"There and Back Again"
The Southern Nevada Economy
By John Restrepo, RCG Economics
www.rcg1.com

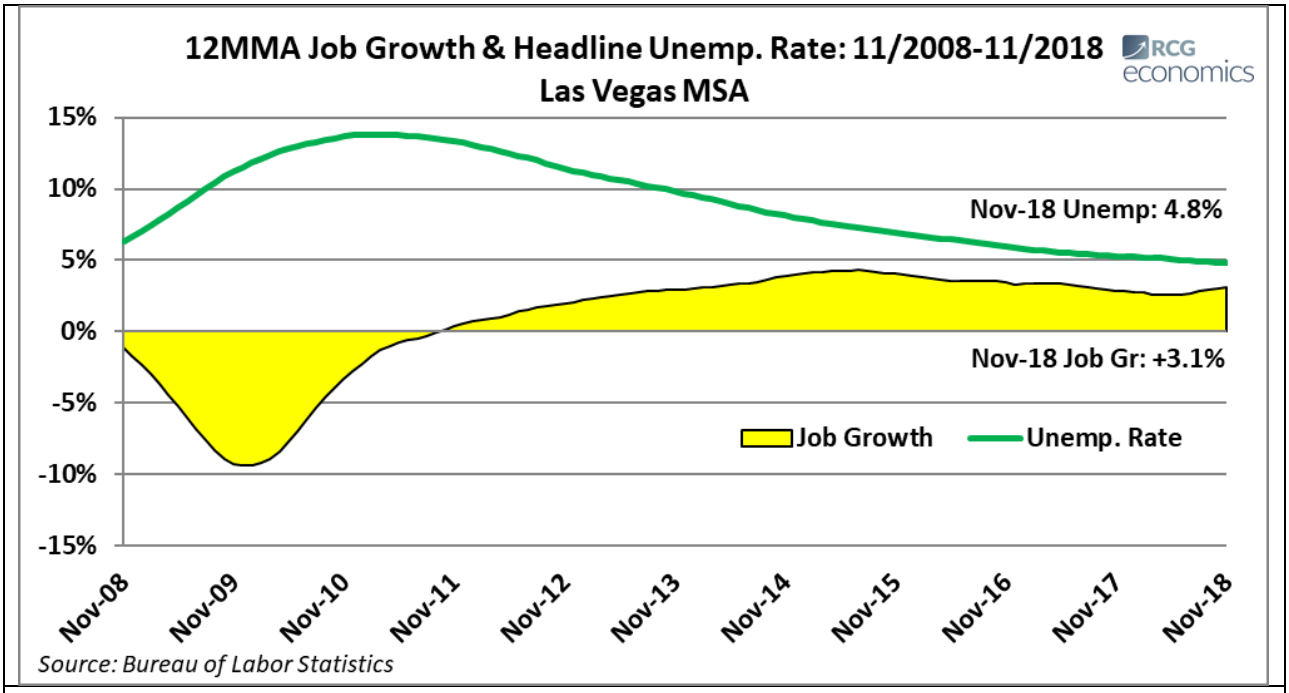
When I was recently asked to pen this article on the current state of the Southern Nevada economy and where it's heading in 2019 for NAIOP's monthly "Notable News Bites", I opted to use a select set of infographics from the batch we regularly post (www.thestatpack.com). Since we are all pretty busy these days, my thought was that "pictures" tell more impactful story because they are a quick and effective way to spot what's happening.

But, I also knew that a lot of our NAIOP members appreciate a little "lagniappe" (i.e., bonus or extra gift) as it's called in New Orleans. So, we added a bit of commentary with each of the infographics. We went even further by violating our core forecasting rule at RCG of not giving a date when we give number and not giving a number when we give a date, by doing both after each of our commentaries.

The bottom line: 2019 will see continued healthy economic growth in the Southern Nevada, based on the broad range of metrics we track. But there is growing uncertainty for a variety of reasons as reflected in the business news in recent months, and in the trend lines of a number of the following charts. There's no reason to be overly concerned but there is reason to pay attention to what the data is saying. Economic cycles really are a thing and ignoring emerging date trends like many of us did back in 2007-08 is something I wouldn't recommend doing again.

Now for a shameless plug. If you want to show all your friends and colleagues how smart and well-informed you are, you might want to sign-up for all the economic and business news that's fit to post about Nevada and beyond by clicking on the link below and scroll to the bottom of the page:

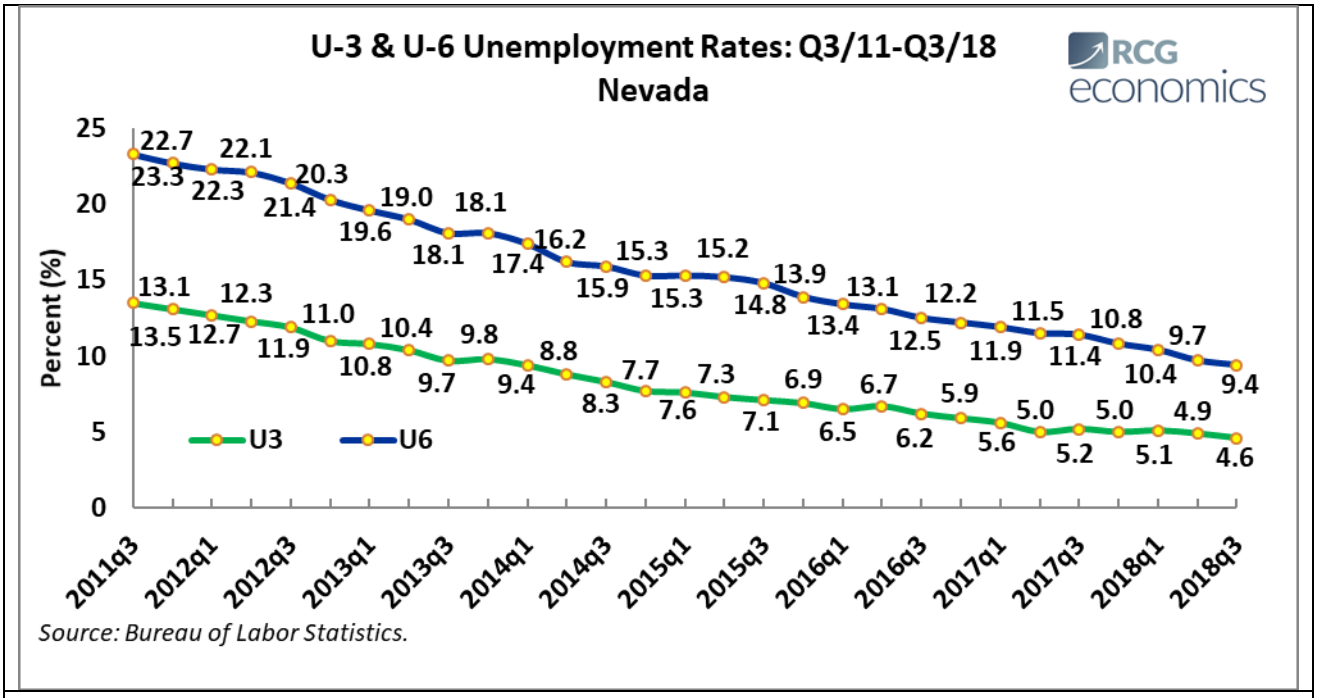
https://rcg1.com/



The 12MMA of Clark County's headline unemployment rate dropped slightly in November to 4.8% after a brief pause in October. That's 0.5 points below November 2018's 5.3% 12MMA. This metric reached its lowest level (4%) more than 11 years ago in October 2006.

The 12MMA rate of job growth in the Las Vegas MSA increased 0.1 points to 3.1% in November. There was also an increase in YOY job growth from the previous year, a full 1.6 points above November 2017's 2.2%. The 12MMA job growth rate has now risen for the fifth straight month, a good economic sign.

