State of the Southern Nevada Economy and its Implications for Transportation

The following is a report regarding the state of the economy in Southern Nevada and what it means for transportation investment in the area. Currently, the United States is under a tough recession not seen in recent memory. With setbacks occurring in multiple sectors of the American economy, it is getting harder to generate the funding needed for state and local transportation programs when so many other aspects of the economy are in need of financial assistance. Yet, the need for financial assistance to improve the transportation infrastructure in Southern Nevada is apparent.

Even before the recession, most of the federal, state, and local sources of funding were failing to keep up with demand. Although traffic growth has stalled with the recession, it is expected to resume as the economy recovers, while the revenues from established funding sources has fallen fast and is likely to recover more slowly. According to the Las Vegas Convention and Visitors Authority (LVCVA), 35 percent of the Master Transportation Plan funding for road construction in Clark County is attributable to taxes generated by the tourism industry through various taxes. Meanwhile, congestion, accidents, and deteriorating pavement conditions continue to generate a need for improvements that cannot be met through available funding.

One source of financial assistance comes from the federal government in the form of the Recovery Act (The American Recovery and Reinvestment Act of 2009). There are several goals that the Recovery Act will try to meet, which include: to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; and to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits. In terms of the selection of transportation projects to be funded under the Recovery Act funds, priority is given to projects that can be completed within three years, have long-term economic benefits, help areas most impacted by the recession, and help counties that are "economically distressed."

Based on criteria set by the federal government, counties that are defined as "economically distressed" tend to be in rural areas. This is mainly due to how the federal government monitors and reports its selection of "economically distressed" counties – taking historical trends (a two-year period) of per capita income and unemployment of each county in the United States and comparing them to the national averages.

The Federal Highway Administration has a public website showing which counties across the United States are considered "economically distressed."[1] As of August 2009, Southern Nevada (or in this case, Clark County) does not qualify as "economically distressed." However, the analysis presented on the following pages makes the case that Southern Nevada clearly

[1] http://hepgis.fhwa.dot.gov/hepgis_v2/GeneralInfo/Map.aspx

qualifies as an area most impacted by the recession and is then qualified to receive priority in the allocation of Recovery Act funding.

<u>Background</u>

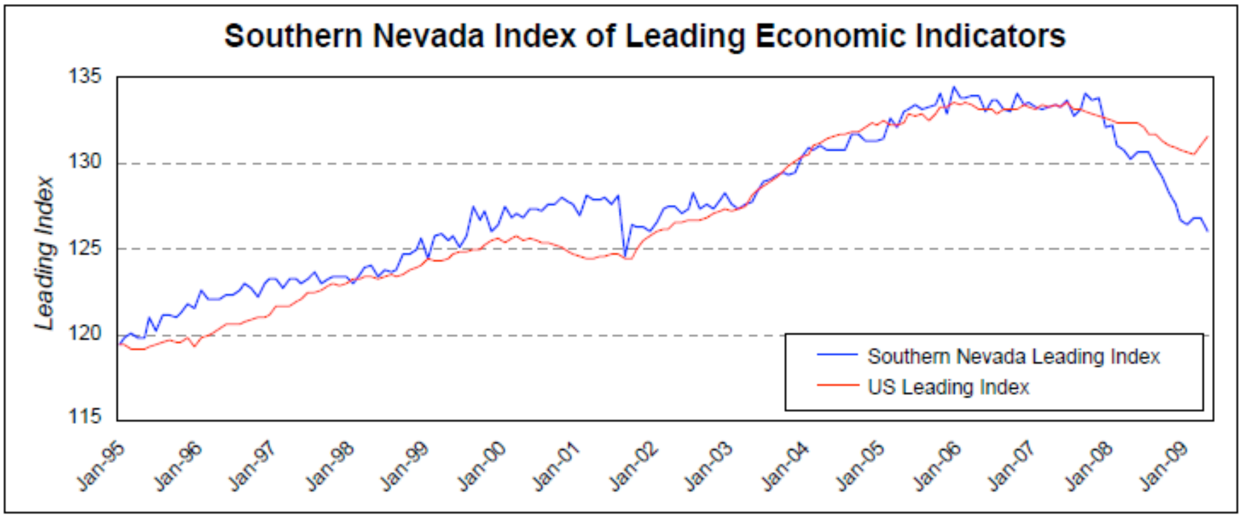
Southern Nevada, including the Las Vegas Valley, has been particularly hit hard during the recession for multiple reasons. According to a June 2009 report by the Brookings Institution, Las Vegas is one of many metropolitan areas in the Western part of the United States to suffer severe employment, output, and home value declines over the past year due to the broader housing fallout. According to this same report, metro areas with job concentrations in arts, entertainment, and recreation, such as Las Vegas, experienced 4 percent employment declines on average.

