Economy In Brief

DETR Research & Analysis Bureau

January 2009

Nevada's Premier Source of Workforce & Economic Information & Analysis

Economic Summary

Each year at this time, industrial employment estimates are revised (benchmarked) using methods established by the U.S. Department of Labor's Bureau of Labor Statistics. The original estimates are derived from a monthly survey of approximately 2,500 Nevada employers. The modified figures are based on actual employment data collected each quarter from more than 60,000 Nevada employers covered by unemployment insurance laws. The results of the annual benchmarking process showed that Nevada's economy contracted more than originally estimated in 2008. The State's annual establishment based industrial employment growth rate for 2008 was revised downward from -0.7 percent to -2.0 percent, the largest reduction in payrolls since 1982. All told, Nevada's economy saw a decline of 26,100 jobs from 2007 to 2008.

Revised labor force data for 2008 has also been released. Similar to industrial employment re-estimation, labor force and unemployment estimates are revised every year to incorporate revised input data and additional estimation techniques. The size of Nevada's labor force was revised downward by more than 25,000, reflecting slower population growth. However, changes to unemployment rates for the State and its metropolitan statistical areas (MSAs) were minimal. Nevada's 2008 average annual unemployment rate of 6.7 percent was unchanged from preliminary estimates. Relative to 2007 annual averages, Rhode Island had the largest jump in its jobless rate (+2.6 percentage points). Florida and Nevada reported the next largest rate increases (+2.1 and +2.0 percentage points, respectively). The Las Vegas-Paradise MSA saw its average annual rate revised from 6.7 percent to 6.6 percent. The Reno-Sparks MSA's rate remained unchanged at 6.8 percent in 2008. The Carson City MSA saw its 2008 average annual unemployment rate lowered by two-tenths of a percentage point to 7.0 percent. The Elko micropolitan area (Elko and Eureka counties) remained unchanged at 4.2 percent.

Nevada's seasonally adjusted unemployment rate climbed to 9.4 percent in January, up from a revised 8.4 percent in December. The normal December-January increase in unemployment was exacerbated by current economic conditions, as the recession's impacts continued to hit Nevada especially hard. January's unemployment rate was the highest since August 1983. The unadjusted unemployment rate at both the State and MSA level topped 10.0 percent. The Statewide rate reached 10.2 percent. Carson City experienced the highest unemployment rate, 11.1 percent, followed by Reno-Sparks at 11.0 percent, and a jobless rate of 10.0 percent in the Las Vegas-Paradise MSA.

January labor market conditions varied considerably across the State. Eight counties, led by Lyon's 15.1 percent and Nye's 13.1 percent, had double-digit unemployment rates. Three counties, Lander, Elko and White Pine, had jobless rates below 7.0 percent; a reflection of the relatively strong performance of the State's mining industry.

Economic Indicators

UNEMPLOYMENT RATES	JAN 2009
NEVADA *	9.4%
LAS VEGAS-PARADISE MSA	10.0%
RENO-SPARKS MSA	11.0%
CARSON CITY MSA	11.1%
ELKO MICROPOLITAN AREA	6.4%
UNITED STATES *	7.6%
CALIFORNIA *	10.1%

* Seasonally Adjusted

JOB GROWTH (Y-O-Y)	
NEVADA	-4.7%
LAS VEGAS-PARADISE MSA	-4.2%
RENO-SPARKS MSA	-7.3%
CARSON CITY MSA	-4.8%
UNITED STATES	-2.6%
CALIFORNIA	-3.3%

CONSUMER PRICE INDEX (Y-O-Y)	
UNITED STATES	0.0%

GAMING WIN (Y-O-Y) DEC 2007 - DEC 2008	
NEVADA	-18.9%
CLARK COUNTY	-18.9%
WASHOE COUNTY	-25.7%

TAXABLE SALES (Y-O-Y) DEC 2007 - DEC 2008	
NEVADA	-16.2%
CLARK COUNTY	-16.7%
WASHOE COUNTY	-17.6%

Recessionary pressures appear to be unwinding some of the growth experienced earlier this decade. Nevada's employers scaled back jobs by nearly 60,000 in January from the same month a year ago. Job losses are broad based, but a few sectors are absorbing significant losses. For instance, construction employment is down by 20,100, leisure and hospitality is down by 19,000, and

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professional and business service employment is down by 10,800 over the year.

