



## ***Is a Jobless Recovery on the Horizon for Southern Nevada?***

### ***THIS MONTH***

We report in this month's *Economic INsight<sup>SM</sup>* that our 4 indicators continued to worsen at varying rates. Southern Nevada's economic problems persisted in June - the 19<sup>th</sup> month of recession. There is a growing but mixed consensus among economists and other observers 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 July Consumer Confidence Index from the Conference Board dropped by 5% to 46.6 (1985=100) vs. 49.3 in June, largely due to widespread concerns about the job market and loss of personal wealth. Also, from a spending standpoint, it doesn't help that the personal savings rate reached a 15-year high of 6.9% in May - a good thing for individual households, but not such a good thing for the economy at large. UNLV-CBER just reported that its Southern Nevada Index of Leading Economic Indicators dropped slightly to 126.12 in July from 126.96 in June, indicating that the economic freefall we have been experiencing might just be ending ... possibly.

*"What happens to our economy and, by extension, to state and local government budgets, if we experience what is called a "jobless recovery"? That possibility is something our business leaders and public policy makers should be talking about."*

### ***TOTAL JOB CHANGE***

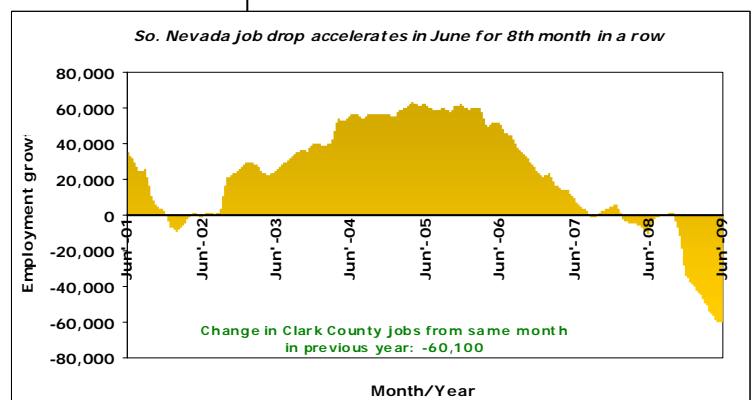
This past June, DETR reported that Clark County had a net job loss of 60,100 establishment-based jobs compared to June 2008's 922,800, a drop of 6.5% to 862,700. This set another year-over-year record. Additionally, there were 7,800 fewer jobs recorded in June compared to this past May. This represented a significant worsening over the April-May decline of 1,000 jobs. On a year-to-date basis, 18,700 jobs were lost this year through June, versus a gain of 3,300 for the same period in 2008.

However, it is important to note that June's jobs were 167,100 higher than that recorded in June 2000 (695,600 jobs). So on a net basis, more jobs have been created in Clark County in the last 9+ years than have been lost.

Regarding Clark County's unemployment rate, the official reported estimate was 12.3% in June, 1.2 points higher than May, nearly double the 6.3% recorded in June 2008. Our research and anecdotal information

continue to indicate that Clark County's actual rate is 3 to 5 points higher, if discouraged and forced part time workers are included. In June, the Nevada unemployment rate was 12% and the U.S. rate was 9.5%. In contrast, Arizona's rate was 8.7% and Phoenix's was 8% in June.

We have introduced the Arizona rates this month, because of the many similarities between the two states, especially their two largest metro areas - Las Vegas and Phoenix (e.g., being some of the poster children for the housing and commercial real estate meltdowns). Despite the significant problems in Phoenix, like the amount of developable land compared Southern Nevada, Phoenix has an unemployment rate that is more than 4 points lower than Las Vegas. Why you may ask. The answer is simple: Phoenix has a more diverse



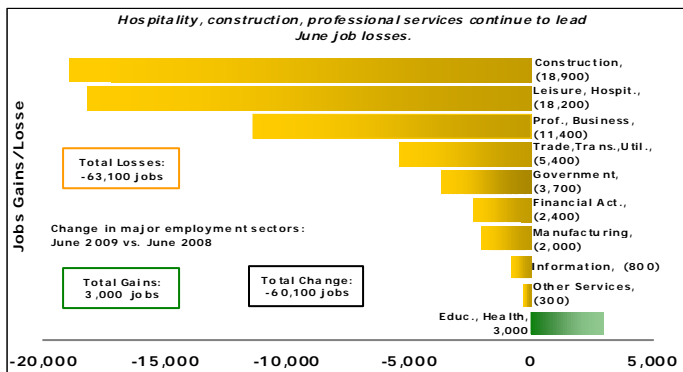
economy that is not so heavily dependent on tourism and discretionary spending, even with a less “business friendly” tax structure than Nevada.

