Southern Nevada Economic Outlook 2010

Center for Business and Economic Research
University of Nevada, Las Vegas

December 16, 2009

Photo courtesy of Geri Kodey UNLV Photo Services

Southern Nevada Economic Outlook: 2010

The deep recession that hit the US and global economies like a tidal wave following the financial crisis in 2008 has submerged the Southern Nevada economy. After a dismal start in 2009, the Las Vegas economy continues to falter. Virtually every sector of the economy, from leisure & hospitality to retail trade, has shed jobs in the past year. Home prices have still not found their bottom, and foreclosures continue to rise despite federal government programs aimed at keeping marginal owners in their homes. Visitor volumes have dropped precipitously, and those who choose to come despite the recession are gambling less and leaving sooner. In an effort to boost ever-falling occupancy rates, Strip properties have lowered prices, particularly for midweek stays.

A key aspect of the current economic situation is uncertainty. For one, CityCenter is opening 8,000 hotel rooms and condos by the end of the month into this already cheerless economic climate. Some local analysts suggest that the CityCenter opening may give a strong boost to the local economy. Other, less hopeful, observers maintain that the opening is likely to cause further stress, job losses, and downsizing in an industry already fraught with credit problems and falling revenues. Of course, only time will tell how the CityCenter saga plays out and its ultimate effect on Southern Nevada economic activity.

Another source of uncertainty is what happens with the US and global economies. The National Bureau of Economic Research (NBER) has yet to declare the end of the recession. The national jobless rate is at a 16-year high of 10 percent. Further, it is presently unclear what effect the federal stimulus program has had on the US economic recovery. There is still a real danger of a double-dip recession as stimulus money peters out.

We develop our annual forecast within these highly uncertain times. Below, we set the stage for the forecast by outlining current economic conditions in Southern Nevada for key economic sectors such as tourism, construction, housing, and employment. We discuss some of the challenges of having an economy, like Southern Nevada's, that is overly reliant on one industry. We conclude with the forecast for key Southern Nevada economic variables and discuss how unexpected changes in national and international economic conditions may affect the precision of the forecast.

The Current State of the Southern Nevada Economy

At present, virtually every sector of the Las Vegas economy is in serious trouble. See Table 1. Employment growth ground to a halt in February 2008 and Southern Nevada continues to shed jobs. Employment in the dominant industries in Southern Nevada, hotel & leisure and construction, continues to falter despite the large CityCenter project which employed an estimated 10,000 construction workers during the construction phase and is expected to employ 12,000 workers as the different hotels and casinos come on line this December and early next year.

Rising unemployment locally and nationally, together with the credit crunch following the massive bank bailouts of the fourth quarter of 2008, has thrown the Southern Nevada economy into the worst recession since the Great Depression. Gaming revenues first stagnated then dropped dramatically. Hotel occupancy rates are down, even as properties offer unheard of midweek deals to prop up demand. Still, the visitor count continues to decline. Perhaps more importantly, gaming revenue per visitor is back to the low levels observed during the "family phase" in the mid to late 1990s.

Table 1. Growth Rates for Clark County Indicators and Indices: Seasonally Adjusted Annual Rates (SAAR)

Clark County Indicators	2007 SAAR (Percent)	2008 SAAR (Percent)	2008 First-Half SAAR (Percent)	2008 Second-Half SAAR (Percent)	2009-to-Date SAAR (Percent)
Employment[1]	1.17	-1.37	-0.40	-2.33	-5.90
Housing Units Permitted[1]	-29.09	-48.51	-32.53	-60.32	-56.29
Gross Gaming Revenue[1]	2.24	-9.86	-5.13	-14.55	-12.01
Total Personal Income[1]	5.59	6.72	NA	NA	NA
Population[2]	4.24	0.69	NA	NA	NA
New Residents[1,3]	-8.23	-13.40	-13.66	-13.13	-15.95
Visitor Volume (Millions)[1]	0.17	-4.83	-0.95	-8.75	-5.91
Hotel/Motel Rooms[1]	0.46	2.72	1.98	3.45	3.40
Taxable Sales[1]	0.54	-4.91	-2.41	-7.41	-19.10
CBER Clark County Business Index[1]	0.05	-4.80	-3.11	-6.49	-9.49
CBER Clark County Tourism Index[1]	2.32	-7.89	-3.70	-12.06	-10.02
CBER Clark County Construction Index[1]	-11.15	-27.41	-19.95	-34.09	-34.21
CBER Southern Nevada Index of Leading Indicators[4]	-0.17	-2.43	-1.65	-3.21	-3.47

Note: NA = Not Applicable.

[1]Average of annual growth rates over the year computed as the percentage change for each month relative to the same month for the previous year.

[2]Computed from midyear to midyear using the estimates of the Nevada state demographer.

[3]Measured by the number of out-of-state drivers' licenses turned in for a Nevada driver's license. As such, the measure is a proxy for current adult inmigration. Roughly speaking, about two-thirds of the newcomers remain in Southern Nevada and one-third migrate elsewhere.

[4]Computed as a seasonally adjusted weighted average of ten data series.

Visitor Volume and Gaming Revenues

Visitor volume is down more than 10 percent from the third quarter of 2008 to the third quarter of 2009. Much of that decrease can be attributed to fallout from the financial crisis of October 2009. The full impact of the dramatic drop in consumer confidence and astonishing unemployment growth nationally was not felt right away in Southern Nevada. But in the months following the crisis, the steady stream of visitors slowed to a trickle. Overall, visitor volume is 2.1 percent below 2008 levels.