As consumers have scaled back their discretionary travel and spending activity, there have been some structural changes in Nevada's economy. For instance, the number of casino hotel jobs per hotel room in southern Nevada has trended down markedly since mid-2006, just as it has in past downturns in the economy. For all of 2008, there were 1.18 casino hotel jobs per each hotel room. In mid-2006, there were in excess of 1.3 jobs per room. Just a decade ago that statistic was approaching 1.4 jobs per room.

The State's deteriorating labor markets are having broad-ranging impacts. For several years running, Nevada led the nation in population growth. However, preliminary information suggests that population growth has slowed markedly as the economy has weakened. Nevada's population grew by just 0.8 percent in 2008. Over the 1997-2007 period, population gains averaged 4.3 percent annually.

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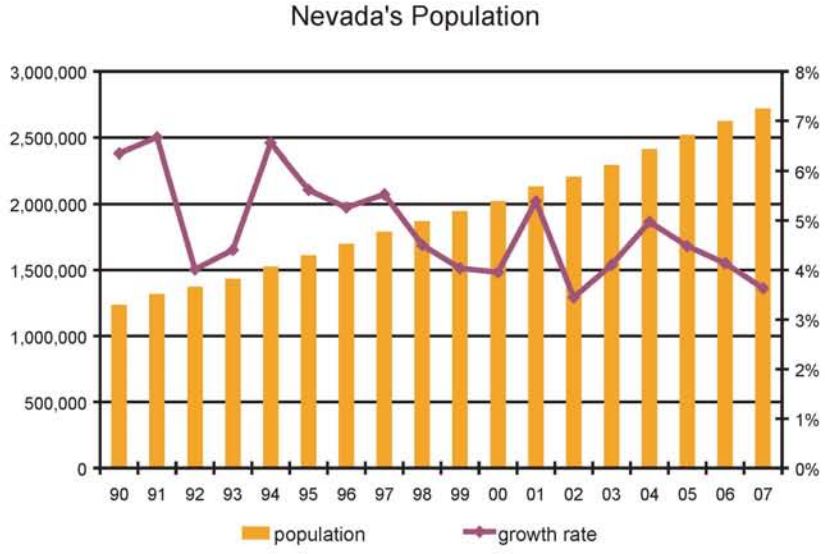
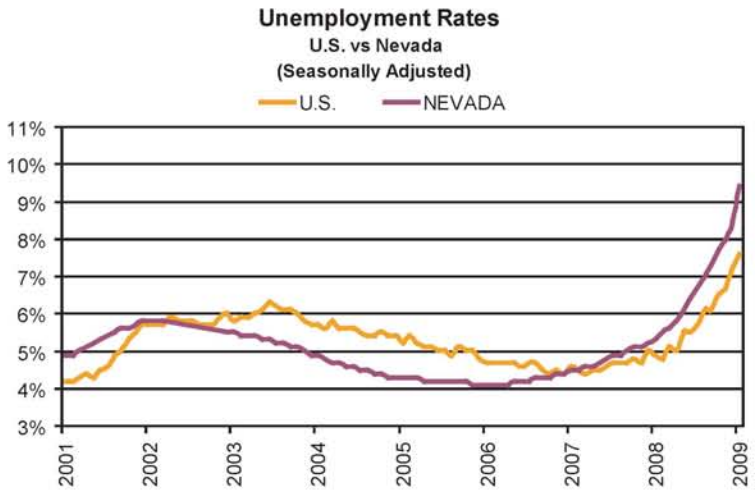


