



Economic Diversification

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Measuring Economic Diversification

Diversification within the core industry continues to take place, the merits of which are not addressed here; rather, the focus on diversification in other sectors is noted in this briefing. While there are various ways to analyze diversification, a commonly-used approach is the Hachman Index (the "Index"). The Index assumes the national economy reflects broad diversity, while measuring the aggregate variance in diversification of a subject economy. In this instance, the relative shares of the Las Vegas economy are compared with those of the nation to identify the variances of each employment sector, also known as the location quotient. The aggregate impacts are summarized in the diversity index; a score value of 100 reflects a diversified economy comparable to the nation, while a score of 0 reflects a narrow economy (please see methodology for details of the actual computations). Changes in the score depict movement within the market over time.

MISSION STATEMENT

The Nevada Development Authority shall attract companies to Southern Nevada that diversify, expand and nurture the business environment which will enhance the overall socioeconomic development of our community.

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Overall, southern Nevada's economy remains in rehabilitation mode. While the Las Vegas metropolitan area has been villainized near the top of worst lists and victimized near bottom of good lists, overall progress has been slow but fairly steady. Despite lingering effects of the Great Recession, the region's economy gained some positive momentum during the third quarter.

Core employment sectors have reported positive growth and are demonstrating the worst of the cycle has passed. When compared to the prior quarter, unemployment for the Las Vegas metropolitan area decreased by two tenths of a percentage point to 13.6 percent while establishment-based employment increased by 5,400 jobs. The most recent quarterly results are a continuation of the trend reported over the past year, a period in which the region has shed two percentage points off its unemployment rate and added 9,000 new jobs to the economy. Notable

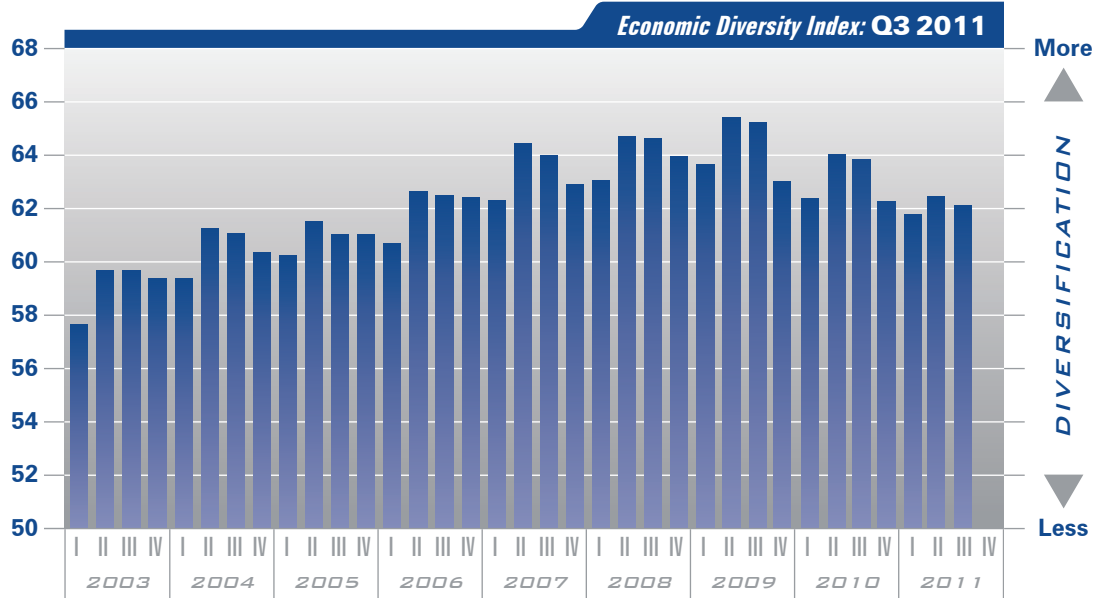
contributors to positive job growth during the past 12 months included: leisure and hospitality (+10,400), professional and business services (+6,100) and education and health services (+3,900). Offsetting some of the reported gains included weaker performances in financial activities (-3,700), trade/transportation and utilities (-2,900) and government (-2,300) sectors.

Southern Nevada's number of job seekers fell from 151,400 to 129,400 during the past year. Recent reductions appear to have been spurred by the 17,600 workers that have exited the

region's labor force and due to expired unemployment benefits, which can last for up to 99 weeks for some displaced employees. During the quarter, the number of residents reporting unemployment has crept up at the same time those receiving unemployment benefits has consistently fallen, a trend likely to continue as many are unable to either gain employment or collect benefits. Seasonal employment factors are also playing into the latest trends, although the social safety net appears to be wearing thin.