Fewer visitors mean declining occupancy rates. Occupancy rates fell from a peak of 92.2 percent in April 2008 to 83.1 percent in October of this year. This is below the 85 percent occupancy rate that is rumored to reflect the breakeven point for many Strip properties. In an effort to support occupancy rates, many Strip properties have offered substantially discounted rooms midweek and resort credits in excess of $50 per night. Despite deep discounting, occupancy rates have continued to fall.

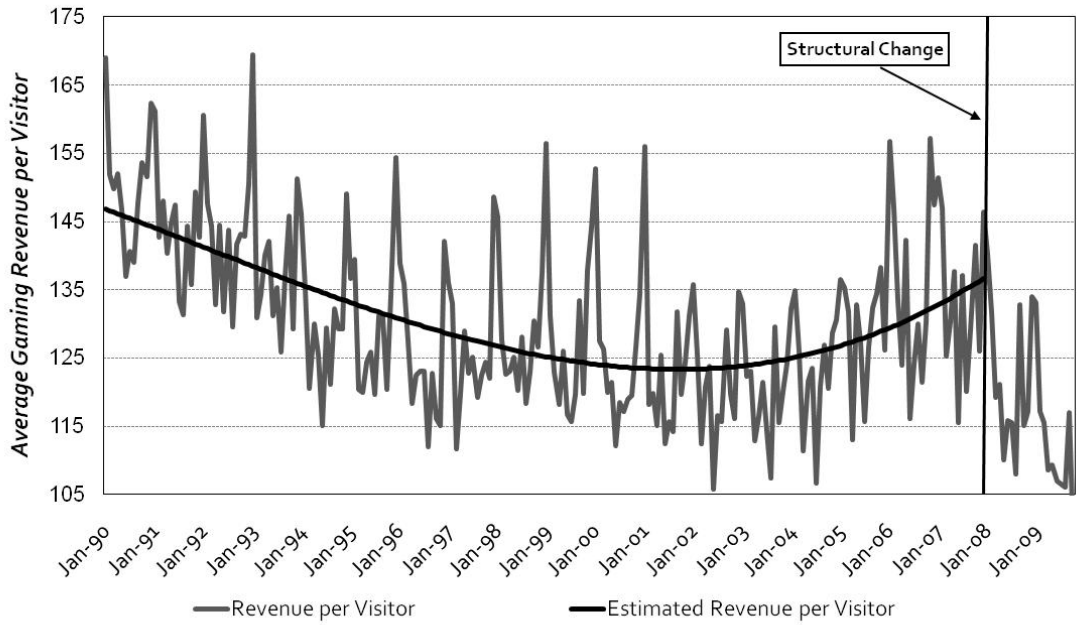
We fear the situation will only be made worse by the opening of nearly 8,000 hotel rooms and condos at the CityCenter. In the past, major openings, such as the Bellagio, the Venetian, and Mandalay Bay, have created a general excitement about Las Vegas, so that other properties enjoyed a boost in room demand. Given mounting job losses locally and nationally, and weak consumer confidence, this is unlikely to occur as CityCenter opens. Rather, bookings at CityCenter hotels are likely to result in a zero-sum game, with existing properties losing room and associated gaming revenues. The increased competition will likely lead to even more deep discounting and still lower occupancy rates.

Conventions, ever a popular source of bookings and revenues, are down substantially over 2008 levels as firms cut marketing budgets to avoid the appearance of excessive spending on business trips to once popular destinations. In February, Wells Fargo cancelled a large meeting in Las Vegas after several media outlets accused it of sponsoring another lavish junket for employees. In July of this year, the *Wall Street Journal* reported that federal government employees were instructed to avoid conferences held in cities that are "vacation destinations/spas/resorts/gambling" and choose arguably more mundane destinations such as St. Louis, Milwaukee, and Denver. Earlier in the year, some felt that President Obama singled out Las Vegas when he condemned travel spending by companies that accepted federal bailout funds. The net effect on convention business has been measurable. Las Vegas has landed an

average of 347 fewer conventions per month since the start of the year and convention attendance is down an average of 147,000 attendees per month over that time.

Gaming revenues have not been spared in the economic debacle. Instead, gaming has been disproportionately affected. For one, fewer visitors mean fewer gamblers. More importantly, gaming revenues per visitor have fallen sharply, down 7.4 percent from 2008 levels. See Figure 1. This is likely a result of two factors. First, falling consumer confidence and wage rates mean that visitors have adjusted their budgets and are gaming less than in the past. Second, deep discounting attracts a lower-income visitor who simply cannot afford a trip to Las Vegas at market prices in 2007. Rather than attracting "whales," deep discounting attracts "goldfish" who simply don't have the same taste for gaming as did the average customer of 2005-2007. The "goldfish" is more likely to play slots than table games and spend fewer hours in the casino.

