



## *The Southern Nevada economy is being restructured*

### *THIS MONTH*

This month's *Economic INsight<sup>SM</sup>* continues to reflect the downward spiral of Southern Nevada's economy. Our four indicators (we have included median house price this month) all continue to worsen. Past business cycles were comparatively more straightforward to assess, because there were some historical precedents for them. But the current cycle's scope and complexity has no equal, at least in modern times. That's why it's so very difficult, if not impossible, to predict its duration or the combination of measures that will stop or even slow the spiral. In essence, the world economy is being restructured before our eyes and the Southern Nevada economy along with it. What is clear is that a new definition of "status quo" is being formulated.

The good news for Southern Nevada is that the business community and public sector are a forward-looking and optimistic bunch that see the current situation as a challenge to be met head on, not a challenge to shrink from.

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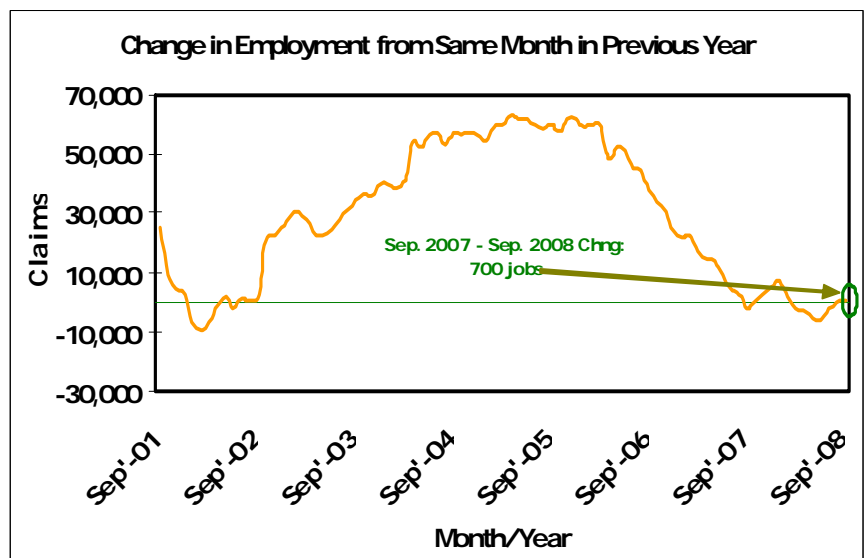
### *TOTAL JOB CHANGE*

In this issue, we note that the state of Nevada recently reported that Clark County saw a rise of some 700 establishment-based jobs this past September compared to September 2007, growing slightly to 924,100 versus September 2007's 923,400 jobs. Additionally, September's jobs were a little (3,900) higher than this August's numbers and primarily the result of school employees coming back to work.

The health of our economy, as reflected in the job market, continues to be impacted by the global financial crisis and the uncertainties regarding the \$700 billion plus bail out/rescue plan. Restrictive lending policies continue to choke investment, acting as major drag on the local and state economies. We continue

to wait anxiously to see to what extent the benefits of the bail out plan "trickle down" to the Las Vegas economy. Our discussions with local bankers indicate that the trickling is just a very slow drip at this time.

On the unemployment front, the officially report rate reached 7.4%, 2.3 percentage points higher than September 2007. This equates to an increase of 45% and is the highest rate seen in Southern Nevada in many years. The U.S. unemployment rate, by contrast was 6.1% at the end of September. Unfortunately, most of the leading indicators do not yet show signs of improvement for the local or national economies.