Another key indicator that has been somewhat volatile is average weekly hours worked, which typically responds faster to economic conditions than changes in number of jobs available. During the final month of third quarter,

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THE HISTORICAL TREND IN THE INDEX suggests the economy has diversified from a value in the mid-50s at the beginning of the 2000s, reaching a current value (Q3 2011) of 62.1. Compared to the preceding year, the index decreased 1.8 percent from 63.9 (Q3 2010). In addition, compared to the same quarter five years ago, the latest index value is down 0.4 points.

EMPLOYMENT

| SECTOR | Current Period (Q3 2011) | | Previous Period (Q2 2011) | | Previous Year (Q3 2010) | |
|----------------------------------|--------------------------|----------------|---------------------------|----------------|-------------------------|----------------|
| | Employees | Share of Total | Employees | Share of Total | Employees | Share of Total |
| Natural Resources & Mining | 300 | 0.0% | 300 | 0.0% | 300 | 0.0% |
| Construction | 41,900 | 5.2% | 39,600 | 4.9% | 43,800 | 5.5% |
| Manufacturing | 18,300 | 2.3% | 18,500 | 2.3% | 19,300 | 2.4% |
| Utilities | 2,700 | 0.3% | 2,700 | 0.3% | 2,900 | 0.4% |
| Wholesale | 18,700 | 2.3% | 18,700 | 2.3% | 20,400 | 2.6% |
| Retail | 91,300 | 11.3% | 90,200 | 11.3% | 91,900 | 11.5% |
| Transportation & Warehousing | 30,900 | 3.8% | 30,100 | 3.8% | 31,300 | 3.9% |
| Information | 8,700 | 1.1% | 9,000 | 1.1% | 8,900 | 1.1% |
| Financial Activities | 35,700 | 4.4% | 36,500 | 4.6% | 39,400 | 4.9% |
| Professional & Business Services | 104,400 | 12.9% | 104,300 | 13.0% | 98,300 | 12.3% |
| Education & Health Services | 73,300 | 9.1% | 73,400 | 9.2% | 69,400 | 8.7% |
| Leisure & Hospitality | 263,500 | 32.7% | 264,000 | 32.9% | 253,100 | 31.7% |
| Other Services | 24,600 | 3.0% | 24,400 | 3.0% | 24,000 | 3.0% |
| Government | 92,700 | 11.5% | 89,900 | 11.2% | 95,000 | 11.9% |
| TOTAL | 807,000 | 100.0% | 801,600 | 100.0% | 798,000 | 100.0% |

Employment Growth of NDA Target Industries

LAST 12 MONTHS: **+2,000 / +0.5%**



During the third quarter of 2011, total employment rose by 9,000 positions, representing an increase of 1.1 percent. Industries targeted by the NDA posted a job gain of 2,800 (or +0.7 percent) during the past 12 months, representing 50.6 percent of total employment. Non NDA-targeted industries also added 6,200 jobs, or increased by 1.6 percent.

Note: NDA target industries generally includes manufacturing, trade, transportation and utilities, information, financial activities, professional and business services, education and health services and other services.

Employment Growth of Non-NDA Target Industries

LAST 12 MONTHS: **+6,200 / +1.6%**

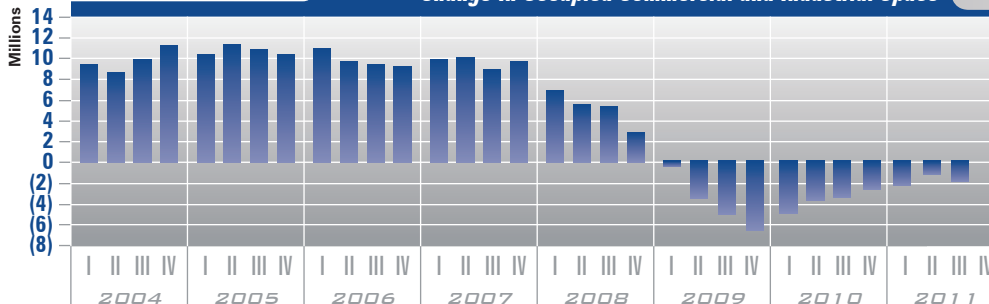


While the construction and government employment sectors continued to post job losses, the leisure and hospitality sector added 10,400 positions to the market year-over-year. Non-NDA targeted industries gained 6,200 net and in total represented slightly less than one-half of all Las Vegas metro area employees (49.4 percent).

Note: Non-NDA targeted industries generally includes leisure and hospitality industries, construction and government.

Change In Occupied Commercial and Industrial Space

LAST 12 MONTHS: **-1.9 (million sf) / -1.1%**



Commercial office, industrial and commercial retail markets continued to post declines in terms of total square footage occupied, even though retail centers did report some improvements during the quarter. Compared to the same quarter of the prior year total commercial and industrial space was down 1.9 million square feet as total occupied inventory reached 169.4 million square feet during the third quarter of 2011.