Figure 1. Real Gaming Revenue per Visitor: January 1990 – September 2009



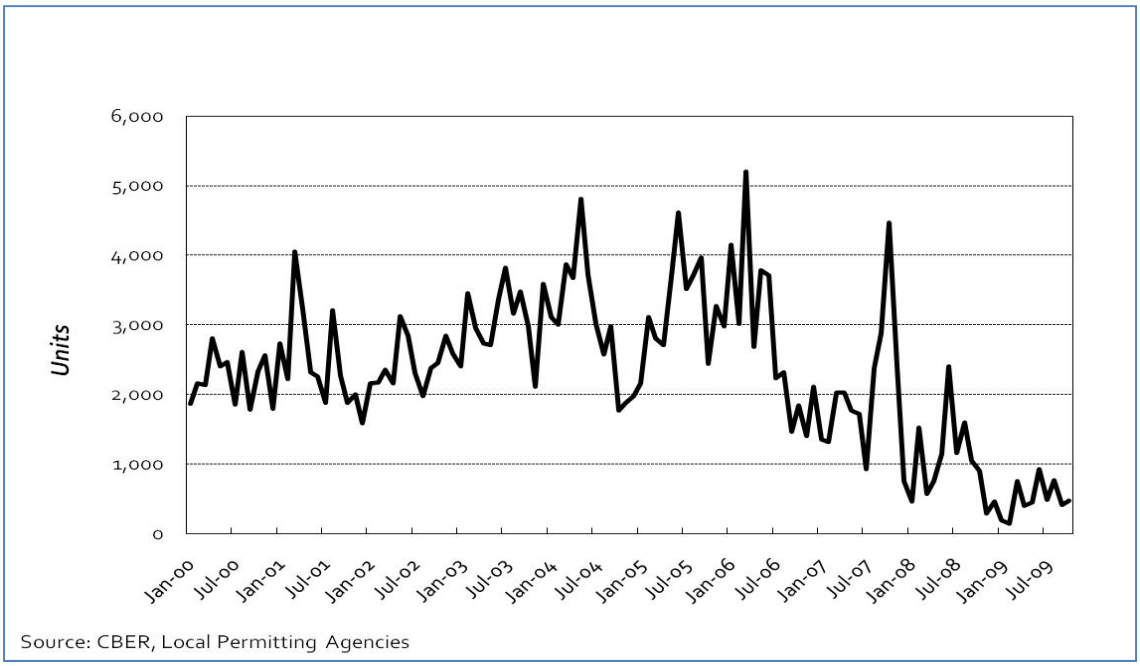
Source: CBER, Nevada Gaming Control

Real Estate and Construction

The housing sector is equally dismal. The real estate price bubble, supported by speculative demand and house "flippers," began its collapse in 2007. The decline accelerated in 2008 and 2009. According to the Case-Shiller Home Price Index, single-family home prices in Las Vegas are down 28 percent this year and off 46 percent from the peak in August 2006. Prices continue to fall because of an excess supply of housing. Our analysis of excess supply in April 2009 puts the number of excess single-family homes at over 7,000. Multifamily housing, condominiums, and townhouses are also overbuilt, with excess supply topping 7,800 units. Others estimate an excess supply of nearly 35,000 units (Murphy, 2009).

An excess supply of residential real estate has meant that permitting activity has come to a virtual standstill, as shown in Figure 2. During the real estate boom of 2003-2006, it was not unusual for 4,000 permits or more to be issued in a single month. We estimate that *total* permitting activity for 2009 will be a fraction of that. Monthly permitting activity averaged 508 units per month from January through October of this year. Total permitting activity for the year is expected to top out at a scant 6,100 permitted units. Commercial real estate is in a similar bind; construction activity has halted and lease rates are falling.

Figure 2. Clark County Housing Units Permitted: January 2000 – October 2009

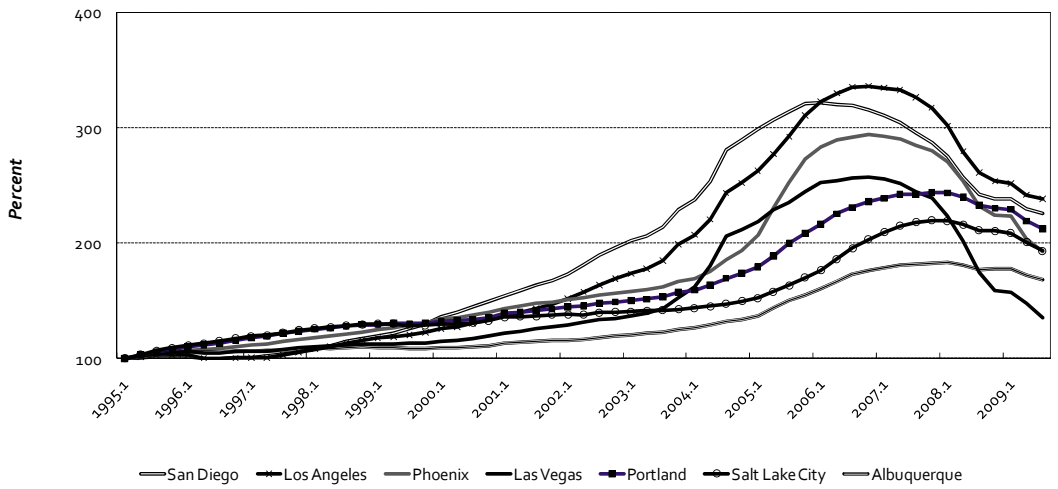


On a more positive note, the decline in residential real estate prices and commercial lease rates makes housing, warehouse, retail, and office space more affordable. Falling lease rates on commercial buildings should help some financially strapped firms as their operating costs fall. Unfortunately, real estate prices are generally considered to adjust much more slowly than other markets, such as stocks and commodities, since real estate is a nonliquid asset. Moreover, the federal stimulus package included a number of policies that are meant to support home prices, including an $8,000 new-home-buyer tax credit that was recently extended to April 2010. A new program aimed at repeat buyers offers a $6,500 tax credit for qualifying home purchases. Although the benefit to people trying to sell their homes or buy new ones is undeniable, these policies artificially support prices, and it is quite possible that when the programs wrap up in 2010, prices may experience a renewed decline.

The collapse in residential prices has not been simply a local phenomenon (see Figure 3). Median home prices have adjusted in many metropolitan areas, particularly on the East and

West Coasts where the bubble activity was the strongest. Major southwestern cities have been disproportionately impacted. In Los Angeles, single-family home prices are down by 39 percent from the peak in mid 2006. Phoenix has suffered even more, with prices down by 49 percent from June 2006.

