



The Time for Reinvention is Now

THIS MONTH

We are excited to report in this month's *Economic INsightSM* ("EI") that the decline in our 3 of our 4 indicators moderated at varying rates (Note: *The State of Nevada has not released the approved unemployment claims for August yet, so we are reporting the July numbers again.*). Southern Nevada's economy remained challenged, albeit less challenged, in August - the 21st 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. There is also a growing consensus that the nation will see a slow and anemic recovery of the job market.

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

"Finally, and most importantly, if now is not the right time for Southern Nevada to seriously consider reinventing itself, economically-speaking, in view of the nature of this particular recession, than when is the right time?"

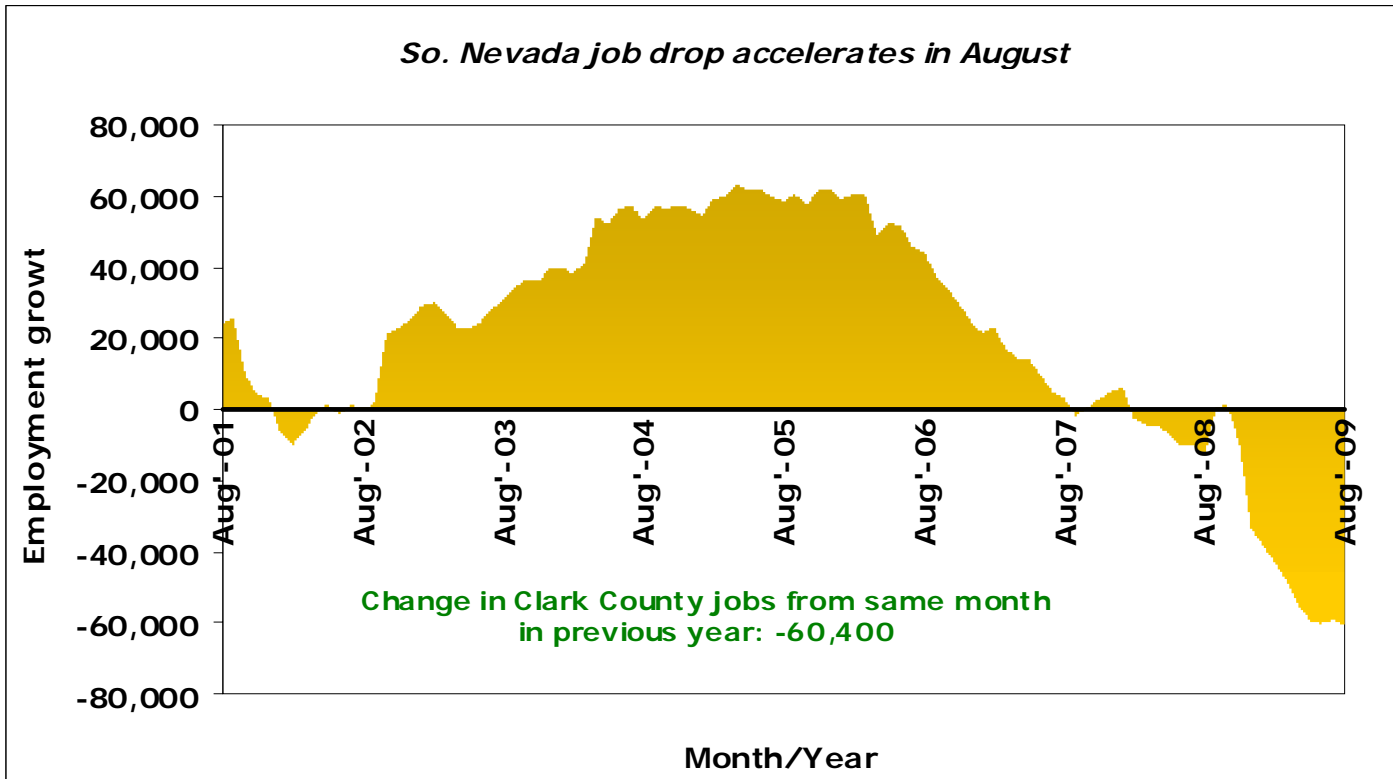
TOTAL JOB CHANGE

DETR reported in August that the Las Vegas MSA economy saw a net job loss of 60,400 establishment-based jobs¹ compared to August 2008's 907,300, a drop of 6.7% to 846,900 (Note: the last time the local economy had roughly this number of jobs was March 2005). This set another year-over-year record percent drop. Additionally, there were 4,900 fewer jobs in August compared to July. The average monthly rate of job losses between January and August was the 6,600. The number of jobs lost over the three months ending July was 23,600 or 68% of the 34,500 jobs lost YTD. This percent was similar to the prior 3-month period.