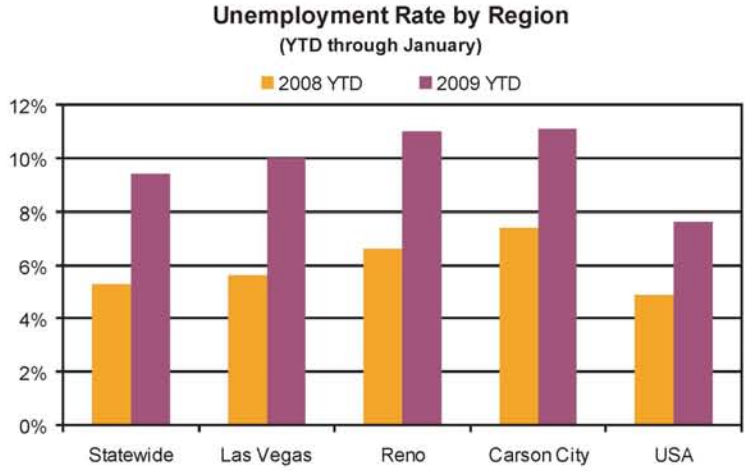
Trends at a Glance

Unemployment

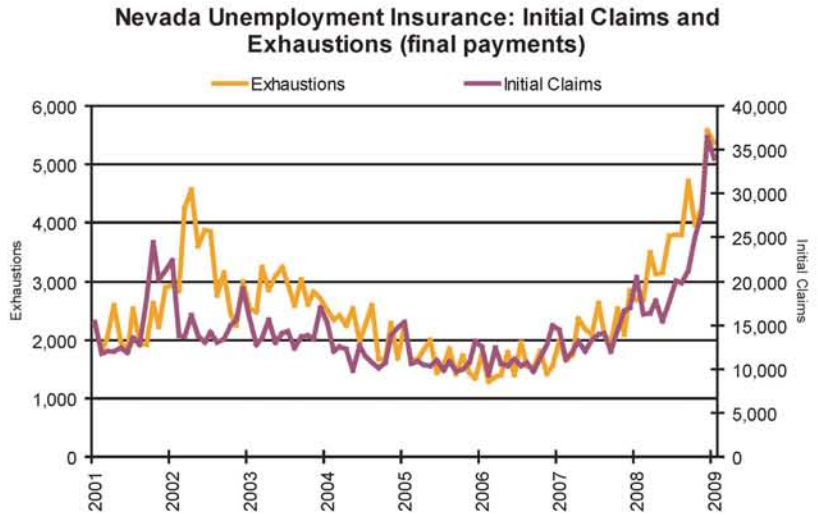
>Nevada's seasonally adjusted unemployment rate was 9.4 percent in January. It has not been this high since August 1983.
>The highest seasonally adjusted unemployment rate ever recorded in Nevada was 10.7 percent in December 1982.
>Nationally, the unemployment rate stood at 7.6 percent in January. Nevada's jobless rate has exceeded the national average since early-2007. Prior to that, it had been trending below the U.S. for several years.



>The Statewide unemployment rate reached 9.4 percent in January, up 4.1 percentage points from last year.
>The Las Vegas-Paradise MSA recorded an unemployment rate of 10 percent in January.
>The Reno-Sparks MSA's jobless rate reached 11 percent in January.



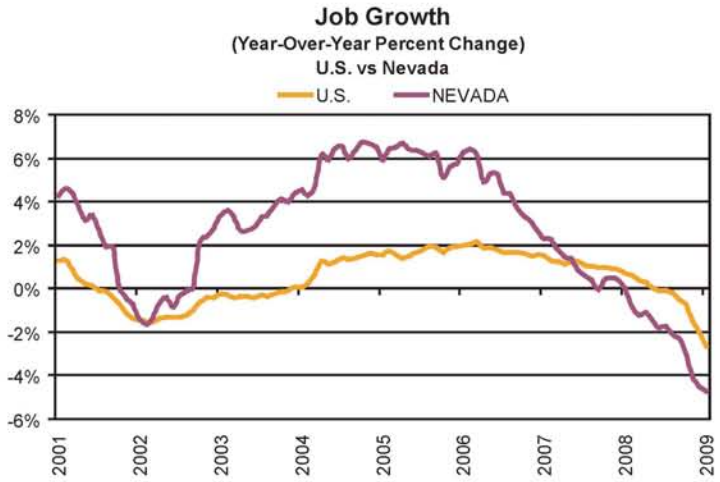
>Initial claims for unemployment insurance actually fell by 2,400 in January from December, but still remain 66.4% higher than year-ago levels.
>Final payments, signifying an exhaustion of benefits, were 100 percent higher than year-ago levels.