Figure 3. Regional Housing-Price Indices: 1995 Q1 – 2009 Q3



1995 Q1 = 100
Source: Federal Housing Finance Agency

Of course, those who are forced to sell their homes are subject to large capital losses in many instances, and the effects of lost household wealth ripple throughout the economy. The decline in housing prices has led to an estimated $4 trillion loss in real household wealth, more than $50,000 per homeowner in the US (Baker and Rosnick, 2008). Unfortunately, many people were borrowing on phantom price appreciation, adding second and third mortgages. The resulting consumption spending, no doubt, helped fuel the past decade of economic expansion in Southern Nevada. It is now evident that a significant share of local tourism and gaming expenditures was linked to borrowed cash. Now that this spending has dried up, these expenditures have fallen, and hotels and casinos are feeling the hit.

Employment and Personal Income

The Southern Nevada economy has shed jobs. In the past year, total employment is down more than 60,000 jobs. Employment is down an estimated 5.9 percent over 2008 levels. However, recent analysis by the Nevada Department of Employment and Training suggests that revised estimates may likely lead to an even bleaker employment picture. Job losses are evident in virtually every Southern Nevada industry. Roughly 30 percent of the job losses have been in the leisure & hospitality industry. Construction has also taken a big hit as the percentage of employment in the industry has fallen from just over 12 percent at the peak of the housing bubble in August 2006 to roughly 7.9 percent in October for a total of 24,500 lost jobs.

As the economy shed jobs, the unemployment rate climbed to a modern high of 13.9 percent in the Las Vegas Metropolitan Statistical Area in September of this year. A modest drop to 13 percent in October can be attributed to discouraged workers leaving the work force. The total labor force, including those people either working or seeking work within the past week, is down 0.8 percent from a year ago.

Other industries are losing jobs as well. State government employment is down 3.4 percent. Only education and health services have added jobs, with a year-over-year increase of 3.4 percent for the state of Nevada.

Population

Each year, state and local agencies develop estimates of current and projected population for Clark County. The state demographer bases his current estimate on a statistical model that includes a host of economic variables, as well as proxy variables for population change, such as the number of drivers' licenses from other states exchanged for Nevada drivers' licenses in Clark County and the number of active electric meters in the county.

CBER develops another current estimate and forecast each year with advice from Clark County Southern Nevada Regional Planning Coalition, Regional Transportation Commission, and the Southern Nevada Water Authority. The current estimate used by CBER is based on "the housing unit method." The post office counts the number of housing units occupied and applies 2000 census figures for the number of people per household to tally the number of people currently living in the county. The CBER population forecast of future population growth is based on the Regional Economic Models, Inc. (REMI) model. The REMI model is a general-equilibrium model that is useful for forecasting and conducting economic impact studies. The model is updated annually by CBER.

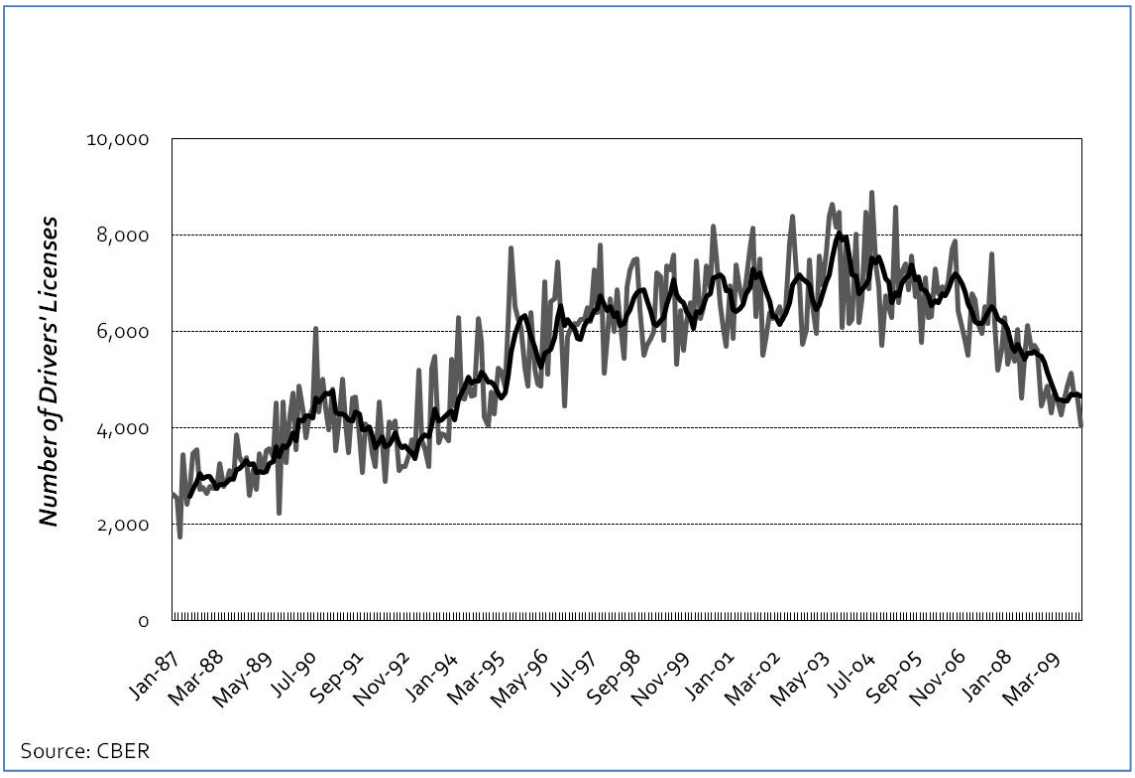
Both methods for estimating the current population have their drawbacks, as they are based on imperfect estimates of the number of occupied units. With the large number of foreclosures, both the housing unit method and the electric meter count method may overstate the number of occupied homes. Mail carriers are having a difficult time establishing which houses are occupied and some vacant houses still have meters running to maintain landscaping and other essential maintenance. The bottom line is that both methods are less reliable than they have been in the past.

