



NEVADA
DEVELOPMENT
AUTHORITY

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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By the mid-point of 2011, the overall southern Nevada economy continued to seek out a sustainable equilibrium as non-core employment sectors continue to more than offset employment gains in core sectors. Core employment, defined as total employment less those jobs sourced to construction and government, continued to escalate through the second quarter of the year. In fact, core employment has been on the rise for each of the last six months when compared to the same period of the prior year; and, during the month of June 2011, core employment increased by 7,300 positions (+1.1 percent).

While there is a general sense that the local economy is starting to regain its footing, many ask why does Las Vegas continue to report one of the highest unemployment rates in the country? Anecdotal reports suggest what empirical evidence confirms: many of the nearly 190,000 jobs created between 2003 and 2007 were predicated on an unsustainable level of consumer spending. The communities' relative dependence on the leisure and hospitality sector was exposed during

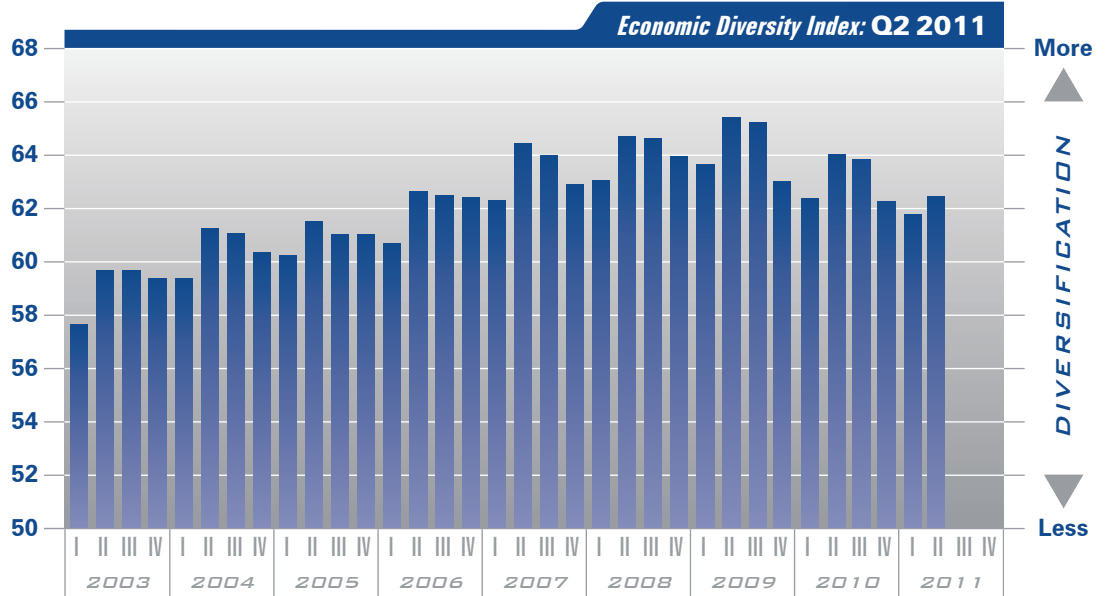
the boom of 2004 to 2007 when consumers were leveraging their assets, particularly their homes, and spending more than normalized levels dictated. Unfortunately, when the music stopped, so did the spending.

Many of the nearly 40 million visitors to Las Vegas were forced to right-size their household spending to new market realities, discretionary spending declined and businesses laid off an unprecedented number of workers. The ripple effect of corrections

in the market's primary industry, leisure and hospitality, contributed to increased volatility throughout the regional economy, exposing the perils of a narrow economic and fiscal system. From an economic perspective, fewer hotel-casino workers required fewer real estate agents, attorneys and retailers to support adjusted local income levels. With regard to fiscal implications, consumer spending from visitors and local residents shrank, property values nose-dived and overall public sector revenues followed a similar downward trajectory.

