LAS VEGAS SUN

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the economy:

Vegas economy shows glimmer of hope

Steve Marcus / File photo

The downturn in the real estate market has lowered home prices, such as in this Henderson neighborhood, to levels not seen in years. Lower prices have increased home sales, a factor leaving some economists optimistic that a rebound in the economy is around the corner.

By Brian Wargo (contact), In Business reporter

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Could the worst be over for Southern Nevada's economy?

Although the evidence is meager, there is an indication that Las Vegas' economy could improve in the coming months based on the latest data from UNLV's Center for Business and Economic Research, according to

Director Keith Schwer.

The Southern Nevada Index of Leading Economic Indicators shows seven of the 10 categories turned positive in May compared with April. However, nine indicators were down compared with May 2008. Overall, the index was down by 3.2 percent since then.

The index, using data from March on such things as gaming revenue, visitor volume, retail sales and construction, is a forecast of the economy through Sept. 1. Schwer said the numbers suggest this is the end of the sharp declines. The debate, however, is over how sustainable any recovery will be, he said.

"Nevada's worst recession since the 1930s is not over, but perhaps it is coming to an end," Schwer said. "The index should have a clearly defined bottom and turn up for one to have some assurances that things are on the road to recovery."

Schwer's comments about the local economy mirror what most economists and Federal Reserve Chairman Ben Bernanke are saying about the national economy: The recession could be over by this year's fourth quarter or the first quarter of 2010. Some have suggested that even though the problems are not over, especially when it comes to home foreclosures and unemployment, the worst appears to be in the past.

The best gauge for Las Vegas' rebound will be the national economy because Southern Nevada depends on the rest of the country for tourists.

That gauge has been mixed so far with consumer confidence at its highest level since September, but consumers have cut back on spending for two consecutive months and are not expected to open their wallets more until the economy improves. And the nation's unemployment rate is expected to increase through 2010's second quarter.

Las Vegas economist John Restrepo, principal of Restrepo Consulting, said there is some hope for the nation's economy. The Institute for Supply Management says U.S. manufacturing activity is shrinking at a slower pace and new orders placed with factories rose in May for the first time since November 2007, one month before the recession started.

"One month does not make a trend, but the decline seems to have moderated a bit," Restrepo said.

Some economists such as Mark Zandi, chief economist for Moody's economy.com, predicted last month at the International Council of Shopping Centers convention that Las Vegas' recovery would lag the nation's improvement. He had a dour outlook on the region through 2010 because people across the country have little to spend on vacations to Las Vegas.

Chris Thornberg, an economist with Los Angeles-based Beacon Economics, said the nation's savings rate is only 5.5 percent and needs to reach 8 percent before people are in position to make major purchases again.

"It is not a function of 'if' but a function of 'when,' " Thornberg said of Las Vegas' recovery. "That is the glimmer of hope, but it isn't going to be a speedy recovery. We are pretty close to the bottom, but we will not see any signs of growth until the second half of 2010."

Las Vegas is like other Sunbelt states such as California and Arizona that rely on development for economic growth, Thornberg said. The recession is going to hamper the construction industry for two to three years.

The most recent Clark County Construction Index put out by UNLV is down nearly 30 percent compared with a year ago. More than 13,000 construction jobs are gone, continuing the contraction that started with residential and now comes more often from resort and commercial projects, Schwer said.

"The demand has to catch up to the supply, and that is going to be a few years (away)," Thornberg said. "It is a deeper cycle in Las Vegas because of these forces."

Casino executives, meanwhile, are optimistic about the local economy's recovery. UNLV's Clark County Tourism Index turned up in March compared with February, breaking a five-month string of double-digit declines when measured against the same months a year earlier. March's visitor volume was the highest since August.

In a conference call in May, Wynn Resorts Chairman and CEO Steve Wynn said that despite weaker quarterly results, he was "cautiously optimistic that we have seen the bottom" of the tanking economy.

Wynn based his optimism on booking windows that have expanded since the middle of last year. He also said there have been indications of a return to more traditional consumer behavior.

"I'm still going to be a little reticent," Wynn said. "I don't know whether the stimulus package has taken effect or whether it is effective."

MGM Mirage Chairman and CEO Jim Murren has sounded an optimistic note about a 97 percent occupancy rate in April.

"It's still tough, but it was brutal at the early part of the year," Murren said in a conference call last month. "I don't want to give false hope or expectations, but we think the worst of it is behind us."

Restrepo is among those who think Las Vegas will lag the nation's recovery because of the housing bust that made Southern Nevada's recession deeper than elsewhere. He said he's more pessimistic than other people because he thinks a recovery won't take place locally until late 2010 or early 2011 compared with late 2009 or early 2010 for the rest of the nation.

Commercial foreclosures have yet to hit and their effect is unknown, Restrepo said. Another wave of housing foreclosures is expected this year, and the region has one of the highest credit card delinquency rates, he said.

Restrepo said the recovery will be measured by six months of job growth and six months of stable or increasing home prices.

Nevada's unemployment rate reached 10.4 percent in April. Job growth, however, is a lagging indicator because even when the economy improves, companies are hesitant to rehire until they think the recovery is sustained, he said.

"The big question is — even with a national recovery by the end of this year — what spending habits will people have?" Restrepo said. "If they go on vacation, how much will they spend? My gut feeling is they will be more conservative in their spending."

Brian Gordon, a principal at Applied Analysis, said all the indicators point to a continued decline in Las Vegas, but the pace is slowing.

Problems in the housing market remain a legitimate concern because people are losing equity in their homes and facing foreclosures because of job losses, Gordon said. The stability of the housing market will be important for any turnaround, he said.

Local consumer spending remains weak, he said.

"For a lot of consumers, they don't know what the future holds, and they are hunkering down and operating much more cautiously like a lot of Southern Nevada businesses," Gordon said.

In Business Las Vegas reporter Richard N. Velotta contributed to this story.

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