Economic INsight℠

JUNE 2009 **Volume 2, Issue 6**

RESTREPO CONSULTING GROUP LLC

Las Vegas Economy Slogs On and National Economy Shows Mixed Performance

THIS MONTH

We report in this month's *Economic INsight℠* that our 4 indicators continued to worsen at varying rates. Southern Nevada's economic problems persisted in May - the 18th month of recession. There is a spotty consensus among 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 or if it will be a "jobless recovery". The June Consumer Confidence Index from the Conference Board dropped by 10% from May (49.3 (1985=100) vs. 54.8 in May), largely due to major concerns about jobs and personal incomes. Also, from a spending standpoint, it also doesn't help that the personal savings rate reached a 15-year high of 6.9% in May.

> *"…Creates an ongoing cycle that, hopefully, is more sustainable than we saw during Las Vegas' "gilded age" of 1995-2005."*

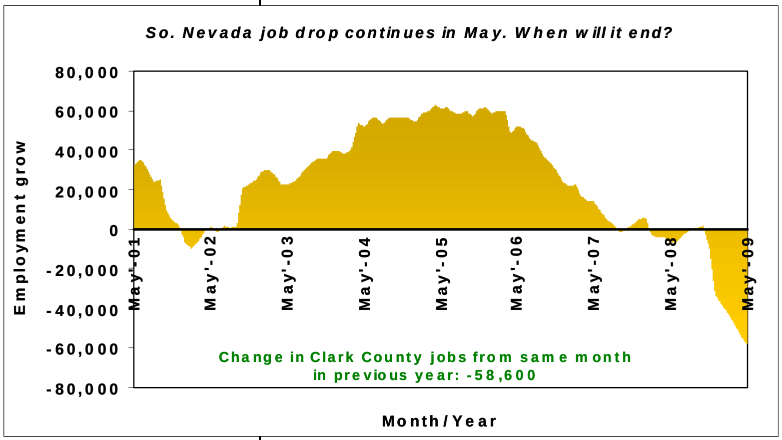
TOTAL JOB CHANGE

In May, DETR reported that Clark County had a net job loss of 58,600 establishment-based jobs compared to May 2008, dropping 6.3% to 871,200. This set another year-over-year record. Additionally, there were 300 fewer jobs recorded in May compared to this past April. The good, even great news was that this represented a major improvement over the March-April decline of 4,100 jobs.

One month does not make a trend, but it is definitely a hopeful sign. We also note that May's jobs were 172,000 higher than that recorded in May 2000 (699,200 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 reported estimate was 11.1% in May, higher than April, and almost double the 5.7% recorded in May 2008. Our research and anecdotal information indicate that Clark County's actual rate is 3 to 5 points higher, if discouraged and forced part time workers are included. In May, the Nevada unemployment rate was 11.3% and the U.S. rate was 9.4%.

The County's labor force was 1,012,900 in May, up by .62% from April's 1,006,600 persons, and up by 3% from May 2008's 982,600 job seekers. There are several reasons for this growth- college graduates entering the job market; retirees returning to work, because of financial need; non-working spouses seeking work to help their families; and population growth via in-migration, such as it is.



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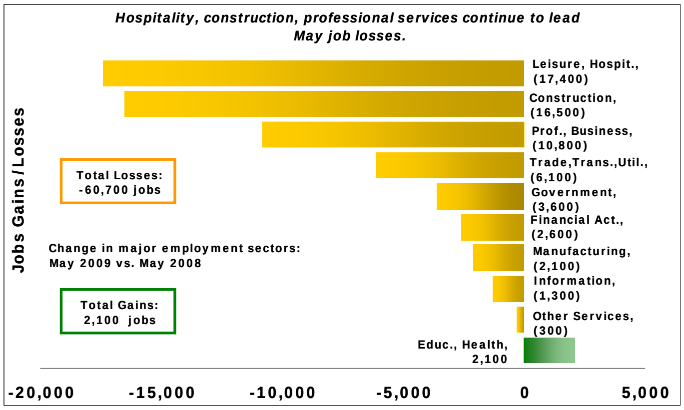
Job Change by Industry

Job losses occurred in 9 of the 11 major employment sectors this May compared to May 2008. The single gain was 3.2% (2,100 jobs) in Education (includes private colleges like the University of Phoenix) and Health employment. Natural Resource jobs continued to remain stable.