Understanding that both methods have problems, we have decided to calculate our estimate of the 2009 population using a combination of drivers' licenses surrendered, electric meter counts, and housing unit counts estimated from the postal service. Our current population estimate is 1,952,920, indicating a population loss of 14,796 over 2008 (2008 estimate is 1,967,716).

Our forecasts for 2010 and 2011 are based on a set of assumptions. First, we assume that the high local unemployment rate induces some out-migration, but by a small margin. There are several reasons to believe we will not see a mass exodus from Clark County even with the

relatively high unemployment. For one, many of the unemployed are hotel, entertainment, and construction workers, and these industries are suffering nationally. In the end, people's prospects are only slightly better in other regions of the country. Also, as many as 60 percent of households in Clark County are thought to have negative equity in their homes. This tends to make it difficult to sell their home, so people are less likely to relocate. Finally, the continued decline in drivers' licenses surrendered, as shown in Figure 4, means that fewer people are relocating to Clark County. Taken together, these facts suggest that the population is likely to remain very near 2009 levels for the next two years.

Figure 4. Clark County Redeemed Drivers' Licenses: January 1987 – November 2009



The veritable collapse in the Southern Nevada economy is certainly linked to the global economic recession, but thoughtful analysts are asking themselves why the local decline has been so much more dramatic than in other American cities. Of course, the collapse of the Southern Nevada housing bubble has contributed to the recession, but it is evident that the demand conditions in the tourism industry have been a major stressor for economic activity in Southern Nevada. Below, we discuss the economic history of three cities. First, we discuss Detroit, which went from being one of the most prosperous cities in the world in the 1950s and 1960s to arguably the worst urban disaster in America today. Next, we discuss Pittsburgh, a city that was able to rise above the massive decline in the US steel industry and become a technology center and host to many corporate headquarters today. Finally, we review the economic history of Las Vegas, and conclude by pondering what we can learn from Detroit's mistakes and Pittsburgh's successes.

Detroit

Detroit, located along the Great Lakes transport route, began as a small settlement in the 1800s that exported grain, furs, and flour to Canada and other US states. Its location along the transport route meant that Detroit eventually became a major center for shipbuilding. Shipping raw materials into Detroit was relatively inexpensive and the ships, once constructed, had ready access to the St. Lawrence Seaway and the Atlantic Ocean. As steam technology expanded, Detroit became an important supplier for marine steam engines as well.

The early 20th century saw the first commercial applications of the internal combustion engine primarily in boats and ships. As a result, steam-engine factories were converted to internal combustion engines and Detroit became the major exporter of that product by 1909. The early 20th century also saw the rise of carriage manufacturing in Detroit.

Henry Ford and Ransom Olds were able to construct their prototype early automobiles from "off-the-shelf" parts sold by marine engine and carriage manufacturers. The industry expanded rapidly with Ford's popular Model T and similar models developed by General Motors (GM) under the company names Buick, Oldsmobile, and Cadillac. By 1950, Detroit was one of the most successful cities in the US. The plentiful supply of well-paid union jobs for skilled and semiskilled autoworkers meant that the worker enjoyed the fruits of the industry's profits.

In the 1960s, the US began importing Japanese automobiles produced in relatively new factories constructed after WWII. At first, tariffs on imports and Americans' general distaste for smaller Japanese cars meant that imports had little effect on the Big 3 (GM, Ford, and Chrysler, then named the American Motor Company). However, oil-price shocks, first during the Arab oil embargo of 1973 and a subsequent decline in imports from the Middle East following the wake of the Iranian revolution in 1979, led consumers toward cars with better gas mileage. As Americans developed a taste for smaller cars, the Big 3 continually lost market share throughout the 1980s and 1990s.

The Big 3 initiated a two-pronged response to lagging sales. For one, they moved toward development of small, efficient, engine technology, but the Japanese and Europeans had the technological edge and their small cars were generally perceived to be of higher quality than their American counterparts. Second, they spent millions of dollars annually lobbying in Washington, DC to maintain tariffs and quotas on automobile imports. In the end, neither approach was successful; and by 2003, the majority of automobiles sold in the US were either manufactured abroad or in the US by foreign producers. In 2007, JD Powers reported that more than 55 percent of American car buyers shopped for Japanese brands. By 2008, Japanese automakers controlled 58 percent of the US market share.

Michigan bore the brunt of the impact, losing approximately 50 percent of its motor-vehicle and motor-vehicle-parts manufacturing jobs between 1999 and the present. Today, Michigan's

unemployment rate stands at 15.1 percent and is expected to top 15.8 percent in 2010, according to recent forecasts by the University of Michigan economists George Fulton and Joan Crary.

Where did Detroit go wrong? Of course, it is popular to blame labor unions. Indeed, high "legacy" costs, mostly for pensions and healthcare among union workers, were not shared by the newer Japanese manufacturers and this blunted the GM and Ford's competitive edge. However, many analysts point to GM and Ford's large bureaucracies that simply failed to forecast the shifting forecast conditions in the industry. Rather than improving the perceived quality of their cars, they relied heavily on protectionist lobbying efforts.

