



Economic Diversification

Published by Nevada Development Authority 6700 Via Austi Parkway, Suite B, Las Vegas, Nevada 89119

1ST QUARTER 2011

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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With the latest jobs report in southern Nevada demonstrating positive movements for the first time since the Great Recession began, the local economy is starting to show signs of brightness despite persistent challenges in selected sectors.

Overall employment in the Las Vegas Metropolitan Statistical Area (MSA) rose by 3,900 positions during the past 12 months. The gain reflects a 0.5-percent improvement from March 2010 with non-core sectors providing the bulk of the increase.

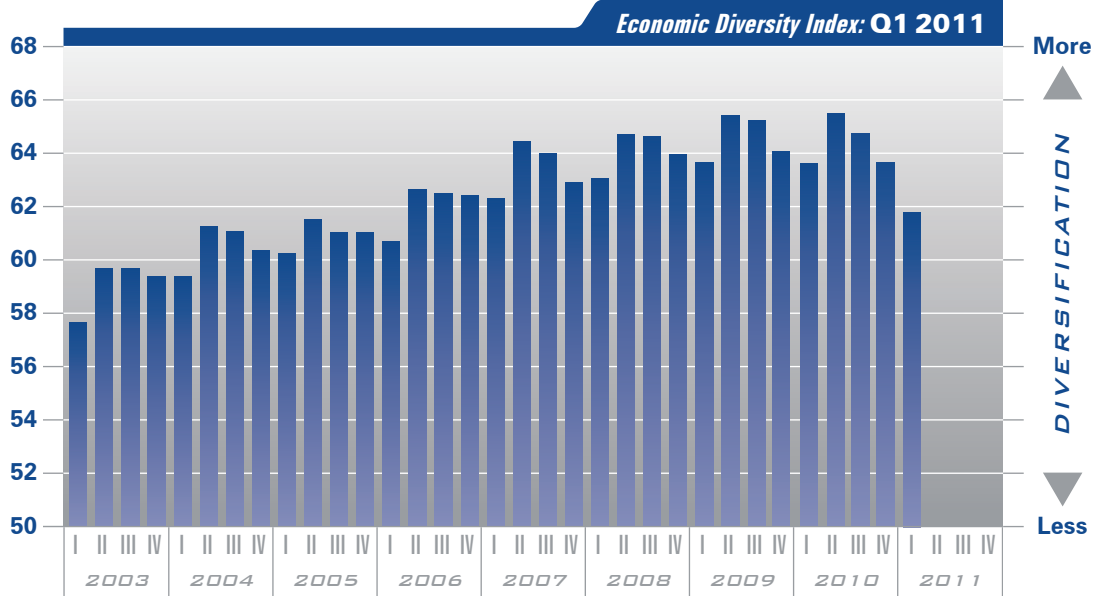
Improvements reported in the leisure and hospitality sector (+5,300 jobs), while a strong sign of expansion, were partially offset by continued contraction in the region's hard-hit construction sector. The development community continues to reel from oversupply conditions and a relatively soft demand environment. Once representing a peak of approximately 12 percent of the area's full-time employment base, the construction sector has slipped to just over 5 percent of positions (-71,300 jobs peak to present). During the past 12 months, construction sector

employment slid by another 4,300 jobs, or down 4.3 percent.

Not only do relative share increases in non-core sectors provide evidence that the local employment base is diversifying, but absolute employment gains in these areas are encouraging. Job growth in professional and business services was exceptionally strong through the first quarter, gaining 4,800 new positions, or 4.9 percent on a year-over-year basis. It is also noteworthy the professional and business services sector reported annual employment gains for 12 consecutive months.

Another sector that has managed to buck trends in the broader economy is education and health services, which posted an annual gain of 5.9 percent (+4,100 jobs) during the past 12 months. Since the commencement of this last recessionary cycle (December 2007), the sector continued to post annual employment gains in every monthly reporting period - the only sector to avoid job losses during this timeframe. While investments continued within the sector, we must balance these gains against explosive population growth that took place during the past several decades. The result is an education and healthcare system that has evolved and attempted to meet the needs of an expanding and maturing market but also a sector that has been stretched thin for quite some time. Employees classified as providing "other services" also posted annual

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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 (Q1 2011) of 61.7. Compared to the preceding quarter, the index decreased 0.6 percent from 62.3 (Q4 2010). Compared to five years ago, the latest index value remains one point higher.

