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ECONOMIC OVERVIEW: MAY 2009

	UNEMPLOYMENT RATES			JOB GROWTH RATES		
	May '09[1]	May '08	Apr '09	May '09[1]	May '08	Apr '09
Nevada[2]	11.3%	6.1%	10.6%	(6.3)%	(1.4)%	(6.1)%
Las Vegas-Paradise MSA[3]	11.1	5.7	10.4	(6.3)	(0.7)	(5.9)
Reno-Sparks MSA[3]	11.2	6.0	11.0	(8.3)	(3.3)	(8.4)
Carson City MSA[3]	10.8	6.2	10.8	(5.0)	(3.9)	(4.1)
United States[2]	9.4	5.5	8.9	(4.0)	0.0	(3.8)

There is some sentiment that the U.S. economy may be near the bottom of the recession. If the current economic downturn has made one thing perfectly clear, it is that Nevada is not immune to the national (and global) business cycle. Hence, an improvement in broader measures of U.S. economic health appears to be a prerequisite for any rebound in Nevada.

In fact, we felt that labor market trends during the month of April in Nevada were consistent with such a "bottoming out" scenario. Unfortunately, May brought with it news suggesting that economic conditions in Nevada remain extremely weak. Historically, employment is a "lagging" indicator of the economy's health. Hence, when a recovery does take hold in Nevada, labor market conditions will likely not respond immediately.

Specifically for May, the State's unemployment rate came in at 11.3 percent, seasonally adjusted. This is up from 10.6 percent in April and 6.1 percent a year ago. Most importantly, it represents the highest unemployment reading on record in Nevada (with comparable data available from 1976 forward), surpassing the previous high of 10.7 percent from December 1982. One only has to go back some two or three years to find Nevada at or near the top of just about every measure of economic health. However, this recession has hit the State extremely hard. As of April, only six states--Michigan, Oregon, South Carolina, Rhode Island, California, and North Carolina--had higher unemployment rates than Nevada. (May jobless rates have not yet been released for all states.)

Nationally, the unemployment rate jumped from 8.9 percent in April to 9.4 percent in May, and it stands 3.9 percentage points higher than a year ago. Over the 2002-2006 period, Nevada's jobless rate consistently came in below national readings. Since then, however, the State's jobless rate has exceeded that for the U.S.

The unemployment situation in May in the State's largest metropolitan statistical area deteriorated considerably. The Las Vegas jobless rate rose to 11.1 percent, up from 10.4 percent in April. A year ago, this labor market barometer stood at 5.7 percent. In the Reno-Sparks metro area, the April-May increase was much more subdued, as the jobless rate settled at 11.2 percent, up just 0.2 percentage point from the previous month. In May 2008, the jobless rate came in at 6 percent. In Carson City, conditions were unchanged from a month ago, as the unemployment rate held steady at 10.8 percent, up from 6.2 percent a year ago. (Unemployment rates for the State's metropolitan areas are not

[1] Preliminary estimates

[2] Unemployment rates are seasonally adjusted for the State of Nevada and the United States

[3] Metropolitan Statistical Area (Las Vegas-Paradise MSA = Clark County; Reno-Sparks MSA = Washoe & Storey counties; Carson City MSA = Carson City)

adjusted for seasonality. For comparison purposes, the State's unadjusted unemployment rate was 11 percent in May.)

Given that these labor market indicators are model-driven estimates, as opposed to actual counts of employed and unemployed Nevadans, they can be subject to considerable month-to-month volatility. We question whether conditions deteriorated in May as much as suggested by these estimates. Still, when trends over time are examined, it is obvious that Nevada's labor market has been significantly impacted by the on-going national recession. For instance, through the first five months of the year, the unemployment rate has averaged 10.5 percent, almost double the 5.6 percent rate averaged over the course of the January-May 2008 period.

The CBER-DETR Nevada Coincident and Leading Employment Indices, developed through a partnership between DETR and UNLV's Center for Business and Economic Research, measures the ups and downs of Nevada's labor market. All components of the coincident index, designed to measure current conditions, continue to move in a negative direction. Two components of the leading index, however, provide the only positive news. Initial claims and the short-duration unemployment rate fell in April from their March values. Housing and commercial permits, which rose in recent months, both tumbled in April. Taken as a whole, these results are consistent with the "bottoming out" scenario highlighted above. (For purposes of constructing the indices, a complete set of data is available only through April.)