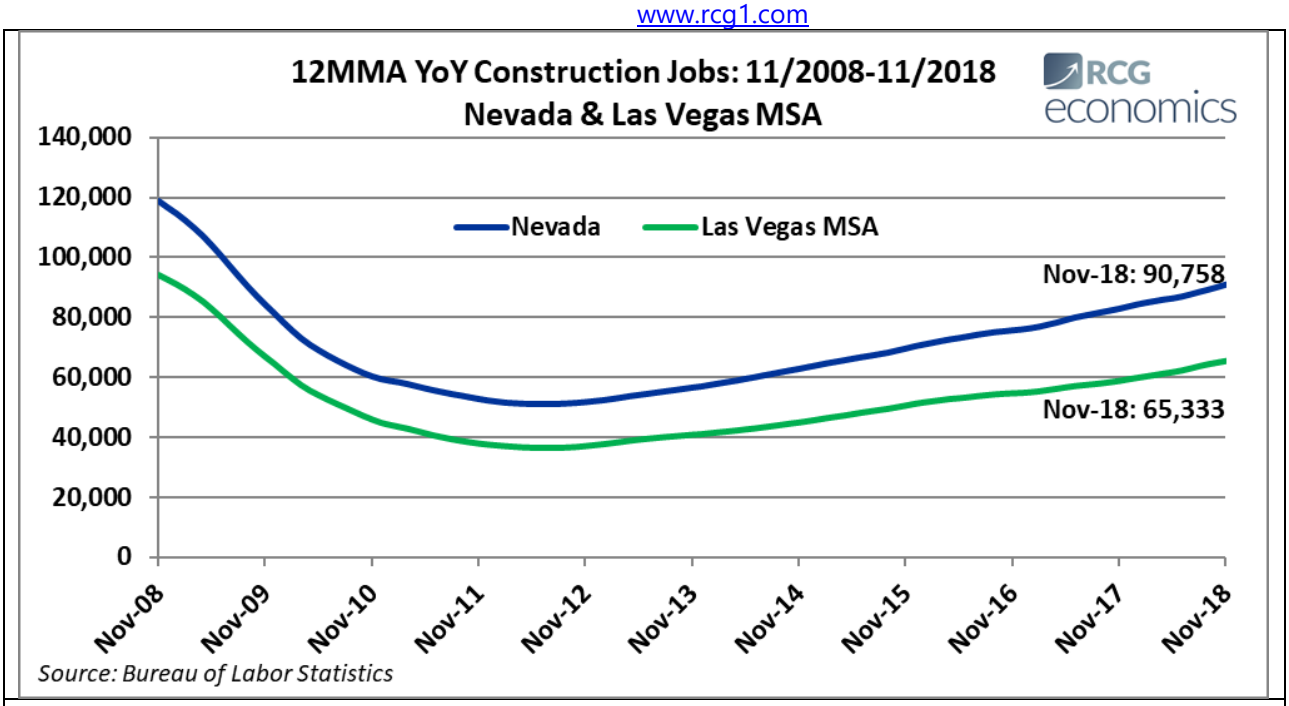
Year-End 2019 Projection: 3% or by 31,000 Jobs



The U-3 unemployment rate, or headline rate, for Nevada, continued its downward trend, ticking down another 0.3 points in Q3. The U-3 rate is now exactly the average rate for 2007 (4.6%), the year the Great Recession hit. Along with this drop in the U-3 rate, the U-6 rate, which measures underemployment, had the same 0.3-point decline from 9.7% to 9.4%. Quick note, the U-6 rate has historically been about twice the U-3 rate.

In terms of the U-3 rate, Nevada is tied for the 6th highest U-3 rate in the nation with Arizona and New Mexico. While the U-6 rate saw some improvement, Nevada still holds the 4th highest rate in the country, compared to the #5 spot held by the state last quarter.

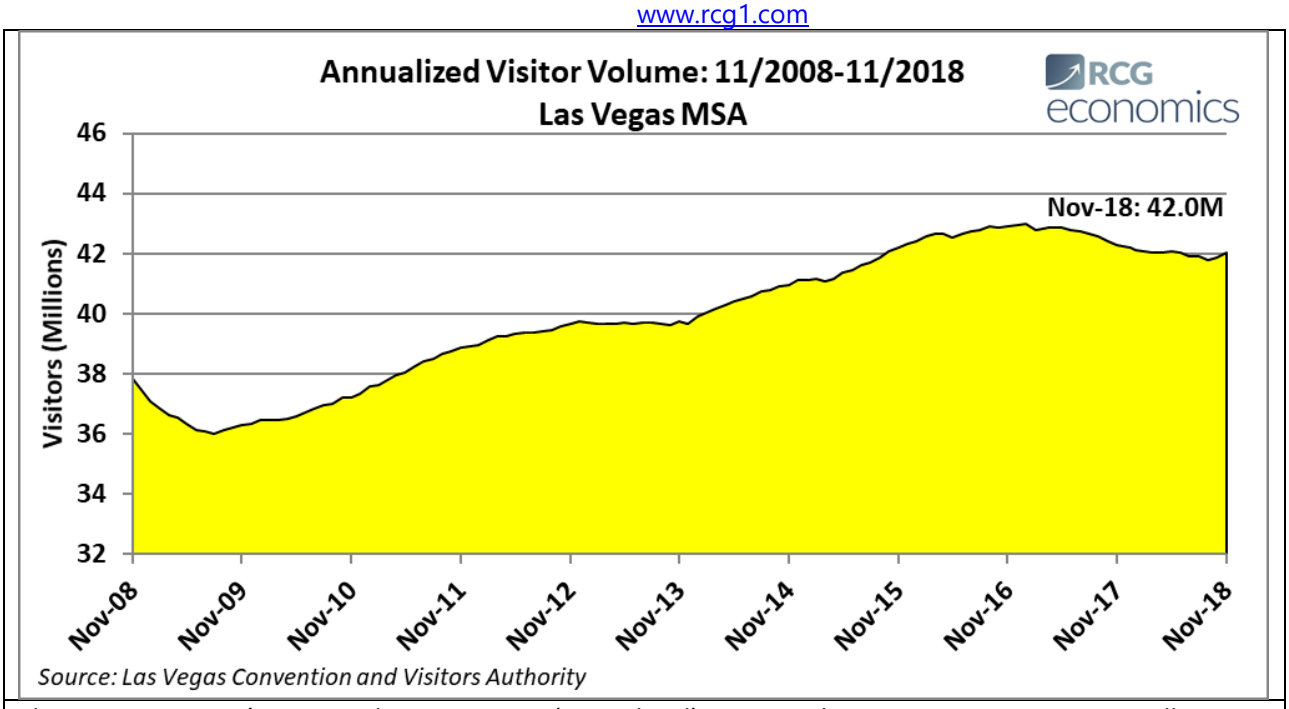
Year-End 2019 Projection: 4% Headline Rate



Construction in the Las Vegas MSA continues to be boosted by a still relatively healthy for-sale and for-rent housing market, improving (particularly industrial) commercial markets, large scale "special use" projects like the Raiders' stadium and Las Vegas Baseball Park, casino-resort renovations and public infrastructure investments especially transportation projects. This said, 2019 is expected to be a bellwether year.

In November 2018, the number of Southern Nevada construction workers rose by 6,600 (12MMA) from November 2017, an 11.2% jump. On a 12MMA, basis, November's statewide gains put total construction jobs at 90,758. That marks 77 straight months (more than 6 years) of job growth. President Trump's uneven approach to trade, including steel tariffs, is affecting the Las Vegas construction industry. Construction jobs this November represented 6.5% of the region's job-base. During the real estate bubble of 2000-2007, construction jobs accounted for as much as 11.4% of all MSA jobs, with construction jobs peaking at 108,833 in November 2006.

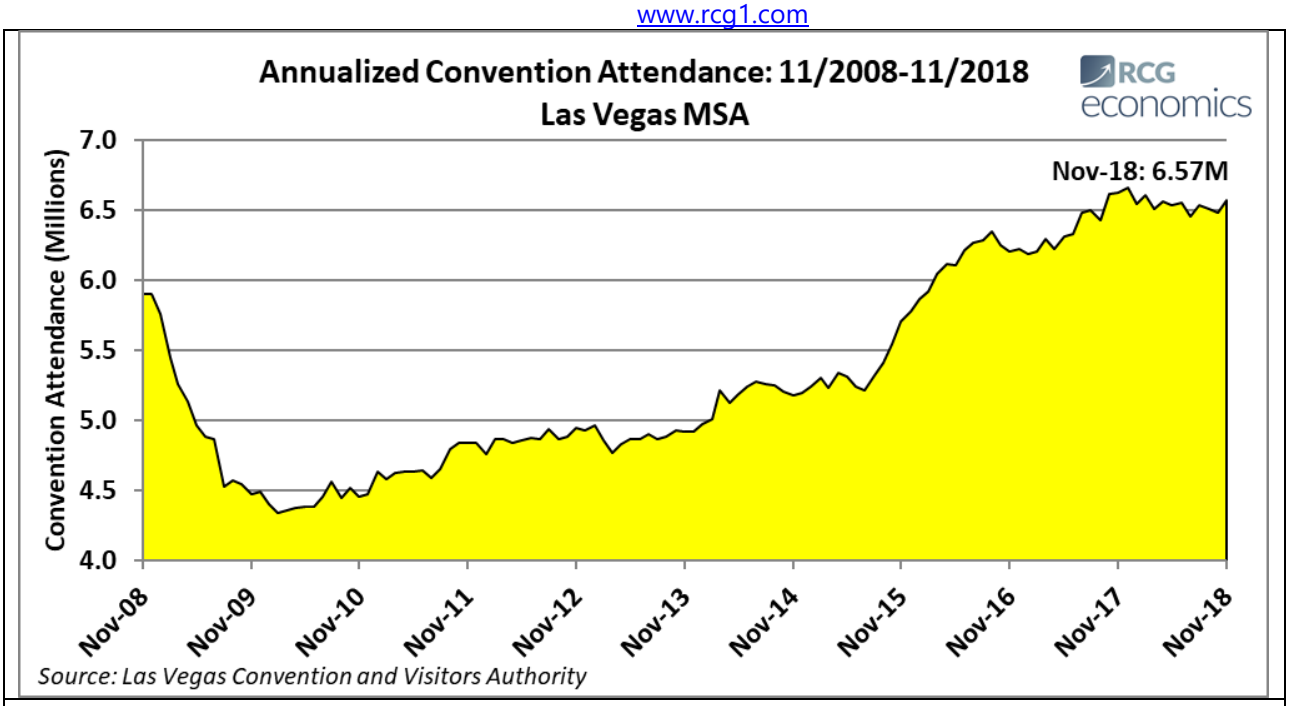
Year-End 2019 Projection: 10% or by 6,600 Construction Workers