EMPLOYMENT

SECTOR	Current Period (Q1 2011)		Previous Period (Q4 2010)		Previous Year (Q1 2010)	
	Employees	Share of Total	Employees	Share of Total	Employees	Share of Total
Natural Resources & Mining	300	0.0%	300	0.0%	200	0.0%
Construction	40,700	5.1%	41,500	5.2%	45,000	5.6%
Manufacturing	18,200	2.3%	18,500	2.3%	19,400	2.4%
Utilities	2,800	0.3%	2,800	0.3%	2,900	0.4%
Wholesale	19,700	2.5%	20,100	2.5%	20,400	2.6%
Retail	90,500	11.3%	94,800	11.8%	90,200	11.3%
Transportation & Warehousing	30,500	3.8%	31,100	3.9%	31,300	3.9%
Information	8,900	1.1%	9,200	1.1%	8,900	1.1%
Financial Activities	37,900	4.7%	39,100	4.9%	40,000	5.0%
Professional & Business Services	103,400	12.9%	100,700	12.6%	98,600	12.3%
Education & Health Services	73,200	9.1%	71,000	8.9%	69,100	8.6%
Leisure & Hospitality	257,400	32.0%	253,300	31.6%	252,100	31.5%
Other Services	23,700	2.9%	23,400	2.9%	23,000	2.9%
Government	96,200	12.0%	96,400	12.0%	98,400	12.3%
TOTAL	803,400	100.0%	802,200	100.0%	799,500	100.0%

Employment Growth of NDA Target Industries

LAST 12 MONTHS: **+5,000 / +1.2%**



During the first quarter of 2011, total employment grew by 3,900 jobs, representing an increase of 0.5 percent. Industries targeted by the NDA posted a job gain of 5,000 (or +1.2 percent) during the past 12 months. Representing 50.9 percent of total employment, NDA-targeted industries offset the 1,100 jobs lost in non-NDA target industries.

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: **-1,100 / -0.3%**

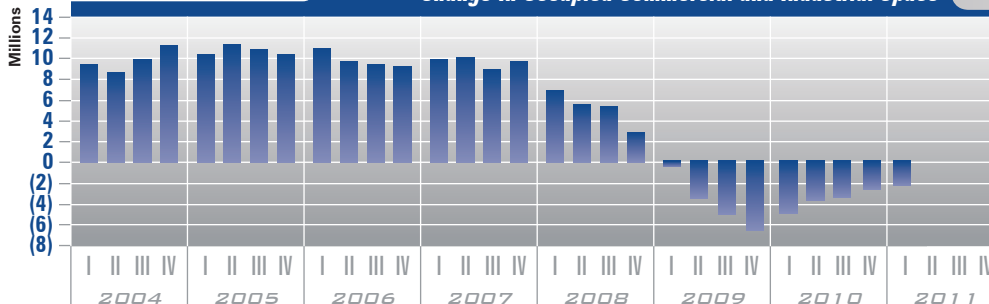


The construction employment sector continued to move in a negative direction with job losses, offsetting job gains reported in the leisure and hospitality sector (+5,300). Non-NDA targeted industries lost 1,100 positions among its sectors. The 0.3 percent staffing reduction represents a marginal decline on base of 395,700 one year ago. 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: **-2.3 (million sf) / -1.3%**



Commercial office, industrial and commercial retail markets continued to post declines in the level of occupied space compared to the same quarter of the prior year (down 2.3 million square feet). Total occupied inventory reached 169.0 million square feet. Total inventory levels remain at its lowest point since fourth quarter 2006.

LOCATION QUOTIENT

SECTOR	Current Period (Q1 2011)	Previous Period (Q4 2010)	Previous Year (Q1 2010)
Natural Resources & Mining	6.5	6.7	4.8
Construction	127.0	125.9	138.8
Manufacturing	25.4	26.1	27.4
Utilities	82.5	83.2	84.3
Wholesale	58.1	59.8	60.6
Retail	102.4	103.7	102.1
Transportation & Warehousing	117.5	117.1	122.4
Information	53.7	55.5	52.7
Financial Activities	80.9	83.8	84.6
Professional & Business Services	99.1	96.6	97.0
Education & Health Services	59.1	58.2	56.7
Leisure & Hospitality	325.8	324.6	322.4
Other Services	70.8	70.9	69.7
Government	69.0	69.7	69.1
ECONOMIC DIVERSITY INDEX	61.7	62.3	62.3

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)