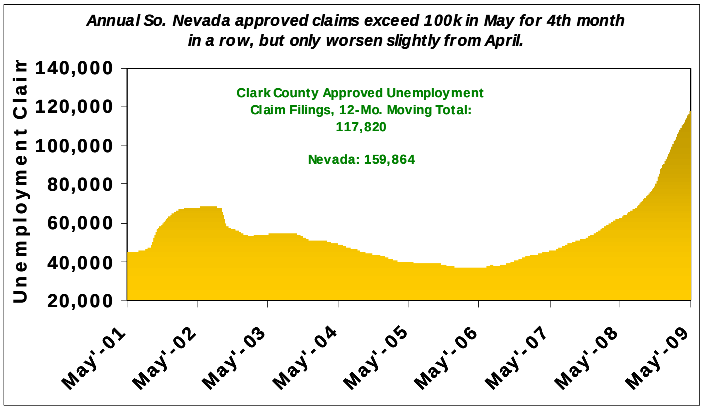
Note: Natural Resources saw no change.

Leisure and Hospitality (-6.3%), Construction (-17.3%) and Professional and Business Services (-9.3%) continued to lead in these losses. The problems in these 3 industries are not abating in any meaningful way and they continue to have a material impact on the remainder of the economy.

Approved Unemployment Claim Filings ("First Payments")

The State of Nevada recorded nearly 118,000 approved unemployment claim filings ("first payments") in Clark County during the 12-month period ending May 2009. This represented 79% of state's approved claims for the period. May was the 4th month in a row that Southern Nevada saw annual approved claims exceeding 100,000. This equated to the largest annualized (12 months ending in May) increase of 88% in the last 8+ years. The same annual change for the state was 79%. When comparing May 2008 to May 2009, the change was 104% for Clark County and 91% for the state.

The significant problems plaguing the Southern Nevada resort, construction and professional services industry, especially, will, in our opinion, continue to put upward pressure on job losses well into 2010.



For the month: May's approved filings of 10,772 for Clark County were 5% above April's 10,270 filings, and a reversal of the March-April 18% decline. Approved filings for Nevada were down 1.5% from the 13,854 recorded in April to 13,642 in May.

MEDIAN NEW HOME & RESALE PRICE

May estimates released by Home Builders Research ("HBR") show a 42% drop in the median resale home price and 18% in the median new home price in Clark County, when comparing May 2009 to May 2008. The median home price for new homes and resales combined was $137,666 in May, a 41% drop from May 2008, just below the February 2000 estimate of $138,183. 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.

Housing affordability continues to improve - dramatically. May's median new home price of $212,990 is just above the February 2004 estimate of $210,795. In the case of resales, May's price of $130,000 is now the same as December 2000 and remained unchanged from April. The march toward affordability is very important to our local economy. However, in the short to intermediate-terms, it is very traumatic to consumer and business confidence.