The County’s labor force was 1,011,700 in June, up by .04% from May’s 1,012,100 persons, and up by 2.5% from May 2008’s 986,800 job seekers. There was slow down in labor force growth from what we saw between April and May, which is good. Despite this, there are still a large number of new entrants into the local labor force like college graduates entering the job market; retirees returning to work, because of financial need; non-working spouses seeking work to help their families; and population growth via in-migration, such as it is.

## JOB CHANGE BY INDUSTRY

Job losses occurred again in 9 of the 11 major employment sectors this June compared to June 2008. The single gain was 4.5% (3,000 jobs) in Education (includes private colleges like the University of Phoenix) and Health employment. Natural Resource jobs continued to remain stable.

Construction, Leisure and Hospitality, and Professional and Business Services continued to lead in largest amounts of job 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 19.8% followed by Professional and Business Services with 10% and Manufacturing with 7.7%.



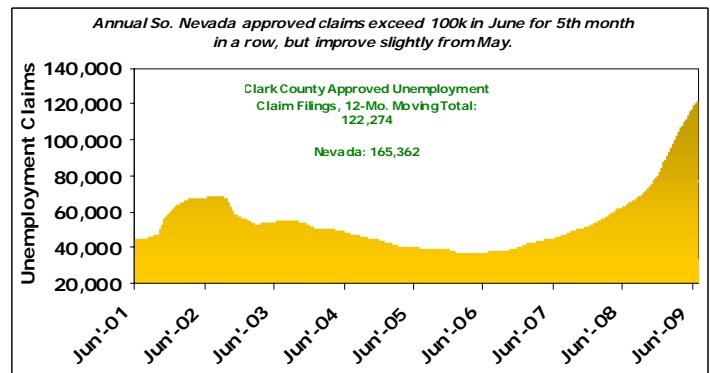
Note: Natural Resources saw no change.

## APPROVED UNEMPLOYMENT CLAIM FILINGS (“FIRST PAYMENTS”)

The State of Nevada recorded nearly 122,274 approved unemployment claim filings (“first payments”) in Clark County during the 12-month period ending June 2009. This represented 79% of the state’s approved claims for the period. June was the 5<sup>th</sup> month in a row that Southern Nevada saw yearly approved claims exceeding 100,000. This equated to the largest annualized (12 months ending in June) jump (89%) in the last 9+ years. By comparison, the annual change for the state was 80%, also the greatest during the period. When contrasting June 2008 to June 2009, the change (upward) was 73% for Clark County and 70% for the state, but significant drops from what was recorded in May.

The major problems plaguing the Southern Nevada resort, construction and professional services industries will, in our opinion, continue to severely impact the whole economy well into 2010 and probably into 2011. Additionally, the State of Nevada recently reported that its fund to pay unemployment claims plummeted to \$70 million from \$806 million over the last 12 months. 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:** June’s approved filings of 10,552 for Clark County were 2% below May’s 10,772 filings, and a reversal of the April-May 5% increase. Approved filings for Nevada were down 2% from the 13,642 recorded in May to 13,376 in June.



## MEDIAN NEW HOME & RESALE PRICE

July estimates released by Home Builders Research (“HBR”) show a 43% drop in the median resale home price and 21% in the median new home price in Clark County, when comparing June 2009 to June 2008. The median home price for new homes and resales combined was \$132,644 in June, a 42% drop from June 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 bad news is that the rate of decline in new home price worsened this month from last month. Unfortunately, the general trend in 2009 is a worsening in median price. The peak median price was recorded at \$311,722 in August 2006, a swing of -57%.