Still, the collapse of the local economic engine did not have to spell the death knell for Detroit. Detroit and southern Michigan had (and still have) a highly skilled work force and an excellent university system for training managers and engineers. But Coleman Young, the mayor of Detroit for 19 years, was criticized for failing to address problems in local schools and services and to coordinate with suburban governments in economic development and diversification plans. As a result, many opportunities to shift gears and to refocus Detroit's resources outside auto manufacturing were lost.

Pittsburgh

Like Detroit, the initial success of Pittsburgh likely was correlated with its position at the confluence of the Allegheny, Monongahela, and Ohio rivers. The location along a major transport route between the Western frontier and the cities on the eastern seaboard meant that goods flowed freely into and out of the region. In the late 19th century, the local economy was heavily dependent on boat building and metal manufacturing. The Pittsburgh area also enjoyed abundant coal deposits. As steel-production technology improved, coke from coal replaced charcoal from wood in iron and steel manufacture. Abundant natural resources and a relatively cheap transport link to large cities helped Pittsburgh become the seat of steel manufacturing, first in the US, then the

world. By the 1920s, Pittsburgh produced one-third of the national output of finished and rolled steel. More than 40 percent of the nation's coal was mined within 100 miles of Pittsburgh.

Like many manufacturing centers, Pittsburgh's economy thrived during WWII as demand for steel and iron to support the war effort surged. However, in the 1950s, increased competition from new plants constructed in Japan and elsewhere began to eat away at demand for more costly steel produced in the older Pittsburgh foundries. The local economy stagnated and unemployment grew.

Pittsburgh continued to founder in the 1970s and early 1980s, but things began to turn around in the 1990s. Unlike Detroit, Pittsburgh city leaders coordinated economic development plans with the state and local municipalities. And, rather than letting infrastructure depreciate, Pittsburgh invested in a massive renovation of its downtown "Golden Triangle." While actual steel production declined, Pittsburgh successfully rebranded itself as a Steel Technology Center and effectively exported new steel production ideas and technologies abroad. Treado (2009) claims that the success of Pittsburgh in its rebranding efforts depended on the three Ls: (1) skilled labor supplied by the excellent local university system, (2) the legacy of steel production and public investment in the region, and (3) its location near major urban centers.

Pittsburgh was also successful in attracting and retaining corporate headquarters for many multinational firms. At present, Pittsburgh is behind only New York and Chicago for the number of corporate headquarters in the US. Firms such as Alcoa, US Steel, Rockwell International, Westinghouse Electric, PPG Industries, and HJ Heinz Corporation are headquartered in Pittsburgh.

Las Vegas

The city of Las Vegas began as a small Mormon settlement in the Las Vegas Valley located primarily to defend the Salt Lake-Los Angeles mail route. The early Mormon settlement was abandoned in 1858 as a result of continued antagonism between the settlers and local indigenous tribes. The plentiful springs in the Las Vegas Valley made it an ideal stop for water along new rail

lines crossing the Southwest. The first tracks for the San Pedro, Los Angeles, and Salt Lake Railroad were laid in 1904. The rail line, later incorporated as the Union Pacific line, made its inaugural run from California to Salt Lake in 1905. The city of Las Vegas was officially founded on May 15 of that year. The railroad depot downtown was unique in the US as it housed a hotel and a casino.

Nevada, pressured by the US government, was the last state to outlaw gambling after the turn of the century. However, economic stress led Nevada to legalize casino-style gaming again in 1931. The decision, and the economic impact of the Hoover Dam construction in Boulder City, meant that Southern Nevada was largely shielded from the economic downturn that swept the nation during the Great Depression.

The first major Strip property, the El Rancho, was constructed in 1941, prior to the US entering WWII. The property was a huge success, drawing carloads of tourists from Southern California. After the war, the success of the El Rancho led to the construction of other major hotel/casinos such as the Last Frontier and the Flamingo, operated by the notorious mobster Bugsy Siegel.

The Strip continued to expand in the 1950s and 1960s as Las Vegas became a major tourist destination for Southern Californians. The 1990s saw the beginning of the luxury resorts now popular on the Strip. Since the construction of the Mirage in 1994, Southern Nevada hotels added an outlandish total of 63,100 hotel rooms. To some analysts' dismay, each additional property appeared to create its own, new demand, and occupancy rates, often in excess of 90 percent, well exceeded the national average for the industry.

With the rapid expansion in hotel and gaming, employment grew phenomenally, and residential and commercial construction became major industries. Clark County was the fastest-growing city in the US for well over a decade. Relatively inexpensive housing and well-paid, low-skill jobs in the hotels and casinos continued to attract people from across the country and the world to relocate in Southern Nevada.

The preceding pages have detailed the fallout in Nevada from the deep US recession of 2008 and 2009. Perhaps, it is premature at this point to compare the Jewel of the Desert to rust-belt cities like Detroit and Pittsburgh that suffered decades of decline. Nevertheless, we have much in common with those cities. Like Detroit and Pittsburgh, the Southern Nevada economy is based almost exclusively on one industry, and like those cities, that industry is in peril. Some would say that tourism will recover, but most analysts agree that the massive expansion on the Strip cannot be successfully repeated and that relative to reasonable forecasts of demand conditions over the next two years, the Strip is overbuilt. Clearly, the engine of growth Southern Nevada has enjoyed for so long has run out of gas.

Prudent people look to the future and ask: What new directions can we take? Economic diversification has become even more important than ever. But diversifying an economy is easier said than done. Others have tried and failed, where some have succeeded. We ask ourselves: What can we learn from others' successes and failures?

1. "Off-the-Shelf" Thinking. Detroit was able to transition from a ship-building-based economy to auto manufacturing by leveraging its economic strengths. Henry Ford's "off-the-shelf" approach kept initial design and production costs low. His choice to manufacture autos in Detroit meant that he could capitalize on the existing supply of skilled labor.

