



2008 was a Year for the History Books and so will 2009

THIS MONTH

2008 was a year to forget relative to the Southern Nevada economy. We report in this month's *Economic INsightSM* that our 4 indicators continued to plummet. Our economy keeps being assaulted by bleak economic and financial news. Every day brings a growing list of companies from around the country announcing massive lay-offs. The bottom can't be reached fast enough for many in our business community so that they can, at least, start seeing some daylight. By most accounts, the likelihood that the Federal "shot in the arm" will quickly bring our local and the state economies back to health sometime in 2009 is nil. As one of our clients grimly said recently, "It is what it is. And no amount of denial will change that fact."

"It was the best of times, it was the worst of times . . ."

- Charles Dickens, "A Tale of Two Cities"

TOTAL JOB CHANGE

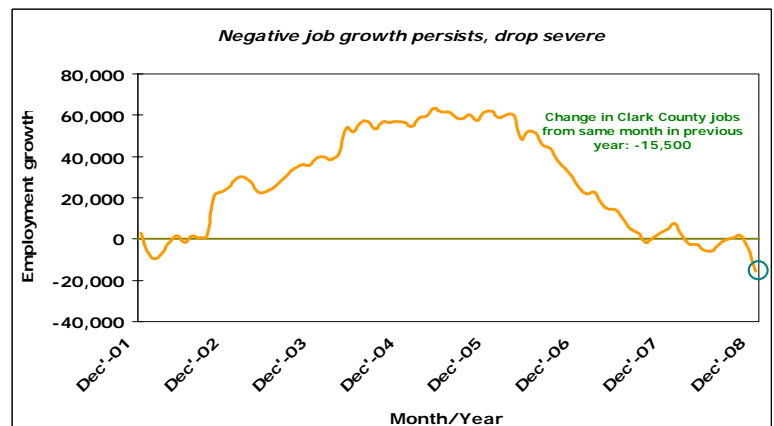
In December, the State of Nevada reported that Clark County shed 15,500 establishment-based jobs compared to December 2007, dropping 2% to 917,400. Additionally, November's jobs were 4,600 lower than this November's numbers.

In December, the Clark County economy continued to be severely impacted by the recession, which was in its 12th month. The ongoing collapse of consumer spending and business investment progressed unabated, further deepening the Clark County and Nevada recessions. On a national basis, nearly 55,000 jobs were cut in the last 10 days in a variety of companies and industries. Companies making job cuts recently include Caterpillar with 20,000 losses, Pfizer with 8,000, Sprint Nextel with 8,000, Home Depot with 7,000, General Motors with 2,000, Starbucks with 6,000 and Texas Instruments with 3,400. The U.S. economy has lost nearly 3 million jobs since the recession began in December 2007, and unemployment

spiked to 7.2% in December. Some economists are concerned that around 600,000 jobs are being shed monthly.

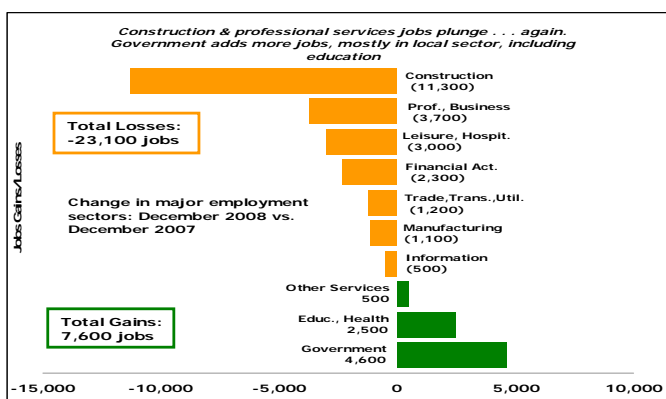
The major question remains: How long will it take for the \$800 billion plus stimulus packages emanating from Washington benefit us here in Southern Nevada? Some say by the end of 2009. Unfortunately, the data and trends don't support this thus far.

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 actual rate is around 12%.



JOB CHANGE BY INDUSTRY

The Nevada Department of Employment, Training and Rehabilitation (“DETR”) reported the loss of 23,100 jobs in 6 of the 11 major employment sectors compared to December 2007. This is worse than the 13,600-job loss posted this past November versus November 2007. Most of these losses were in Construction and Professional and Business Services followed by Financial Activities, Manufacturing and Information Services. Natural Resource jobs remained the same.