The following set of statistics back up the claim stated above. The LVCVA has stated that the tourism industry directly accounts for 25 percent of the Southern Nevada's workforce, 23 percent of all wages and salaries paid to workers, and 22 percent of its economic output. It also reported that the leisure / hospitality industry and the construction industry account for 38 percent of employment and 51 percent of major tax collections in the state of Nevada. In June 2009, gaming revenues were down 14.7 percent in Clark County. According to Nevada Department of Employment, Training, and Rehabilitation, employers struggling under heavy debt burdens have made cuts wherever possible. The Las Vegas labor market will get some of those jobs back with the opening of City Center later this year, but some gains will be offset with losses in construction and cannibalization of existing properties.

This reflects the notion that Las Vegas is one of the few metropolitan areas dealing with several recession factors that reinforce each another – the sensitivity of tourism, severely overpriced housing, and high proportions of their pre-recession employment in recreation and construction. Due to this combination of factors (in particular, the unemployment rate and the real estate market), the Brookings report listed the Las Vegas metropolitan area as one of the 20 weakest-performing metro areas in the United States.

Meanwhile, the outlook for recovery does not seem immediate. According to the Center for Business and Economic Research at the University of Nevada – Las Vegas (CBER), tourist destinations such as Las Vegas may incur greater economic difficulty than the national economy due to consumer cut back on discretionary-spending activities. In CBER's most recent survey of local business leaders, the *Southern Nevada Business Confidence Index*, 32.9 percent of respondents reported national economic events had a temporary setback on their business, 36.7 percent reported these events depressed their prospects for the foreseeable future, and 12.7 percent reported these events threaten their survival as a business. Also, due to dependence in real estate and large housing foreclosure rates, the survey respondents did not foresee a meaningful recovery in Southern Nevada's housing market until after 2010. According to CBER, this is consistent with most assessments of the national housing market and the area's current excess supply of housing units.

In a comparison of most recent index of leading economic indicators for Southern Nevada versus the United States (which includes construction, sales, tourism, and visitor volumes), the region is underperforming. Also, the index for Southern Nevada is in a freefall, widening the gap between the region and the rest of the nation. The graphic below shows the mentioned gap.