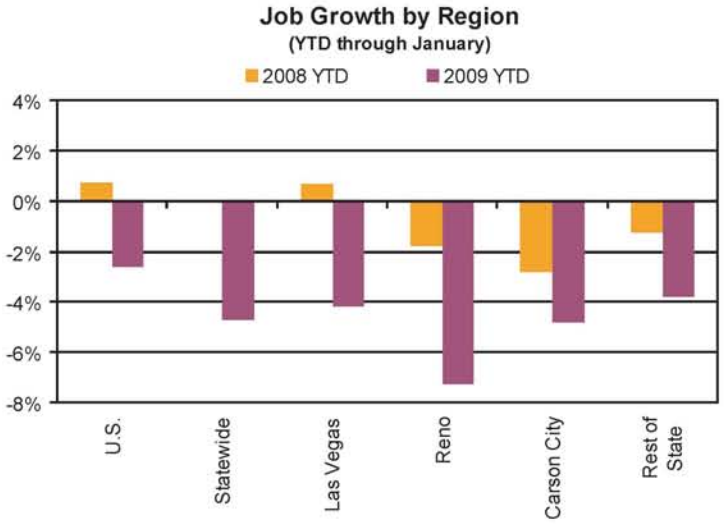
Trends at a Glance

Industrial Employment

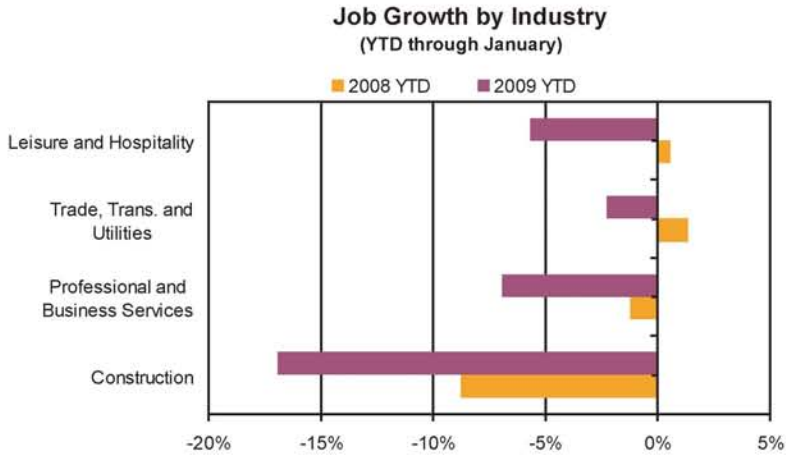
>Industrial employment in Nevada fell 4.7 percent in January, relative to a year ago, which equates to a loss of 59,600 jobs.
>January job readings were down 2.6 percent nationally.



>Employment in January is below year-ago levels throughout all regions of the State.
>The Las Vegas MSA's job count fell 4.2 percent in January relative to last year.
>In the Reno MSA, January job readings were down a significant 7.3 percent relative to last year.