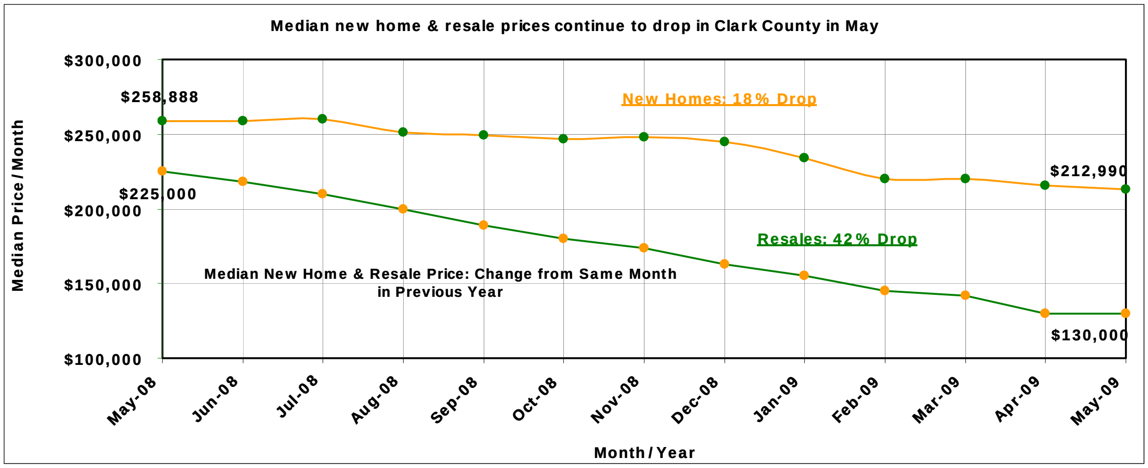
HBR also reported 3,714 resale home closings this May versus 2,606 in May 2008, a jump of 43%. According to the Greater Las Vegas Association of Realtors ("GLVAR"), the number of homes listed for sale in May declined by 1.6% to 27,390 from the 27,836 listings recorded in April. The inventory of listings is down 9.3% from May 2008. Additionally, according to GLVAR, "If prices drop any lower . . . it will be driven largely by bank-owned properties, which account for about 80 percent of all existing home sales in Southern Nevada today."

A total of 5,310 new listings were also added to the MLS in May, reflecting a 1.2% drop from this April and a 14% drop compared May 2008.

In the case of new home closings, there were 378 units sold this May versus 734 in May 2008, a 49% drop, and 5 points higher than April'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 May were 43,576 compared to the 35,043 during 12 months ending May 2008, a very healthy rise of 24%, and 7 points above last month's change. Clearly, the burning off of inventory is a precondition to a return to price stabilization even if many buyers are investors.

That said, purchases by homeowners are preferred, which will gain strength as the job market improves.

Note: The Case-Shiller Index for Las Vegas has declined by 10.5% since the beginning of the year (January-April), while the 20-city average tracked by the Index declined by 5%. According to 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."



FURTHER THOUGHTS

The national economic indicators were decidedly mixed in June, while our 4 local indicators for (the May numbers are the latest) continued to worsen. Here is what is happening on the national front:

- According to the Bureau of Labor Statistics, "Nonfarm payroll employment continued to decline in June (-467,000), and the unemployment rate was little changed at 9.5 percent, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. Job losses were widespread across the major industry sectors, with large declines occurring in manufacturing, professional and business services, and construction." The loss in May was 322,000 (revised). So the improvement we saw in April has now been reversed, reflecting the fluidity of the national situation. Since the recession began in December 2007, the economy has seen a net loss of 6.5 million jobs. What will the July numbers show?

- The Institute of Supply Management ("ISM") reported that its June Non-Manufacturing Index ('the NMI") was 47%, a 3-point spike above the 44% noted in May. According to the ISM, the index showed a "contraction in the non-manufacturing sector for the ninth consecutive month, but at a slower rate." The ISM also reported that its Manufacturing index rose to 44.8% in June from 42.8% in May. Per the ISM, "Manufacturing continues to contract at a slower rate, but the trends in the indexes are encouraging as seven of 18 industries reported growth in June." (Note: A rating above 50% reflects growth. A rating under 50% equates to contraction and below 50% suggests a balance between companies reporting advances and declines.)

- Per Reuters and the University of Michigan, their Consumer Sentiment Index improved ever so slightly in June. The Index increased to 70.8, up 1.9 points from May. The Index had jumped almost 4 points in May and nearly 8 points in April. Again, we are seeing consumers taking two steps forward and one back regarding how they feel about what is happening. We suspect that the dour June employment numbers will not help the Index in July.

- As previously noted, the June Consumer Confidence Index from the Conference Board dropped by 10% from May (49.3 (1985=100) vs. 54.8 in May), largely due to major concerns about jobs and personal incomes. Also, from a spending standpoint, it also doesn't help that the personal savings rate reached a 15-year high of 6.9% in May.