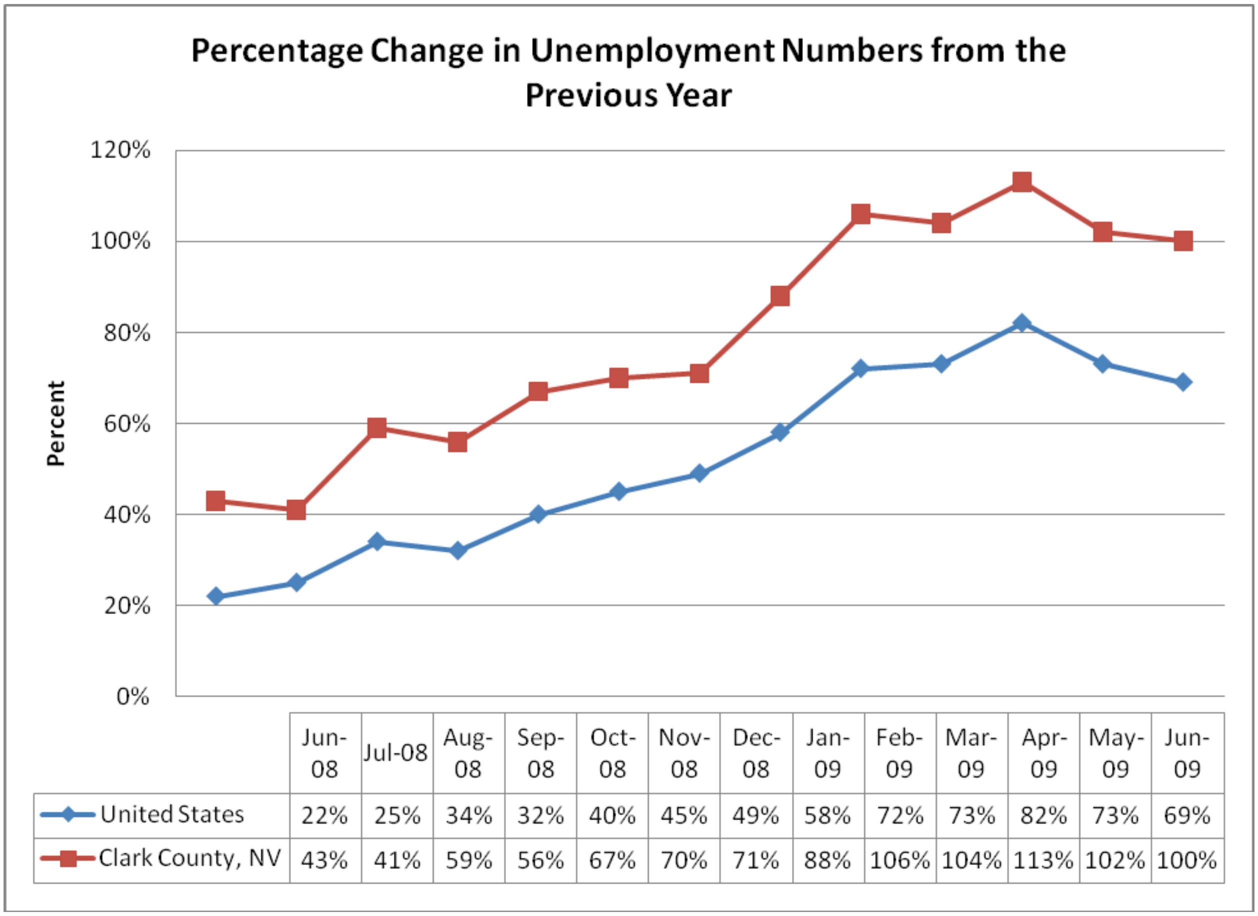


Source: Center for Business and Economic Research at the University of Nevada – Las Vegas

With the local unemployment rate now higher than the national rate, the need for economic stimulus and financial assistance is immense. In order to fully understand this impact, the economic indicators are reviewed for Southern Nevada and compared to the national numbers. These indicators are analyzed by its percentage change per month from the previous year. For this analysis, a one-year period is used, from 2008 to the most recent data reported for 2009. The following are the economic indicators used for this report:

- Unemployment Numbers
- Employment Numbers within the Construction Sector
- Employment Numbers within the Private Service-Providing Sector
- Unemployment Rate
- Retail Sales

