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Mountain Monitor-2nd Quarter 2010

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Mountain Monitor

Tracking Economic Recession and Recovery in the Intermountain West's Metropolitan Areas

Jonathan Rothwell and Kenan Fikri

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The Intermountain West exemplifies the peculiarities of the Great Recession and its subsequently fragile and protracted recovery. Where pre-recession growth in employment and housing prices was fastest, employment losses and housing price declines have been the most severe—in Las Vegas, Phoenix, and Boise most starkly. The profundity of the recession and sluggishness of the recovery have ensured that no metro in the region escaped unscathed, however, and in the second quarter even the best performers fell on some indicators.

Perhaps most significantly for the region, housing prices are unlikely to keep falling much further. An analysis by Howard Wial and Richard Shearer for this quarter's *MetroMonitor* has found that housing prices are now under-valued in most large metropolitan areas, including nine out of the 10 large Intermountain West metros.[1] Their model, however, may not pick up the effects of increasing foreclosures, which could continue to drag prices down. With that caveat, an eventual increase in housing prices—if and when the market settles back in line with economic fundamentals—should have a number of positive effects on the balance sheets of banks and home owners.

In retrospect, it is clear when looking across metropolitan area economies with unusual reliance on highly cyclical industries—like housing and tourism—places them at greater risk of experiencing a more wrenching recession than others. And hence the origins of much of the region's anxiety: structural changes cannot happen overnight, and jobs are needed immediately.

This version of the *Mountain Monitor* covers data through the second quarter of 2010. The report documents and analyzes recession indicators for this new American heartland, the Intermountain West, as a companion to Brookings' national *MetroMonitor*. The *Mountain Monitor* is produced by Brookings Mountain West, a partnership between the Brookings Institution and the University of Nevada, Las Vegas.

This latest *Monitor* sheds light on another variegated and ambiguous quarter. Those looking for assurances to either start investing or retrench for a double-dip cannot find clear signals in these data.

[1] Howard Wial and Richard Shearer, "MetroMonitor: Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas," (Washington: Brookings, 2010). Available at http://www.brookings.edu/metro/MetroMonitor.aspx.

Employment overall was up ever so slightly in the region, but private sector employment was slightly down. The evident job gains were driven by federal hiring—most likely for the Census Bureau's temporary stimulus: the decennial census. GMP growth was much stronger in the region and decent nationally, partly on the strength of merchandise exports and manufacturing.

As in previous editions, this report examines data on employment, unemployment, output, home prices, and foreclosure rates for the Intermountain West's 10 large metropolitan areas, the nation's 100 largest metros, and 21 smaller metros dispersed around the Mountain region, as it was available through the second quarter of 2010.

Along these lines the report finds that:

- **Five of the 10 large Intermountain West metros have now fully recovered output, measured as gross metropolitan product (GMP), to above pre-recession levels, and eight out of 10 posted exceptional GMP growth from the first quarter of 2010 to the second, relative to the rest of the country.** Thus, the region's dismal job performance is out of line with its strong GMP performance, and the two are difficult to reconcile. Contributing to the ambiguity, it must be said that the rate of GMP growth has now slowed for the second straight quarter. The rate of expansion slowed slightly to 0.9 percent in the Intermountain West's largest metros. National output followed the same trend, but was not as strong.

- **Yet, no Intermountain West metropolitan area has recovered the jobs it lost during the recession, and only four of the large Intermountain West metros added jobs in the second quarter of 2010, while five others saw job losses mount further.** The largest 10 metropolitan areas in the Intermountain West together saw 0.3 percent job growth over the second quarter of 2010. At this lackluster pace, it will take seven years for employment to return back to its pre-recession level. Meanwhile, two of the hardest hit areas, Boise and Las Vegas, fell even further behind as they continued to shed jobs. The number of jobs in Phoenix, on the other hand, grew 1 percent—far faster than nationally.

- **Denver and Colorado Springs saw slight decreases in their unemployment rates from June 2009 to June 2010, but the region itself saw a small increase, and failed to make a dent in its 9.3 percent unemployment rate.** Phoenix, Ogden, and Tucson stabilized their unemployment rates. Yet, in familiarly ambiguous fashion, the region was home to two of the nation's worst performers as well: Albuquerque experienced a one percentage point increase in its unemployment rate and Las Vegas' rose by 2.2 percentage points—the largest year-on-year increase in the nation's 100 largest metropolitan areas for the second straight quarter.

