Economic INsight℠

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RESTREPO CONSULTING GROUP LLC

February Data Provide Insight On Las Vegas Economy

THIS MONTH

We report in this month's *Economic INsight℠* that our 4 indicators continued to slide. The Southern Nevada economy remained to struggle in February. We are now in the 15th month of the recession and none of the experts and observers agree when the national economy will begin to see a sustained upturn, or, for that matter, when it will stabilize. And, we are starting to hear a rising chorus of concerns that loan defaults are on the rise in the commercial development industry, putting it on verge of the worst crisis since the last bubble on the early-1990s.

> *"Southern Nevada is now in uncharted waters with annual unemployment claims exceeding 100,000 in February."*

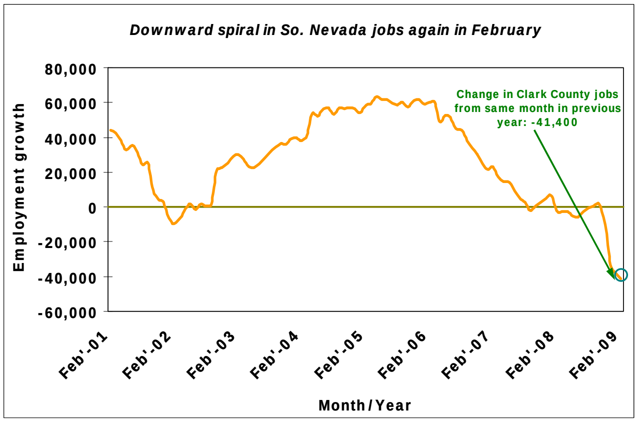
TOTAL JOB CHANGE

In February, the Nevada Department of Employment, Training and Rehabilitation ("DETR") reported that Clark County lost 41,400 establishment-based jobs compared to February 2008, dropping -4.5% to 880,000. Additionally, February's jobs were 1,400 less than this January's numbers, making the January-February decline a vast improvement over the 18,300 December-January drop, while an encouraging sign, is not a trend. Since the beginning of 2009, 19,700 residents of Clark County have lost their jobs.

Regarding Clark County's unemployment rate, the official report estimate was 10.1% in February, a near doubling of the 5.1% recorded in February 2008, or a jump of 98%. Our research indicates that Clark County's actual rate could be as high as 13%, if discouraged and forced part time workers are included. In February, the Nevada unemployment rate was also 10.1%. At the same time, Clark County's labor force grew by 4.3% from 971,900 to 1,013,700. The reasons remain the same as last month - college graduates entering the job market, retirees returning to work because of financial need, non-working spouses seeking work and population growth.

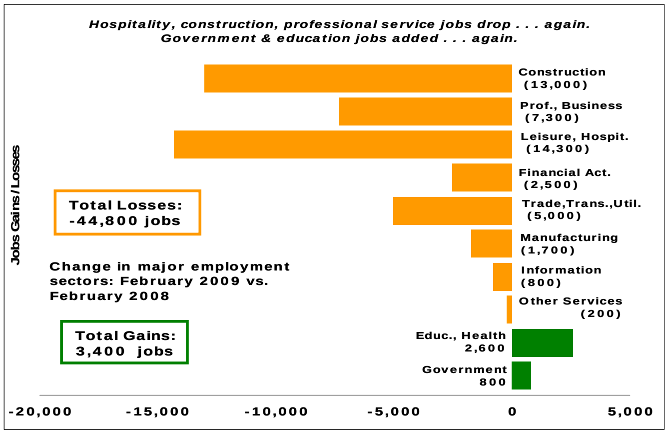
The major question remains: How long will it take for the $800 billion plus stimulus packages emanating from Washington benefit us here in Southern Nevada? Some say by the end of 2009. Unfortunately, the data and trends don't support this thus far.

Regarding the unemployment rate, the official report estimate was 9.1%, 3.5 points higher than the 5.6% recorded in December 2007. This equates to a jump of 63%. In December, the Nevada unemployment rate was 9.1%. Our research indicates that Clark County's actually rate is around 12%.