Unemployment Numbers

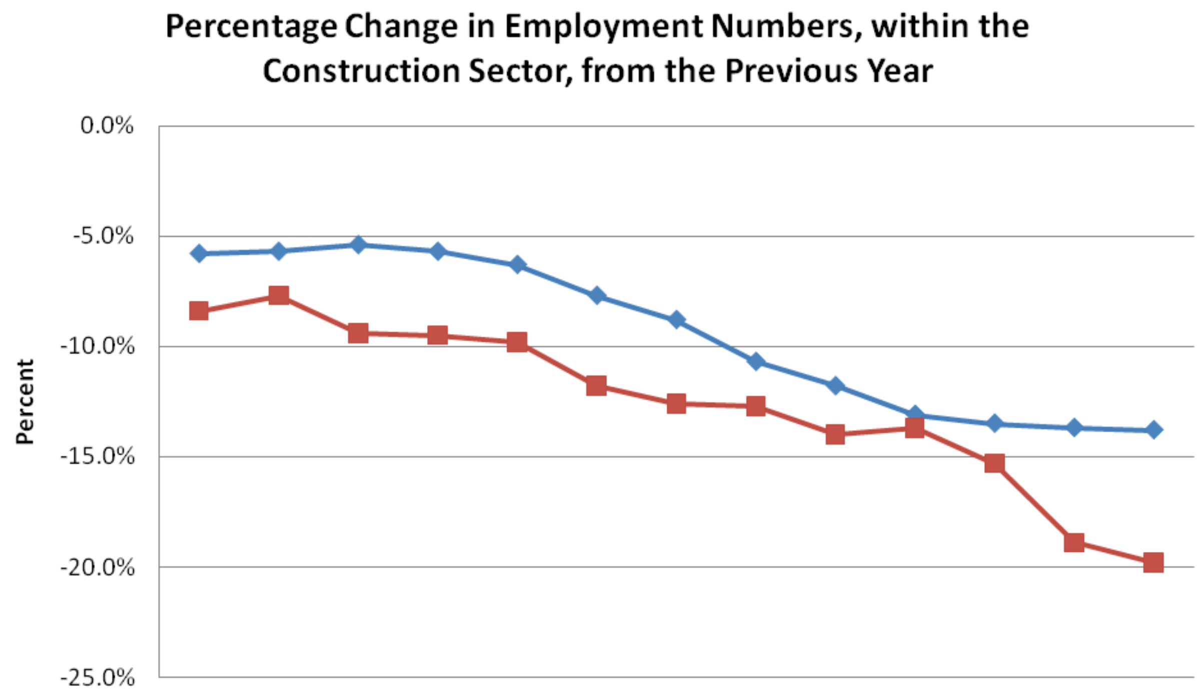


	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
United States	22%	25%	34%	32%	40%	45%	49%	58%	72%	73%	82%	73%	69%
Clark County, NV	43%	41%	59%	56%	67%	70%	71%	88%	106%	104%	113%	102%	100%

Source: Bureau of Labor Statistics (US Department of Labor)

The percentage changes indicate that the unemployment numbers have generally increased from 2007 to 2008 and from 2008 to 2009. As shown in the chart, the rate of change has occurred faster in Clark County than nationally, particularly from the end of 2008 to today. The higher percentage change in the numbers from Clark County reinforces the fact that the unemployment rate is higher in the region than in the United States.

