Economic INsight℠

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RESTREPO CONSULTING GROUP LLC

Southern Nevada Economy Still Searching for the Bottom

THIS MONTH

The bottom of the Southern Nevada economic recession remains illusive in this month's *Economic INsight℠*. Two of our four indicators continue to worsen, and the other two (related to job growth) remained relatively stable between October 2007 and October 2008. To reiterate: Past business cycles were relatively more straightforward to assess and predict, with exception of the Great Depression. But the current crisis is unprecedented in its scope and complexity. That's why it's so very difficult to know when we will, or have reached "the bottom". The uniqueness of the crisis was best observed recently in four descriptors by New York Times columnist, Thomas Friedman: complexity, leverage, globalization and created in the U.S.

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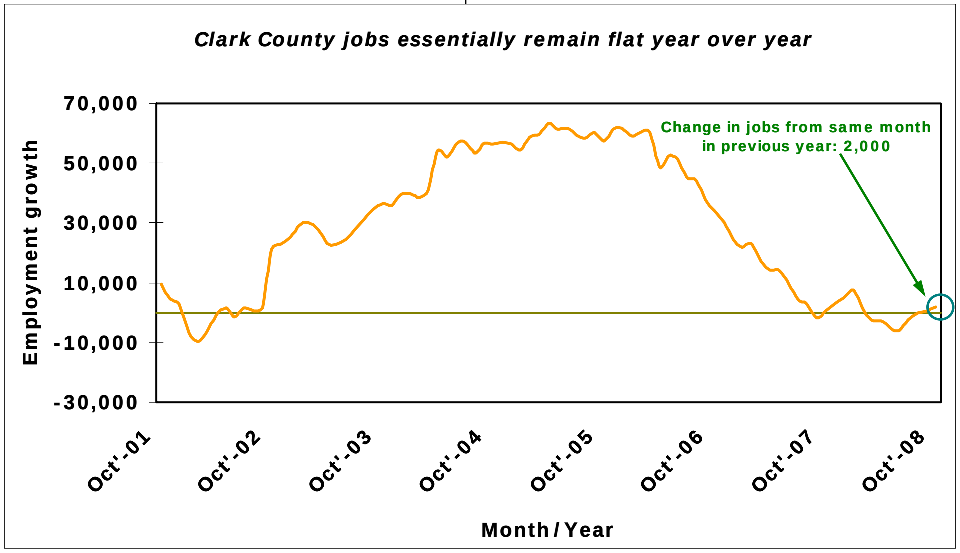
TOTAL JOB CHANGE

The state of Nevada reported in October that Clark County saw a rise of 2,000 establishment-based jobs compared to October 2007, growing slightly to 929,100. Additionally, October's jobs were moderately (5,200) higher than this September's numbers and primarily the result of school employees coming back to work.

The Clark County economy continues to be severely impacted by the global financial crisis, and the spreading plume of the national economic recession. The spiraling down of consumer and business confidence, as well as spending, continue to choke investment, dragging down the Clark County and State economies.

The major question remains: When will the current and proposed stimulus packages emanating from Washington benefit us here in Southern Nevada?

On the unemployment front, the official report rate reached 7.5%, 2.5 percentage points higher than recorded in October 2007. This equates to an increase of 20% and is the highest rate seen in Southern Nevada in many years. The U.S. unemployment rate, by contrast, was 6.5% at the end of October. By all accounts, the official rate for Clark County is viewed as a likely undercount of the actual rate.

