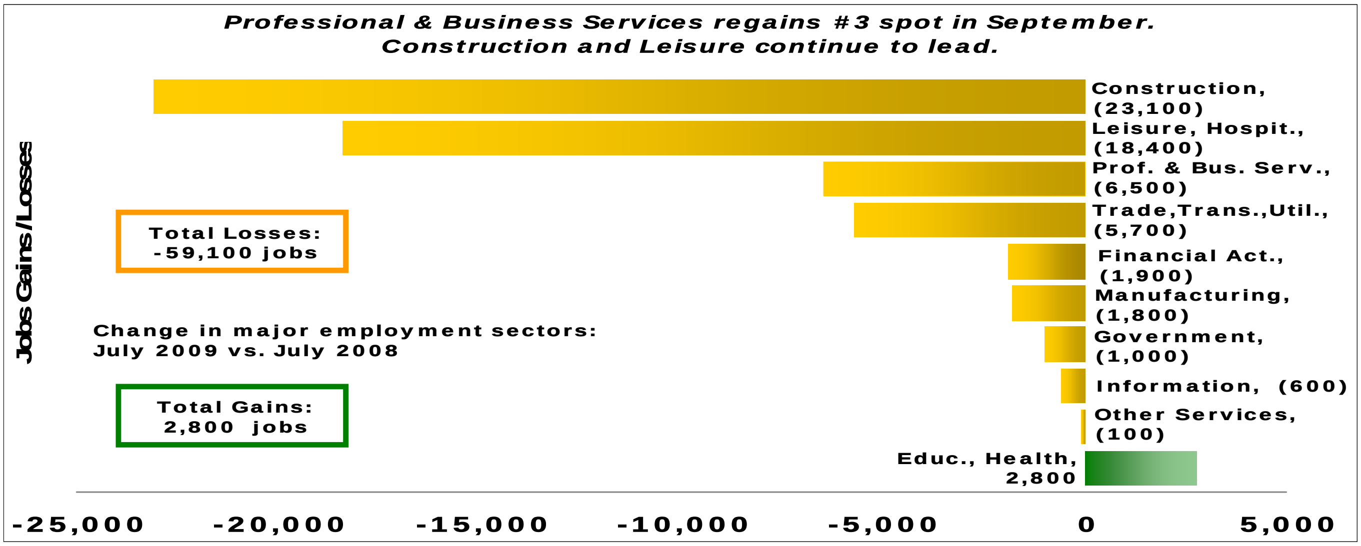
It is important to note that September's jobs were 145,300 higher than that recorded in September 2000 (709,000 jobs). So on a net basis, more jobs have been created in Clark County in the last 9-year period than have been lost. That said, however, 78,600 jobs have been lost in Southern Nevada since December 2007, the official start of the recession.

Regarding Clark County's unemployment rate, the official reported estimate was 13.9% in September, just .4 points higher than August, but nearly double the 7.7% recorded in September 2008. 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 September, the Nevada unemployment rate was 13.3% and the U.S. rate was 9.8% - both slightly higher than the August numbers. *(NOTE: The U.S. unemployment rate increased to 10.2%, the highest since April 1983. The Nevada and Clark County October rates are not out yet.).* In contrast, Arizona's rate was 9.1% and Phoenix's was 8.5% in September.

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 more than 5 points lower than Las Vegas, because of its more diverse economy, even with a less "business friendly" tax structure compared to Nevada.

Two other indicators are also worth looking at. The MSA's labor force was 1,011,300 in September, down by .42% from August's 1,007,100 persons, and up by 1.1% from September 2008's 999,900 job seekers. The ratio of total employment (870,300) to labor force was 86% in September, similar to the 87% in August.

JOB CHANGE BY INDUSTRY



Note: Natural Resources saw no change.

ANALYSIS

Job losses occurred again in 9 of the 11 major employment sectors this September compared to September 2008. The single gain was 4.2% (2,800 jobs) in Education (includes private colleges like the University of Phoenix) and Health employment. Natural Resource jobs continued to remain stable. This increase was lower than the 1,900-person increase seen last August.

Construction (-23,100), Leisure and Hospitality (-18,400) and Professional & Business Services (-6,500) continued to lead with 81% of the losses. On a percentage change basis, Construction led with a year-over-year drop of 24.9% followed by Manufacturing at 7.1% with Leisure and Hospitality at 6.8%.