Employment Numbers within the Construction Sector

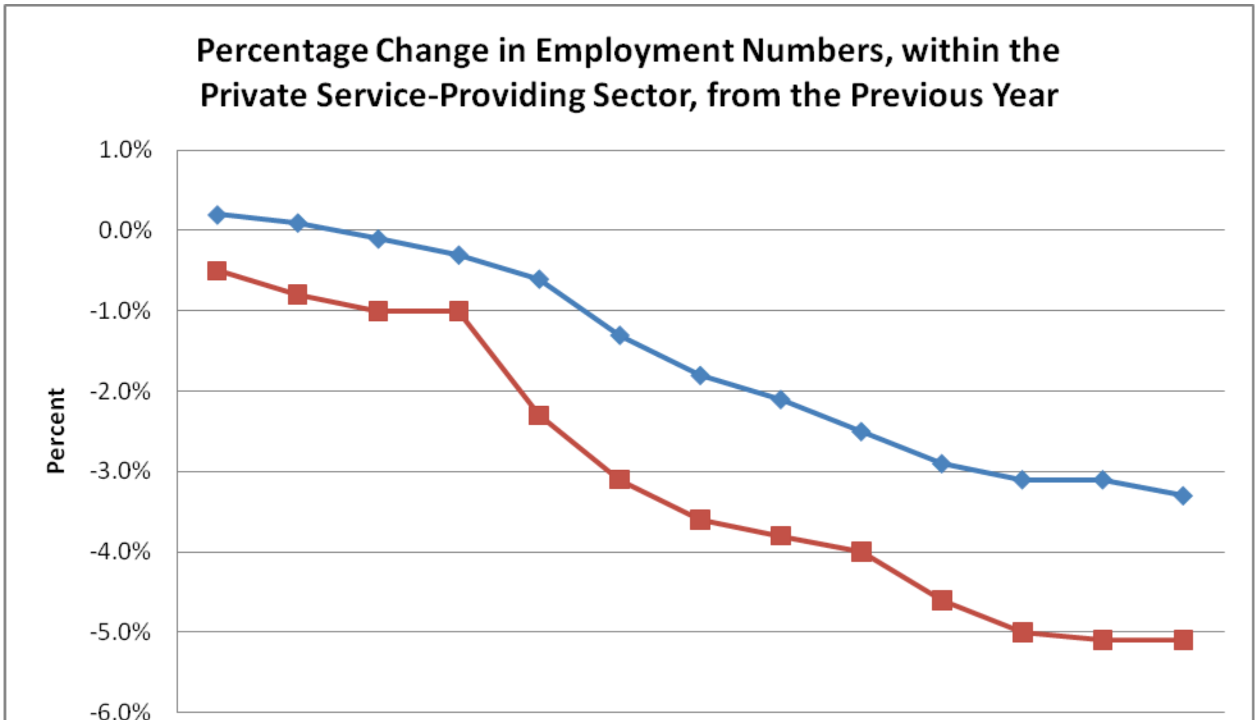


	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
United States	-5.8%	-5.7%	-5.4%	-5.7%	-6.3%	-7.7%	-8.8%	-10.7%	-11.8%	-13.1%	-13.5%	-13.7%	-13.8%
Clark County, NV	-8.4%	-7.7%	-9.4%	-9.5%	-9.8%	-11.8%	-12.6%	-12.7%	-14.0%	-13.7%	-15.3%	-18.9%	-19.8%

Source: Bureau of Labor Statistics (US Department of Labor); Nevada Department of Employment, Training, and Rehabilitation

Currently, the construction job sector represents about 9 percent of total employment in Clark County. Meanwhile, it represents 4.5 percent of total employment nationally. Based on the table above, employment numbers in the construction industry have generally decreased, with the numbers decreasing slightly quicker in Clark County.