This is not to suggest the leisure sector is to blame for the challenges incurred during the past three years – it clearly is not. The construction sector has likely been the largest negative contributor from an employment perspective during the cycle. Construction employment is defined as a non-core

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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 (Q2 2011) of 62.5. Compared to the preceding quarter, the index increased 0.7 percent from 61.8 (Q1 2011). However, compared to the same quarter five years ago, the latest index value is essentially flat.

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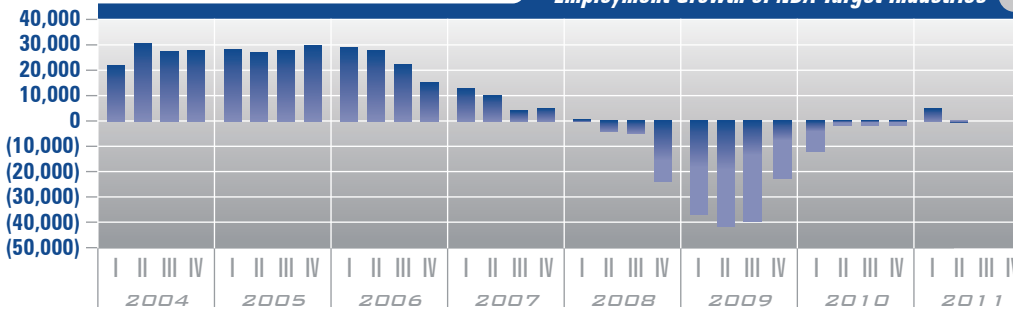
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EMPLOYMENT

SECTOR	Current Period (Q2 2011)		Previous Period (Q1 2011)		Previous Year (Q2 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	39,400	4.9%	41,200	5.1%	46,400	5.8%
Manufacturing	18,500	2.3%	18,200	2.3%	19,500	2.4%
Utilities	2,700	0.3%	2,800	0.3%	2,900	0.4%
Wholesale	18,700	2.3%	19,700	2.5%	20,500	2.5%
Retail	90,300	11.3%	90,600	11.3%	91,500	11.3%
Transportation & Warehousing	30,100	3.8%	30,500	3.8%	31,500	3.9%
Information	9,000	1.1%	8,900	1.1%	9,000	1.1%
Financial Activities	36,500	4.6%	37,900	4.7%	39,700	4.9%
Professional & Business Services	104,000	13.0%	102,700	12.8%	100,300	12.4%
Education & Health Services	73,700	9.2%	73,400	9.1%	69,600	8.6%
Leisure & Hospitality	264,700	33.0%	257,400	32.0%	256,900	31.9%
Other Services	24,400	3.0%	23,700	2.9%	23,900	3.0%
Government	89,800	11.2%	96,200	12.0%	94,400	11.7%
TOTAL	802,100	100.0%	803,500	100.0%	806,400	100.0%

Employment Growth of NDA Target Industries

LAST 12 MONTHS: **-500 / -0.1%**

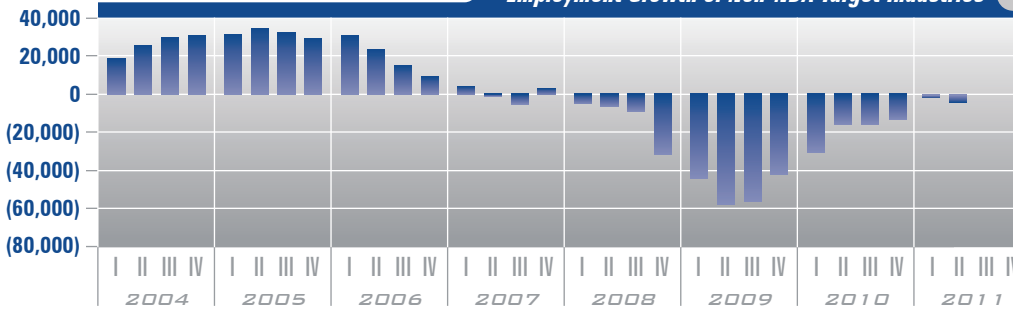


During the second quarter of 2011, total employment declined by 4,300 positions, representing a marginal decrease of 0.5 percent. Industries targeted by the NDA posted a job loss of 500 (or -0.1 percent) during the past 12 months, representing 50.9 percent of total employment. Non NDA-targeted industries shedded 3,800 jobs, or a decline of 1.0 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: **-3,800 / -1.0%**