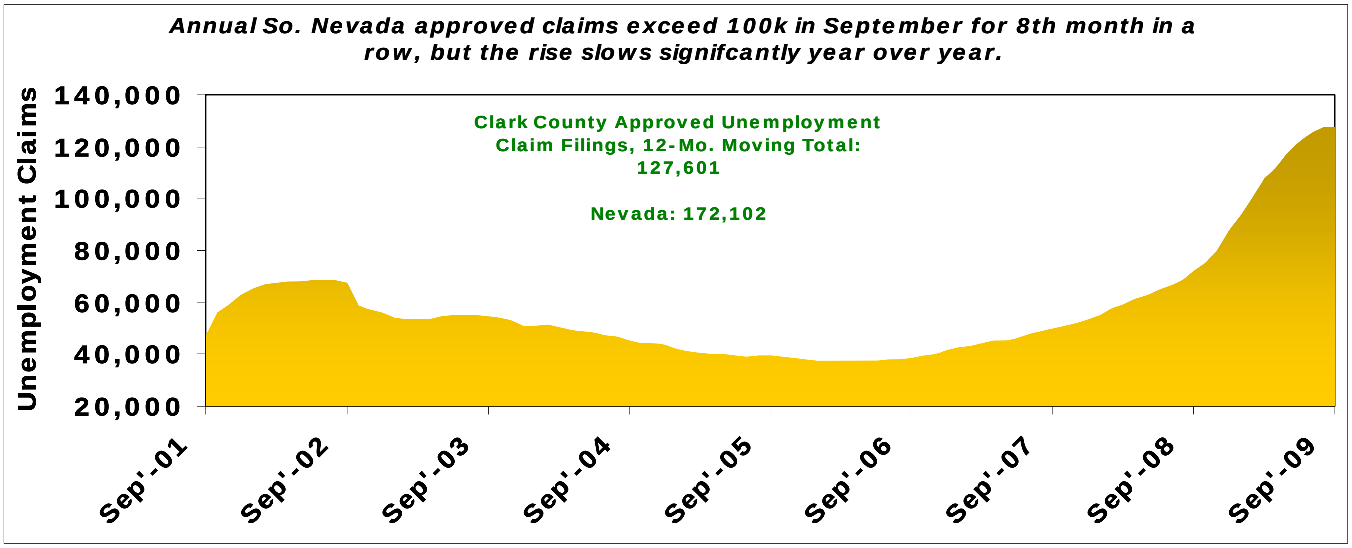
When comparing this September to the beginning of the year (January), Construction continued to lead in shedding jobs with 13,400 losses, Leisure and Hospitality with 7,700 losses and Professional & Business Services with 4,500. On a percent basis, Construction led once again YTD with a 16.2% drop, followed by Professional and Business Services at 4.2% and Manufacturing at 4.1%.

We would like to note that there was a healthy, but seasonal, boost of 9,100 jobs in state and local government between August and September, with the bulk (7,100) in local government, largely due to Clark County School District re-hiring teachers, etc. for the new school year.

The Construction sector at the end of September had 69,500 jobs, nearly 30,000 fewer than it had in December 2007. The last time the industry had a similar (69,600) number of jobs was February 2003. Regarding the Leisure and Hospitality sector, September's estimate was 250,300, a difference of 25,100 from the 275,400 jobs reported in December 2007.

The last time this sector had a similar (250,700) number of jobs was in February 2005. As an fyi, peak employment in Construction was reached in June 2006 (112,000) and for the Leisure and Hospitality it was June 2007 (276,100).

APPROVED UNEMPLOYMENT CLAIM FILINGS ("FIRST PAYMENTS")