It is important to note that August's jobs were 140,700 higher than that recorded in August 2000 (706,200 jobs). So on a net basis, more jobs have been created in Clark County in the last 9-year period than have been lost. However, this was less than the difference noted in our July EI.

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

TOTAL JOB CHANGE

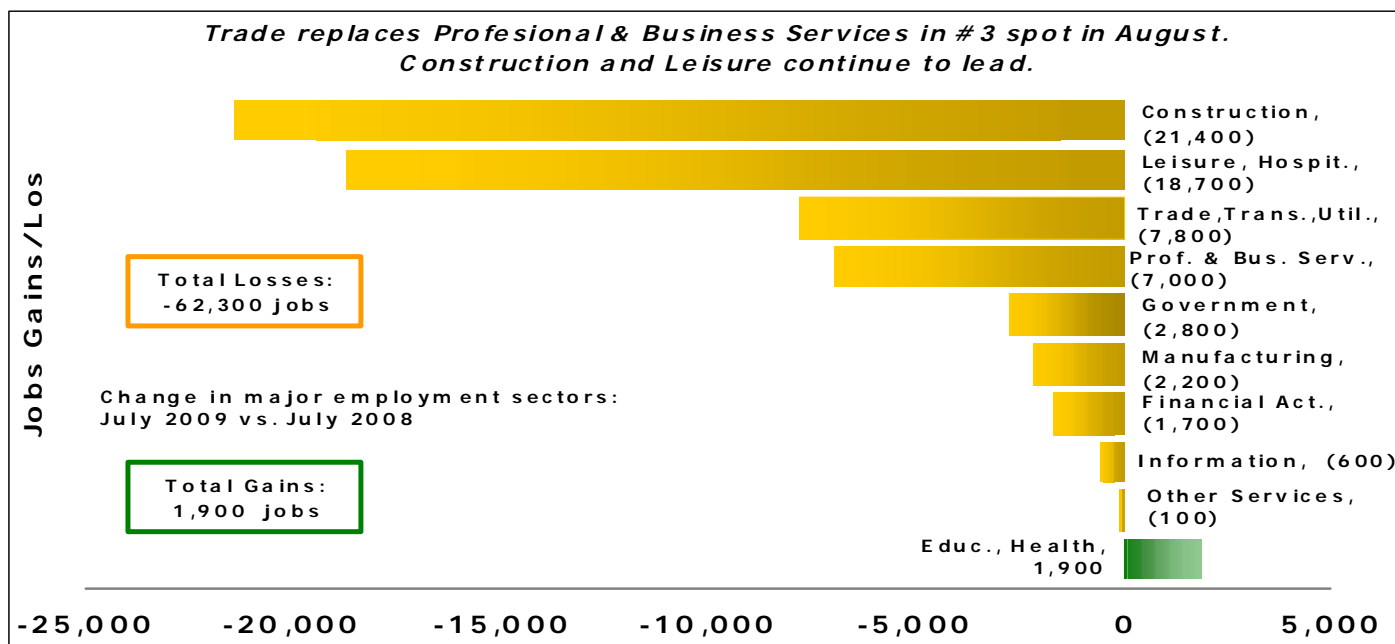


Regarding Clark County's unemployment rate, the official reported estimate was 13.4% in August, just .3 points higher than July, but nearly double the 6.9% recorded in August 2008. Our research and empirical information indicates that Clark County's actual rate is 6 to 7 points higher, if discouraged and forced part time workers are included. In August, the Nevada unemployment rate was 13.2% and the U.S. rate was 9.7%. In contrast, Arizona's rate was 9.1% and Phoenix's was 8.4% in August.

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.