Employment Numbers within the Private Service-Providing Sector



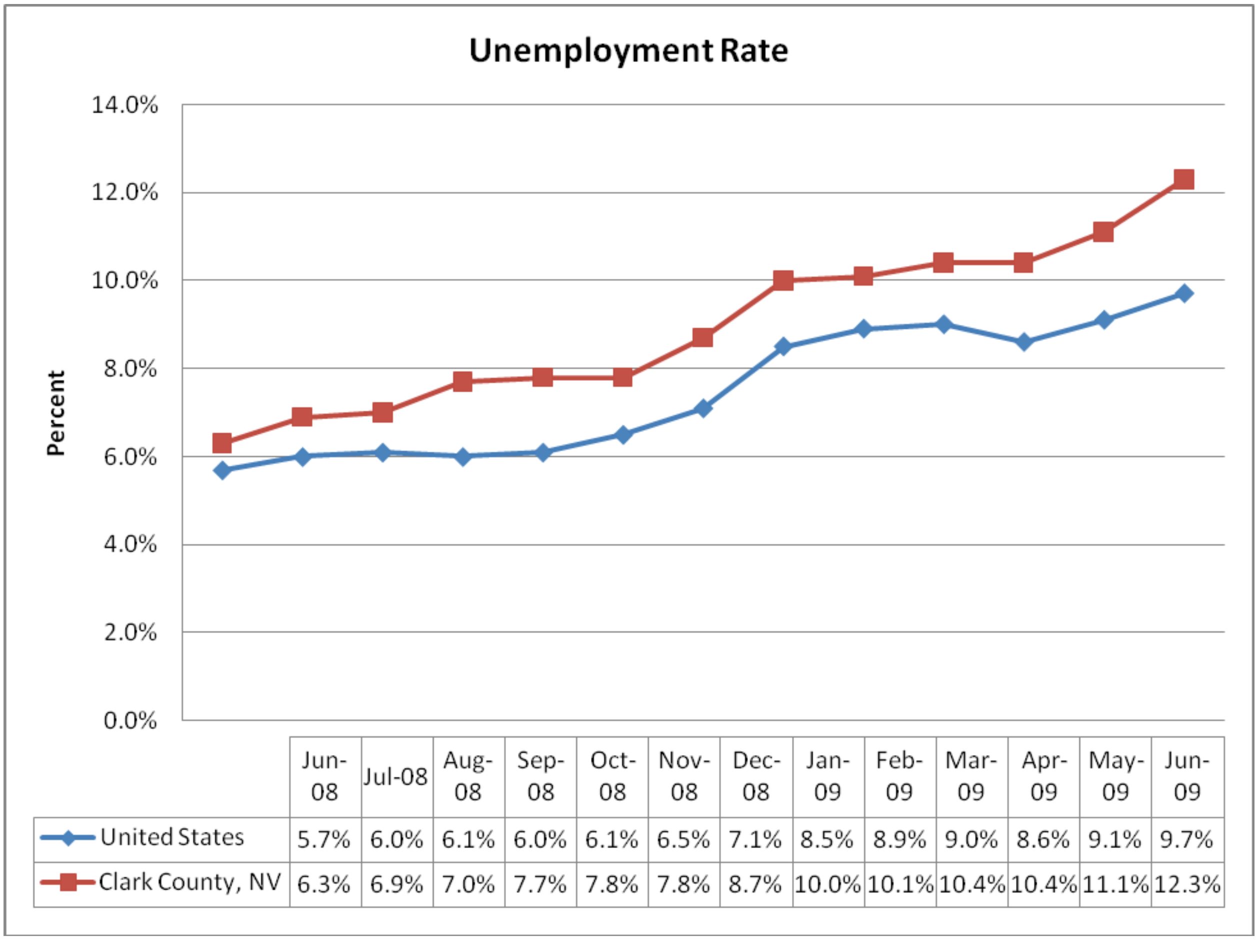
	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
United States	0.2%	0.1%	-0.1%	-0.3%	-0.6%	-1.3%	-1.8%	-2.1%	-2.5%	-2.9%	-3.1%	-3.1%	-3.3%
Clark County, NV	-0.5%	-0.8%	-1.0%	-1.0%	-2.3%	-3.1%	-3.6%	-3.8%	-4.0%	-4.6%	-5.0%	-5.1%	-5.1%

Source: Bureau of Labor Statistics (US Department of Labor); Nevada Department of Employment, Training, and Rehabilitation

The private service-providing job sector currently represents 77 percent of total employment in Clark County, while it represents 65 percent of total employment nationally. Real estate jobs are included in this sector and those jobs have been hit particularly hard during the recession. The percentage changes have not been dramatically high, as the employment numbers have gradually decreased both nationally and within Clark County. However, the decrease is slightly higher in the region, particularly from October 2008 onwards.