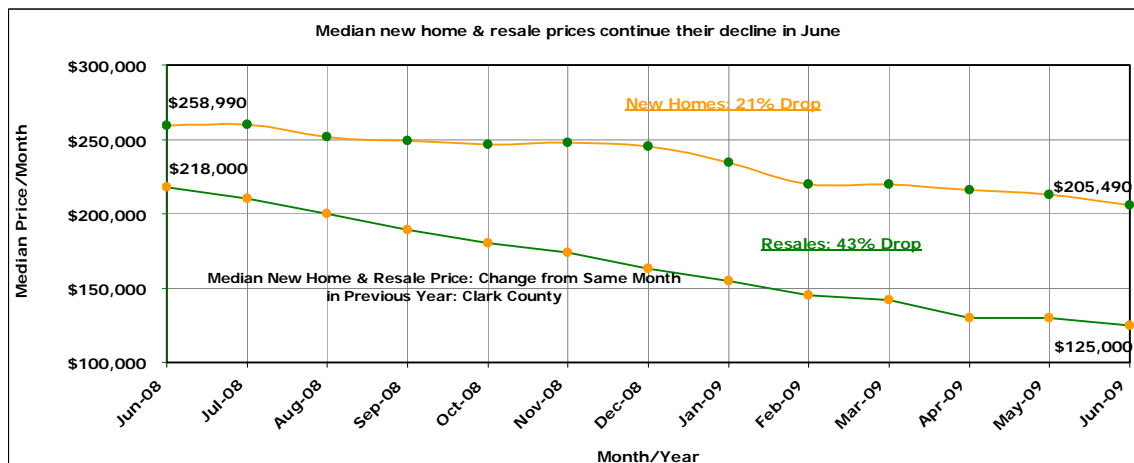
Housing affordability continues to improve - dramatically. June’s median new home price of \$205,490 is just above the July 2003 price of \$205,546. In the case of resales, June’s price of \$125,000 is now below pre-2000 prices and dropped by \$5,000 from May. Improved affordability is very important to our local economy. However, in the short to intermediate-terms, it is very traumatic to consumer and business confidence, because of massive loss of equity.

HBR also reported 4,536 resale home closings this June versus 3,714 in June 2008, a rise of 22%. According to the Greater Las Vegas Association of Realtors (“GLVAR”), the number of homes listed for sale in June declined by 2.7% to 26,029 in June compared to 26,753 listed in May. That inventory of homes is down around 9% from June 2008.

In the case of new home closings, there were 476 units sold this June versus 777 in June 2008, a 39% drop, and 10 points below May’s decline. This continues to be a function of the size of the resale inventory and the dramatic drop in new home construction. Additionally, total home sales for the 12 months ending this June were 45,080 compared to the 34,723 during 12 months ending June 2008, a very healthy rise of 30%, and 6 points above last month’s change.

In comparison, according to RealtyTrac, there were 7,335 notices of default filed in June in Clark County compared to 7,643 in May, an improvement, but still nearly twice the number of sales.

**Note:** The Case-Shiller Index for Las Vegas has declined by 13% since the beginning of the year (January-May), nearly three times faster than the 20-city average tracked by the Index, which decline by 4.5%. According to 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 showed some improvement in July, while our 4 local indicators for (the June numbers are the latest) continued to worsen. Here is what is happening on the national front:

- According to a recent press release by the Bureau of Labor Statistics, "Over the year, nonfarm employment fell in all of the 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 Detroit-Warren-Livonia, Mich. (-9.0 percent), Phoenix-Mesa-Scottsdale, Ariz. (-7.6 percent), **Las Vegas-Paradise, Nev. (-6.5 percent)**, and Charlotte-Gastonia-Concord, N.C.-S.C., and Riverside-San Bernardino-Ontario, Calif. (-6.2 percent each)."
- The UPI recently noted that, "The Institute of Supply Management said Monday its headline index for U.S. manufacturing activity rose in July, closing in on breaking even. The Purchasing Managers Index rose from 44.8 to 48.9, indicating the contraction had slowed. The index uses 50 as a break-even point. Above 50 indicates growth. For the headline index, it was the 18th consecutive month of declines, but the new orders index, a sub-category, rose from 49.2 to 55.3, climbing into the black." The June index was 44.8, so there was a 4-point improvement, which is very good news. The ISM also noted that, "Therefore, the PMI indicates growth for the third consecutive month in the overall economy, and continuing contraction in the manufacturing sector."
- Per Reuters and the University of Michigan, their Consumer Sentiment Index worsened in July. The Index dropped to 66 or by 4.8 points from June (70.8). However, the Index had jumped almost 2 points in June and nearly 4 points in May. Again, we are seeing consumers taking two steps forward and one back regarding how they feel about what is happening. We suspect that the likely dour June employment numbers will not help.
- As previously noted, the July Consumer Confidence Index from the Conference Board dropped by 5% to 46.6 (1985=100) vs. 49.3 in June, largely due to major concerns about the job market and loss of personal incomes. Also, from a spending standpoint, it also doesn't help that the personal savings rate reached a 15-year high of 6.9% in May.
- The U.S. Producer Price Index for Finished Goods climbed 1.8% in June. This increase followed improvements of 0.2% in May and 0.3% in April. Prices for finished goods (other than foods and energy) rose 0.5% in June after falling 0.1% in the prior month.
- As we noted last month, there is a growing probability that a second stimulus package will be needed late this year or the Spring of 2010.
- Oil prices recently dropped 6%, the largest decline in more than 3 months. This appears to be driven by consumers reducing their spending on energy. The New York Mercantile Exchange recently reported that the benchmark price of crude oil for September delivery fell \$3.88 to \$63.35 per barrel. Indications are that the summer vacation season has been bad for the tourism industry that depends quite a bit on summer travel. The data indicate that many individuals and families are doing "staycations" this summer. Additionally, manufacturing facility closings (including job losses) by a number of companies, which use a great deal of energy, have had dramatic impact on crude oil prices.