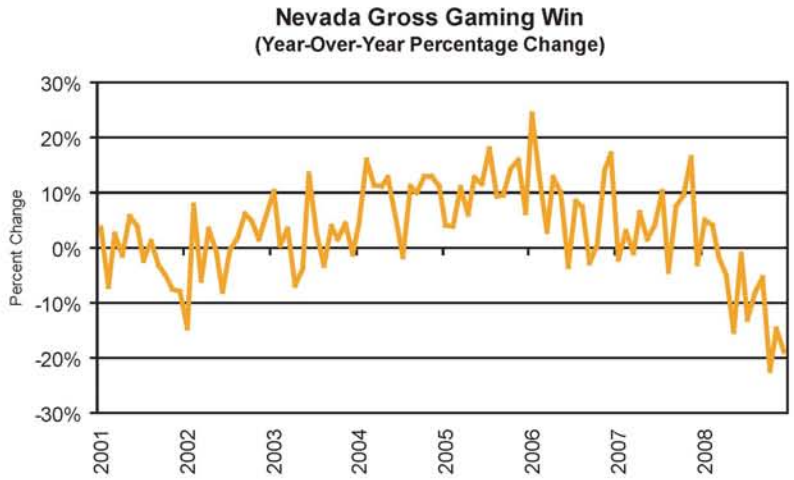
>20,100 jobs have been lost in the construction industry over the past year, a 16.9 percent annual decline.
>The State's largest industry sector, leisure and hospitality, continues to struggle to retain employment. Industry employment was down 5.7 percent in January relative to January 2008.



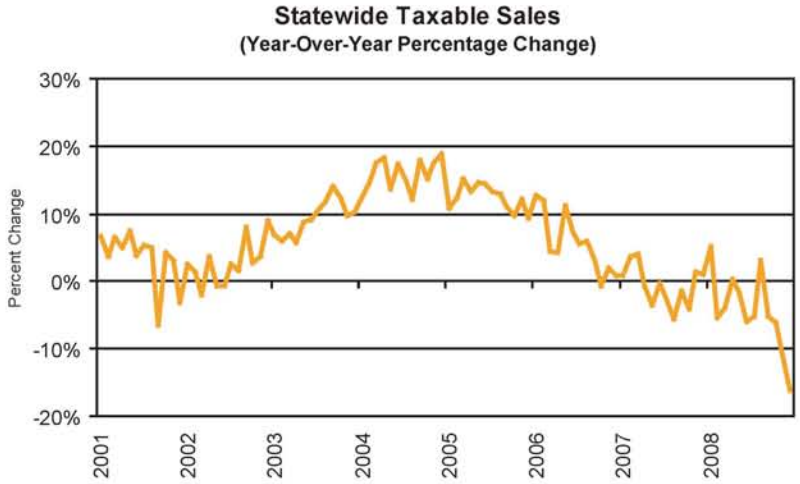
Trends at a Glance

Economic Indicators

>Gaming win was down 18.9 percent in December from the year prior. This is the 12th consecutive month in which gaming win has declined.



>Statewide taxable sales in December were down 16.2 percent from a year earlier.



>Las Vegas visitor volume fell by 336,000 in December relative to a year ago. This represents a 10.9 percent decline.

Special Topics

Nevada Personal Income: 2008:IIIQ

One of the broader measures of the health of Nevada's economy, and the financial well-being of its citizens, is personal income. This information is reported on a quarterly basis by the Bureau of Economic Analysis in the U.S. Department of Commerce. Data are released with a nearly three-month lag.

Personal income readings have more than doubled in the past decade (Table 1). Although growth remains respectable, the on-going economic slowdown is having an impact on overall income trends, just as it has on other barometers of Nevada's economic health, such as employment/unemployment, taxable sales, and gaming activity. Income growth has eased considerably.

As of 2008:IIIQ, personal income in Nevada totaled $105.4 billion on a seasonally adjusted annual basis (Figure 1). This translates into a 3 percent increase relative to the third quarter of 2007. A decade ago, income totaled just a bit more than $50 billion. This long-term growth is consistent with other measures of economic activity in Nevada. The State's population has grown by 50 percent over the past decade. Approximately 400,000 new jobs were created over the 1997-2007 period. Las Vegas visitor volume increased by about 8.7 million over the same period. Nevada's remarkable economic showing in prior years makes the current downturn all the more difficult.