- **Housing prices continued to fall in all ten large metros, but Brookings analysis of historical trends suggests that Mountain West housing markets have overcorrected and that homes by the second quarter of 2010 were undervalued, to varying degrees, in all of the region's major metros except Colorado Springs.** Just as bullish behavior aggravated the boom, bearish behavior has exacerbated the bust and both of these dynamics have played out exaggeratedly on the stage of the Mountain West. In Ogden, Salt Lake, Provo, Tucson, Phoenix, Boise, and Las Vegas, home prices by the second quarter of 2010 had fallen to levels more than 2 percent below where they would have been had they tracked pre-boom trends in employment, wages, and interest rates over the past decade.

- **The stock of real estate-owned properties—foreclosed properties that failed to sell at auction and are now owned by lenders—in the Mountain region increased again during the second quarter of 2010 and remains comparatively high.** The REO rate in the Intermountain West, at 8.9 properties per 1,000 mortgageable ones, stood over twice as high as the national rate of 3.99 per 1,000 in the second quarter. The housing market bust continues to plague the region, and REOs increased nearly twice as fast in the second quarter as they did in the first and over three times faster than they did nationally.

- **Job growth was positive in eight of the Mountain West's 21 smaller metro areas and output growth was positive in all of them—but a jobs recovery remains a long way off.** Over the second quarter, Yuma, Las Cruces, and Prescott added jobs at impressive rates of 1.7, 1.4, and 1.4 percent, respectively. A second tier of small mountain metros saw weaker but still positive job growth, including Pueblo, Flagstaff, Fort Collins, Logan, and Greeley. The other 13 metros shed jobs, with losses at or exceeding one percent in Lewiston, Pocatello, and Grand Junction. Even the fastest quarterly growers, however, have yet to recoup all the jobs they lost to the recession.

Methodology

The *Mountain Monitor*—a companion product to the Brookings Metropolitan Policy Program's national *MetroMonitor*—tracks quarterly indicators of economic recession and recovery in the Mountain region's metropolitan areas. The focus is on the six-state region's 10 major metros that lie within the 100 most populous nationally, but a sub-set of indicators for smaller metros is presented at the end. The states include Arizona, Colorado, Idaho, Nevada, New Mexico, and Utah. The indicators include:

- **Employment**: Total wage and salary jobs, seasonally adjusted. Percentage change in employment is shown from each metro area's peak employment quarter to the most recent quarter, measuring the extent to which employment has recovered from the recession's impact. Peaks are defined as the highest employment level attained since the first quarter of 2004; in some metro areas where this peak occurred in one of the three most recent quarters, the peak was defined as the highest level attained between 2004 and its most recent quarter of employment losses prior to the three most recent quarters. Percentage change in employment is also shown from the previous quarter to the most recent quarter, measuring the extent to which employment is moving toward recovery. Source: Moody's Economy.com.

- **Unemployment rate**: Percentage of the labor force that is currently unemployed, not seasonally adjusted, last month of quarter. Because the data are not seasonally adjusted, change in the unemployment rate is shown from the same month in the previous year and three years prior. Source: Bureau of Labor Statistics.

- **Gross metropolitan product (GMP)**: Total value of goods and services produced within a metro area. The percentage change in GMP is shown from each metro area's peak GMP quarter (defined as above) to the most recent quarter, and from the previous quarter to the most recent quarter. Source: Moody's Economy.com.

- **Housing prices**: Prices of single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac. Percentage change in housing prices is shown from each metro area's peak housing price quarter to the most recent quarter. Peaks are defined as the highest house price level attained between the first quarter of 2005 and the second quarter of 2009. Percentage change in housing prices is also shown from the previous quarter to the most recent quarter. Source: Federal Housing Finance Agency House Price Index.

- **Real estate-owned (REO) properties**: Foreclosed properties that fail to sell at auction and thus become owned by the lending institution. Shown as the share of all mortgageable properties in each metro area in the last month of the most recent quarter, and change in share from last month in previous quarter. Source: McDash Analytics.