The lesson for Las Vegas is that we need to think in terms of our "comparative advantage." In other words, what resources does Southern Nevada have that other regions don't have? What can we do better and cheaper than other regions?

2. Consumption versus Investment. To be sure, Pittsburgh made the transformation from a declining rust-belt economy to a major center for steel technology and corporate headquarters by leveraging its current strengths. But, part of the reason Pittsburg was successful is that it did not shy away from investment in local infrastructure. Firms are well aware that it is easier and cheaper to

attract employees to a city that is aesthetically appealing and offers a broad range of cultural and recreational opportunities. Pittsburgh transformed its downtown and expanded its cultural offerings to make it more inviting to the relatively well-paid engineers and designers in the steel-technology industry and corporate managers. These types of transitions can be expensive and are often a tough sell in cities with high unemployment. But, voters need to distinguish between tax increases and bond issues that go toward consumption and that go toward investment. Maintaining current infrastructure, investing in new transport systems, developing appealing public areas, and encouraging cultural activities can lead to future dividends. Stinginess in infrastructure investment when times are difficult will certainly save money in the short run, but can also have long-run deleterious effects on an economy.

Investment in physical capital is important, but human capital investment must not be ignored. Firms choose to locate in cities with an educated and skilled work force. Also, research performed at prestigious universities like Carnegie-Mellon and the University of Michigan often spins off into high-tech firms and consulting businesses. Like physical capital, it is tempting to cut back on universities and public education when states suffer budget shortfalls. However, this is exceedingly short-sighted. Long-run returns result from long-run investments, and being pennywise can be pound foolish.

3. Good Governance. Coleman Young is arguably one of the main causes of Detroit's decline. His myopic approach to governance that ignored investment and alienated other local governments accelerated Detroit's decline. Good governance comes from leadership that is willing to cooperate rather than compete with other local governments. It is predicated on an educated and engaged electorate that will not tolerate incompetence and corruption. Even the best-laid plans may falter if not properly managed.

Review of Last December's Forecast

Overall, our December 2008 forecast for 2009 was overly optimistic, as shown in Table 2. We failed to foresee the depth of the impending US recession and its disastrous effects on the US economy. That said, we might be forgiven for failing to forecast what is arguably the worst recession in Nevada history. And, at the time of the forecast, the full extent of what ended up being trillions of dollars in losses by US and global financial firms was not fully appreciated.

For one, we were overly optimistic about the employment picture. We predicted that job losses would be not quite as severe as they have been. We forecast employment growth of 2.6 percent, but employment is down 5.9 percent by our current estimates, and we believe that soon-to-be-released revised employment numbers will reflect an even worse employment picture. We predicted a decrease in personal income of 2.5 percent, but personal income is expected to fall by 4.7 percent by the end of 2009. We foresaw the substantial decline in residential-permitting activity, but did not fully appreciate the depth of the structural problems in the local housing market. As such, we forecast that 5,480 residential permits would be issued, when estimated 2009 permitting activity will be closer to 6,100 permits. We predicted increases in visitor volume and gross gaming revenues of 3.7 percent and 3.5 percent, respectively. Our current estimates suggest that visitor volume will have declined by 2.1 percent by year's end. Gaming revenue is off by 9.4 percent over the same time period. We undershot the mark for the number of new hotel rooms by roughly 5,400 rooms.

Table 2. Review of the 2009 Forecast

Indicator	Current Estimate 2009	Annual Outlook Forecast 2009 (December 2008)	Difference	Percent Difference Current Minus Annual
Employment[1]	863,880	869,500	5,620	-0.6%
Housing Units[2]	6,100	5,480	(620)	11.3%
Gross Gaming Revenue[2] ($ Billion)	$8.8	$9.6	$0.754	-7.9%
Total Personal Income[3] ($ Billion)	$72.8	$75.3	$2.510	-3.3%
Population[4]	1,952,920	1,978,000	25,080	-1.3%
Visitor Volume[2]	36,800,076	38,868,369	2,068,293	-5.3%
Number of Hotel Rooms[5]	149,156	143,757	(5,399)	3.8%

[1]Data complete as of October 2009.

[2]Year-to-date annulized.

[3]Data complete as of third-quarter 2009.

[4]CBER Estimate.