- In the opinion of many economists, the specter of deflation has not gone away.

- There is a growing probability that a second stimulus package will be needed late this year or the Spring of 2010. Unfortunately, the Obama administration's forecast of how much the current package would help the job market in 2009 was too optimistic. The administration thought that the stimulus would limit the employment rate to 8% by the end of this year. It just ended at 9.5% in June, as noted above.

- Oil prices at the end of June were around $72 (the benchmark for August delivery) per barrel. A return to last summer's relatively high prices are not expected, because the recent reporting of major job loss numbers in Europe and the U.S. The International Monetary Fund downgraded its global growth projections in June – indicating that the world will use less crude oil over the next few years. However, there is growing demand by the developing world for crude oil. By some accounts, these countries contain 66% of the globe's population. They are also undergoing the most rapid and largest industrial revolution in history. So, oil prices appear to be on a long-term path to potentially large increases. The full impacts on the American traveling public have yet to be seen.

Again, what do these trends mean for Southern Nevada? More mixed signals. Now our current list of "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, the minimum amount of troubled commercial property in Las Vegas at the end of June was $9.7 billion. Real Capital includes a variety of assets its research – "... assets with mortgages currently in default or foreclosure, those restructured/modified, or those already Lender REO. In general, commercial properties in our research are those valued at $2.5 mil. or more."

2. The rates of new home and resale closings improved again in June and for most months since February 2008, although interest rates are starting to rise again. This will go a long way in stabilizing home prices, but we still need more primary homeowners. However, to-date the Federal government's efforts at stimulating the economy by stabilizing the housing market have done nothing to help Southern Nevada and the other members of the "bubbles on steroid" club like Arizona, Florida and Southern California. Furthermore, we see no evidence that homeowners in these areas with mortgages that are more than 5% above their current home values will get any help.

3. The good news: at least in the short term gasoline prices in Las Vegas will be getting cheaper; the bad news: its largely do the weak economy and job market. According to AAA, the recent price of regular gas was $2.672 per barrel compared to $4.25 last year at this time. AAA also notes: "On the domestic side, one key factor impacting retail gasoline prices will be summer domestic demand, which may be muted this year when compared to previous years. For example, according to AAA projections, Fourth of July motorist travel will see a 2.8% dip this year when compared to 2008 levels."

4. Unfortunately, Nevada is continuing to see general fund shortfalls, which we don't think will abate much, if at all, during the current or next fiscal year. Also, equally distressing is that most of the fiscal stimulus emanating from Washington toward the states will be temporary. Some of the public policy research indicates that, historically, state tax revenues (nationwide) declined precipitously for two+ years after a recession before a recovery was experienced. Additionally, the research also shows that it took more than 5 years for state tax revenues to return to their pre-recessionary highs after the last two recessions (1990 and 2001). While the research was focused on national trends, it still is applicable to what could happen in Nevada.

5. As we say, once again, Las Vegas and Nevada will not see a **"V"** shaped recovery this time around. Our economy and community are fundamentally being changed by the Great Recession. A sustainable recovery is not likely to be seen in Southern Nevada until sometime in 2011 - assuming the job market turns around dramatically. Essentially, it is a relatively straight forward process (opinions differ on the sequence):

    - *Global job growth, especially in the U.S. rest of the developed world = improved personal income, which*
    - *Generates world-wide consumer confidence and spending, which*
    - *Enhances the performance of the Southern Nevada resort industry, which*
    - *Starts the recovery of our economy's other sectors, which*
    - *Brings back local job growth and consumer spending, which*
    - *Improves real estate prices and values, which*
    - *Encourages more lending, which*
    - *Increases business investment (including the resort industry), which*
    - *Creates an on-going cycle that, hopefully, is more sustainable then we saw during Las Vegas' "gilded age" of 1995-2005.*

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 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 96.8% of all jobs in Clark County in May 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 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.

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