Over the past ten years, personal income growth has averaged about 8 percent per year. As spelled out above, current trends are not nearly as encouraging as they were earlier this decade. Specifically, personal income growth peaked in excess of 12 percent in both 2004 and 2005 (Figure 2, Figure

Table 1 Nevada Personal Income
(billions of $; seasonally adjusted at annual rates)

	IQ	IIQ	IIIQ	IVQ	Annual Average
1999	$55.1	$55.9	$56.4	$58.4	$56.5
2000	$60.0	$61.4	$61.9	$62.4	$61.4
2001	$63.5	$64.6	$64.9	$64.4	$64.4
2002	$65.8	$66.4	$66.7	$67.6	$66.6
2003	$69.1	$70.2	$71.8	$73.6	$71.2
2004	$76.9	$78.8	$81.0	$84.3	$80.2
2005	$86.9	$89.7	$90.9	$92.6	$90.0
2006	$93.7	$95.9	$97.2	$99.1	$96.5
2007	$99.5	$100.2	$102.3	$104.9	$101.7
2008	$104.7	$105.1	$105.4		
2007-2008 Change	5.3%	4.9%	3.0%		

Figure 1 Nevada Personal Income
(billions of $; seasonally adjusted at annual rates)

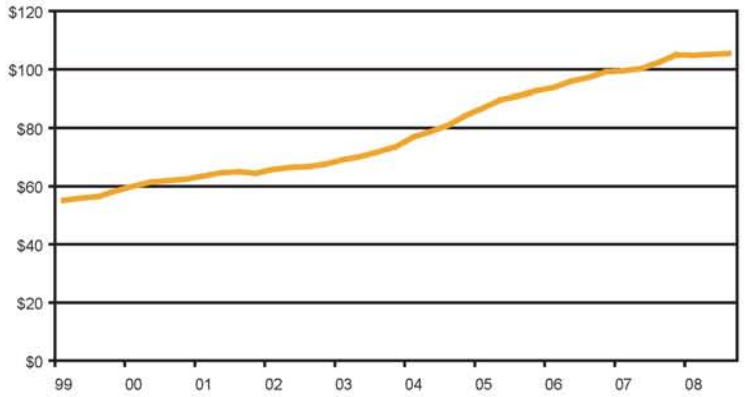
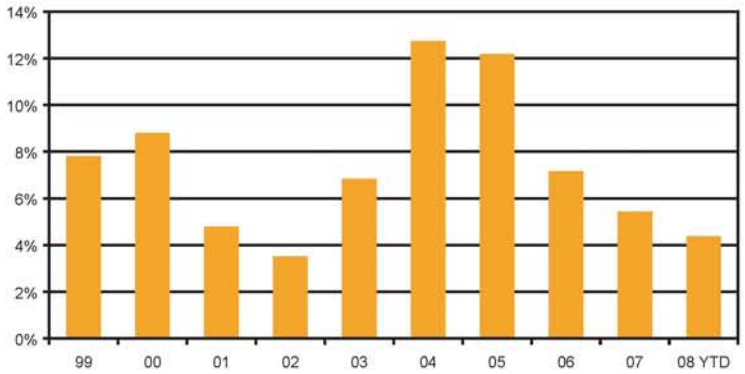


Figure 2 Nevada Annual Personal Income Growth
(percent change from year-ago; 2008 YTD through IIIQ)



Special Topics

3) in Nevada. In averaging 4.4 percent through the first three quarters of 2008, income growth has been cut by roughly two-thirds since that high point.

During the previous economic downturn, in 2001 and 2002, personal income growth fell to as low as 2.7 percent in 2002:IIIQ. So far income growth has held up better than in the prior slump. It would not be at all surprising if we dip below the early-2000s low point in the final three months of the year in light of the much-publicized deterioration in the State's economy as 2008 drew to a close. During the recessionary early-1980s, the lowest growth rate was 4.5 percent, recorded in 1983:IQ. Although Nevada personal income growth slowed during the recession of the early-1990s, it never dipped below the 6.7 percent increase turned in during 1993:IVQ.

The largest component of personal income is net earnings, accounting for approximately two-thirds of total income. It grew at just a 2.8 percent clip during the first nine months of 2008. This marks a significant deceleration from the 4.7 percent gain recorded during the first three quarters of 2007 (Figure 4).