LOCATION QUOTIENT

| SECTOR | Current Period (Q3 2011) | Previous Period (Q2 2011) | Previous Year (Q3 2010) |
|----------------------------------|-----------------------------|------------------------------|----------------------------|
| Natural Resources & Mining | 6.0 | 6.2 | 6.7 |
| Construction | 118.1 | 113.9 | 124.3 |
| Manufacturing | 25.2 | 25.9 | 27.1 |
| Utilities | 79.6 | 80.1 | 86.4 |
| Wholesale | 55.0 | 55.3 | 60.9 |
| Retail | 102.9 | 102.1 | 104.7 |
| Transportation & Warehousing | 116.9 | 115.6 | 120.3 |
| Information | 53.6 | 55.0 | 53.9 |
| Financial Activities | 76.6 | 78.6 | 84.3 |
| Professional & Business Services | 98.1 | 99.4 | 95.4 |
| Education & Health Services | 59.8 | 61.2 | 57.9 |
| Leisure & Hospitality | 319.4 | 315.0 | 310.1 |
| Other Services | 73.7 | 72.9 | 72.8 |
| Government | 69.3 | 67.1 | 70.1 |
| ECONOMIC DIVERSITY INDEX | 62.1 | 62.6 | 63.9 |

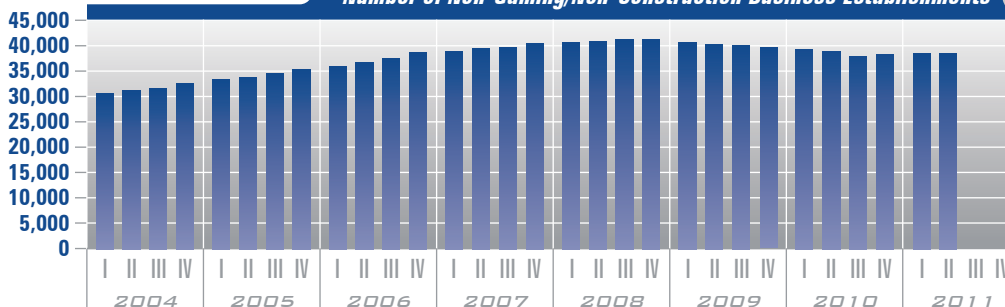
Location Quotient measures the local concentration of an industry in comparison to that industry's share of U.S. employment. For example, a location quotient of 105 indicates that the industry in question accounts for five percent more of the region's employment than does the same industry for all employment, nationwide. The index value is a mathematical formula that measures the average distance from the mean for each industrial sector. Higher scores indicate greater diversity; a perfectly diversified economy would return an index score of 100.

Non-Gaming/Non-Construction Unemployment Insurance Claims (as a percentage of total)

 LAST 12 MONTHS: **+1.8** Points to **66.3%** ▲


During the past 12 months, unemployment benefits sourced to non-gaming/non-construction industries increased by 1.8 percentage points. As of the close of the third quarter, non-core industries represented nearly 63 percent of unemployment claims while they accounted for 63 percent of total wages paid, and 82 percent of businesses in southern Nevada.

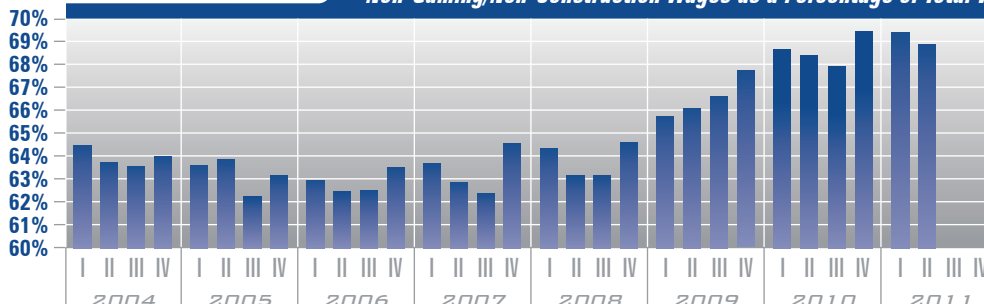
Number of Non-Gaming/Non-Construction Business Establishments

 *LAST 12 MONTHS: **-425** Establishments ▼


The market contracted by 425 non-tourism/non-construction establishments (net) during the past 12 months, reaching a total of 38,414. These sectors represent 81.4 percent of all businesses in southern Nevada.