## JOB CHANGE BY INDUSTRY

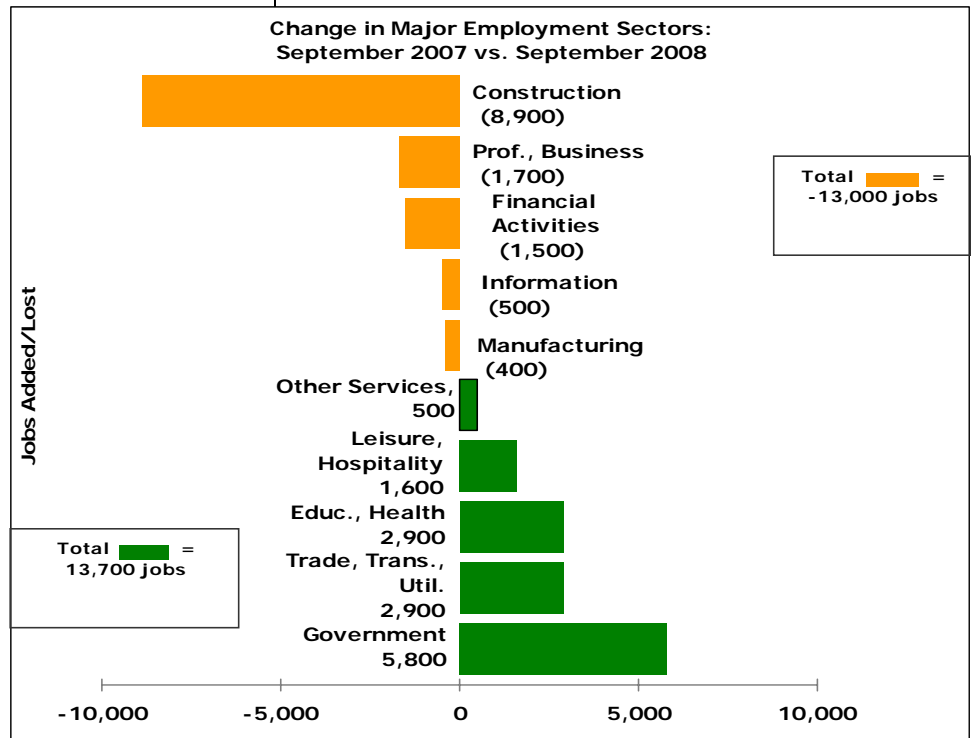
### ANALYSIS

RCG observes in this month's *Economic INsight<sup>SM</sup>* that the current recession is wreaking havoc on Southern Nevada's housing market, particularly as it relates to those industries that offer some of the highest wages, like the Professional and Business Services and Financial Activity sectors.

DETR reported the loss of 13,000 jobs this September in 5 of Clark County's 11 major industries compared to September 2007. Most of these losses were, again, in Construction and Professional and Business Services, followed closely by Financial Activity sectors. On the other hand, there was a gain of 13,700 jobs in 4 of the 11 sectors when comparing the two months.

The largest gains were in the Government (primarily in local education jobs because of the summer break), Trade, Transportation and Utility as well as the Education/Health sectors. Natural Resources and Mining saw no change. As mentioned, the net result was a .1% gain of 700 jobs relative to September 2007, essentially zero growth on a year-over-year basis. Employment growth between August and September of this year was 3,900 or .4%, again mostly due to returning school employees.

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. As we noted in our previous issues, the credit markets are projected to stay very constrained and the Southern

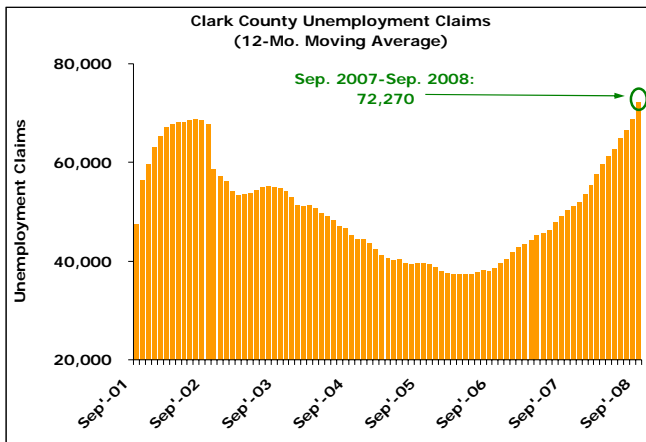


Nevada economy is likely to see very little, if any, growth in 2009 and 2010. We continue to believe that the local economy will not see a sustained recovery until 2011.

## UNEMPLOYMENT CLAIM FILINGS

### ANALYSIS

RCG's September *Economic INsight<sup>SM</sup>*, notes that the state of Nevada recorded 72,270 unemployment claim filings in Clark County during the 12-month period ending September 2008. This was 44% higher than the change recorded between September 2006 and September 2007 (50,178 filings). The September number is 10% above the 40% increase noted this August when compared to August 2007. Clearly, this indicator is continuing to spiral downward, a very worrisome trend, especially since it continues to rise at an increasing rate.

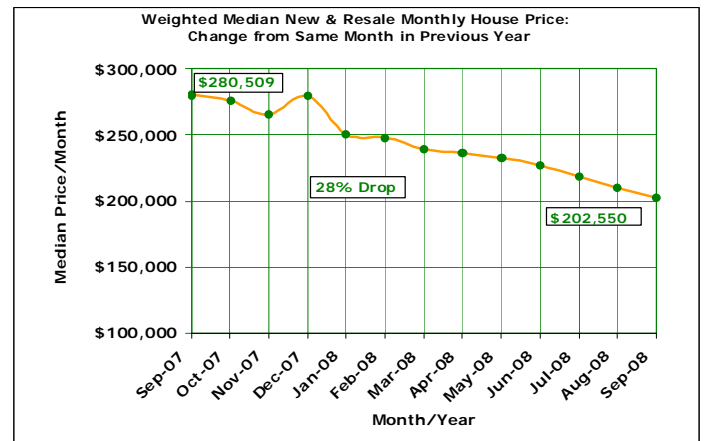


On a year-to-date (“YTD”) basis, 56,057 unemployment claims were filed in Clark County versus 37,434 filings during the same period in 2007, a very troubling 50% rise. This was 5 percentage points higher than what was recorded this August relative to August 2007. Filings also rose by a little over 9% when comparing this September to this August. Until this indicator shows a sustained declining trend for at least two quarters, we will continue to see recessionary Clark County and Nevada economies. This will only occur if capital is allowed to flow into the economy, and the liquidity of the business community and the governmental sector improves.