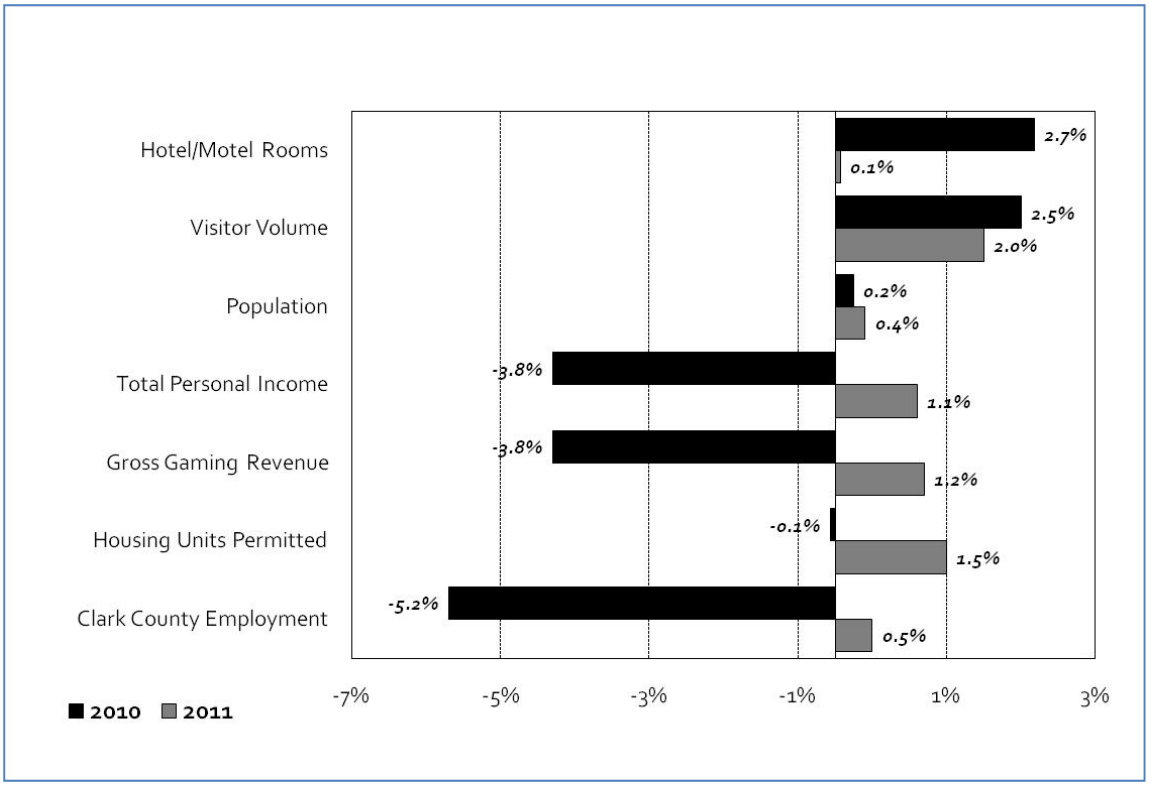
[5]LVCVA October 2009 *Construction Bulletin.*

The Forecast for 2010-2011 and Risks to the Forecast

There are not many bright spots on the economic horizon for Southern Nevada. In all, our forecast for 2010 is quite pessimistic. See Figure 5. We expect that job losses will continue to mount in 2010 and that most sectors of the economy will be affected. We expect the lion's share of job losses to be in the construction and leisure & hospitality industries. That said, no sector will be immune to downsizing and we expect retail trade to take a disproportionately large hit. We also expect personal income to continue its downward trend in 2010, as will gaming revenue. We expect residential-permitting activity to continue at the low levels observed in 2009. The strained job market will provide little incentive for in-migration and as a result, we predict that population will level off at close to the 2 million mark. We anticipate a modest increase in visitor volume spurred largely by deep discounting of room rates. Since discounting attracts a lower-income customer, we forecast a decline in gross gaming revenue.

We anticipate an uptick in economic activity near the end of 2010. As a result, our forecast for 2011 is more optimistic than that for 2010. We forecast increases in employment, personal income, visitor volume, gross gaming revenues, and home-permitting activity. Still, these modest increases occur after two years of economic contraction. Thus, the sum total of economic activity in Southern Nevada by the end of 2011 will fall far short of 2008 levels.

Figure 5. Southern Nevada Forecast: 2010 and 2011



Risks to the Forecast

The risks to this year's forecast are larger and more difficult to assess than in times of economic prosperity. For one, there is an enormous amount of uncertainty about the robustness of the nascent US and global economic recoveries. The federal stimulus package has helped boost the economy nationally, and there is a risk that once the stimulus dollars peter out, that the national economy may experience another round of downsizing. If the recovery falters, then our already dismal 2010 forecast for Southern Nevada is likely to be overly optimistic again.

At present, it is difficult to predict the effect of the 8,000 new hotel rooms and condos added by CityCenter. Our forecast assumes that actual demand for rooms will not increase by much, so that CityCenter bookings come largely at a cost to other properties. If, however, CityCenter stimulates new demand, then our forecast of visitor volume and gross gaming revenues will be overly pessimistic. That said, CityCenter may increase competition among properties enough that some properties may be forced to downsize more, laying off workers and closing sections of their hotels. If this occurs on a large scale, we may be overly optimistic about visitor volume and gross gaming revenue.

Finally, our forecast is predicated on continued low inflation rates in both the US and globally. However, the US stimulus package and its European counterparts and the resulting government deficits could potentially stimulate demand enough that inflation becomes a problem. Also, conflicts in the Middle East and elsewhere could restrict oil production and raise oil prices which would also translate into an inflationary shock. At present, deflation appears more likely. However, this can change quickly. Higher oil prices mean more expensive transportation which affects visitors' budgets and spending activity. A general increase in prices drives down already compromised discretionary income, which will also affect our tourism forecast. General inflation may also lead to pressure on businesses, and additional layoffs from what we currently forecast would be likely.

References

Baker, D. and D. Rosnick. 2008. *The Impact of the Housing Crash on Family Wealth*. Report by the Center for Economic Policy and Research, Washington, D.C.

Murphy, Larry. Sales Traq, quoted in *Las Vegas Review-Journal*, December 8, 2009.

202-293-5380. Online at: www.cepr.net.

Treado, C.D., 2009. "Pittsburgh's Evolving Steel Legacy and the Steel Technology Cluster," *Cambridge Journal of Regions, Economy, and Society*, pp. 1–16,

Online at: doi:10.1093/cjres/rsp027.

Our Sponsors

Executive Level

The M Resort, Spa, Casino
Bank of Nevada
Mandalay Bay
Mirage Las Vegas

Full Level

The Atalon Group
NV Energy

Associate Level

Velstand Investments, LLC
Las Vegas Paperless Solutions
All World Promotions
Classic & Collectible Cars

Center for Business and Economic Research
University of Nevada, Las Vegas