The Las Vegas MSA's 12-month visitor count (annualized) in November 2018 was just over 42 million. The number of visitors to Clark County showed stronger growth in November at 0.43% than October's 0.18%. On a YOY basis, this was the 16th consecutive month of annualized visitation decline, though that decline is now under a point: down 0.6% since November 2017. We believe that the primary reasons for the slowdown are: limited room capacity, the strong dollar making vacationing in the US pricier for foreign visitors, the rising cost of visiting Las Vegas and a move back to the longer trend rate of growth.

There were 42.2 million visitors to the Las Vegas MSA in 2017, compared to 42.9 million in 2016. Year-to-date visitor volume in November 2018 is 38.9 million. That is slightly down versus the same points in 2016 (39.6 million) and 2017 (39 million). There's a possibility that strong December numbers will lift 2018 above the previous two years.

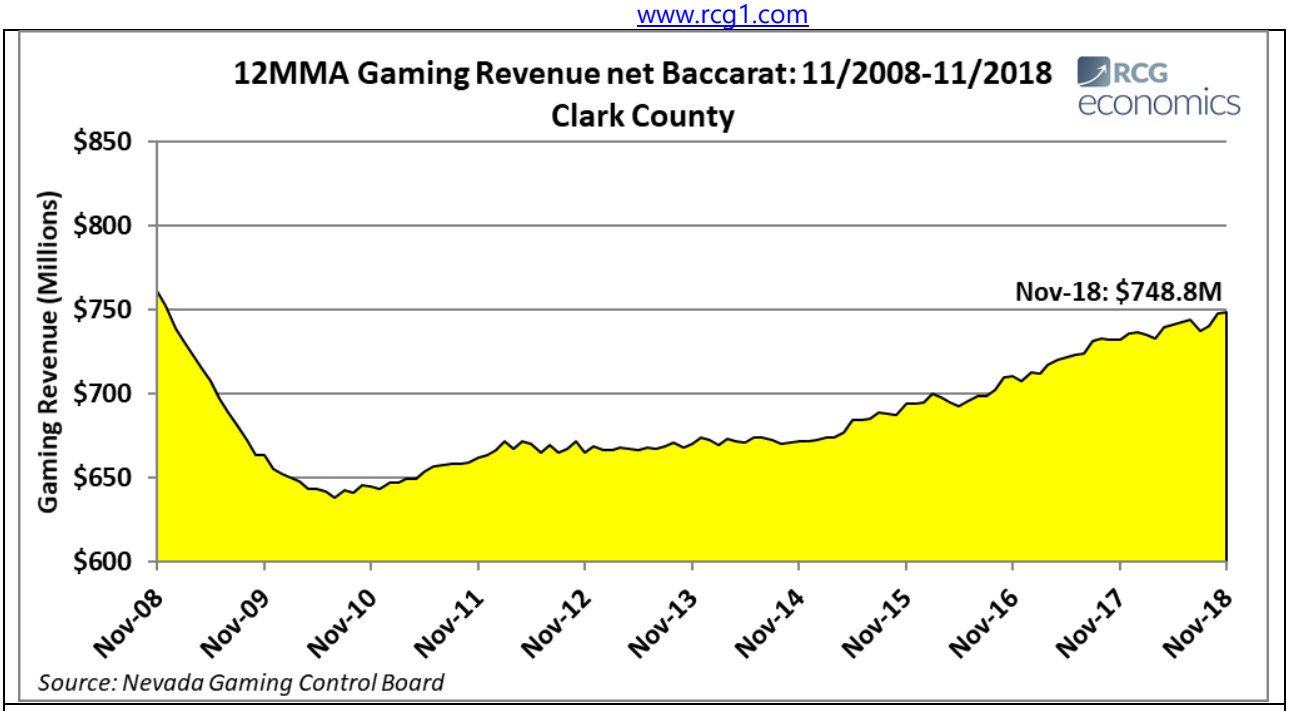
Year-End 2019 Projection: 1% to 42.5 Million Visitors



In November, Clark County's annualized convention attendance saw a 1.3% increase from the previous month, to 6.57 million. That's over a full point gain from November 2017. Though we still haven't hit the annualized peak of 6.65 million convention attendees from December 2017, the numbers are climbing higher.

Convention attendance saw significant gains in 2016, with 10 months above 10% YOY growth. Through all of 2017 the YOY rate of growth had fallen sharply to 3.9%. During the first 11 months of 2018, attendance grew by an average of 2.4% YOY. Demand growth is being limited by maxed-out capacities at Las Vegas' various convention facilities. The good news: In June 2017, the Las Vegas Convention and Visitors Authority's Board of Directors gave final approval for an expansion and renovation of the Las Vegas Convention Center, which will allow the city to host more conventioneers. The expansion is expected to be completed by 2022.

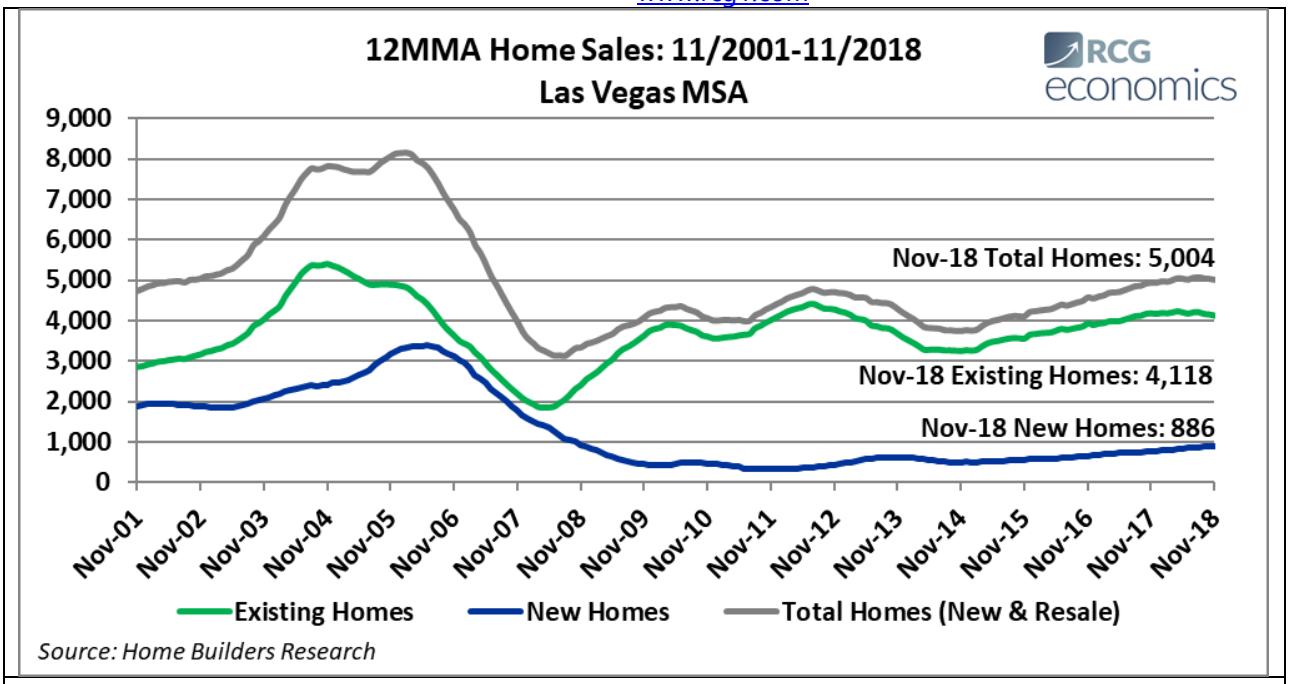
Year-End 2019 Projection: 3% to 6.8 Million Conventioneers



On a 12MMA basis, gaming revenue net of baccarat dollars was up slightly in November to $748,752,333, a gain of 0.17% from October. The streak of positive YOY growth continues, reaching 46 consecutive months with an increase of 2.3% from November 2017. Net baccarat revenues are at almost 90% of the October 2007 peak of $834.4 million.

