

Economic INsightSM

MAY 2009

Volume 2, Issue 5

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Las Vegas Economy Struggles, but National Economy Shows Signs of Stabilizing

THIS MONTH

We report in this month's *Economic INsightSM* that our 4 indicators continued to worsen at varying degrees. Southern Nevada's economic problems persisted in April - the 17th month of recession. There is a spotty consensus among by economists and other observers that the national economy will start to see an end to the recession in late-2009 or early-2010. However, there is very little consensus about *when* the national economy will see a sustained recovery. While consumer confidence improved considerably from March, according to the Conference Board (40.8 (1985=100) in April vs. 26.9 in March), the concerns we noted last month remain - housing interest rate resets, automobile loan and credit card problems and commercial real estate defaults.

"In some sense we may be past the worst, but there is a big difference between stabilizing and actually making up the lost ground." - Paul Krugman

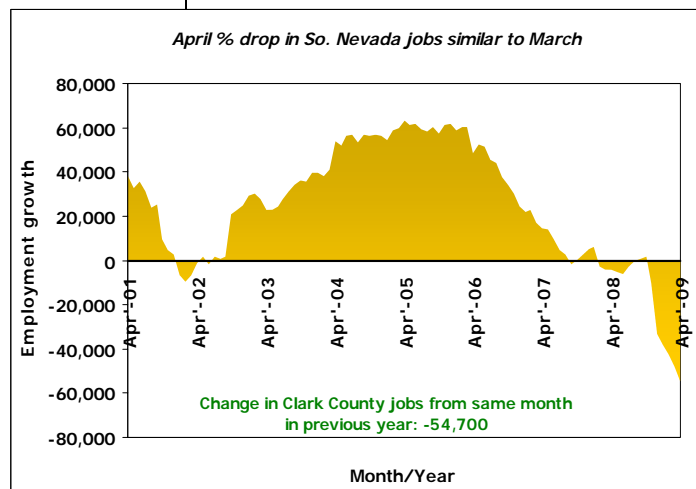
TOTAL JOB CHANGE

In April, the Nevada Department of Employment, Training and Rehabilitation ("DETR") reported that Clark County had a net job loss of 54,700 establishment-based jobs compared to April 2008, dropping 5.9% to 871,400. This drop broke another record in April relative to the trend over the last 8 years. Additionally, there were 4,200 fewer jobs recorded in April compared to this March - the February-March decline was 3,000. However, we should note that April's establishment-based job estimate was 181,600 higher than that recorded in April 2000 (689,800 jobs). So on a net basis, more jobs have been created in Clark County in the last 8+ years than have been lost.

Regarding Clark County's unemployment rate, the official report estimate was 10.4% in April, the same as March, but a more than doubling of the 5% recorded in April 2008. Again, our research indicates that Clark County's actual rate is substantially higher, if discouraged and forced part time workers are included.

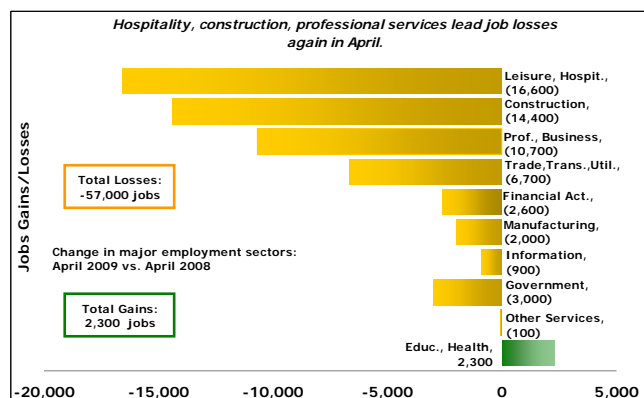
In April, the Nevada unemployment rate was also 10.6%, with the U.S. rate was 8.9%.

The County's labor force was 1,007,100 in April, down by .42% from March's 1,002,900 persons, and up by 3% from April 2008's 976,900 job seekers. We have already discussed the reasons - college graduates entering the job market; retirees returning to work, because of financial need; non-working spouses seeking work to help the family; and population growth.