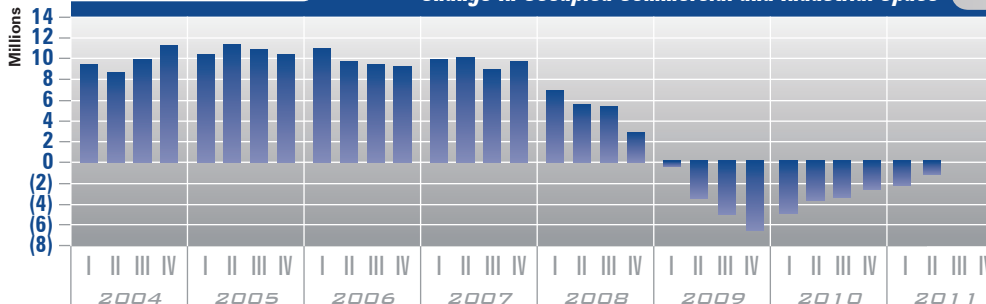


The construction employment sector continued to move in a negative direction with job losses offsetting a significant share of the job gains reported in the leisure and hospitality sector (+7,800). Non-NDA targeted industries lost 3,800 positions among its sectors. The shift from a year ago has non-NDA targeted industries representing just less than one-half of employees (49.1 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: **-1.3 (million sf) / -0.8%**



Commercial office, industrial and commercial retail markets posted marginal decreases in the aggregate occupied space compared to the same quarter of the prior year (down 1.3 million square feet). Total occupied inventory reached 169.2 million square feet during the second quarter of 2011, marking the tenth consecutive year-over-year decline.

LOCATION QUOTIENT

SECTOR	Current Period (Q2 2011)	Previous Period (Q1 2011)	Previous Year (Q2 2010)
Natural Resources & Mining	6.2	6.5	6.9
Construction	113.2	128.5	132.1
Manufacturing	25.9	25.4	27.3
Utilities	80.2	82.5	84.8
Wholesale	55.2	58.0	60.7
Retail	102.1	102.7	103.0
Transportation & Warehousing	115.8	117.3	122.0
Information	54.9	53.7	53.9
Financial Activities	78.5	80.9	84.0
Professional & Business Services	98.9	98.4	97.1
Education & Health Services	61.5	59.3	58.4
Leisure & Hospitality	315.5	325.4	306.8
Other Services	72.8	70.8	71.7
Government	67.1	68.9	67.4
ECONOMIC DIVERSITY INDEX	62.5	61.8	64.0

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)

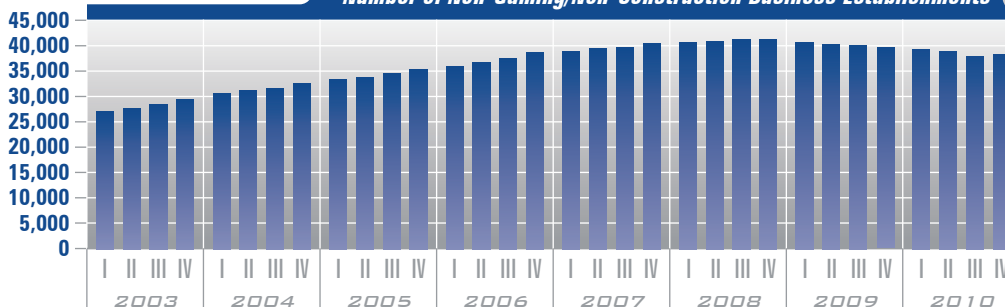
LAST 12 MONTHS: **+4.6** Points to **64.9%**



During the past 12 months, unemployment benefits sourced to non-gaming/non-construction industries increased by 4.6 percentage points. As of the close of the second quarter, non-core industries represented nearly 65 percent of unemployment claims while they accounted for 63 percent of total employment, 69 percent of total wages paid, and 82 percent of businesses in southern Nevada.