The net baccarat revenues are largely comprised of slot revenues, which generally reflect wagering by typical gamblers, especially U.S. gamblers. While changing spending patterns among millennials have caused a decrease in slot revenues, they are now recovering as US household disposable income has increased.

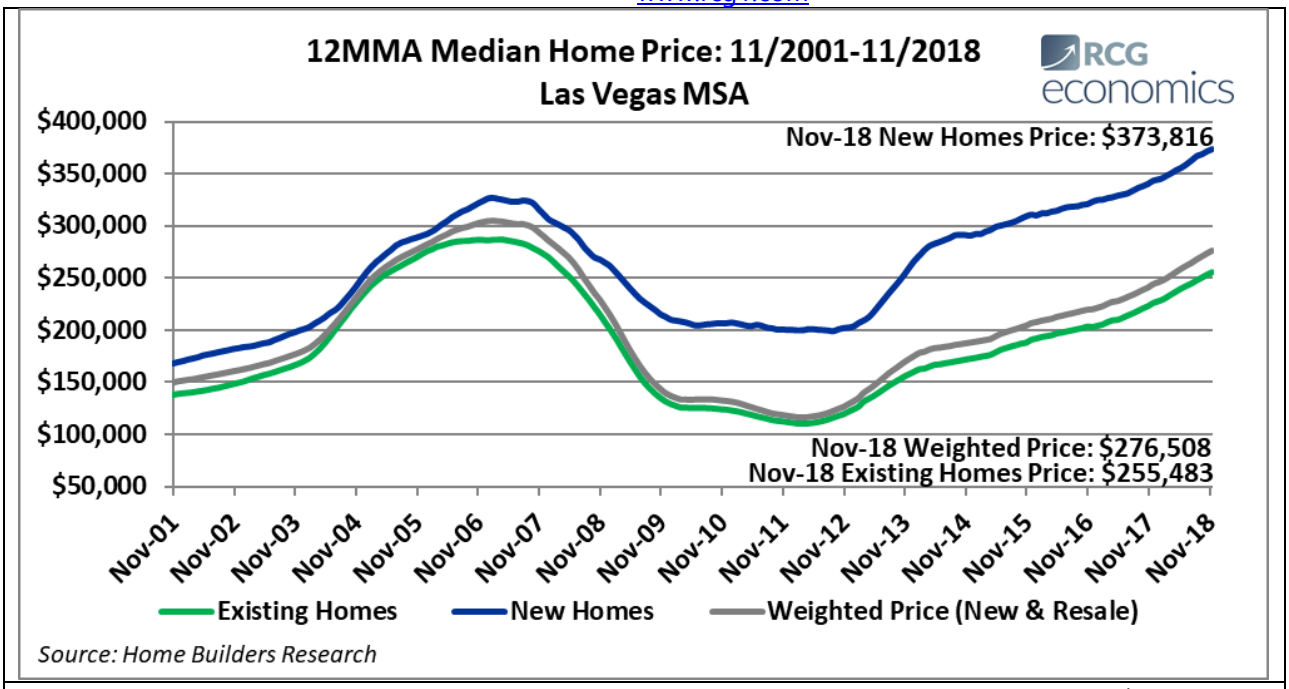
Year-End 2019 Projection: 2% to $9.2 Billion or $764 Million/Mo.



Of the 4,370 total Las Vegas MSA home sales recorded by Home Builders Research in November, 3,467 were resales and 903 were new home sales. According to Home Builders Research, total (new and resale) Clark County home closings, on a 12MMA basis, dropped 0.49% in November, compared to the previous month. On a YOY basis, total home sales were 1.4% higher than in November 2017.

The 12MMA for new home sales saw a YOY growth rate of 16.5% in November, while existing home sales saw a decrease for the second straight month, dropping 1.3%.

Year-End 2019 Projection: 1% to 60,000 Sales



Per Home Builders Research, November's 12MMA median home price (new and resale) was $276,508, a .95% gain over the previous month. Compared to November 2017, the price is up 14.6%, continuing a three-month streak of the highest weighted home price YOY growth since September 2014. YOY growth has now been rising steadily for 18 months but is well below the YOY peak of 35.8% recorded in February 2005. The current overall median home price remains well below the February 2007 peak of $305,333. November's figure is about 90% of the peak price.

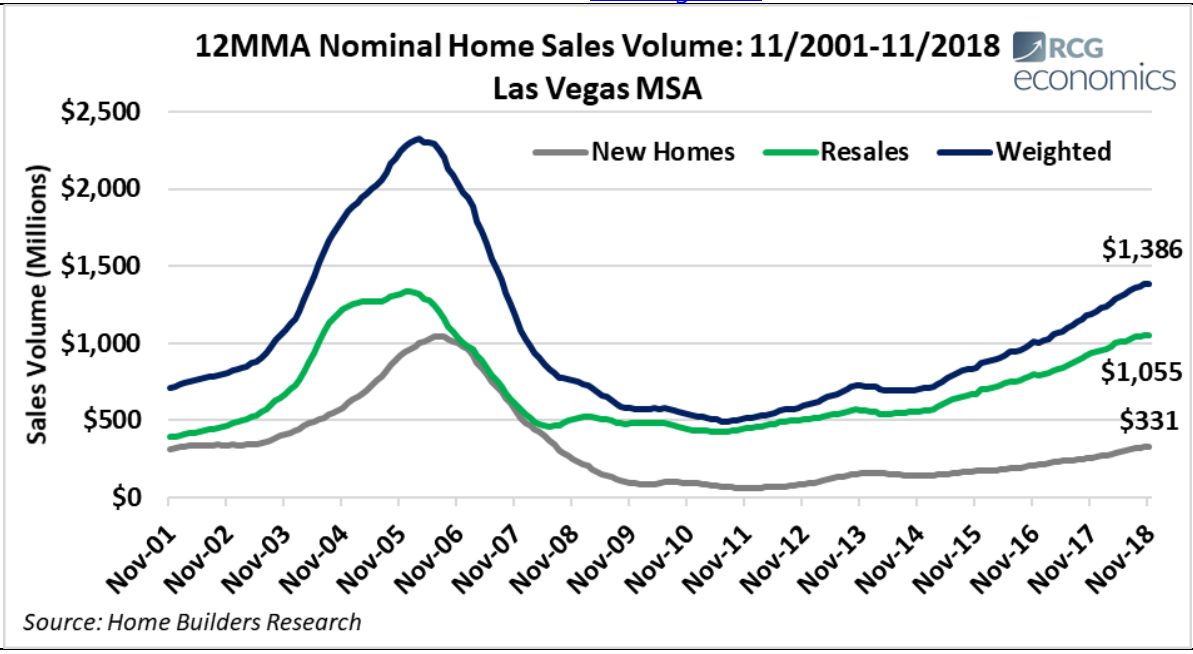
The median new home price was up 9.7% from November 2017, setting a new peak for the 20th consecutive month at $373,816. The previous cycle peak of $327,066 occurred in February 2007.

The median resale home price was $255,483 in November, a 14.6% jump from a year earlier. The peak of $286,833 occurred more than 11 years ago in April 2007. The resale average has now recovered more than 89% of its pre-recession peak price.

The combined rate of home appreciation for new and resale homes continued to hold steady in November. YOY growth had dropped to 6.4% in December 2016 but rose steadily in the 2nd half of 2017, averaging 9.2% YOY growth over the last 6 months of the year. Through the first 11 months of 2018, the YOY growth rate has averaged 13.5%.

These figures are not inflation-adjusted, or "real." Therefore, the real value of homes today compared to the pre-recession peak is overestimated.