So how is Southern Nevada faring? 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 June, DETR reported that Clark County had a net job loss of 60,100 establishment-based jobs compared to June 2008's 922,800. Even a reduction in the rate of job loss would be a very welcome sign that the economy is becoming sicker at a slower rate. Unfortunately, the improvements that we are seeing at the national level are not being felt locally or statewide, for that matter. What happens to our economy and, by extension, to state and local government budgets, if we experience what is called "a jobless recovery"? That possibility is something

our business leaders and public policy makers should be talking about.”

2. We believe that Southern Nevada’s commercial development industry will be severely impacted by the foreclosure calamity. The tidal wave of commercial real estate defaults is gaining strength each month, peaking, in our opinion, sometime in 2010. We also can expect a very constrained credit and lending environment for some time. As we reported last month, according to Real Capital Analytics, the minimum amount of troubled commercial property in Las Vegas at the end of June was at least \$9.3 billion. Real Capital includes a variety of assets its research – “. . . assets with mortgages currently in default or foreclosure, those restructured/modified, or those already Lender REO. In general, commercial properties in our research are those valued at \$2.5 mil. or more.”
3. The rates of new home and resale closings improved again in June and for most months since February 2008, although interest rates are starting to rise again. Higher rates of monthly sales will certainly go a long way in stabilizing home prices, but we still need more primary homeowners. The challenge: The Las Vegas area is inundated with foreclosures and the rock-bottom prices of REO units have triggered bidding wars. These prices have attracted investors and frustrated many homebuyers who make offer after offer, but lose to the investors who often pay cash. Many investors also buy portfolios of houses making them more attractive buyers to banks. The irony is that this situation is eerily reminiscent of what happened during “The Bubble.” In our opinion, the market won’t stabilize until it is driven by homebuyers. Additionally, the “collateral damage” to the Valley’s apartment market is significant, because many investor-purchased units become rentals.

Stabilized and improving housing prices are to key to a sustained recovery. Remember the median home price dropped by 42% between June 2008 and June 2009. When this happens remains illusive.

4. The good news: at least in the short term, gasoline prices in Las Vegas will be getting cheaper; the bad news: its largely do the weak economy and job market. According to AAA, the recent (July 30) price of regular gas was \$2.57 per gallon compared to \$3.99 last year at this time. AAA also notes: “Overall, there is little to suggest oil or gasoline prices will move significantly in either direction in the short term. Demand remains low and oil and gasoline supplies are still plentiful. For every major economic indicator that suggests a robust recovery is imminent - which would cause energy demand and prices to climb - there seems to be another story which suggests the recession continues. The markets would likely need to see a decided shift toward more positive or more negative economic indicators for prices to move significantly in either direction for a sustained length of time.”
5. Unfortunately, Nevada is continuing to see general fund shortfalls, which we don’t think will abate much, if at all, during the current or next fiscal year. For example, the Nevada Department of Taxation recently reported that Clark County taxable retail sales declined by 21.8% comparing May 2008 to May 2009. For Nevada, the drop was 21.1%. On a year-to-date basis the decrease was 11.8% for Clark County compared to same period in 2008. For the state, the decline was 11.9%.
6. As we say, once again, Las Vegas and Nevada will not see a “V” shaped recovery this time around. Our economy and community are fundamentally being changed by the Great Recession. A sustained recovery is not likely to be seen in Southern Nevada until sometime in 2011 – because it’s all about steady job growth.

## ABOUT THE PUBLICATION

*The data included in our Economic INsight<sup>SM</sup> 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 97.3% of all jobs in Clark County in June 2009.*

## RESTREPO CONSULTING GROUP LLC

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