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Mountain Monitor

Tracking Economic Recession and Recovery in the Intermountain West's Metropolitan Areas: Las Vegas

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Due to a major time crunch surrounding the Global Metro Summit that we staged in early December with the London School of Economics and the Alfred Herrhausen Society in Chicago (for more information, visit http://globalmetrosummit.net), the usual Mountain Monitor *will not appear this quarter but will return in its full depth and entirety in March 2011. In its place, and to commemorate the one-year anniversary of the* Mountain Monitor, *we've compiled a short memo on the Las Vegas metropolitan area's progress towards recovery through the end of the third quarter of 2010. Updated individual metro profiles for the nation's top 100 metro areas, including those in the Intermountain West, are still available with this quarter's data for viewing at http://www.brookings.edu/metro/MetroMonitor.aspx.*

One year after the *Mountain Monitor* began tracking recession and recovery in the Intermountain West, the Southern Nevada economy has yet to turn around. The rate of slippage across a range of indicators has slowed measurably, but evidence of a nascent recovery eludes. Las Vegas' poor relative performance over the past year can be attributed not only to the legacy of a particularly devastating initial wave of economic distress, but also to a continued struggle to slow and reverse the downward trend.

How hard Vegas has been hit by the housing market crash, the financial crisis, and the ensuing recession is by now well-documented. More interesting—and more important for those residing in the region—are the trend lines that report the degree to which conditions are improving tangibly on the ground. To answer this question, this Brookings Mountain West *Mountain Monitor* memo provides information on changes in employment, unemployment, output (GMP), and house price levels over two time horizons: the past quarter, and the past year.

On the ***Mountain's Monitor's*** measure of overall performance, Las Vegas ranked second to last among the **nation's 100 largest metro areas through the third quarter of 2010**. This composite index compares changes in employment, unemployment, output or gross metro product (GMP), and house prices from metros' pre-recession peaks to the present. On all of these measures except GMP, which inched up by 0.1 percent from the second quarter to the third, Las Vegas exhibited continued decline.

Jobs continued to grow fewer and farther between from the second quarter of 2010 to the third, but in this metro Las Vegas was no exception: Employment contracted 0.3 percent in Las Vegas as well as across the top 100 metro areas as a group. While the national employment level struck its trough in the first quarter of the year, employment levels in Southern Nevada—and 32 other major metro areas—continued to fall through the third. One out of seven of the jobs that existed in metro Las Vegas at the region's economic peak in 2007 no longer exist today.

Between September 2008 and September 2009, unemployment in metro Las Vegas nearly doubled, jumping almost 6.0 percentage points to 13.5 percent of the labor force. In the year since then the unemployment rate has increased much more slowly, by just 1.5 percentage points, to 15.0 percent. Nonetheless, this relatively modest increase by recent local standards was actually the largest posted by any major metro in the country last quarter. The unemployment rate rose by more than one percentage point in only five other metros areas (four of them in California) in the year to September, while it decreased in 55 other of the nation's top 100 metros. The national unemployment rate, for its part, fell slightly over the last year to 9.2 percent of the labor force in September—which, while quite high, is still less than two-thirds metro Las Vegas' rate.

In terms of its gross metropolitan output (GMP), Las Vegas did not experience an exceptionally painful contraction during the recession—GMP fell 6.0 percent from peak to trough, landing the metro in the second-lowest quintile of its peers—but recovery from the new low has barely progressed. Indeed Las Vegas' output has grown only 0.8 percent above the low-point it fell to in the second quarter of 2009. Only three other metros find themselves saddled with more sluggish economies; output across the top 100 metros together has bounced back 4.0 percent from the recession's depth. This sluggishness and lack of resilience—as much to blame for the region's poor performance over the recession as the initial contraction—raises serious questions about the fundamental orientation of Las Vegas' present economy.

Although much of the action during the anxious days of late 2008 took place on Wall Street and in Washington, the Las Vegas housing market was in many ways the epicenter of the financial crisis, and the aftershocks of the crash are still reverberating across the region. Already having more than halved since the market's peak in late 2006, Vegas home prices fell another 1.4 percent last quarter. Prices in 16 other mostly Sunbelt and Pacific Northwest markets fell mildly too from the second quarter to the third, suggesting that Southern Nevada is not alone in its prolonged suffering from the hangover. Declines in house prices have, on the bright side, been slowing steadily over the past four quarters.

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In sum, the Las Vegas metropolitan area fell farther and faster than almost any of its peers in the first few months of the recession. Given the highly cyclical nature of two of its core industries, gaming and tourism, such a violent swing may have been expected irrespective of housing market dynamics—as will be a partial snapback once the national economic recovery gains momentum. But for now, economic data from the third quarter of 2010 show that Las Vegas continues to lose ground (albeit at a slackening pace) on almost every indicator: employment levels are still falling, unemployment is still rising, output has barely budged upwards, and house prices have yet to settle. In this respect, the fact that other metros with different economic bases and stronger, more resilient economic engines have been able to pull themselves out of recession and into recovery underscores the need for a fundamental reflection on the nature and prospects of Southern Nevada's current economic base. Again reaching—let alone surpassing—its pre-recession size (which was, lest we forget, inflated by an asset bubble) will require Las Vegas' economy to first end its slide and second post exceptional growth rates in the years ahead. But where will the growth come from? One year of *Mountain Monitor* benchmarking suggests that this growth can likely only be powered by a substantially retooled economic engine—one fueled, much more than the last economy ever was, by human capital, innovation, and exports.

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