Number of Non-Gaming/Non-Construction Business Establishments

*LAST 12 MONTHS: **-1,483** Establishments

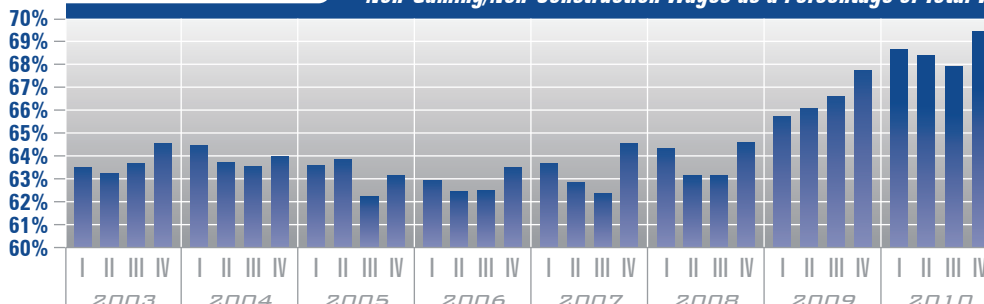


The market contracted by 1,483 non-tourism/non-construction establishments (net) during the past 12 months, reaching a total of 38,331. These sectors represent 81.2 percent of all businesses in southern Nevada.

(*Q4/10 latest available data)

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

*LAST 12 MONTHS: **+1.8** Points



By the close of the fourth quarter of 2010 (latest available data), non-gaming and non-construction wages as a percentage of total wages continued to rise. Approximately 69.4 percent of wages were earned in non-gaming/non-construction related positions. Non-core industry employment represented 62.9 percent of total employment, suggesting higher-than average wages were earned by those outside of tourism and construction.

(*Q4/10 latest available data)

NEW COMPANIES

EXPANDING COMPANIES

COMPANIES ASSISTED BY NDA

FISCAL YEAR	New and Expanding Businesses	Jobs Created	Wages Paid (in millions)
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
2001	68	6,876	\$265
10-YEAR TOTAL	526	24,707	\$997

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sector as its jobs are generally temporary in nature – that is to say when a construction job finishes, another project is required to maintain employment. From the peak (112,000 in June 2006) to present (39,400), the construction sector has shed nearly 73,000 jobs (-64.8 percent). Comparatively, the leisure and hospitality sector is off 11,400 jobs from peak (276,100 in June 2007) to present (264,700). Given current inventory levels in residential, commercial and hospitality sectors, there are no meaningful reasons for incremental construction projects beyond user-specific needs absent from the marketplace today.

Government represents the other major non-core sector of the economy. These service and support positions are part of any community's infrastructure and are typically considered secondary rather than primary drivers of the economy. While one can debate the appropriate level of service and related employment within the sector, federal, state and local governments' response to economic conditions tends to lag. This is not intended to be critical, rather the reality that as economic conditions contract and ultimately impact fiscal revenues, governments are forced to react. There is however a lag between the public and private sectors. Consider that between 2008 and 2010, the government sector reduced its workforce by 6,000 positions (-5.9 percent) while the private sector lost 128,100 jobs (-15.4 percent). By contrast, in 2011 core employment growth has been 8,600 jobs (+1.1 percent) while the public sector has decreased its ranks by 6,600 positions (-6.8 percent).

Continued diversification into core sectors of the economy is appropriate not only for economic reasons, but also for fiscal purposes. In addition, diversification within core sectors is expected to produce a broader economic base providing increased stability for state and local governments. It is this stability that provides an incentive for continued interest by businesses and entrepreneurs that are looking in from the outside. This stability will not come overnight, but it will come. *AP*

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.