Two other indicators are also worth looking at. The MSA's labor force was 1,007,700 in August, down by .54% from July's 1,013,200 persons, and up by 1.9% from August 2008's 988,800 job seekers. The ratio of total employment (872,600) to labor force was 87% in August versus 93% in July, not a good sign.

JOB CHANGE BY INDUSTRY



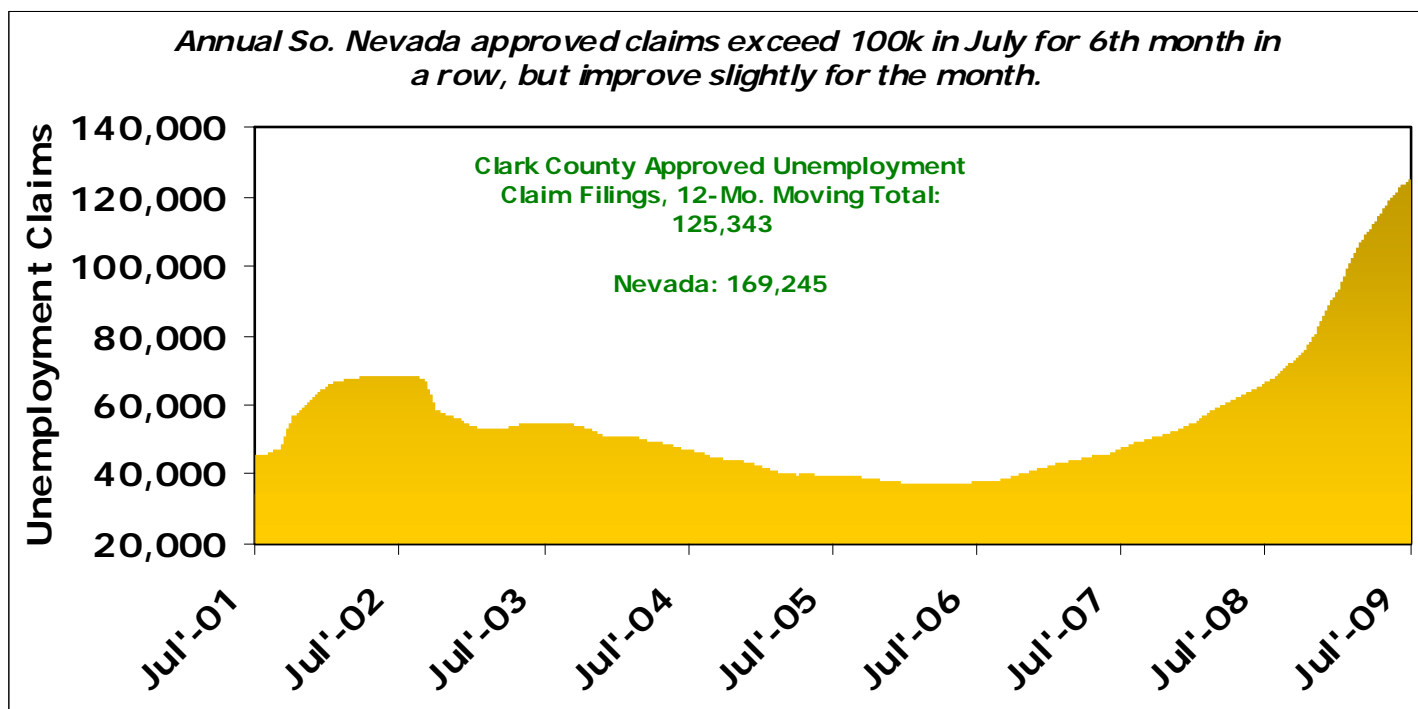
Note: Natural Resources saw no change.

Job losses occurred again in 9 of the 11 major employment sectors this August compared to August 2008. The single gain was 2.9% (1,900 jobs) in Education (includes private colleges like the University of Phoenix) and Health employment. Natural Resource jobs continued to remain stable. However, this increase was lower than the 2,500-person increase seen last July.

Construction (-21,400), Leisure and Hospitality (-18,700) and Trade, Transportation & Utilities (-7,800) continued to lead with 77% of the losses. This month, the Trade sector replaced the Professional & Business Services sector, which had pretty consistently ranked in top 3 throughout 2009. On a percentage change basis, Construction led with a year-over-year drop of 22.6% followed by Manufacturing at 8.6% and Leisure and Hospitality at 6.9%.