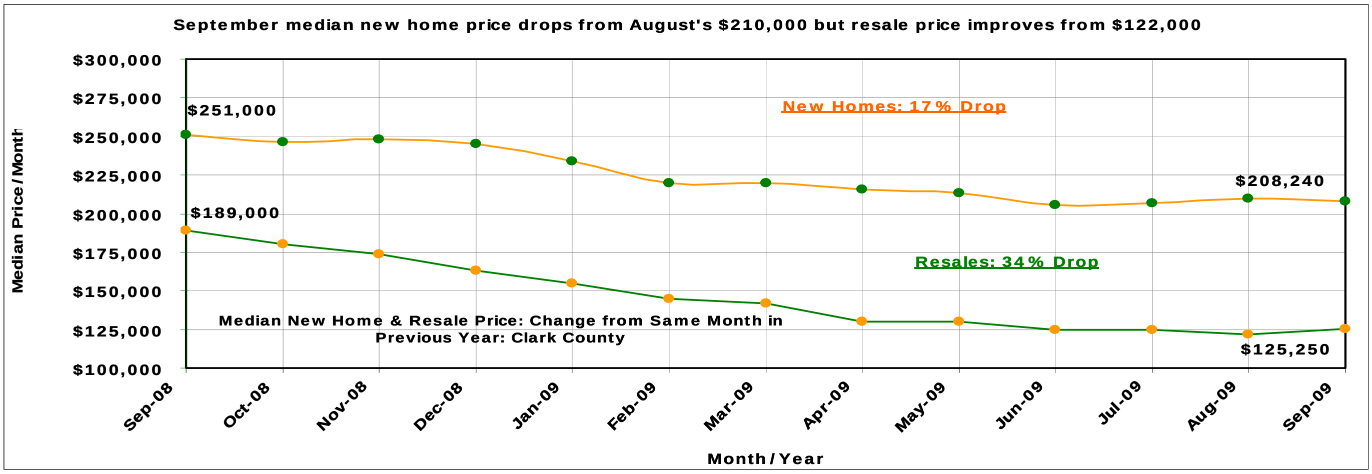
ANALYSIS

The State of Nevada recorded nearly 128,000 approved unemployment claim filings ("first payments") in Clark County during the 12 months ending September 2009. Nevada saw 172,102 approved claims during the period. Clark County represented 76% of the state's approved claims. September was the 8th month in a row that Southern Nevada saw annual approved claims exceeding 100,000. This equated to the 3rd largest yearly jump (76.6%) in the last 9+ years. The annual change for the state was 69.1%, also the smallest drop in last 7 months.

THE GOOD NEWS: When comparing September 2008 to September 2009 claims, the change (downward) was just under 1% for Clark County and .24% for the state. As a point of reference, approved claims went up by 84% between September 2007 and September 2008 in Clark County, as well as the state. Additionally, the September 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%.

For the month: *September's approved filings of 7,411 for Clark County were 19% below August's 9,165 filings, the largest change from the previous month YTD. Approved filings for Nevada were down 17% from the 11,771 recorded in August to 9,782 in September, the second highest decline YTD. The three leading industries, relative to the share of total initial and continued claims in Clark County during September, were Construction with 23.8% (initial) and 27.7% (continued), followed by Accommodation & Food Services at 19.4% and 18.6%; and Administrative Support and Waste Management Services at 11.2% and 12.2%.*

MEDIAN NEW HOME & RESALE PRICE



ANALYSIS

September data released by Home Builders Research ("HBR") show a 34% drop in the median resale home price and 17% in the median new home price in Clark County, when comparing September 2009 to September 2008. Fortunately, the rates of decline in new and resale home prices slowed again in September.

The median price for new homes dropped only slightly (.83%) in September compared to August, but rose fairly well (2.7%) for resales. These changes are largely due to seasonality combined with the first time homebuyers taking advantage of the $8,000 housing tax credit before it expires in November. Once again, at least 6 months of price increases are needed for a sustained rebound.

September's median new home price of $208,240 is just below the September 2003 pre-recession price of $208,265. In the case of resales, September's price of $125,250 remains below pre-2000 prices. Some very good news: the average new home price improved between August and September by about $3,000 – the second month this has happened.

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 4,121 resale closings this September versus 3,125 in September 2008, a very healthy rise of 32%. However, in the case of new home closings, there were 452 units sold in September versus 985 in September 2008, a 54% drop, and 5.6 points higher than the decline recorded in August. The size of the resale inventory continues to plague the new home market. Additionally, total home sales for the 12 months ending this September were 47,035. The sales for the same period in 2008 were 38,675, a jump of 22%.

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

"In August, GLVAR began including a new category in its monthly statistics intended to more accurately measure the number of homes actually available for purchase. This newly compiled set of statistics shows how many local homes without offers are currently listed for sale. In September, this new inventory statistic shows 7,909 such single-family homes and another 2,060 condos and townhomes listed for sale. That's down from 8,579 single-family homes and another 2,545 condos and townhomes listed for sale in August without any sort of offer on those properties.
That compares to the larger, or gross, number of 20,801 homes and 5,180 condos and townhomes listed on GLVAR's Multiple Listing Service ("MLS") at the end of September. That's down from 20,999 homes and 5,508 condos and townhomes listed at the end of August."

According to RealtyTrac, 3.5% of housing units received a foreclosure filing during the 3rd quarter in Las Vegas, giving the region the second highest (Stockton, CA was #1) metro area rate. Approximately 26,304 foreclosure filings were reported in Las Vegas in Q3, a jump of 21% from the 2nd quarter and up 129% from Q3, 2007.