These general earnings trends are consistent with information from the Quarterly Census of Employment and Wages (QCEW), a cooperative program between the U.S. Bureau of Labor Statistics and the Research and Analysis Bureau, which generates a variety of information concerning employers and employees covered by unemployment insurance laws. Recent QCEW information points to average weekly wage growth of 3.2 percent during the first three quarters of 2008 in Nevada, suggesting that much of the State's net earnings growth is likely the result of wage inflation, in the absence of employment gains.

Arguably, Nevada's economy, to a large degree, has been impacted by three structural forces driving the current slowdown: housing market difficulties, problems in the credit market, and cautious consumer spending. Evidence of the impacts of these forces can be found in recent personal income trends (Figure 5). Total earnings on the part of workers in the construction sector were off by 3.5 percent during the first nine months of 2008, relative to a year ago. Earnings on the part of workers in the retail trade industry (up just 0.2 percent) and the accommodation and food services industry (up just 1.2 percent) also highlight the manner in which Nevada is being impacted by the on-going recession.

Although a relatively small component of total personal income, trends of late have been helped by growth in transfer payments. Since 2006, this component of personal income has accounted for, on average, about 11 percent of total income. During the first nine months of this year, transfer payments grew at an annual clip of 11.7 percent, on the heels of an 8.4 percent increase during the first three quarters of 2007. Typically,

Figure 3 Nevada Quarterly Personal Income Growth (percent change from year-ago)

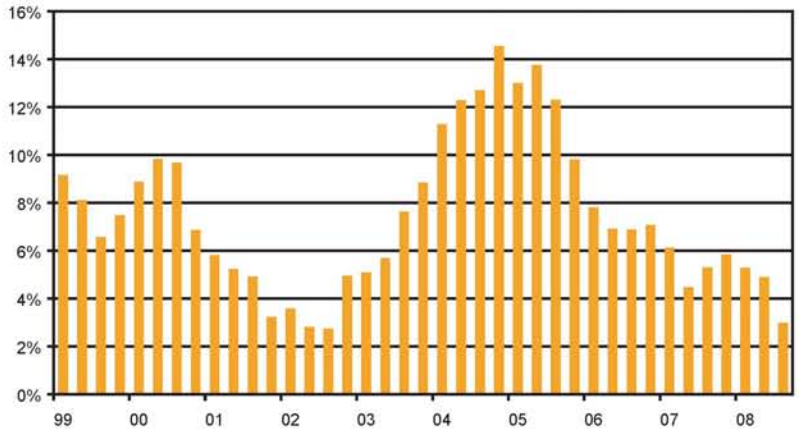
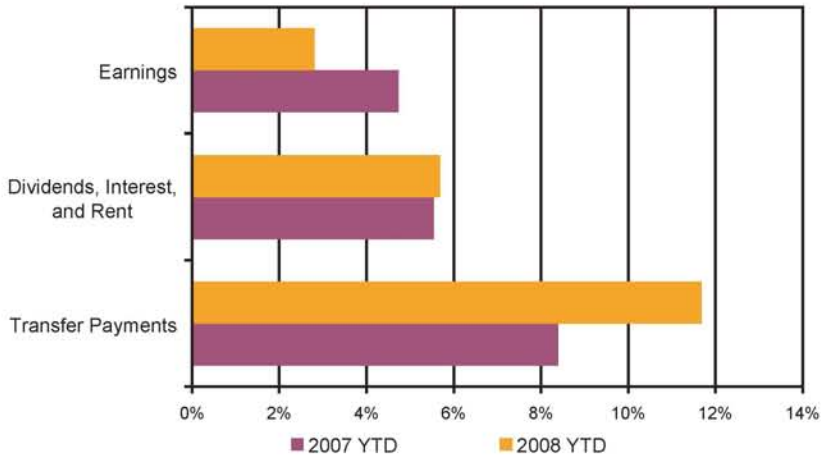


Figure 4 Components of Nevada Personal Income Growth (YTD through IIIQ)



Special Topics

transfer payments, especially those from the government sector to citizens, pick up as the economy falters.