When comparing this August to the beginning of the year (January), Construction continued to lead in shedding jobs with 9,500 losses, Government followed with 8,800 losses and Leisure and Hospitality was third with 6,700 losses. Of the Government drop, the largest (-8,100 jobs) was in local government. On percent basis, Construction led once again with an 11.5% drop, followed by Government at 8.8% and Professional and Business Services at 5.2%.

APPROVED UNEMPLOYMENT CLAIM FILINGS (“FIRST PAYMENTS”)

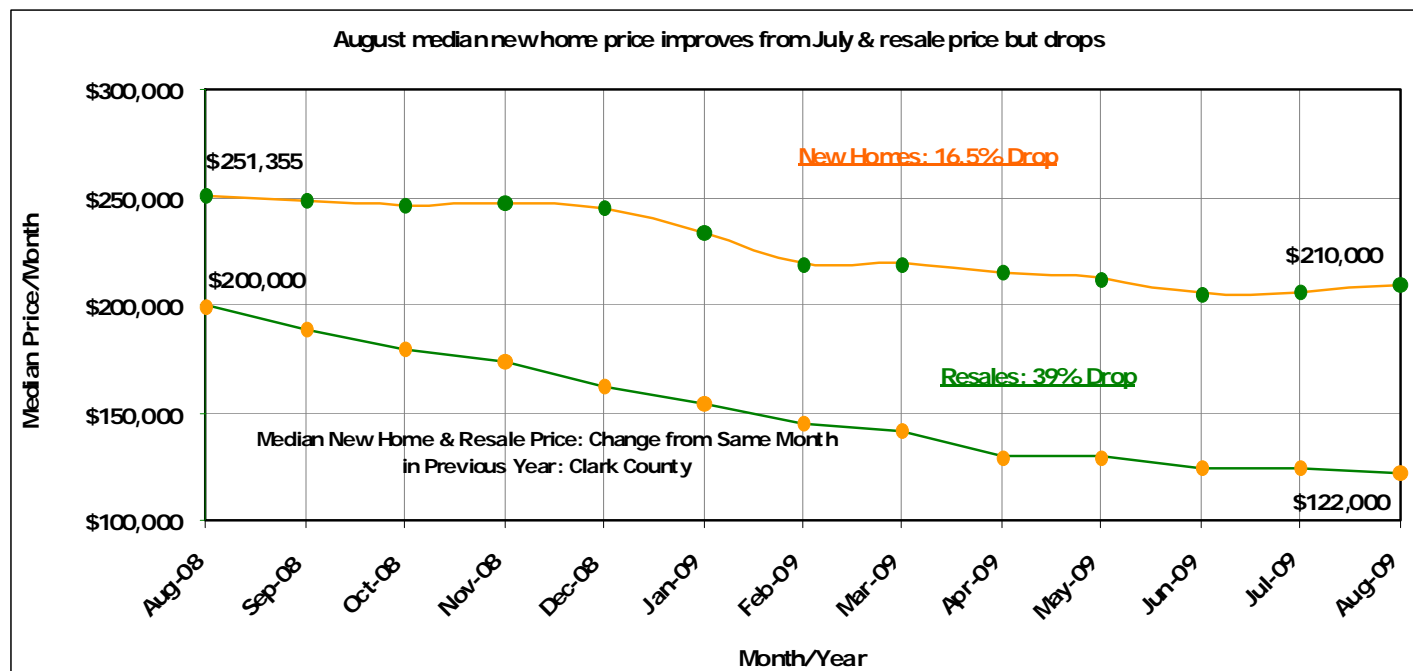


The State of Nevada recorded more than 125,000 approved unemployment claim filings (“first payments”) in Clark County during the 12 months ending July 2009. Nevada saw 169,000 approved claims during the period. Clark County represented 77% of the state’s approved claims. July was the 6th month in a row 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



August estimates released by Home Builders Research (“HBR”) show a 39% drop in the median resale home price and 16.5% in the median new home price in Clark County, when comparing August 2009 to August 2008. The median home price for new homes and resales combined was \$130,802 in August, a 38% drop from August 2008. This is now lowest in the last 9+ years. Once again, at least 6 months of price increases are needed for a sustained rebound. The rates of decline in new and resale home prices slowed again in August.