## MEDIAN NEW HOME & RESALE PRICE

### ANALYSIS

Starting this month, we will be including median house price (new and resales) to RCG's *Economic INsight<sup>SM</sup>*, because it is our very strong belief that until the median house price first stabilizes and then starts showing a persistent (at least 6 months) rise, the Southern Nevada economy will not see a sustained recovery. I wanted to take a moment to thank our colleague and friend, Dennis Smith of Home Builders Research (“HR”), for his generosity in providing us the data used herein.



The median house price in Clark County dropped 28% between September 2008 (\$202,550) and September 2007 (\$280,509). The decline for the same month in 2006 and 2007 was 8.5%. On a YTD basis, the median price decreased by \$47,893 or by 19.1% from the \$250,443 recorded by HR in January. For the same period in 2007, the decline was \$21,469 or -7.1%. The change between this September and August was -3.6%. Until this indicator also shows a steady rise for at least two quarters, we will continue to see the housing market in turmoil, which will prolong the economic recession in Clark County and, subsequently, Nevada.

On the somewhat good news front, the housing market experienced higher sales velocity or absorption this September compared to September 2007. According to HR, there were 4,031 new and resale home closings this September versus to 2,697 in September 2007 resulting in a very healthy 49% rise. However, on a YTD basis there were only 28,815 closings in 2008 versus 32,250 for the same period in 2007, equating to a 11% decline. The change between this September and August was a positive 222 units, from 3,809 to 4,031 closings, respectively.

## FURTHER THOUGHTS

Unfortunately, the four indicators we track have not improved in September. It appears that everyday we hear a litany of bad news from Wall Street and increasingly from Main Street, as the global financial crisis worsens before it gets better. Make no mistake, it will get better. That is the nature of all economic/business cycles. That said, the current crisis will be more protracted than what we have seen in our lifetimes, because of its global nature. Here in Southern Nevada, most measures and indices of economic and business activity continue to fall, some more precipitously than others. Clearly, the malaise that we are seeing today is not going away any time soon even if some of it is due to unwarranted fears.

There is very little doubt that there is unreasonable fear about our future and that this fear has the potential to exacerbate the recession in Southern Nevada. But to say, as I'm hearing more frequently, that our current economic problems are "all the media's fault" shows a complete lack of understanding of today's economic and financial facts. The media can be accused of publishing attention grabbing headlines at times. But to accuse the media of causing recessions is as wrong-headed as crediting it for the economic recoveries that inevitably will follow. We are in an unprecedented recession and no amount of blaming the media will make it any less so. So what have we learned? - That the days of "business as usual" are gone, not only for Southern Nevada but for the U.S. and global economies.

At the end of the day, what will be necessary is a bold plan that not only helps Wall Street but also directly benefits local and state economies. There is general agreement by a growing number of economists that such a plan could include direct assistance to all home owners via interest rate reductions combined with replacement 30-year mortgages, based on the lower housing prices. This assistance could be combined with a massive public investment program to help fix the nation's ailing (also known as economic) infrastructure networks (roads, ports, bridges, rail, electric grid, air travel, hospitals, etc). Such a plan would "put America back to work" by providing jobs, generating capital for businesses and replenishing state and local government treasuries. A recent report co-published by the Urban Land Institute and Ernst & Young estimates that the U.S. has at least a \$170 billion annual infrastructure funding gap.

Such investment is not without its challenges and detractors, it would *not* be a magic bullet; and would be costly and would require a reallocation of resources. But it could be part of an integrated solution that could help mitigate the length and intensity of the recession by restoring confidence and improving America's competitiveness in the long term.

Accordingly, this month, I'm reminded of another notable quote. This one by Albert Einstein:

***"We can't solve problems by using the same kind of thinking we used when we created them."***

**ABOUT THE PUBLICATION**

*Starting this month, Restrepo Consulting Group LLC ("RCG"), Economic INsight<sup>SM</sup> report will track the current health of the Clark County (Las Vegas-Paradise MSA) economy using four major annual indicators – changes in: establishment-based jobs (coincident indicator), the same jobs by major industry (coincident indicator), unemployment claim filings (leading indicator) and median monthly housing (new and resale) prices (leading indicator). The data included in our Economic INsight<sup>SM</sup> are provided by the Nevada Department of Employment, Training & Rehabilitation ("DETR") and analyzed by RCG. There is typically a two-month lag in the release of some of the data by DETR. 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 jobs estimates included herein represented approximately 99% of all jobs in Clark County in September 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, modeling, market analysis, database management to assist its clients. RCG has prepared numerous demographic assessments, highest and best use studies, market analyses, and regional economic reports. The firm's other services lines include financial advisory services, 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:

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