Job Change by Industry

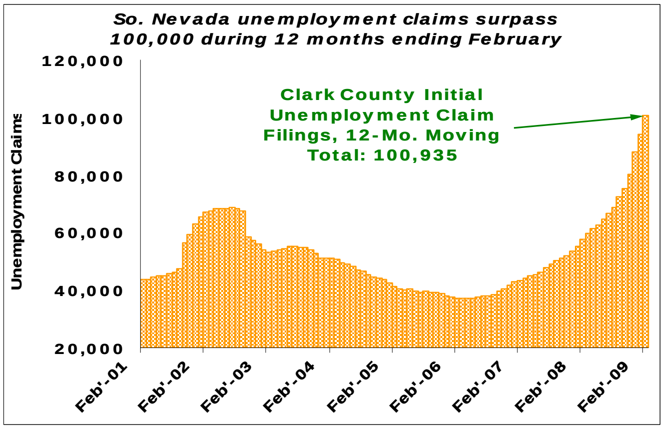
The DETR reported the loss of 44,800 jobs in 8 (Other Services saw a gain last month) of the 11 major employment sectors compared to February 2008. As noted, this is a slight decline compared to what we saw this past January versus January 2007. Once again, most of the losses were in Leisure and Hospitality followed by Construction; Professional and Business Services; Trade, Transportation and Utilities; Financial Activities; Manufacturing and Information Services. Natural Resource jobs remained unchanged.



3,400 jobs were added in 2 of the 11 sectors, year-over-year. The largest gains were in Education and Health followed by Government. As mentioned, the result was a net job loss of 41,400 jobs versus February 2008. In the case of Education (includes private colleges like the University of Phoenix) and Health employment, there were 2,600 additional jobs compared to February 2008, representing 76% of the job gains.

Unemployment Claim Filings

The State of Nevada recorded almost 101,000 initial unemployment claim filings in Clark County during the 12-month period ending February 2009. Southern Nevada is now in uncharted waters with annual unemployment claims exceeding 100,000 in February. This reflected the highest largest rolling year-0ver-year change (70%) in the last 7 years. Additionally, the “same month previous year” change in February was 75% above the February 2007-2008 period (the change this January was 70%).Until this indicator shows a persistent decline (of at least 6 months), the state and local economies will remain in recession.



Again, the significant problems facing the Southern Nevada resort industry that emerged in February do not bode well for a steady decline in monthly unemployment claim filings in 2009 and probably into the first half of 2010. Time will tell and we continue to monitor this indicator very closely each month.

Hopefully, the rates of monthly filings we saw in 2008 and into February will not be repeated for the remainder of 2009. However, at this point, we are not seeing a decline in the rate of increase each month.

Median New Home & Resale Price

Recent numbers released by Home Builders Research ("HBR") show a 38% drop in the median resale home price and 19% in the median new home price in Clark County when comparing February 2009 to February 2008. As noted previously, until this essential indicator shows an upturn of at least 6 months, the housing market will remain troubled, prolonging the recession. That said, it is good news that decline in new home prices is starting to moderate. This is largely due to the dramatic decline in housing starts.

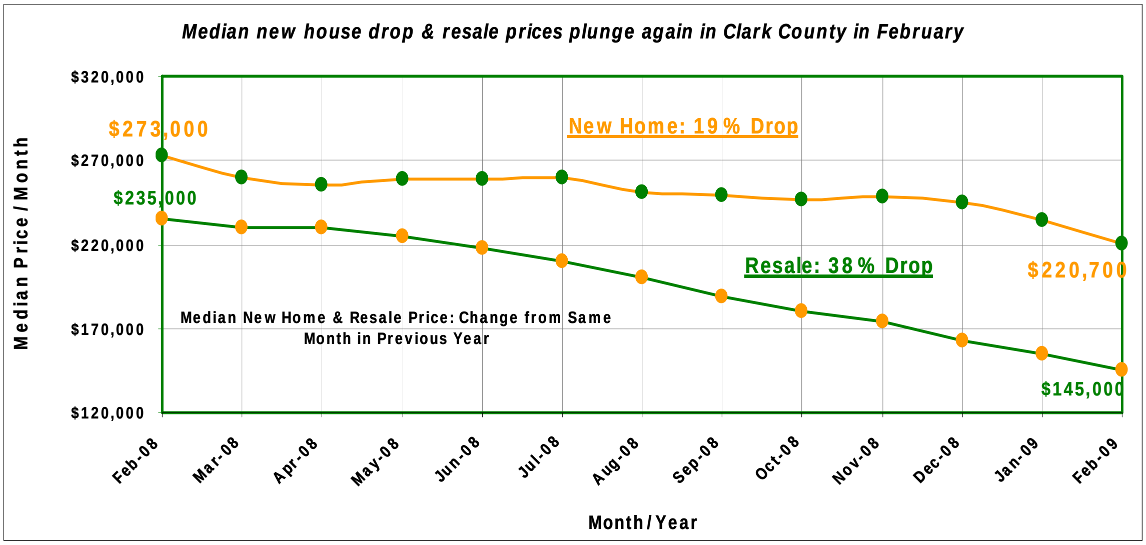
As we have noted, the one bright spot in this God-awful mess is that housing affordability has improved considerably. February's median new house price of $220,700 is back to just below the March 2004 level of $225,000. In the case of resales, January's price of $145,000 is now near the $145,900 recorded in April 2002. Essentially, 5 - 7 years of equity, some of it real and some of it paper, has been wiped-out by the housing crash.