The highest median price (new and resales) in the Valley was recorded at \$313,230 in October 2006, a swing of -58% compared to August. We now know that peak price was artificially high and unsustainable, leading to the bubble’s burst.

Housing affordability continues to improve. August’s median new home price of \$210,000 is just below the February 2004 price of \$ 210,795. In the case of resales, July’s price of \$122,000 is now below pre-2000 prices. Some very good news: the average new home price improved between July and August by about \$4,000.

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 3,833 resale closings this August versus 3,051 in August 2008, a healthy rise of 26%. However, in the case of new home closings, there were 426 units sold in July versus 758 in August 2008, a 44% drop, and 7 points higher than decline recorded in July. The size of the resale inventory continues to plague the new home market. Additionally, total home sales for the 12 months ending this August were 46,494, 31% higher than the 35,550 during 12 months ending July 2008.

According to the Greater Las Vegas Association of Realtors (“GLVAR”), the August number of homes listed with no pending offers was just 11,124.

In contrast, according to RealtyTrac, “Foreclosure filings were reported on 14,940 Las Vegas properties in August, one in every 53 housing units — more than 6.7 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 was down 11 percent from the previous month but still up 48 percent from August 2008.” Clearly, the turmoil in the local housing market will continue for sometime, despite the dramatic improvements in sales volumes. RealtyTrac also noted that, “With one in every 62 housing units receiving a foreclosure filing in August, Nevada continued to document the nation’s highest state foreclosure rate despite an 8 percent

decrease in foreclosure activity from the previous month. A total of 17,902 Nevada properties received a foreclosure filing during the month, still an increase of 53 percent from August 2008.”

Note: The Case-Shiller Index (“CSI”-not seasonally adjusted) for Las Vegas declined by 15.6% since the beginning of the year (January-July), 10.5 times faster than the 20-city average tracked by the Index, which declined by 1.5%. On a rolling 12-month basis, the Las Vegas drop was 29.4% versus 12.4% for the 20-city average. So, according to the CSI, the bleeding letting continues in the Las Vegas housing market, but is moderating 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.”

ANALYSIS

THE NATIONAL PICTURE

At the risk of being accused of having a firm grasp of the obvious - the health of the national economy *IS* the primary driver of the health of the Southern Nevada economy. As essentially export-based – we export experience and entertainment – our economy is very tied to the health of consumer confidence and discretionary spending, not only in the U.S., but globally as well. The next several paragraphs cover some of the national economic indicators that most influence the performance of the Las Vegas economy:

- The U.S. Bureau of Labor Statistics (“BLS”) recently reported that, “Nonfarm payroll employment continued to decline in September (-263,000), and the unemployment rate (9.8 percent) continued to trend up, the U.S. Bureau of Labor Statistics reported today. The largest job losses were in construction, manufacturing, retail trade, and government. The BLS also noted that, “Since the start of the recession in December 2007, the number of unemployed persons has increased by 7.6 million to 15.1 million, and the unemployment rate has doubled to 9.8 percent.” The good news – national employment data have shown a general slow-down in the rate of decline. The September drop is 30% of the drop seen in March 2009, the peak month of losses.
- 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 slightly in September (52.6) compared to August (52.9). ISM recently reported that, “The manufacturing sector grew for the second consecutive month in September. While the rate of growth moderated slightly when compared to August, the recovery broadened as the number of industries reporting growth increased from 11 to 13. Both new orders and production are growing, but at a slower rate when compared to August. It appears the fundamentals for continuing recovery are still at work as inventories and sales are gaining balance. This month, we asked a special question with regard to the American Recovery and Reinvestment Act. Twelve of the 18 manufacturing industries expect to derive some benefit from the program, and 12 manufacturing industries responded that they expect their companies to see some benefit.” An index above 50% suggests the manufacturing sector is, by and large, 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.
- Continuing on this track, according to Reuters and the University of Michigan, “The Index of Consumer Sentiment was 73.5 in the September 2009 survey, up from 65.7 in August, reversing the entire decline since last September and rising to the highest level since the start of 2008. The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators, was 73.5 in September, up from 65.0 in August, and the highest level recorded since the September 2007 survey. The Current Economic Conditions Index rose to 73.4 in September, up from 66.6 in August and the highest level since last September’s 75.0.”
- The September Consumer Confidence Index from the Conference Board declined slightly by 1.8% to 53.1 (1985=100) vs. 54.1 in August in contrast to the July-August jump of 15%. According to the Conference Board, “Consumer Confidence, which had improved in August, retreated slightly in September. The Present Situation Index decreased, as consumers viewed both current business conditions and the labor market less favorably than last month. While not as pessimistic as earlier this year, consumers remain quite apprehensive about the short-term outlook and their incomes. With the holiday season quickly approaching, this is not very encouraging news.” Also, from a spending standpoint, the personal savings rate in August rose to 3.0 from 1.7 in August 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.
- AAA recently noted that, “Oil prices fell today mostly driven by fears of a lagging global economic recovery and a stronger U.S. dollar. Oil prices ended the day down \$2.50 dollars to close at \$69.54 per barrel on the New York Mercantile Exchange.” AAA further indicates that opinions are mixed regarding the