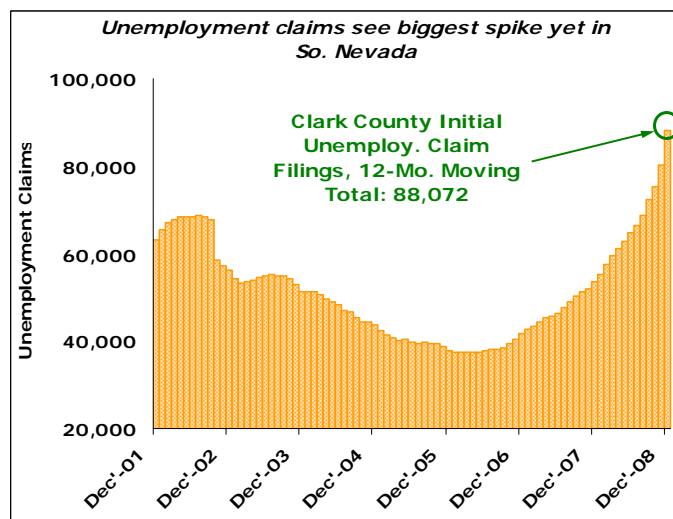
On the other hand, there was a gain of 7,600 jobs in 4 of the 11 sectors, year-over-year. The largest gains were in the Government (primarily in local government, including the Clark County School District) and Education and Health; followed by Leisure and Hospitality; Trade, Transportation and Utilities; and the Other Services. As noted, the result was a net job loss of 15,500 jobs relative to November 2007. In the case of Government employment, there were 4,600 additional jobs, representing 61% of the job gains.

As noted above, the global economic and financial crisis has worsened considerably since last month’s issue. The credit markets remain comatose and the Southern Nevada economy will be adversely impacted by this in 2009 and probably into late-2010. Our opinion remains unchanged: the local economy will not see a sustained recovery until 2011, especially if the wave of commercial real estate foreclosures, as well as auto loan, student loan and credit card defaults start happening in mid-2008 like many analysts expect.

UNEMPLOYMENT CLAIM FILINGS

The State of Nevada recorded 88,072 initial unemployment claim filings in Clark County during the 12-month period ending December 2008. This was 64% higher than the change recorded between January and December 2007 (53,647 filings). The year-over-year change in December was also higher than the 54% year-over-year increase noted this past November. The continued spiking of this critically important indicator remains a major drag on the recovery of the Southern Nevada economy. Until this indicator shows a sustained decline (of at least 6 months), the Clark County and Nevada economies will remain in a deep recession.

At this point, it does not appear that the Federal stimulus will benefit Southern Nevada sufficiently to stem the tide of massive job losses at least in 2009. Based on the back and forth we are seeing in Washington, combined with the actual process of releasing trillions of Federal dollars into the economy, to believe that a quick fix to the employment situation in Clark County is at hand is a pipe dream.



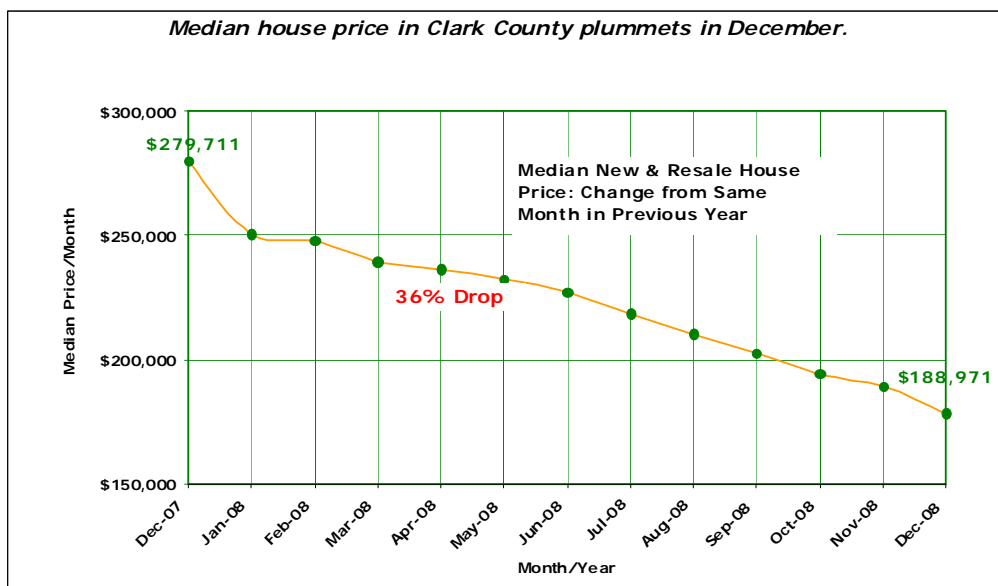
MEDIAN NEW HOME & RESALE PRICE

The median house price in Clark County dropped 36% between December 2007 and December 2008, a 7-point plunge over the 29% falling off noted last month. By comparison, the decline between December 2006 and December 2007 was 7%. On a YTD basis, the median price plunged by \$72,169 or by 29% from the \$250,443 recorded by Home Builders Research in January. For the same period in 2007, the drop was -\$22,267 or -7.4%. The change between this December and November was -5.7%, a deterioration over last month. As noted previously, until this all-important indicator shows an upturn of at least 6 months, the housing market will remain extremely weak, prolonging our recession.