In the long-term, a return to some level of affordability is vital to the region's quality of life. However, in the short to intermediate-terms, it is very traumatic to consumer and business confidence – crucial prerequisites to Southern Nevada's recovery.

HBR reported 2,606 resale home closings this February versus 1,529 in February 2008, a same rise as January (70%). However, according to SalesTraq, 63% of home sales were bank-owned in February. That's why we continue to see a decline in the median price. In the case of new home closings, there were 375 units sold in February 2009 versus 786 in February 2008, a 52% drop. This is largely a sign of the large resale inventory and commensurate dramatic drop in new home construction.

Additionally, total home sales for the 12 months ending this January were 40,882 compared to the 37,361 during 12 months ending February 2008, a healthy rise of 9.4%. The burning off of inventory is critical to the return of price stability as long that we recognize that not all closings are created equal.

In other words, purchases by investors and speculators are not what are needed. What IS needed are purchases by homebuyers, and that will only occur in any meaningful way when the job market improves.



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Further Thoughts

In recent months I have been frequently told that most of today's analysts and economists, including me, are too pessimistic, and that we are making things worse by reporting on the litany of troubling economic and financial statistics. If there is any consolation, the same thing has always been said about economists. Back a 160 years ago in 1849, 19th Century Scottish historian, satirist and essayist, Thomas Carlyle, labeled economics the "dismal science**"** and not in a good way, in case there any doubts about his meaning! Carlyle had a point, but I would be remiss if I didn't note that it is the job of economists and other analysts to be objective. We are not, or should not be, spin-doctors or cheerleaders. Our job is to impartially analyze the data, and to interpret what the data are saying about the current and future (to the extent practical) economy. So here we go again.

While the recession continued to worsen in February, there was a dramatic slow down in the rate of job losses compared to what was recorded this January. Even though employment change is a lagging indicator, we continue to believe that we will not see a sustained recovery in our local economy until the job market improves, most likely in late-2010 or early-2011. The issues currently facing our resort industry, and the imminent wave of commercial real estate defaults (that we think will peak in 2010) in Southern Nevada, are very worrisome.

Deutsche Bank recently reported that commercial delinquency rates, nationally, rose to 1.8%, four times the rate seen a year ago. The firm also thinks the numbers could get as high as 6% by late-2010. Moreover, according to Real Analytics, there are almost $19 billion in commercial loan defaults, along with properties in foreclosure or bankruptcy around the country.

As we noted last month, if the national recession continues into April (17 months) of this year, it will be the 2nd longest downturn in modern times, surpassed only by the Great Depression. The U.S. economy has lost nearly 4.5 million jobs since the recession began in December 2007. 1.2 million of these jobs have been lost in 2009 through the end of February. In February, alone, U.S. employers shed nearly 651,000 jobs, and the unemployment rate reached 8.1%.

What is our list of February "indicators to watch" in 2009. We will add and subtract from the list each month as necessary:

1. The resort industry is likely to see one or more restructurings before the end of the year.

2. Deflation, not inflation, continues to be a very real concern, because of the disintegration of consumer spending and business investment globally.

3. Whoever thinks that Southern Nevada will escape the national tidal wave of commercial real estate loan defaults will be disappointed . . . very disappointed. One the other hand, 2009 is a great year to be a tenant or a buyer (assuming you can get the capital).

4. The rate of new home and resale closings has been improving each month since March 2008 and we expect this continue through 2009 because of historically low interest rates. This will go a long way in stabilizing home prices.

5. Oil and other commodity prices will continue to remain low, because of the worsening global economic outlook, functioning as a tax cut for Nevada residents.

6. Nevadans could see the greatest tax increase and greatest spending cuts in its history when the legislature convenes.

7. As we've repeatedly written, Las Vegas and Nevada will not be **"V"** shaped recovery this time around. Think an elongated Nike "swoosh" instead.

About the Publication

The data included in our Economic INsight℠ 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 employment data reported on unemployment insurance ("UI") tax reports that nearly all employers are required to file with the State of Nevada. The historical monthly estimates are revised by RCG each month as DETR revises its previous calculations. The job estimates included herein represented approximately 96.6% of all jobs in Clark County in February 2009.

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 3960 Howard Hughes Parkway, Suite 130 89169, and can be reached at 702.967.3188. The firm's website can be accessed at: www.rcg1.com.

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