LAS VEGAS In Business

Real Estate column:

UNLV's Brown thinks Las Vegas is in housing recovery

By *Buck Wargo* (contact), In Business reporter   Fri, Oct 22, 2010 (3 a.m.)

Positive news has been lacking when it comes Southern Nevada's economic outlook, with a high jobless rate and tourists not coming to Las Vegas or spending as they have in the past. But Stephen Brown, the new director of UNLV's Center for Business & Economic Research, is providing some hope that Las Vegas may be in a recovery but not know it yet. Brown, who appeared at a housing outlook conference Oct. 14 to talk about the local economy, repeated that Southern Nevada has lagged the national recovery. The center's economic index has remained relatively flat over the past couple of months, but Brown said there is some reason for optimism.

Tourism is at the bottom and been quite bumpy, but Brown said if you look year-over-year at August, the numbers are up. Year-over-year gaming numbers and retail sales were up in August as well, he said. That is second month in a row both were up year-over-year, he added. When there are more data about when the economy turned around, Brown said it might be July or August, depending on what the numbers are in the next few months."We're certainly at the bottom in terms of what the main drivers of the Southern Nevada economy, which is tourism and gaming," Brown said. "It looks as though we could be turning around from being on the bottom and on our way back up. The leading index says we're at the bottom, but it also suggests a little bit of time before we turn around. I think we're in a position where we're seeing the beginnings of a turnaround."

The world economy has pulled out of the recession and is back on track but its growth rate over the next couple of years will be slower than before the recession, Brown said. That shouldn't be viewed negatively because some think the world's economy was growing faster than was sustainable. As for the U.S., whose recession was caused by the meltdown that started in the finance and real estate sectors, Brown said one report suggests it could take five years for housing prices to recover and the market is only two years into that cycle. It could also take five years for the unemployment rate to recover, Brown said. He doesn't think a double-dip recession will occur, he said, adding that the country is fortunate it's coming out of the economic decline as quickly as it did. "The last time we experienced a financial meltdown like we did was the 1920s and the Depression, lasting a decade," Brown said. "We're only coming out after a couple of years." Brown said people question how the recession could be over when the economy isn't back to where it was before the decline started, but he said economists view it much like a patient who is out of surgery and in the recovery room.

"It might feel like death to a lot of people, but it's still a recovery. When we get above the peak of where we were, that would be an expansion." The only indicator that has returned to pre-recession levels is corporate profits, putting those companies in position to hire when the economy recovers, Brown said. "Payroll employment is a lagging indicator, and employment is coming back slower than normal," Brown said. The troubling news about job prospects is that people are having trouble finding work because the composition of the jobs is changing, which may not fit their skill levels, Brown said.

Any decline in the jobless rate is because people have stopped looking or moved out of state, Brown said. The state's jobless picture could change quickly, however, depending on the growth of construction in other parts of the country, Brown said."A lot of construction workers are very mobile, and they will pick up and move to another state if construction picks up there," Brown said. "Our unemployment rate could correct pretty quickly. That won't fix our housing market here, but it will correct some of unemployment problems." What could help the jobless rate is if the Obama administration is successful in pushing for more infrastructure projects, such as the highway system. That would require construction workers, however, to change careers and work with concrete instead of building construction work they have done, he said. Brown said small business hasn't been participating in the economic growth, and that limits any recovery because it is an engine of job growth. "There are some troubling signs that are directly related to the inability of small business to get to traditional sources of financing," Brown said. Small businesses are pessimistic about the economy, and they're sitting on the sidelines. As long as that happens, there isn't going to be a robust recovery, he said. “We’re also not going to have an economy that has a lot of innovation. It occurs at small business level.” Another Las Vegas economist, John Restrepo, the principal at Restrepo Consulting Group, told the audience at a North Las Vegas Chamber of Commerce event the same day that the national recovery will be slow and plodding and the jobless rate should remain above the long-term average over the next five years.

The keys to the nation’s recovery are sustained U.S. consumer confidence, debt reduction, increased discretionary spending and improvement in the job and housing markets, Restrepo said. A Southern Nevada recovery won’t begin until late 2011 or early 2012 and will be defined as having six months of job growth and housing-price appreciation, he said. One concern is budget woes facing state and local governments and its effect on the economy, he said. Las Vegas has learned valuable lessons from the Great Recession. It isn’t immune to the laws of economics, Restrepo said.

“Even our most irrationally exuberant cheerleaders were wrong, and we do have to reinvent the Southern Nevada economy and make it sustainable, away from being discretionary spending based.” Nevada learned that cheap and easy credit — personal and business — isn’t a good thing, Restrepo said. Economic diversification is important by improving the quality of education and that there is a balance between quality-of-life issues and being a low-tax state. Las Vegas can learn from the best practices of other communities, Restrepo said.