Conversely, this decline has made the housing market more affordable since December's median house price is back to 2003's median of \$178,217. Essentially, 5 years of "frothy" paper equity has been wiped-out by the housing market crash. In the long term, a return to some level of affordability is positive for the economy, because it can assist in the region's economic diversification. However, in the short to intermediate-terms, it is still traumatic to the market, because of the large amount of negative equity generated by such a correction.

The housing market experienced somewhat higher absorption this November compared to December 2007. According to HR, there were 3,672 new and resale home closings this December versus the 2,574 in December 2007, a very healthy rise of 43%. On a YTD basis, there were 39,630 closings in 2008 versus 40,319 for the same period in 2007, a very slight drop of 2%. This is a very welcome improvement to the 5% fall recorded in November.

The change between November and December was a positive absorption of 511 units, also a very good sign for the market compared to the October-November drop of 821 units. So, month-over-month absorption is showing signs of life, largely due to investor/speculator interest.



FURTHER THOUGHTS

It seems fitting as we put 2008 behind us, finally, to quote from “A Tale of Two Cities”, Charles Dickens’ famous novel regarding 2008, “*It was the best of times, it was the worst of times . . .*” Clearly, 2008 was a year to remember *and* to forget. 2008 will likely be recorded as the first year of a recession likely to be the most protracted since the Great Depression, which lasted about 43 months. The current recession is 13 months old and counting, putting it on the road to being 4th longest in modern times by the end of February. If it continues through 2009, it will become the second most severe downturn since the Great Depression. As we have repeatedly noted, consumer and business confidence and spending continues to plummet, further dragging down the Clark County and Nevada economies. And the dismal employment news isn’t helping.

As we mentioned, nearly 55,000 jobs were cut in the last 10 days in a variety of companies and industries. And the U.S. economy has lost nearly 3 million jobs since the recession began in December 2007. Some economists are concerned that around 600,000 jobs are being shed monthly.

According to the latest estimates emanating from the House of Representatives, the Nevada share of the \$819 billion stimulus package is approximately \$4.3 billion (currently) for a variety of needs, including \$253 million for transportation projects. There is likely to be more money for Nevada, but it has to apply for a variety of programs to get the money (e.g., Community Services Block Grants). There is also the Head Start program, which the Congress deemed too difficult to allocate to each state.

So what do we expect to see in 2009?

1. The Clark County and Nevada recessions will continue through 2009 and into 2010.
2. By the end of 2009, the recently announced \$819 billion stimulus package could reach \$1 trillion.
3. The Federal Reserve will continue reducing interest rates.

4. Deflation could become the major concern, not inflation, because of the disintegration of consumer spending and business investment. This could seriously impact the state’s gaming industry.
5. Oil and other commodity prices will continue to plummet, because of the worsening global economic outlook, while bringing relief to Nevada residents.
6. In Nevada, we will likely see higher taxes, further spending cuts, a more effective budget stabilization fund created, a decline in the level of public services and a range of tax exemptions eliminated or reduced when the Legislature convenes this session.

As we previously noted, it is unlikely that our local economy will return to heady days of the late-1990s and early-2000s for some time, if ever. While some Southern Nevadans believe the stimulus package will be a quick shot in the arm to our anemic economy, we think that’s unlikely.

Remember, even the designers of the package do not agree on how quickly the benefits will be felt, or what combination of fiscal or monetary policies will be most effective. Accordingly, the most prudent course for our local business community to take should be one based on building liquidity and reserves to prepare it for the imminent recovery. As we’ve repeatedly written, Las Vegas and Nevada have a long history of bouncing back from economic downturns. It’s just that this recovery will not be “V” shaped, it will be more of a Nike-style “swoosh”.

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 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 December 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. 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.

Contact Us:

Restrepo Consulting Group LLC
3960 Howard Hughes Parkway
Suite 130
Las Vegas, NV 89169
Phone: (702) 967-3188
Fax: (702) 967-3196
Email: info@rcg1.com

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