<u>Unemployment Rate</u>

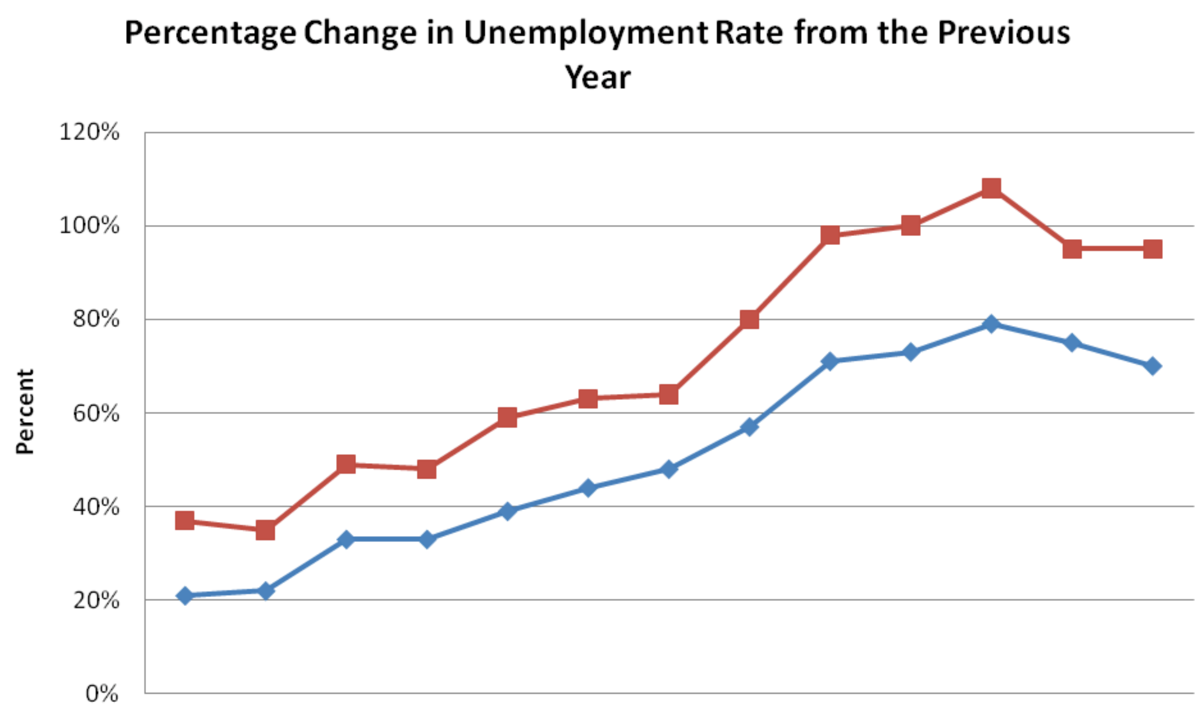
The following table below shows the unemployment rates for Clark County and for the United States.



	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
United States	5.7%	6.0%	6.1%	6.0%	6.1%	6.5%	7.1%	8.5%	8.9%	9.0%	8.6%	9.1%	9.7%
Clark County, NV	6.3%	6.9%	7.0%	7.7%	7.8%	7.8%	8.7%	10.0%	10.1%	10.4%	10.4%	11.1%	12.3%

Source: Bureau of Labor Statistics (US Department of Labor)

As shown above, the gap in the unemployment rate for Clark County has increased at a significantly higher rate than the national statistic from June 2008 onwards. Currently, the rate is 2.6 percentage points higher for Clark County than the United States, showing the biggest gap differential between the two. Meanwhile, the table below shows the percentage change in the unemployment rate per month from the previous year.