Year-End 2019 Projection: 10% to $304,000 (Resale & New)

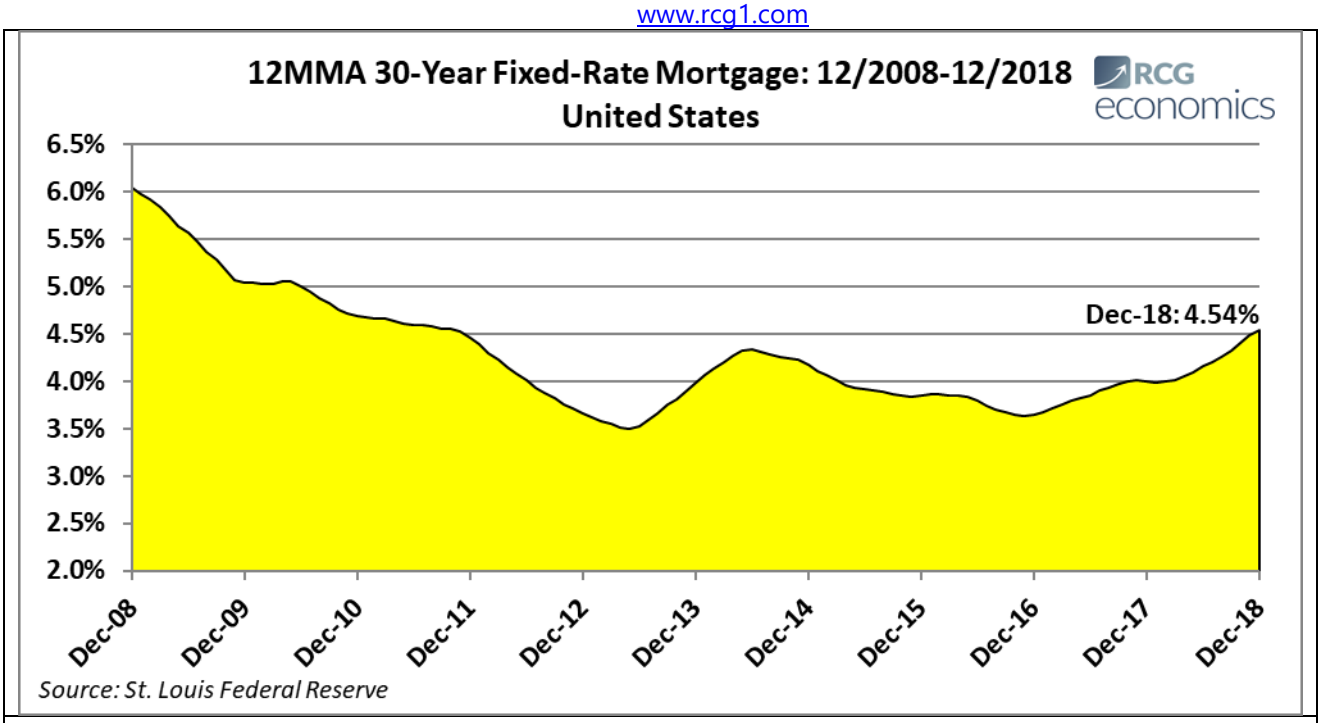


This new chart tracks monthly nominal Total Sales Volume ("TSV") for housing. The data series starts in August 2001 and goes through latest available month. TSV is calculated by multiplying monthly closings by the respective median new, resale and weighted/combined home prices. We'd like to note that the three median home prices are based on monthly moving averages ("12MMA"). This is done to account for seasonality in prices. The TSVs' 12MMAs in November 2018 were: $331.4 M for new homes, $1,054 M for resales and $1,386 M for the combined total. Clearly, the upward trajectory is quite pronounced especially for resales because of their greater availability, leading to more competitive prices. New home TSV is being affected by rising construction and land costs.

On a percent change basis, November TSVs were up 0.9% for new, 0.2% for resales and 0.4% for combined. Compared to November 2017, the percent changes in TSVs were 27.7% for new, 12.9% for resales and 16.1% for combined.

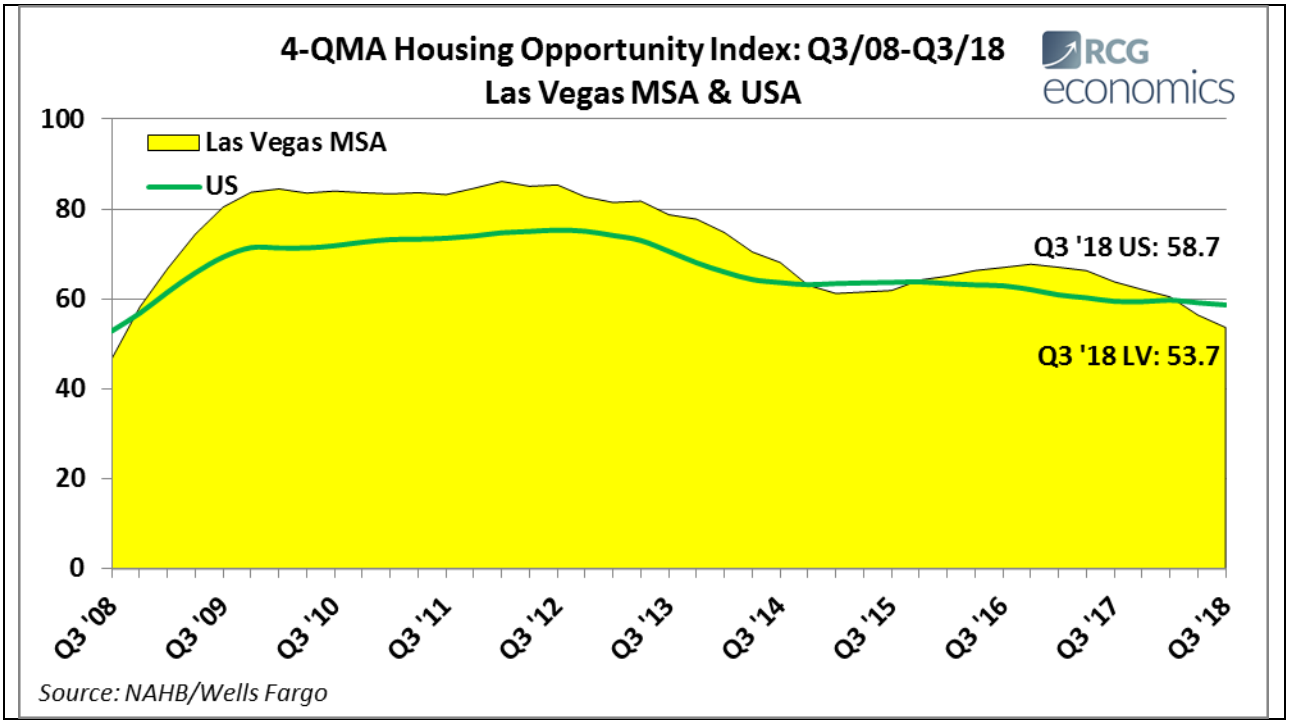
As point of reference, the Peak TSVs occurred in July 2006 ($1,043B-new), January 2006 ($1,335B-resales) and March 2006 ($2,326B-combined). Monthly TSVs are now 31.8% of the peaks for new home sales, 79% for resales and 59.6% for total combined sales.

Year-End 2019 Projection: 12% to $1.5 Billion of Home Sales



The 12MMA 30-year fixed-rate mortgage for the US continues to climb. An increase of 0.06 points in December over the previous month puts the rate at 4.5% (12MMA). This was the 11th consecutive increase in the rate. The 12-year peak of 6.4% happened in October 2006. While the 30-year fixed rate should remain relatively low, it will likely continue to go up because of Federal Reserve actions.