JOB CHANGE BY INDUSTRY

The DETR reported the loss of 57,000 jobs in 9 of the 11 major employment sectors this April compared to April 2008. Leisure and Hospitality, Construction and Professional and Business Services continued to lead. Government finally joined the group with job losses, with a drop of 400 employees. Resource jobs remained unchanged again.

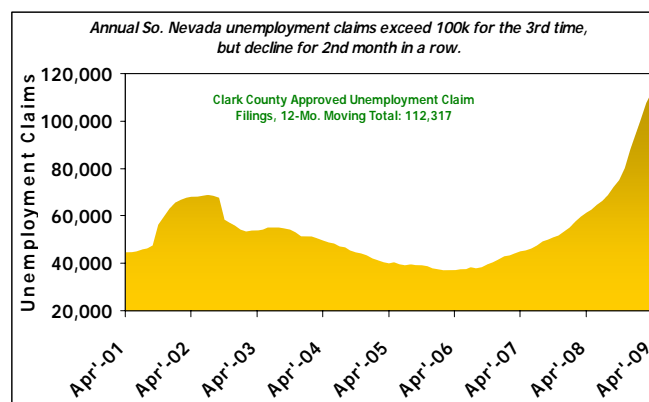


Note: Natural Resources saw no change.

This April, 2,300 jobs were added in 1 of the 11 sectors, year-over-year. As mentioned, the result was a net job loss of 54,700 jobs versus April 2008. The single gain was 3.5% over April 2008 in Education (includes private colleges like the University of Phoenix) and Health employment.

UNEMPLOYMENT CLAIM FILINGS

The State of Nevada recorded more than 112,000 approved unemployment claim filings in Clark County during the 12-month period ending April 2009. Approved claims have historically represented approximately 50-60% of claims filed in any one month. This is the 3rd month in a row that Southern Nevada saw annual approved claims exceeding 100,000. This equated to the largest year-Over-year increase (83%) in the last 8+ years.



Once again, until this indicator shows a persistent decline (of at least 6 months), the state and local economies will remain in recession. The significant problems plaguing the Southern Nevada resort industry will, in our opinion, continue to put upward pressure on monthly unemployment claim filings in 2009 and 2010.

The good news: April's approved filings of 10,270 were 18% lower than March's 12,513 filings. This is the second month in a row that we saw approved claims drop, an encouraging sign for Clark County's job market.

MEDIAN NEW HOME & RESALE PRICE

April estimates released by Home Builders Research ("HBR") show another 43% drop in the median resale home price and 16% in the median new home price in Clark County, when comparing April 2009 to April 2008. The median home price for new homes and resales combined was \$137,354 in April, a 33% drop from April of 2008, just above the April 2000 estimate of \$136,157. Once again, at least 6 months of price increases are needed for a sustained rebound. That said, it is good news that the rate of decline in new home price moderated this month.