Note: The Case-Shiller Index ("CSI"-not seasonally adjusted) for Las Vegas declined by 15.6% since the beginning of the year (January-August), compared to the 20-city average tracked by the Index, which declined by .3%. On a rolling 12-month basis, the Las Vegas drop was 30% versus 11% for the 20-city average. So, according to the CSI, the blood letting continued in the Las Vegas housing market in August, but moderated 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 PICTURE

Well, here we go again this month – a series of mixed economic indicators at the national level. 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. In other words, no consistent signs of a <u>sustained</u> recovery. The next several paragraphs cover some of the national economic indicators that most influence the performance of the Las Vegas economy.

- As we reported in our last issue (newer data is not out yet), the U.S. Bureau of Labor Statistics ("BLS") recently reported that, "Total nonfarm payroll employment declined by 190,000 in October. In the most recent 3 months, job losses have averaged 188,000 per month, compared with losses averaging 357,000 during the prior 3 months. In contrast, losses averaged 645,000 per month from November 2008 to April 2009. Since December 2007, payroll employment has fallen by 7.3 million." This is indeed excellent news for the national economy. When it will be converted to improved consumer confidence and spending is another question, though.

- According to the BLS, the average number of weekly hours worked in September was 32.9 (not seasonally adjusted). The 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 (no new data 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") went up for the third straight month in October (55.7) compared to September (52.6). ISM recently reported that, "The manufacturing sector grew for the third consecutive month in October, and the rate of growth is the highest since April 2006 when the PMI registered 56 percent. The jump in the index was driven by production and employment, with both registering significant gains. Production appears to be benefiting from the continuing strength in new orders, while the improvement in employment is due to some callbacks and opportunities for temporary workers. Overall, it appears that inventories are balanced and that manufacturing is in a sustainable recovery mode." An index above 50% suggests the manufacturing sector is, by and large, expanding.

- In other news, the ISM also just reported that its October non-manufacturing index declined slightly to 50.6 from 50.9 in September. An index above 50% means that the services sector is expanding, which is good news. However, according to the ISM, "Respondents' comments remain mixed and are mostly cautious about business conditions and the overall economy."

- Consumer sentiment has improved dramatically since the dark days of late 2008. According to a recent release by Reuters and the University of Michigan, "The Index of Consumer Sentiment was 70.6 in the October 2009 survey, just below the 73.5 in September, but substantially above the 57.6 recorded last October. The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators, was 68.6 in October, down from 73.5 in September but significantly above the 57.0 recorded last October. The Current Economic Conditions

Index rose to 73.7 in October, just ahead of the 73.4 in September and well above the 58.4 recorded last October." As we have been noting for some time, and an important point for Southern Nevada, the Reuters release also noted: "In the past, these spending preferences were unleashed as soon as the recovery began. Consumers now put debt reduction and increased savings at the top of their agendas rather than the quick resumption of postponed spending plans."

- The October Consumer Confidence Index from the Conference Board declined 5.7 points, or by nearly 11% to 47.7 (1985=100) from 53.4 in September in contrast to August-September decline of 1.8%. According to the Conference Board, "Consumers' assessment of present-day conditions has grown less favorable, with labor market conditions playing a major role in this grimmer assessment. In fact, the Present Situation Index is now at its lowest reading in 26 years (Index 17.5, Feb. 1983). The short-term outlook has also grown more negative, as a greater proportion of consumers anticipate business and labor market conditions will worsen in the months ahead. Consumers also remain quite pessimistic about their future earnings, a sentiment that will likely constrain spending during the holidays."

- Also, from a spending standpoint, the personal savings rate in September rose to 3.3 from 2.2 in September 2008 (it reached a 15-year high of 6% in May). It was 2.8 in August. 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 one like Southern Nevada that is largely based on discretionary spending.

- In another sign of general improvement, Berkshire Hathaway recently announced that it is planning on buying Burlington Northern Santa Fe railroad for $44 billion. The thought is that as the national recovery progresses, rail will play a major role in the nation's transportation and distribution system.

- The U.S. Department of Labor said recently that the nation's productivity grew at a yearly rate of 9.5% during the three months ending in September. This increase was nearly 3 points higher than the 6.9% recorded in the prior quarter. On the other side of the equation, the gain was a result of firms laying off more employees, and having remaining employees producing more output.