- **Recession Comparisons:** The percent of employment recovery in each recession is measured by employment in the tenth quarter following the official first quarter of a national recession (as defined by the National Bureau of Economic Research) as a percentage of employment in that first quarter of the recession in question. Source: Moody's Economy.com

The *Mountain Monitor*'s Overall Performance index combines metropolitan rankings on four key indicators:

- Percent employment change from peak quarter to 2nd quarter 2010
- Percentage point change in unemployment rate from June 2007 to June 2010
- Percent GMP change from peak quarter to 2nd quarter 2010
- Percent change in House Price Index from 2nd quarter 2007 to 2nd quarter 2010

Metropolitan areas are then grouped into quintiles (groups of 20) based on their average ranking across all four indicators, among the 100 largest U.S. metro areas.

Estimates of the extent to which housing is over- or underpriced are based on predictions of what house prices would have been if there had been no housing bubble and prices had followed trends in employment, wages, and interest rates. Regression analysis for each metropolitan area was used to estimate the relationship, through the end of 1998 (prior to the housing bubble), between that area's average house price, its average house price in previous quarters, its employment, its average wage, and the mortgage interest rate. The results were used to predict average house prices in the second quarter of 2010 and actual average house prices were compared with predicted ones to estimate under- or overpricing.

Interactive *MetroMonitor* maps, underlying indicator data, and one-page profiles of each of the 100 largest metro areas are also available at www.brookings.edu/metromonitor.

Overall performance of the largest Mountain-region metros during the recession

On the *Monitor's* overall performance index, which combines rankings on four key indicators of economic health for the nation's 100 largest metro areas, four of the region's metros outperform the median large metro and six trail behind. In general the region's metros fall into two categories: those muddling along through the recession (Ogden, Colorado Springs, Albuquerque, Denver, Salt Lake, Provo, and increasingly Tucson); and those struggling to shake off the hangover from their boom and bust (Phoenix, Boise, and Las Vegas). Denver was the only metro to change performance quintiles in the second quarter, falling from the second into the third as its rankings fell on employment, unemployment, and house price indicators.

The Intermountain West consolidated its output recovery in the second quarter of 2010. Output has fully recovered in five of the region's metros and grew in all ten in the second quarter of 2010—the third straight quarter of pervasive growth. Three metros—Ogden, Colorado Springs, and Albuquerque—rank in the top quintile of metros nationally. Sunbelt boom-town Phoenix lags in the fourth quintile of performers, with output still 1 percent off its peak, but will join the ranks of fully recovered metros next quarter if it repeats this period's 1.2 percent growth. In all, quarterly growth rates in seven Mountain metros ranked in the top quintile nationally, though the rate of growth slowed everywhere.

But the defining characteristic of the Mountain West's recovery has been—and through the second quarter of 2010 continued to be—its lack of job creation. Contrasting the region's comparatively strong output performance, no metro ranks in the top two quintiles nationally in terms of employment recovery, although the number of employed did increase in five metros last quarter. Employment in the second quarter was down more than 10 percent from its peak in Las Vegas, Phoenix, and Boise. Were it not for the hiring of temporary Census workers, which inflated already-meager employment numbers to levels higher than they otherwise would have been, the jobless nature of the region's rebound would have been even more starkly apparent.

The recession has had a more measured impact on the Mountain metros' unemployment rates, and five metros have managed to curb the local uptick in unemployment below the national average. Ogden, Colorado Springs, Denver, Salt Lake City, and Provo have seen the unemployment rate rise between 4.2 and 4.5 percentage points over the course of the recession, below the national average of 4.9. Tucson, Phoenix, Boise, and Las Vegas all stumbled backwards in the 100 metro rankings on unemployment rate changes. Las Vegas' unemployment spike of 9.9 since 2007 is the harshest in the country.

Housing market woes remain a drag on the region's recovery, as they do the nation's as a whole. Mountain West homes were selling for 33.1 percent less on average in the second quarter of 2010 than they were at the market's peak. Mirroring the boom, the market's correction in the Intermountain West has been much more pronounced than in the top 100 metro areas as a group, where prices are down 21.4 percent from their pre-recession peaks.