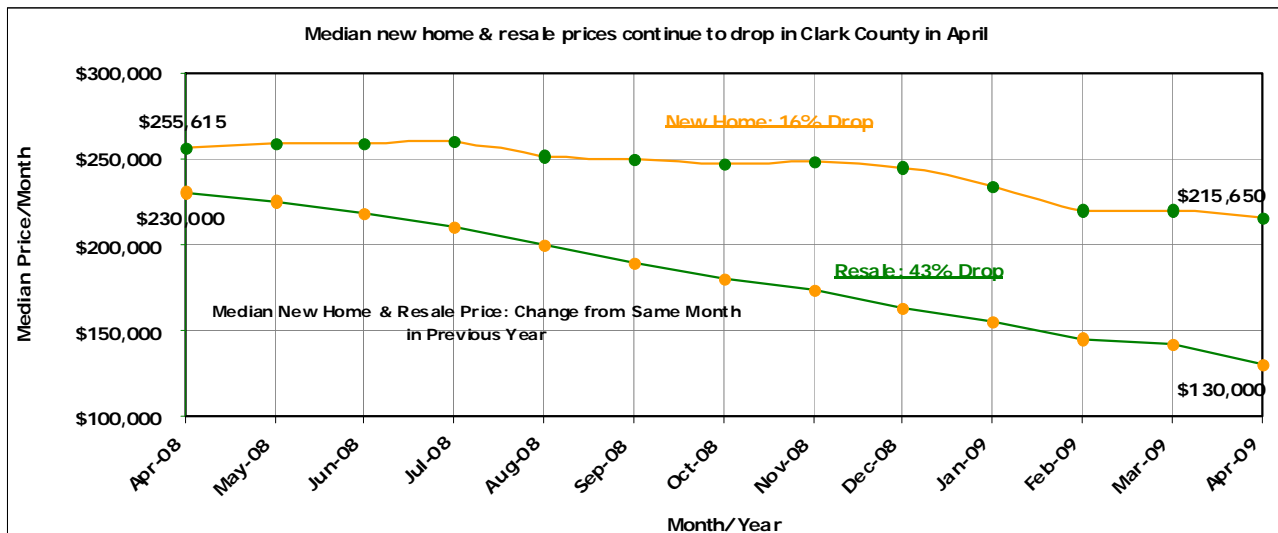
As we have noted, the one bright spot is that housing affordability has improved considerably. April's median new home price of \$215,650 is just above the February 2004 estimate of \$210,795. In the case of resales, April's price of \$130,000 is now the same as December 2000. As we have noted, in the long-term, a return to affordability is very important to our local economy. However, in the short to intermediate-terms, it is very traumatic to consumer and business confidence.

HBR also reported 3,652 resale home closings this April versus 2,247 in April 2008, a jump of 63%. However, SalesTraq noted that foreclosures accounted for 62% of home sales in April, affecting home prices.

Additionally, according to SalesTraq, there were 2,521 sales of bank-owned homes in April, almost double the 1,289 purchases by banks. The result was a foreclosure inventory of 14,722 for the month. While we continue to see a decline in the median price, the good news is that overall monthly absorption has improved dramatically.

In the case of new home closings, there were 343 units sold this March versus 749 in April 2008, a 54% drop, and 11 points higher than March's decline. This is largely a function of the size of the resale inventory and dramatic drop in new home construction. Additionally, total home sales for the 12 months ending this April were 42,824 compared to the 35,641 during 12 months ending April 2008, a very healthy rise of 17%, and similar to last month's change.

The elimination of unsold inventory is critical to the return of price stability as long as we recognize that not all purchases are of equal value to the market. What are needed are more purchases by homeowners, not just purchases by investors and speculators. Homeowner purchases will gain strength as the job market improves.



FURTHER THOUGHTS

Economist Paul Krugman recently said, "In some sense we may be past the worst, but there is a big difference between stabilizing and actually making up the lost ground." He is absolutely right – with the critical phrase being "making up the lost ground". A few examples:

- Real gross domestic product ("GDP") dropped at a yearly rate of 6.1% in Q1, according to the U.S. Commerce Department, almost as severe as the 6.3% drop in Q4, 2008. This two-quarter contraction was one of the worst declines since World War II. While consumer spending saw a bit of recovery during the first quarter, the collapse of business spending was the primary reason for the GDP drop.
- According to a recent Wall Street Journal article, "Commercial real-estate loans could generate losses of \$100 billion by the end of next year at more than 900 small and midsize U.S. banks if the economy's woes deepen." According to Real Capital Analytics Inc., delinquent loans increased by 43% in Q1, 2009 to \$65.9 billion. This equates to jump of 43% up from \$46 billion estimated at the end of 2008.
- As we noted last month, this April marks the 17th month of the recession, making it the second longest downturn in modern times. According to the Bureau of Labor Statistics, "Non-farm payroll employment continued to decline in April (-539,000), and the unemployment rate rose from 8.5 to 8.9 percent. Since the recession began in December 2007, 5.7 million jobs have been lost. In April, job losses were large and widespread across nearly all major private-sector industries. Overall, private sector employment fell by 611,000."