SOUTHERN NEVADA

The Economy

Moving to the Southern Nevada economy, the local situation certainly presents a different set of concerns and challenges. The underlying issue is that our economic recovery is lagging what we are seeing nationally. For example:

- As noted, in September 2009, the State of Nevada reported that there were 854,300 establishment-based employees (by place of work, includes multiple job holders) in Clark County. In contrast, the December 2007 estimate was 932,900, a difference of -78,600 jobs, or -8.4%.

- We also reported, above, that the unemployment rate in Clark County was 5.6% in December 2007; it reached 13.9% this September. According to the State of Nevada, the construction industry in Clark County had an unemployment rate of 5.4% in December 2007 (official start of the recession), with a rate of 21.5% in August, 2009.[2]

- A bit of 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 national economy. According to AAA, the recent (October 30) price of regular gas locally was $ 2.67 per gallon compared to $2.78 last year at this time.

- Finally, the housing market, another lynchpin of our economy, is seeing noteworthy improvements in monthly sales rates and continued its anemic reduction in the rate of price decline.

- Real Capital Analytics recently 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+.

[2] The insured construction industry unemployment rate compares weekly unemployment claims in construction industry to covered employment in construction industry. It does not necessarily coincide with the labor force unemployment rate concept.

- MGM Mirage reported this week a $750 million net loss for the third quarter, nearly $1.2 billion of noncash impairment losses and a revenue drop of 9%. However, the company also reported that Project CityCenter could potentially contribute to a 5-10% jump in visitation to Southern Nevada, and that the company has reserved 550,000 in convention room nights into 2010. The success of CityCenter will be critical to helping kick start the recovery of the Las Vegas economy.

FURTHER THOUGHTS

In our last issue, we mentioned the damage to consumer confidence and spending caused by the recession. Both of these indicators must be considerably “repaired” before the Southern Nevada economy begins to recover. As noted, a number of indicators are pointing to a budding national recovery. But when consumers start to “recover” and start spending is less certain. “Hope springs eternal” and we continue to hope that the federal government’s second wave of stimulus spending in 2010 will help the “real economy”, including Southern Nevada’s.

A major milestone was reached this week at UNLV when the UNLV Foundation announced that its goal of $500 million for its capital campaign had been reached and, in fact, exceeded. This week alone, the Foundation revealed that $19 million of commitments were recently made by several organizations and individuals. Additionally, the Englestad Foundation said it was giving UNLV a $12.5 million gift to fund up 100 full tuition scholarships. This is a very important milestone in the region’s evolution.

Last month we posed the questions of how, if and when Southern Nevada should reinvent itself. By “economic reinvention” we meant the often used and misused terms of “development” and “diversification”. This has been an ongoing discussion in our community for the last 20 years. A wide range of private and public sector interests have made admirable efforts at helping to develop and diversify the local economy. This group has included the Nevada Development Authority (“NDA”), NAIOP, the various Chambers of Commerce along with state and local governments. However, in our opinion their efforts have been stymied by a lack of investment, and we are not referring to the issues of incentives or “educational infrastructure”. These factors have been discussed and debated at length for many years. What we *are* referring to is the amount of public dollars invested and allocated to promote Southern Nevada.

For example, in FY 2009-10, the NDA was allocated $1.1 million by the State of Nevada for advertising/marketing Southern Nevada for the purpose of economic diversification. By contrast, the Las Vegas Convention and Visitor’s Authority budgeted $86.5 million (Obviously, this does not include the millions of dollars spent by the resort industry itself.) during the same period for advertising. In essence, the NDA allocation equaled 1.3% of the LVCVA amount. Suppose for a moment, that the NDA had been allocated an amount equivalent to 10% of the LVCVA amount, not just for this one year, but for each of the last 20 years. What would have been the impact to our economy?

We are not saying that the money should have somehow been reallocated from the LVCVA; what we are saying is that public commitment and investment in tourism promotion has been a boon to the state’s economy, especially Southern Nevada’s. While the state’s current financial situation is dire, this “under investment” in economic diversification is not new, it has been an endemic problem for many years – even during boom times when the public sector was flush with cash. At the end of the day, the fact remains: An economy can not be diversified in any meaningful way on a shoe string.

As to the issue of economic development, its realization is more difficult, because it involves the ambiguous concepts of quality of life and, as we stated above, how Southern Nevada’s economy should evolve not merely grow. This, in turn, must include a discussion of the social and economic fabric of the community, which has at its center a vision of how, what, where and when should be the investment in our education infrastructure.

Hopefully, the recession has taught us to recognize the importance of public investment in diversification *and* development in achieving a sustainable economy.

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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