(*Q2/11 latest available data)

Non-Gaming/Non-Construction Wages as a Percentage of Total Wages

 *LAST 12 MONTHS: **+0.5** Points ▲


For the second quarter of 2011 (latest available data), non-gaming and non-construction wages as a percentage of total wages remained elevated year-over-year. Approximately 68.9 percent of wages were earned in non-gaming/non-construction related positions. Non-core industry employment represented 62.5 percent of total employment, suggesting higher-than average wages were earned by those outside of tourism and construction.

(*Q2/11 latest available data)

NEW COMPANIES

EXPANDING COMPANIES

COMPANIES ASSISTED BY NDA

| FISCAL YEAR | New and Expanding Businesses | Jobs Created | Wages Paid (in millions) |
|----------------------|------------------------------|---------------|--------------------------|
| 2011 | 34 | 763 | \$34 |
| 2010 | 26 | 1,265 | \$53 |
| 2009 | 27 | 1,023 | \$39 |
| 2008 | 30 | 864 | \$38 |
| 2007 | 56 | 1,684 | \$69 |
| 2006 | 65 | 1,961 | \$87 |
| 2005 | 57 | 1,745 | \$72 |
| 2004 | 71 | 2,502 | \$100 |
| 2003 | 63 | 3,273 | \$121 |
| 2002 | 63 | 3,514 | \$153 |
| 10-YEAR TOTAL | 492 | 18,594 | \$766 |

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private sector employees in the Las Vegas metro area worked an average of 33.4 hours per week, down 1.8 percent year-over-year. This represents the second-lowest average on record since the recession commenced in the fourth quarter of 2007. As employers tend to cut or add back employee hours based on market demand and sentiment, the latest numbers suggest that while overall economic activity has improved, uncertainty still exists. Companies in industries outside the leisure and hospitality sector will likely lag the market's largest sector.

While the southern Nevada economy continues to evolve and strive toward increased stability by way of economic diversification, the diversity index has remained within a relatively tight range during the past four quarters. The recovery cycle following the Great Recession appears to be leveraging the community's largest employment sector – leisure and hospitality – as national improvements outpace local expansions. Leisure and hospitality employees represented 32.7 percent of all establishment-based employment positions in southern Nevada during the third quarter; slightly below its highest-share-of-total reported last quarter (32.9 percent) since the second quarter of 2001. Concurrently, the once robust construction sector finds itself struggling as a result of diminishing demand and excess inventory. The narrowing of the economy (compared to the prior year) appears to be overshadowing the fact that employment expansions in selected non-core sectors have prevailed: professional and business services (+5,300 jobs) and education and health services (+3,300). While regional job creation is a welcome sign, growth in sectors outside of hospitality is expected to provide increased stability over the longer-run, particularly as history suggests future downturns will emerge.

Economic Diversity Index Methodology - This analysis uses industry-level employment data for the United States and southern Nevada. The data are analyzed at the 1-digit NAICS (North American Standard Industrial Classification) level of detail, applying the Hachman Index. The Hachman Index is measured, for a given month, as the inverse of the weighted sum of the location quotients, by industry, for a given county, across all industries. A location quotient ("LQ") for a given month is the fraction of the County's employment in a given industry divided by the fraction of the nation's employment in the same industry for the same month. The LQs are weighted by the share of Clark County's employment in a given industry, for the given time period.

Employment in a few key industries, which differ considerably from the fraction of employment for those industries nationwide, return relatively large weighted LQs and, consequently, a relatively low Hachman Index value (since it is the inverse of the weighted LQs). Conversely, more closely reflecting the national employment distribution will have relatively small weighted LQs, and a relatively high Hachman Index value. Thus, a perfectly diversified economy would return an index value of 100.

DEFINITIONS AND SOURCES: Employment – Total amount of employment for the Las Vegas Metropolitan Statistical Area (MSA) (source: Nevada Department of Employment, Training and Rehabilitation). **Location Quotient** - A calculated ratio between the local economy and the economy of some reference unit. This ratio is calculated for all industries to determine whether or not the local economy has a greater share of that industry than expected (source: Forecasting for Plan Development Glossary of Terms, Florida State University, Department of Urban and Regional Planning).

The Nevada Development Authority (NDA) is a non-profit agency that works to diversify and improve the economy of Southern Nevada. NDA is dedicated to fostering an attractive, business-friendly environment through building key relationships while assisting and targeting new and expanding businesses.

NDA receives its primary support from business contributions; however, the scope of the organization's work is realized throughout the entire community. Along with the help of its members, NDA is directly responsible for creating and retaining thousands of stable jobs for Southern Nevada residents through recruiting new non-gaming companies to the area and playing an active role in the local expansion of existing businesses.

As a respected leader and credible source on economic development, the NDA compiles accurate information about Southern Nevada's economy, business environment and other key facts necessary for business analysis and comparison. This information is often utilized to educate new businesses on the benefits of relocating or expanding to Southern Nevada.