Year-End 2019 Projection: 5% 30-Year Rate

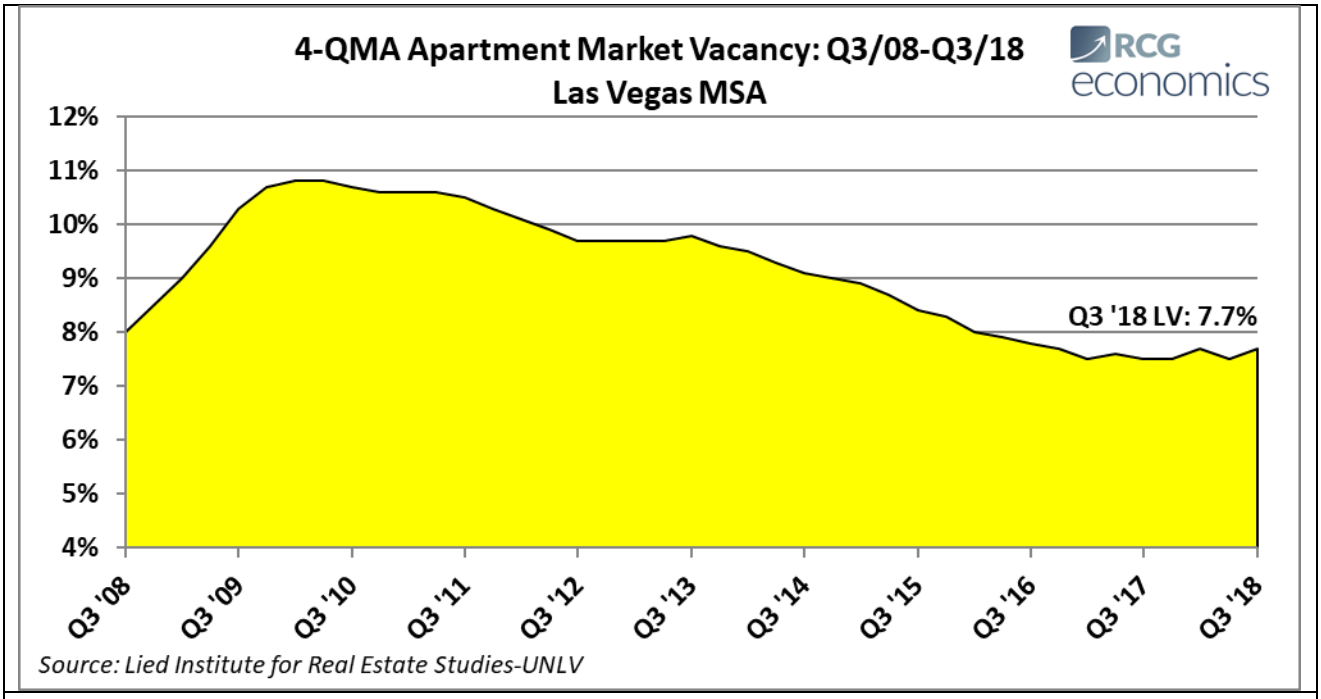


On a 4-quarter moving average basis, the Housing Opportunity Index ("HOI") for the Las Vegas MSA fell for the 7th straight quarter, this time by 2.7 points to 53.7 in Q3 of 2018. Over 6 quarters the Las Vegas HOI has dropped by a whopping 14 points. The Las Vegas HOI peaked at 86.2 in Q1 2012 and bottomed out at 15.4 in Q1 2007 at the height of the housing boom; the average is 72.2 for the last 10 years. Affordable housing is currently on the decline in the Las Vegas MSA.

The U.S. index experienced a decline as well, falling from 59.2 in Q2 2018 to 58.7 in Q3. Housing prices nationally are rising slightly but trending stable.

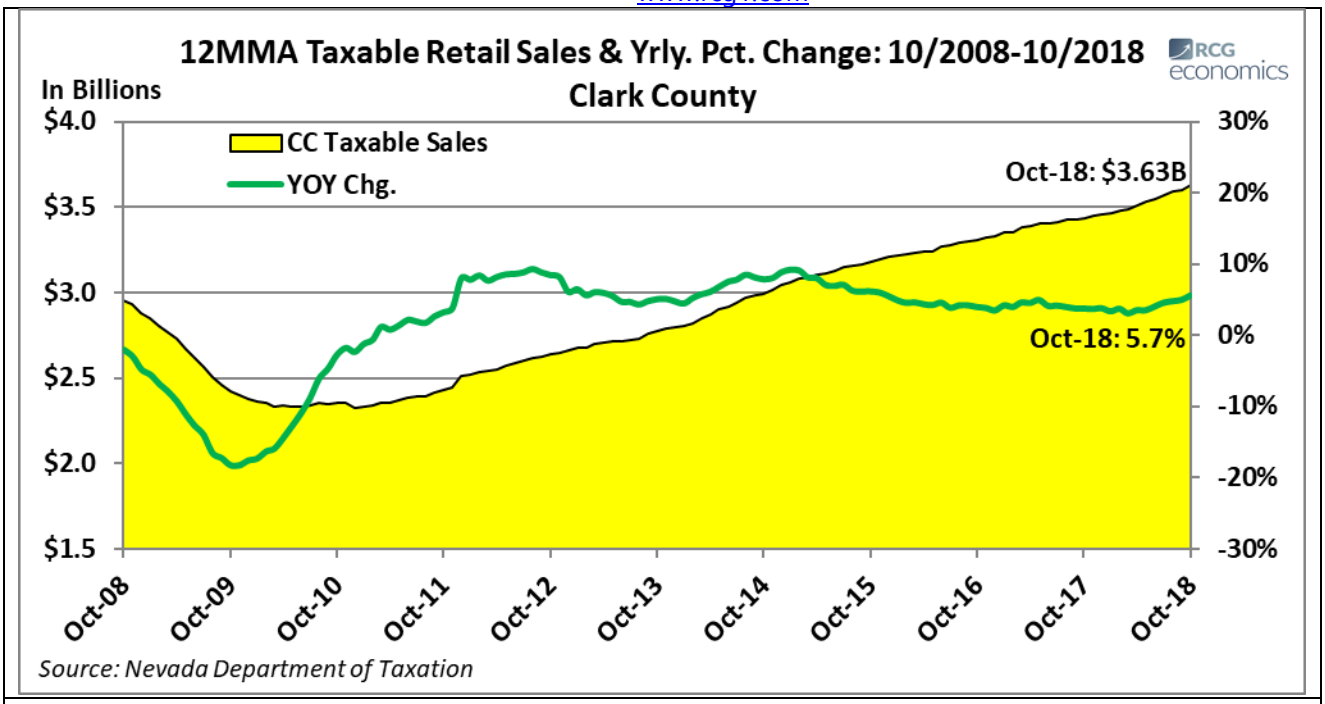
The HOI is based on the share of homes sold that are affordable to a family earning the median income in the selected jurisdiction, assuming standard mortgage underwriting criteria.

Year-End 2019 Projection: -15% Down to HOI of 49.0



The Las Vegas Valley's 12MMA apartment vacancy rate rose slightly, to 7.7% in Q3 2018. The general trend since 2011 has been down, though apartment vacancy has fluctuated between 7.5% and 7.7% since Q4 2016. The recovery in apartment vacancy has been slow but steady, peaking at 10.8% in Q2 2010, just three years from a low of 5.1% in Q1 2007.

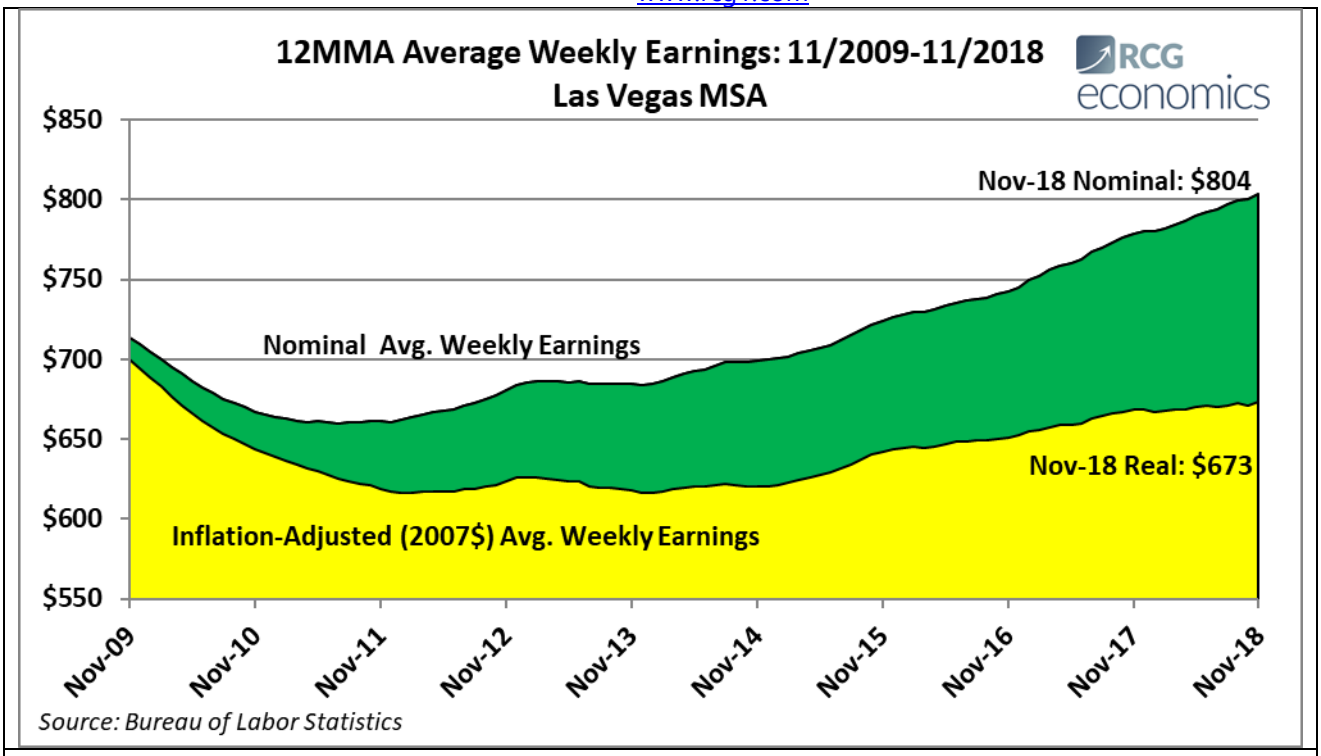
Year-End 2019 Projection: 6.5% Vacancy



October's taxable retail sales continue to rise in Clark County, with 0.79% growth to $3.63 billion from the month prior. On a YOY basis, growth in the 12MMA increased to 5.7% over October 2017. We believe much of the dollar growth in taxable sales is due to rising credit card usage by local residents, healthy visitor spending numbers and strong construction activity.