At a national level, the contraction of the economy appears to be slowing. However, recovery could be hampered by certain core indicators. While we might be seeing a gradual recovery, nationally, the over-capacity in the economy is not likely to be eliminated quickly. In our opinion, companies will begin hiring again at a snail's pace, causing the unemployment rate to stay above recent historical norms for some time, even after GDP growth returns. That said, consumer confidence

definitely improved considerably since March according to The Conference Board (54.9-May, 40.8 - April and 26.9 - March). According to The Conference Board, the May number is the highest since September 2008 (61.4).

What does this mean for Nevada, and Southern Nevada, in particular? It's a mixed message, and we will have to wait until the 3rd quarter to see the impact of these national trends – the good and the bad.

There is one major event at the state level that will have a significant impact to the state and local economies. It is the passage of the largest tax increase in the state's history. The tax package recently approved at the legislature is nearly \$1 billion dollars. Historic reforms to public employee benefits (retirement and medical), an improved level of transparency to the collective bargaining process and a much needed revamping of the state's "rainy day" fund formula have accompanied it.

These are all good things for the Southern Nevada economy. Some will say, "Taxes are never good during a recession." However, the nature of the current recession does not make it possible to cut our way to prosperity. The impact of double-digit cuts to health care, education and social assistance would be too severe to the quality of life of our community.

The consensus among a number of prominent economists around the country, combined with the historical record, is that well thought-out tax increases during a recession are less harmful to the economy than severe tax cuts alone. The fact is that government spending can help mitigate the impacts on those individuals and families hurt by the recession, such as health coverage, housing assistance and gaining entry to college.

Additionally, what is often ignored by the opponents of tax increases is that government, through its spending and that of its employees, provides much needed economic activity to those businesses selling products and services to government, and by the purchases of public employees in the local economy. And, remember, this activity "multiplies" through economy. While there is credible research that indicates that private spending generates a higher multiplier than government spending, the point is that there is very little private spending occurring today, because of the nature of this recession.

So, essentially, what might be considered a small multiplier, as indicated by the research, say \$.50 for each \$1 of government spending, is better than nothing.

As we said before, Nevada is at a point in its history that sound bites on taxes, not supported by unbiased and objective research, should not pass for sound public policy.

What is our list of April “indicators to watch” in 2009? We will add and subtract from the list each month as necessary:

1. 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. According to Real Capital Analytics (April 2009), 26% of commercial projects (including resorts) in Las Vegas are in trouble. Apartment complexes appear to be experiencing the most difficulty. Troubled commercial real estate assets in Las Vegas jumped from \$4.7 billion in early 2008 to a minimum of \$8.1 billion in April, or by 72%, according to the firm.
2. We still hold that deflation is of greater concern than inflation, because of the excess capacity in the economy, and the fact that lenders are not lending, even those banks that have received federal stimulus money.
3. Our resort industry appears to have avoided the major restructurings in 2009 that were initially expected at the beginning of the year.
4. The rates of new home and resale closings have been improving each month since March 2008, and we expect this to continue through 2009, because of historically low interest rates. This will go a long way in stabilizing home prices, but we still need more primary homeowners.
5. Oil prices are starting to rise again, recently closing above \$65 per barrel. OPEC is now standing firm on production levels. Oil prices have nearly doubled since the start of 2009. Even though a huge glut of oil remains, it

appears that OPEC believes that there are signs of an upturn in the global economy.

6. As noted above, Nevadans will see the highest tax increase (\$981 million) and greatest spending cuts in its history, based on recent legislative decisions. However, this was not achieved by a cohesive and systematic approach to restructuring the state’s tax system to reflect today’s economy. Hopefully, the 2011 session will be the one where our tax structure is systematically redesigned.
7. As we have repeatedly written, Las Vegas and Nevada will not see a “V” shaped recovery this time around. Again, it’s all about job growth. And a sustained recovery is not likely to be seen in Southern Nevada until sometime in 2011 - assuming the job market improves dramatically.

ABOUT THE PUBLICATION

The data included in our Economic INsightSM 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 96.6% of all jobs in Clark County in April 2009.

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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. RCG 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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