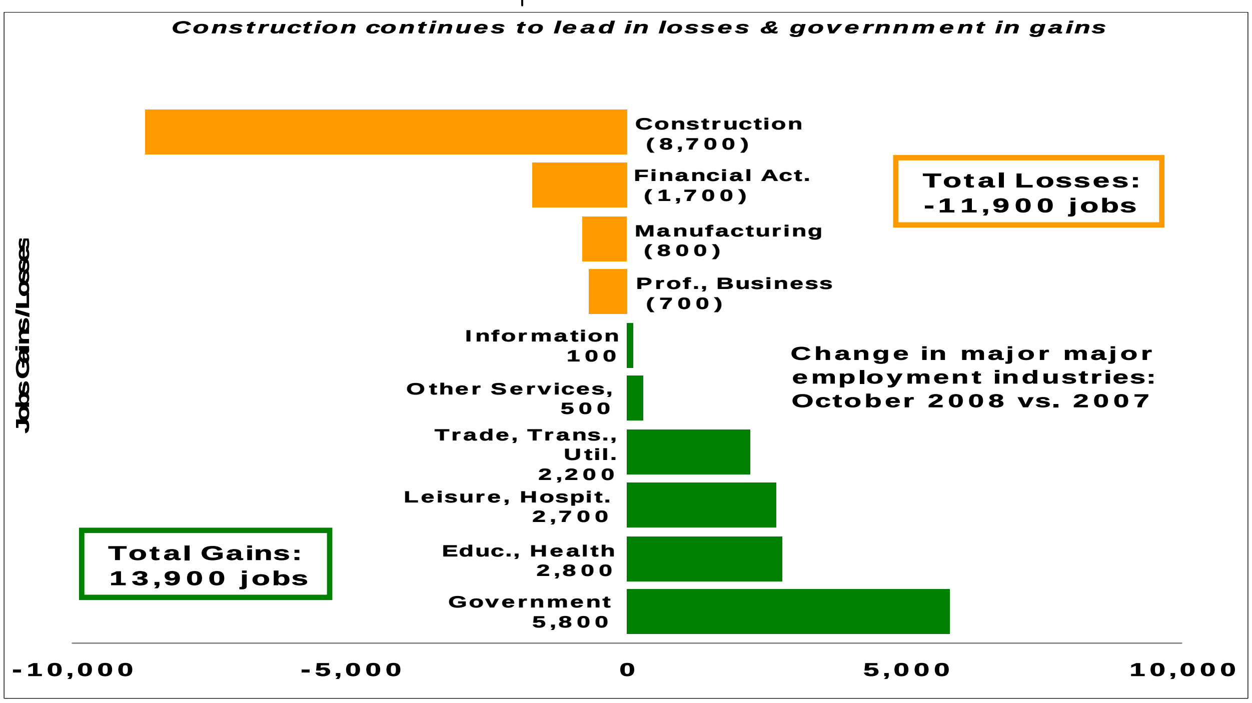


JOB CHANGE BY INDUSTRY

RCG observes in this month's Economic INsight℠ that Nevada Department of Employment, Training and in Clark County Rehabilitation ("DETR") reported the loss of 11,900 jobs this October compared to October 2007. This is an improvement over the 13,000-job loss posted this September versus September 2007. This month, 4 of Clark County's 11 major industries lost wage earners compared to October 2007. Most of these losses were in Construction and Financial Activities sectors, followed by Professional and Business Services and Manufacturing. On the other hand, there was a gain of 13,900 jobs in 6 of the 11 sectors when comparing the two months.

The largest gains were in the Government (primarily in local government, including the Clark County School District); Leisure and Hospitality (largely because of the opening of Aliante Station); Trade, Transportation and Utility; as well as, the Education/Health Information sectors. Natural Resources and Mining saw no change. As mentioned, the net result was a 0.2% gain of 2,000 jobs relative to October 2007, essentially zero growth on a year-over-year basis. In the case of Government employment, there were 5,800 additional jobs, representing 42% of total employment growth.

To repeat our mantra from previous issues of the Economic INsight℠, "as the global financial crisis and the growing global recession worsens, it is not surprising that the majority of these losses were in growth-related industries." The credit markets are expected, by most economists, to stay very constrained and the Southern Nevada economy is likely to see very little, if any, growth in 2009 and 2010. We continue to believe that the local economy will not see a sustained recovery until 2011, especially if see a wave of commercial real estate foreclosures, as well as, auto loan and credit card defaults, some observers are predicting.



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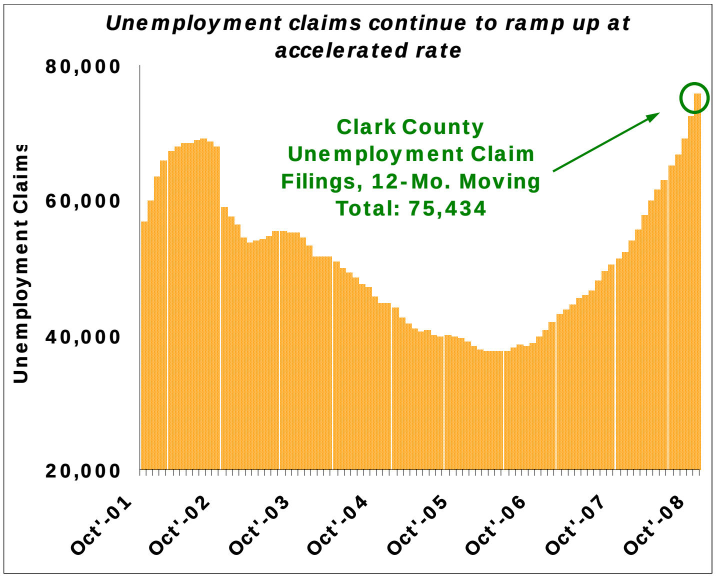
UNEMPLOYMENT CLAIM FILINGS