Despite increasing Statewide unemployment, employers reported 1,400 more jobs in May than in April. While Nevada employment is still 6.3 percent lower than year-ago levels, this is the first month-over-month employment gain since September 2008—a fairly positive signal. May saw strong growth in the services sector, specifically in the food services and drinking places industry, which added 1,400 jobs over the month after adding 1,100 jobs to the employment level in April from March. A number of key industries in the State, however, failed to maintain employment levels, including both the construction and the casino hotels industries.

Employment trends in Nevada's three metropolitan statistical areas, similar to unemployment trends, were mixed. Employment in Las Vegas-Paradise declined by 300 jobs in May from April, and is down 58,600 jobs over the year. Construction in Las Vegas fell by 1,100 over the month, negating gains made in the services sector. May employment levels in both Reno-Sparks and Carson City, however, managed to stay steady at April levels.

Consumer spending accounts for a significant share (roughly two-thirds) of total economic activity in the U.S. Nationally, consumer spending growth has eased considerably of late, and the impacts have been felt in Nevada as a result of, among other things, our dependence on discretionary spending on the part of visitors to our State. Consumption growth in the nation began to weaken in the second quarter of 2008 and trended into negative territory by year's end. Over the period, annual growth did a complete turnaround, falling from 2.5 percent at the beginning of 2008 to -2.5 percent in this year's first quarter. In early-2008, Las Vegas visitor volume barely squeaked out an increase, rising by just 0.4 percent over the year. Visitor volume then went into free fall and bottomed out at a10.3 percent decline in 2008:IVQ before falling an additional 8.7 percent in the first three months of this year. A comparison between the two indicators paints a stark picture of future expectations for the leisure and hospitality industry. With consumption growth expected to remain tepid in the months ahead, visitor volume will like remain stagnant at best.

Since May, retail U.S. gasoline prices have skyrocketed, increasing by over $0.50 per gallon from May to June. At the time of writing, crude oil had shot past $70 per barrel, and national retail gas prices were approaching $3.00 per gallon. Although gas prices are getting higher, last year in June saw retail gas prices over $4.50 per gallon. While prices are nowhere near as high as that currently, recent increases are worrisome. High gas prices have a severe effect on tourism visitation numbers and could pose serious threats to an economic recovery going forward.

National gross private domestic investment, a measure of future productive capacity, is an important component of overall economic activity. A large portion of the investment is for buildings, including residential, commercial and industrial structures. As with broad consumer spending patterns, sluggish investment activity in the U.S. as a whole is also playing out in Nevada's economy. In the first quarter of 2009, U.S. investment fell by $408 billion (inflation adjusted) over the year, a decline of 23 percent, suggesting future economic growth will be limited. In Nevada, where the economy relies heavily on new development investment for growth, the implications are discouraging. Nevada has seen investment for new construction projects dry up, and employment has faltered as a result. Construction employment fell 17 in the first quarter of 2009, relative to a year prior. With high vacancy rates in commercial structures and residential housing, hopes for near-term investment growth remain dim.

The recession is having varied effects on private businesses of different size in Nevada. From the fourth quarter of 2007 to the fourth quarter of 2008, large employers (those with 500 or more workers) shed 31,081 jobs in Nevada. Medium-sized businesses (between 50 and 499 workers) lost 34,412 workers, and small-businesses (less than 50 workers) shed 18,569 jobs. On a percentage basis, larger companies are faring the worst, having lost 11.4 percent of their workforce, followed by medium sized companies who have lost 9.8 percent. Smaller companies appear to be faring the best, having only lost 4.4 percent of their employment.

This comes despite the fact that there are significantly more small businesses than large. At the end of 2008, there were 72,942 small business establishments in Nevada, 3,087 mid-sized businesses and 205 large businesses. Over the same time period, the number of small businesses actually increased by 1.8 percent, while the number of mid-size and large businesses declined by 9.7 and 11.2 percent, respectively.