The consistent growth of taxable sales has given local and state governments more money to work with. The strength of the overall national economy, and especially in the Western U.S. is key to this improvement. The strengthening national and regionally economies have been the drivers of visitors and convention attendance to Las Vegas during the last few years, which is ultimately reflected in tourism spending. This said, a growing number of analysts are saying that there are signs of an economic slowdown. 2019 will be a telling year.

Year-End 2019 Projection: 4% to $44 Billion ($3.7 Billion/Mo.)

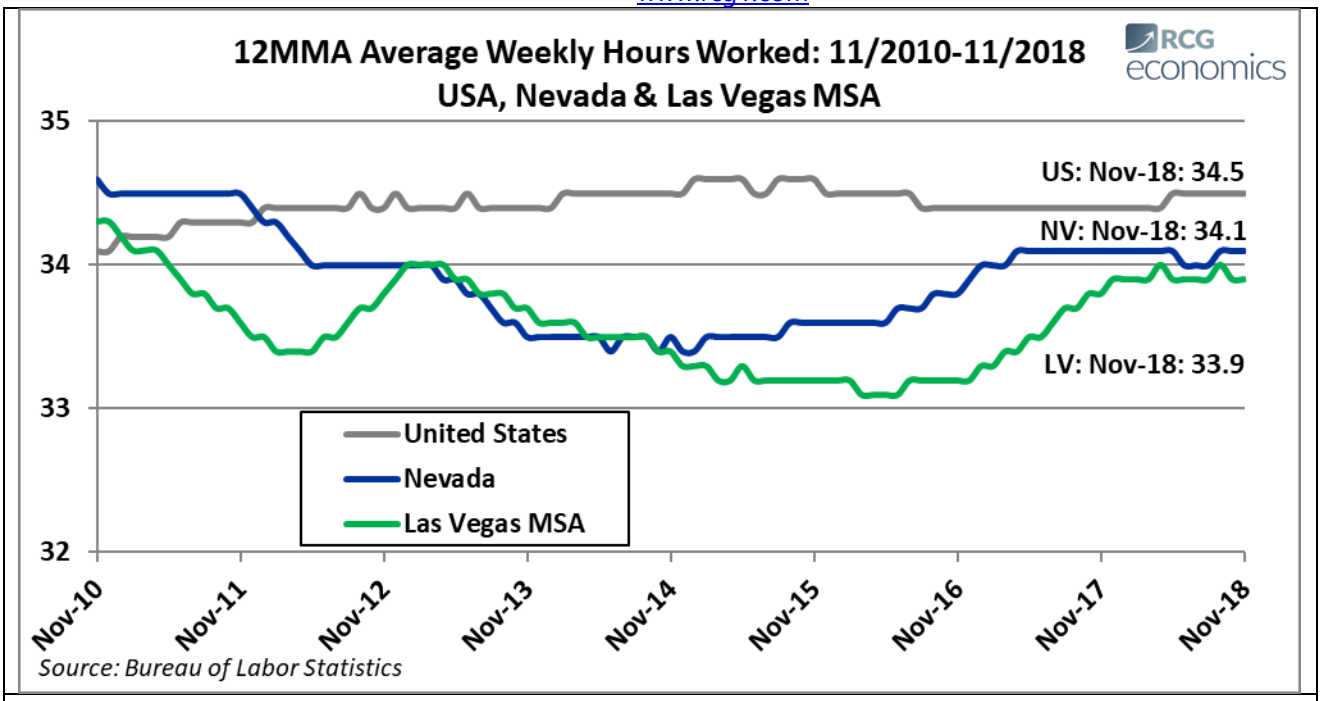


The Las Vegas MSA's 12MMA average weekly earnings (not inflation-adjusted) was up by about $3.50, reaching $803.57 in November 2018. This growth trend began more than 3½ years ago in September 2014. On a YOY basis, the 12MMA was up $25 (3.2%) from November 2017.

When viewed on an inflation-adjusted basis, however, earnings rose only about two dollars in November from the month prior, to $673.15 (in 2007 dollars). YOY real earnings rose by 0.7% ($5) compared to November 2017. Moribund real wage growth has received a lot of attention for some time by economists. It is partially a function of a skills gap, the growth of the "gig economy" and ongoing automation trends.

Las Vegas' average weekly real wage is $78 (10.3%) below the most recent inflation-adjusted peak of $751 that occurred close to 11 years ago in August 2007. The trough occurred in February 2012 at just over $616, so Las Vegas remains closer to the trough than the peak.

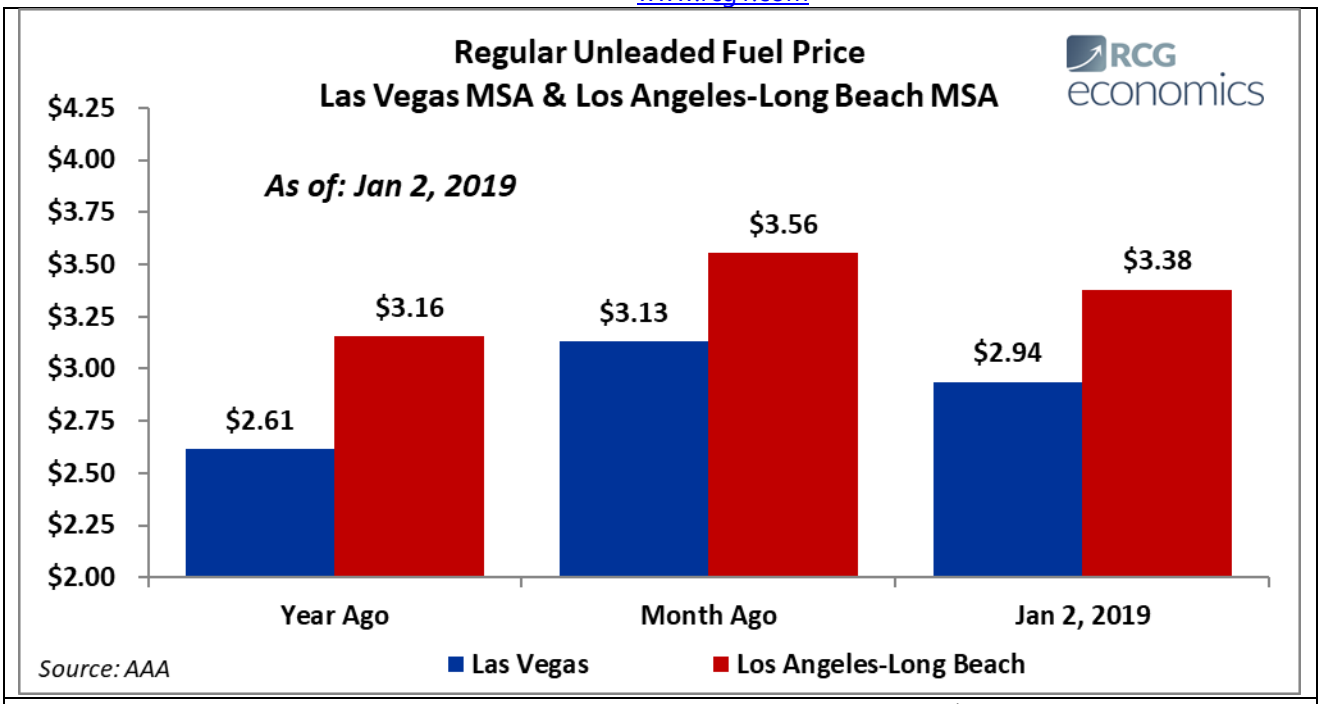
Year-End 2019 Projection: .9% to $680/Week Inflation-Adjusted



The number of average weekly hours worked in Las Vegas (Clark County) on a 12MMA remained at 33.9 in November 2018, the same level recorded last month. Weekly hours had been plodding upward since June 2016, but have flattened in recent months just below the state average. On a YOY basis, average weekly hours are up 0.1 hours from November 2017.

In Q3, 2018, the Nevada U-6 unemployment rate (including discouraged and part-time workers) recorded a 0.3-point drop to 9.4%. While this should suggest that business reliance on part-time workers continues to decrease, the figure is still among the highest in the nation and suggests that a substantial number of new jobs being created are for part-time work, or that positions have been shifted into independent contracting roles. These factors may explain the recent plateau for weekly hours worked even as we reach "full employment."