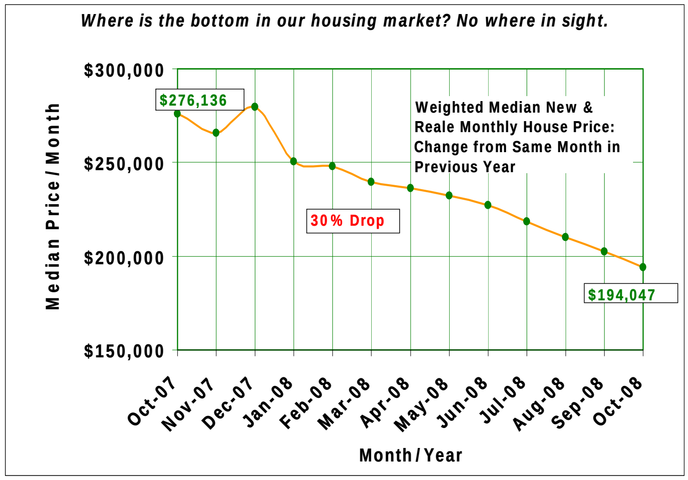
The State of Nevada recorded 75,434 unemployment claim filings in Clark County during the 12-month period ending October 2008. This was 47% higher than the change recorded between October 2006 and October 2007 (51,167 filings). The year-over-year change in October was also higher than the 44% year-over-year increase noted this September. The ramping up of this critically important indicator is very troubling, especially because claim filings continue to rise at an accelerated rate.



On a year-to-date ("YTD") basis, 64,083 unemployment claims were filed in Clark County versus 42,296 filings during the same period in 2007, an increasingly worrisome 52% rise. This rise was 2 percentage points higher than the September 2007 to September 2008 period. Filings also rose by a little over 7.3% this October compared to this past September, and a slight drop from the 9.4% recorded between August and September. Until this indicator shows a sustained decline (at least six months), the Clark County and Nevada economies will remain in recession.

MEDIAN NEW HOME & RESALE PRICE

The median house price in Clark County dropped 30% between October 2008 and October 2007, a 2-point increase over the 28% decline noted last month. By comparison, the decline over the same month in 2006 and 2007 was 11.8%. On a YTD basis, the median price decreased by $56,396 or by 22.5% from the $250,443 recorded by Home Builders Research in January. For the same period in 2007, the decline was $25,842 or -8.6%. The change between this October and September was -4.2%. Until this indicator also shows a steady rise for at least six months, the housing market will remain chaotic, lengthening the recession in Clark County and Nevada.



The housing market experienced higher absorption this October compared to October 2007. According to HR, there were 3,982 new and resale home closings this October versus the 2,699 in October 2007, a very promising increase of 47.5%. However, on a YTD basis there were only 32,797 closings in 2008 versus 34,949 for the same period in 2007, a 6.5% decline. This was an improvement over the 11% drop recorded this September. The change between this October and this September was a negative 49 units.

FURTHER THOUGHTS

Our four indicators continued to deteriorate in October. The latest from Wall Street is that we can expect three additional waves of bad news in the form of rising default rates for auto loans, credit card and commercial mortgages starting in 2009 and peaking in 2010. For example, according to a recent (November) report released by Fitch Ratings, Nevada has the 3rd highest rate of subprime delinquencies (60+ days) at 46.5% of outstanding loans, following Florida with 50.6% and California with 47.2%. Arizona, the other member of this "exclusive club", was 4th at 42.4%. Our housing crisis will not be solved until the dual issues of negative equity and unemployment are dealt with either by the market or by the Federal government.

On the commercial mortgage front, Fitch also reports that there are $2.6 billion of delinquencies, nationally, out of $442 billion in CMBS issuances, a very small .6%. However, Fitch is expecting the rate of delinquencies to rise, and these delinquencies do not include banks that are holding commercial mortgages that they cannot sell.

The extent of these potential defaults in Southern Nevada is not yet known. Unfortunately, our role in the over-hyped housing market and sub-prime loan debacles is not a good sign. That said, make no mistake about it, Southern Nevada will come out of this mess, albeit with less hubris among all of us. While the economic disquiet of today will be with us for at least the next 12 months, and possibly longer, it does not change the fundamentals of Southern Nevada as a very desirable place to live and work, if and only if, we adjust to the new economic reality, and adjust our business and public policies accordingly.

What do we mean by "policies"? What we mean is an understanding of the importance of the resort and tourism industry as the foundation of our economic prosperity, combined with an appreciation for economic development and diversification to lessen the impacts of future economic downturns. This means investing in the future of our state by adequately investing in our social and economic infrastructure (e.g. business attraction, education, health, transportation). And this means collaboratively agreeing, as citizens of this state, on the type of tax policies are needed to meet these goals.

These policies must not be a disincentive to future investment by the resort industry or to economic development and diversification. They must also provide an adequate level of funding to meet the needs of Nevada's modern society and economy.

While a number of organizations have published "guiding principles" of effective tax policy, the one that comes most to mind states that tax policies should not obstruct or diminish the ability of the economy to remain productive. In other words, not all taxes are "created equal" when it comes to protecting and enhancing the economy. Any tax increases must be accompanied by an effective budget stabilization fund policy, proper tax collection procedures, targeted spending cuts, as well as, accountability/transparency.

This is something we should all keep in mind as the Nevada Legislature meets in 2009 to tackle some of the most complex and daunting issues that Nevada has ever faced.

About the Publication

The data included in our Economic INsightSM are provided by the Nevada Department of Employment, Training & Rehabilitation and Home Builders Research, and analyzed by RCG. There can be up to a two-month lag in the release of some of the data. The job 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 job estimates included herein represented approximately 99% of all jobs in Clark County in October 2008.

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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