strength of the nation recovering before the middle of 2010. Accordingly, oil prices will continue to fluctuate.

- And last, but not least, the CMBS market remains frozen. This very important source of residential and commercial real estate financing shows no signs of thawing.

SOUTHERN NEVADA

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 August 2009, the state of Nevada reported that there were 846,900 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 -86,000 jobs, or -9.2%. Comparing this past August to August 2008 (907,300), the data show a net job loss of 60,400. However, August saw a significant improvement in number of jobs lost (4,900) versus 11,900 in July.
- We also reported above that the unemployment rate in Clark County was 5.6% in December 2007; it reached 13.4% this past August (latest estimate). 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
- While the BLS does not report the average number of private sector hours worked by county, it does so by state. The BLS recently reported that the average number of hours worked in Nevada during July (latest data) was 35.8, compared to 37.6 in July 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.
- 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 national economy. According to AAA, the recent (September 25) price

of regular gas locally was \$2.72 per gallon compared to \$3.52 last year at this time.

- Finally, the housing market, another lynchpin of our economy, is seeing noteworthy improvements in monthly sales rates and some anemic reduction in the rate of price decline, according to recent media accounts.

Nevertheless, a jobless recovery for our region remains a real possibility. Unfortunately, it will take awhile before the improvements we are seeing at the national level to be felt in Southern Nevada, because of the nature of our discretionary spending-based economy. The damage to consumer confidence and spending during this recession is unprecedented. Both of these indicators must be considerably "repaired" before the local economic recovery begins. Hopefully, the federal government's second wave of stimulus spending in 2010 will help in this process.

FURTHER THOUGHTS

Therefore, in looking at all of these indicators, some more technical than others, we continue to believe that the start of a sustained recovery is not likely to be seen in Southern Nevada until sometime in late-2010 or early-2011. In other words, local and state economic indicators, national trends and the nature of our economy continue to point to the likelihood that we will not see the beginning of at least 6 months of steady job growth until then. This assumes no additional major crises befall our economy.

We would like to conclude by posing a few pertinent questions: Should Southern Nevada take the opportunity now to reinvent itself, again, both as a community and an economy? What should be the next phase in the evolution of the resort industry considering where the national and global economies appear to be headed? Finally, and most importantly, if now is not the right time for Southern Nevada to seriously consider reinventing itself, economically-speaking, in view of the nature of this particular recession, than when is the right time?

While all of us has his or her own opinion as to whether or not Southern Nevada should or even needs to reinvent itself, it is important to recognize that this is not your run-of-the-mill recession. Accordingly, it would behoove the community to have a backup plan, in the event that history doesn't repeat itself this time. While it is very tempting to believe that history is always the prologue to the future, there are moments of transformational change in the evolution of all communities and economies. This may be that moment.

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.

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.

Contact Us:

Restrepo Consulting Group LLC
3980 Howard Hughes Parkway, Suite 290
Las Vegas, NV 89169
Phone: (702) 967-3188
Fax: (702) 967-3196
Email: info@rcg1.com

Economic INsightSM, in its entirety or in part, may not be reproduced by any means without the prior written consent of Restrepo Consulting Group LLC.

© Copyright 2009. All rights reserved.