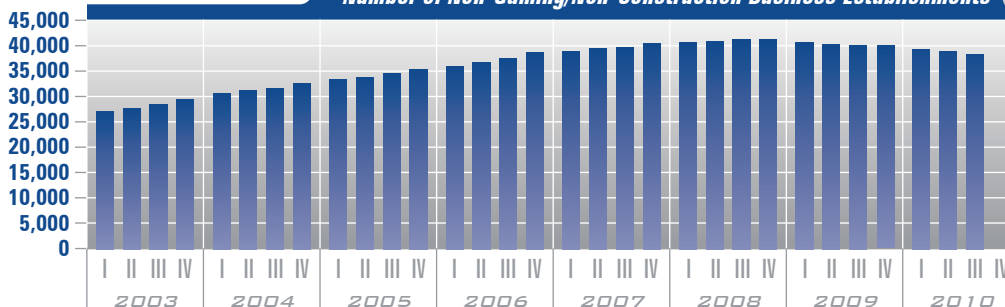
LAST 12 MONTHS: **+4.9** Points to **61.1%**



During the past 12 months, unemployment benefits sourced to non-gaming/non-construction industries increased by 4.9 percentage points. As of the close of the first quarter, non-core industries represented 61 percent of unemployment claims while they accounted for 62 percent of total employment, 68 percent of total wages paid, and 81 percent of businesses in southern Nevada.

Number of Non-Gaming/Non-Construction Business Establishments

*LAST 12 MONTHS: **-2,016** Establishments

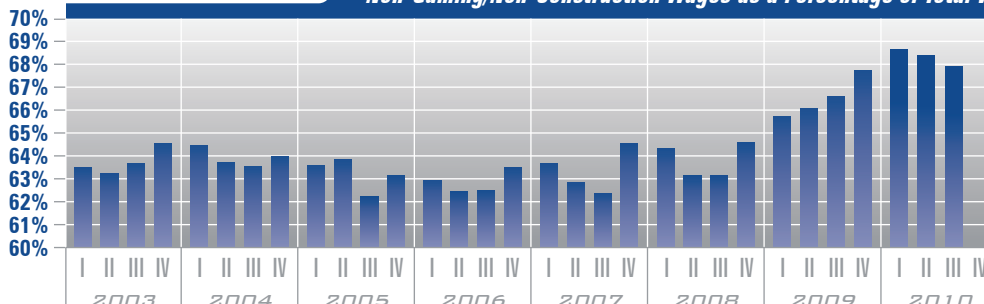


The market contracted by 2,016 non-tourism/non-construction establishments (net) during the past 12 months, reaching a total of 38,014. These sectors represent 81.0 percent of all businesses in southern Nevada.

(*Q3/10 latest available data)

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

*LAST 12 MONTHS: **+1.3** Points



By the close of the third quarter of 2010 (latest available data), non-gaming and non-construction wages as a percentage of total wages continued to rise. Approximately 67.9 percent of wages were earned in non-gaming/non-construction related positions. Non-core industry employment represented 62.1 percent of total employment, suggesting higher-than-average wages were earned by those outside of tourism and construction. (*Q3/10 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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gains throughout the majority of the past 12 months.

Despite recent employment improvements reported in non-core sectors and for economic and fiscal reasons going forward, diversification within southern Nevada's economy remains a critical element of on-going political and business debates. The market's ability to rely on historical precedent as a strategy in the future is a dangerous proposition. The boom eras that took place during the 1990s and 2000s were largely driven by construction and tourism, with construction primarily sourced to the development of tourism-based infrastructure. Given market dynamics and current economic realities, it is unlikely that southern Nevada's core tourism industry will experience material investments by way of ground up development and expansion of the Las Vegas Strip or related projects.

Broader market improvements that are likely to take place during the recovery period of the current cycle will not only be traced to rebounding tourism metrics and innovative industry marketing strategies, but the longer-run recovery will be sourced to improvements and investments in the other two-thirds of economy. Southern Nevada's success will be dependent on a mix of sources, including the market's ability to attract: regional and national distributors to fill the vacated warehouses and distribution facilities; equipment manufacturers and technology innovators to occupy new plants and research and development campuses; nationally recognized retailers that view Nevada as a necessary place to do business due to its residents' demographic and spending profiles; corporate headquarters that believe a qualified workforce and low-cost environment provide an opportunity to improve efficiencies and reduce costs; and innovative start-ups that can take advantage of a pro-business environment and create a high quality of life for its executives and employees. When thinking about the infrastructure that is necessary to achieve these objectives, one need not look too far - much of it already exists. 

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.