An examination of personal income trends suggests that Nevada has been hit relatively hard by the current downturn, due, at least in part, to our high exposure to the three driving forces behind the economy's on-going slowdown highlighted above. Historically, income growth in Nevada has exceeded that for the nation as a whole (Figure 6). During the 2002-2005 period, income gains in Nevada were double the rate of growth in the U.S. However, since then, the State's fortunes have turned. In 2006, Nevada's personal income growth barely exceeded the national average. In 2007, U.S. income growth was actually stronger than in Nevada. Through the first three quarters of 2008, Nevada's 4.4 percent income gain stands just 0.1 percentage point higher than in the U.S.

The current downturn in the economy proved to be very hard to predict. Few were able to foresee its severity. Similarly, opinions about the length of the downturn vary widely. To date, personal income growth has held up fairly well, but there are certainly signs of weakening. Should economic conditions continue to worsen, income readings will surely take a hit. Under that scenario, only time will tell if income growth will fall to readings not seen in more than a half-century.

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Figure 5 Nevada Earnings Growth for Selected Industries (2008 YTD vs. 2007 YTD)

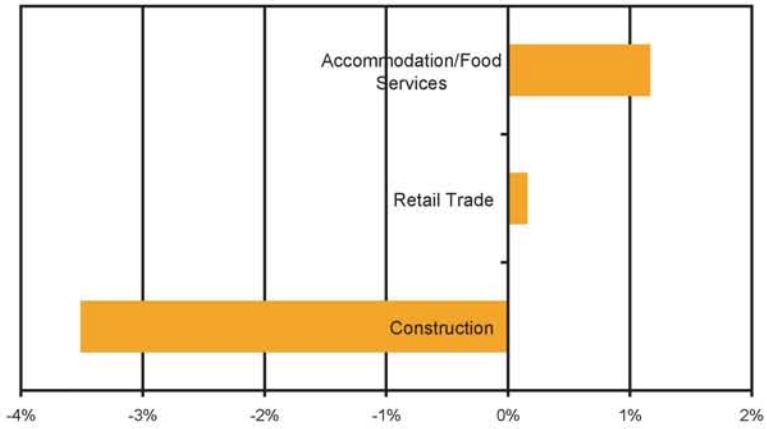
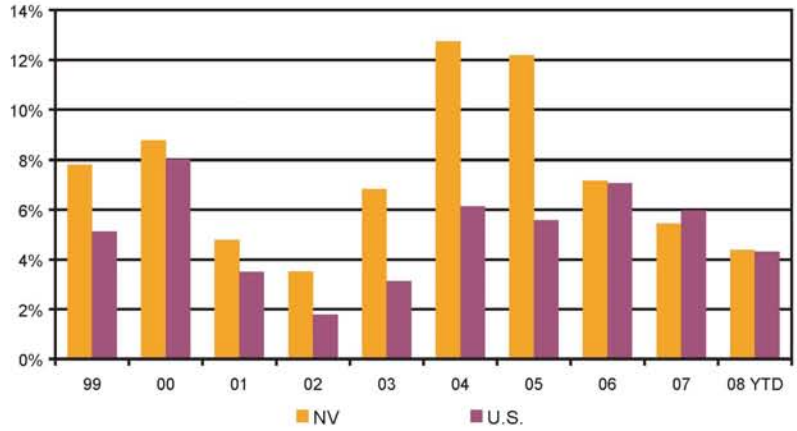


Figure 6 Nevada Personal Income Growth vs. the U.S. (2008 YTD through IIIQ)



Endnotes

1 Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts. Net earnings is earnings by place of work (the sum of wage and salary disbursements (payrolls), supplements to wages and salaries, and proprietors' income) less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis. Personal income is measured before the deduction of personal income taxes and other personal taxes and is reported in current dollars (no adjustment is made for price changes). Additional information is available at http://www.bea.gov/regional/index.htm#state.

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ECONOMY IN BRIEF

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