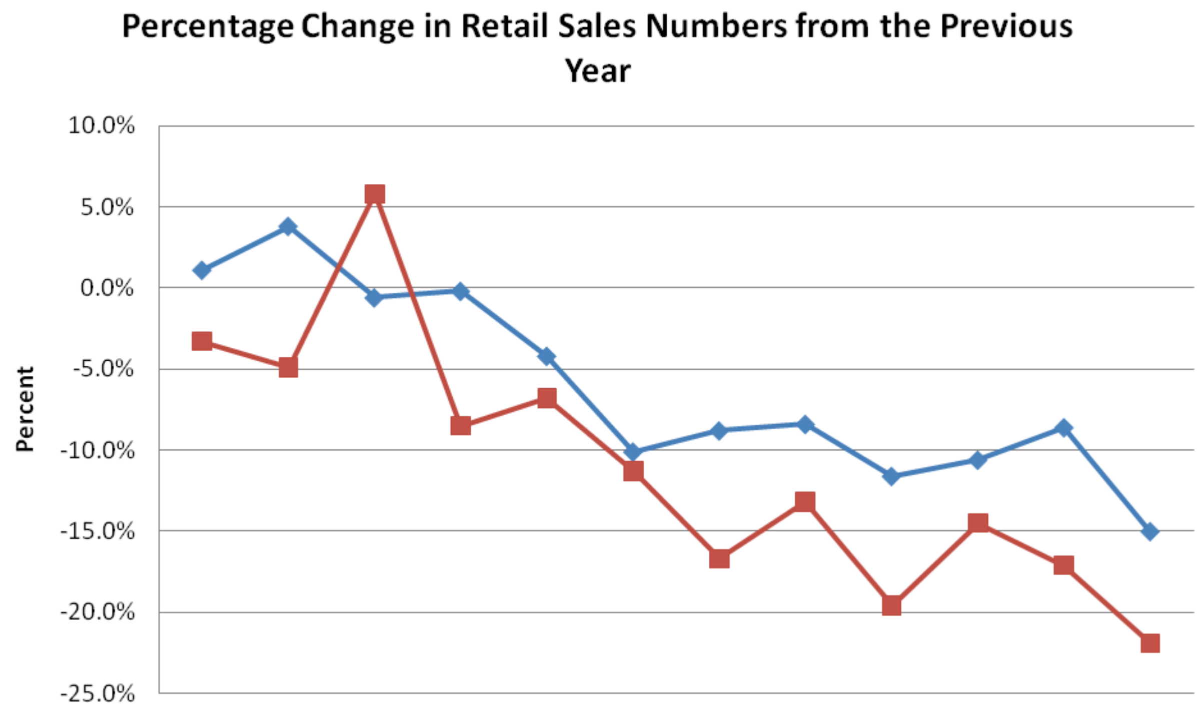


	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
United States	21%	22%	33%	33%	39%	44%	48%	57%	71%	73%	79%	75%	70%
Clark County, NV	37%	35%	49%	48%	59%	63%	64%	80%	98%	100%	108%	95%	95%

Source: Bureau of Labor Statistics (US Department of Labor)

Here, the rate of change for the unemployment rate is higher in Clark County than it is nationally. Within the last two months, the change is starting to level off, which points to a potential and positive trend for both the region and entire country.

Retail Sales



	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
United States	1.1%	3.8%	-0.6%	-0.2%	-4.2%	-10.1%	-8.8%	-8.4%	-11.6%	-10.6%	-8.6%	-15.0%
Clark County, NV	-3.3%	-4.9%	5.8%	-8.5%	-6.8%	-11.3%	-16.7%	-13.2%	-19.6%	-14.5%	-17.1%	-21.9%

Source: Economic Census (US Census Bureau); Nevada Department of Taxation

The following table above shows the percentage change in retail sales numbers per month from the previous year. The decrease in retail sales and spending has worsened both nationally and in the region. In December 2008, Clark County's retail sales fell 16.7 percent over the previous year, compared to an 8.8 percent decline nationally. In May 2009, Clark County's retail sales were 21.9 lower than the previous year, compared to a 15 percent decline nationally.

Conclusions

Based on the economic indicators above, the notion that Southern Nevada is suffering more from the recession than the United States as a whole is apparent. Clark County, as of July 2009, has an unemployment rate of 12.3 percent, compared to the 9.7 percent rate for the entire United States. The percentage change in the unemployment numbers reinforces the notion that there needs to be more jobs coming to the region soon. Employment numbers in the two job sectors that represent Clark County, construction and real estate, have also decreased at higher rates in comparison to the numbers for those sectors nationally. Meanwhile, the decrease in employment numbers within these job sectors is higher in Clark County than their national counterparts. Finally, retail sales have been generally down all-around. However, the decrease is higher in the region, which reflects the higher unemployment numbers and rates.

In terms of the “most impacted by the recession” clause within the Recovery Act criteria, Southern Nevada is a region that can be considered under that criteria. With the problems in unemployment and gaining employments in the construction and real estate job sectors, federal funding from the Recovery Act can truly help Southern Nevada recover quicker and easier.

In terms of the economic potential Recovery Act funding can have on transportation, boosting investment in transportation infrastructure will lead to increased number of jobs in Southern Nevada, in particular the diversification of jobs available within the construction sector. Investment in transportation infrastructure will also increase the chances for positive by-products along certain roadway corridors, which allow multi-modal transportation projects to succeed after its construction phase, including retail business development and retention; job creation based on new business development; and support for new housing types (e.g., apartments or condos in mixed-use buildings).

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