Year-End 2019 Projection: 2% to 34.5 Hours/Week



The price of gas in Las Vegas rose slightly over the last month. As of January 2nd 2019, the price of regular unleaded gasoline in the Las Vegas MSA was $2.94, which is $0.19 (0.6%) lower than a month ago. Compared to a year ago, the price of unleaded is up $0.33 or 12.6%.

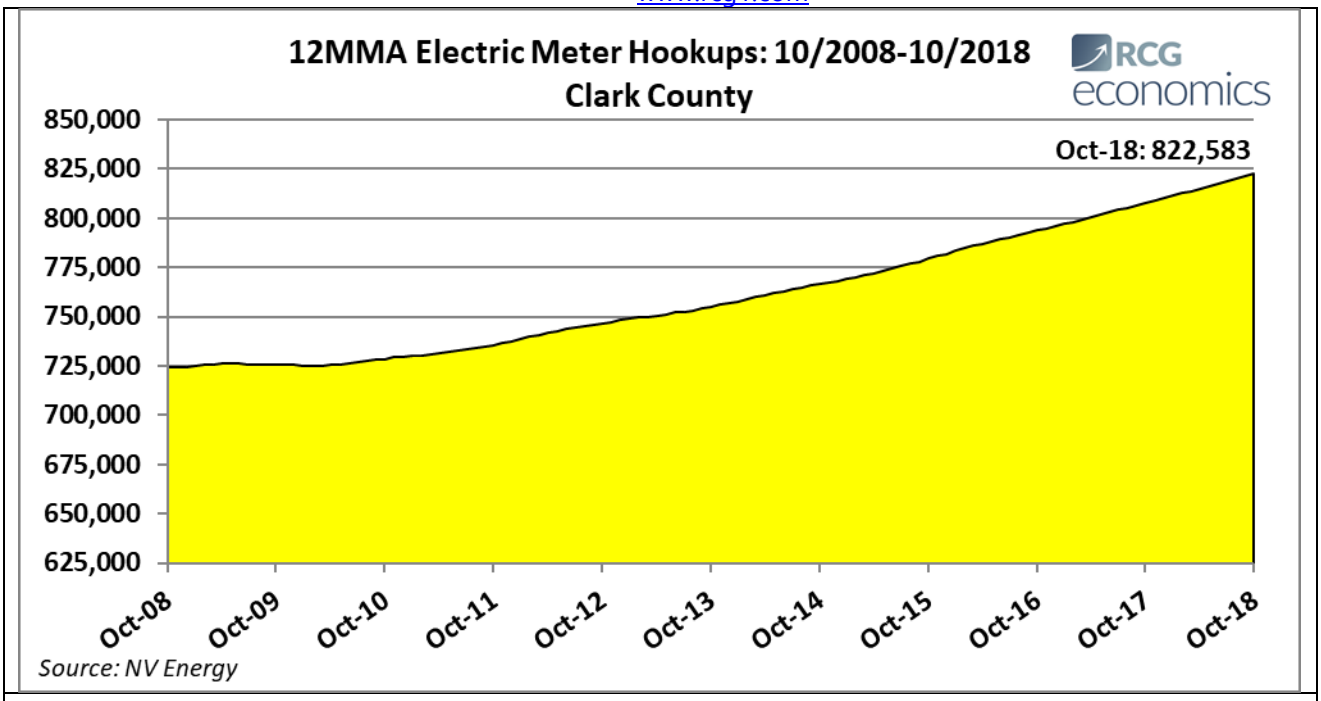
Gas prices in LA-Long Beach are included in the chart because visitors from the region are a major driver of Las Vegas' lodging and hospitality industry, specifically, and economy, generally. High gas prices could have a deleterious effect on tourist spending in Las Vegas.

According to AAA, *"Heading into 2019, gasoline demand is expected to dwindle during the month of January, an expected change following the busy holiday travel season. At the same time, OPEC will begin production cuts on January 1, with hopes that the shift in global supply will push oil prices higher. The effectiveness of the cuts will likely not be known until later in the first quarter.*

"All eyes are on OPEC to kick off the year," said Jeanette Casselano, AAA spokesperson. "Many are waiting to see if they stick to their promise to cut crude production by 1.2-million b/d and if the proposed cuts will be enough to restore balance to the market."

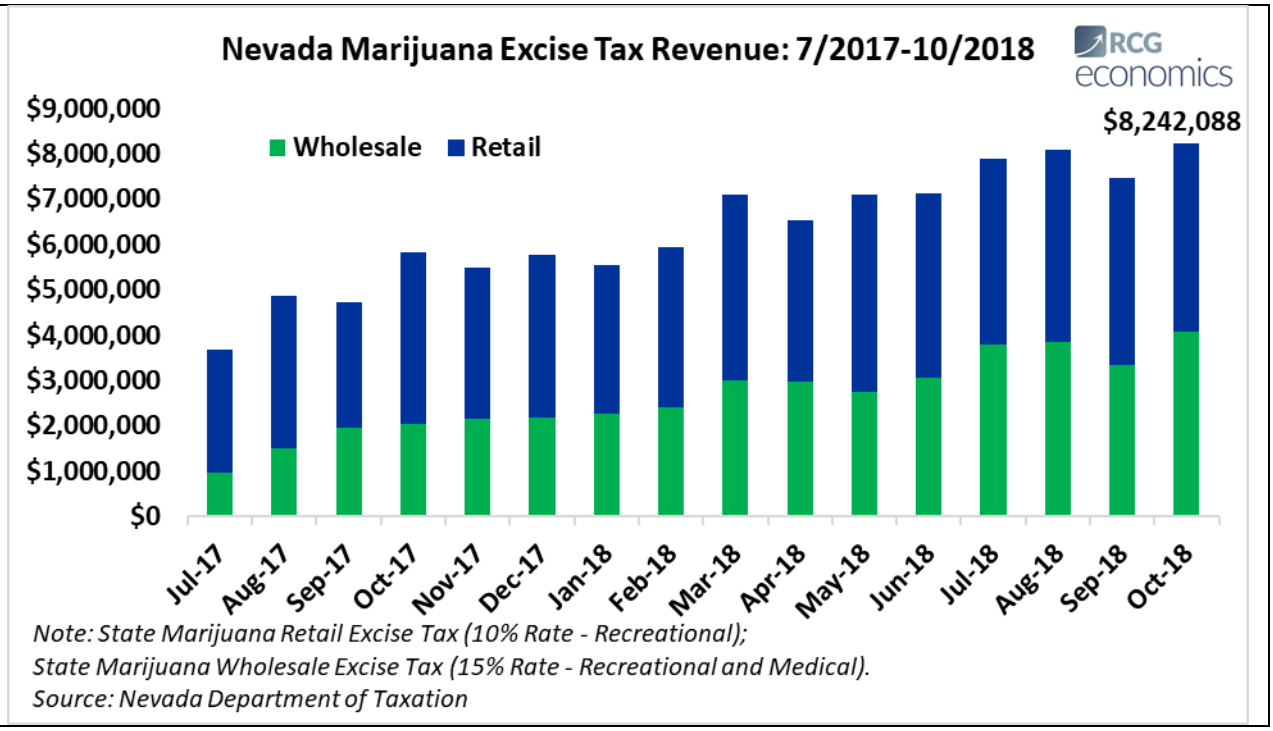
Over the past few years, OPEC and partnering countries have demonstrated a strong resolve to comply with proposed cuts in production. It is likely that the cartel will reconvene in April, and if there is a need to further balance global supply and demand, OPEC will likely tweak current production numbers at that meeting."

Year-End 2019 Projection: 6% to $3.11/Gallon



Electric meter hookups' 12MMA in October 2018 reached 822,583. Total hookups were up 1.8% from October 2017. Over the last 33 months, the annual growth rate for electric meter hookups has hovered between 1.7% and 1.9%. This hints at stable growth in business and household formation, as well as overall population, in the Las Vegas Valley. The peak YOY growth rate occurred March 1990 at 10.5%.

Year-End 2019 Projection: 1.5% to 835,000 Electric Meters



Nevada excise tax revenues generated from marijuana sales through the first 16 months of its collection are now over $101 million, with the most recent recorded month, October 2018, seeing a whopping 10.1% increase from the previous month. October brought in about $8.2 million in combined retail and wholesale excise taxes. The most readily available report by the Nevada Department of Taxation accounts for only retail and wholesale excise taxes. These taxes do not include sales and use taxes paid at points of sale in the dispensaries, or the annual licensing fees paid by the industry. The wholesale excise tax is collected at a 15% rate from growers to dispensaries on medicinal- and recreational-use marijuana, while the 10% retail excise tax is charged only to recreational users purchasing marijuana at a dispensary.

According to the Department's original forecast, tax revenue from the sale of marijuana were expected to reach $120 million in the first 2 years. Collections indicate that the performance is on track to exceed the Department's forecast.

Year-End 2019 Projection: 29% to $106 Million of MJ Sales

###