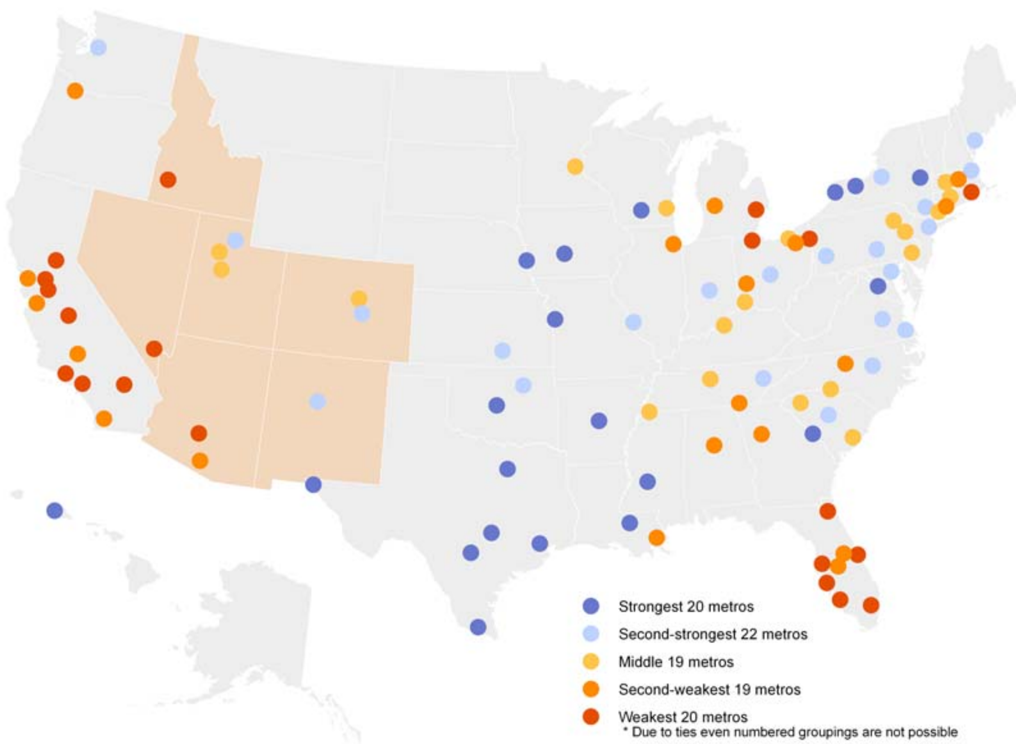
Overall performance on change in employment, unemployment rate, GMP, and housing prices during the recession for major Intermountain West metros

Metro	Percent change in employment, metro peak to 2010Q2	Nat'l Rank	Percentage point change in unemployment, Jun. 2007 to Jun. 2010	Nat'l Rank	Percent GMP change, metro peak to 2010Q2	Nat'l Rank	Percent change in real HPI, metro peak to 2010Q2	Nat'l Rank
Ogden-Clearfield, UT	-6.2%	51	4.2%	33	5.7%	4	-14.2%	41
Colorado Springs, CO	-5.8%	46	4.5%	43	1.9%	18	-14.1%	39
Albuquerque, NM	-5.8%	48	5.1%	62	3.3%	12	-14.4%	43
Denver-Aurora, CO	-6.2%	52	4.3%	38	-0.1%	43	-14.0%	38
Salt Lake City, UT	-6.9%	59	4.3%	37	0.3%	34	-19.9%	60
Provo-Orem, UT	-7.7%	65	4.5%	44	0.3%	35	-23.6%	70
Tucson, AZ	-6.7%	57	5.4%	69	-0.1%	44	-32.2%	79
Phoenix-Mesa-Glendale, AZ	-11.0%	93	5.7%	74	-1.0%	61	-45.6%	92
Boise City-Nampa, ID	-10.2%	89	6.4%	82	-2.0%	74	-32.5%	81
Las Vegas-Paradise, NV	-13.9%	96	9.9%	100	-4.2%	95	-55.2%	97
Intermountain West Metros	-8.7%		5.7%		-0.2%		-33.1%	
100 Largest Metros	-5.9%		5.1%		0.5%		-23.1%	
United States	-5.5%		4.9%		1.1%		-18.3%	

Overall metropolitan performance, and performance on each component indicator, is grouped by quintile (20 metro areas each) based on metros' rank among the largest 100 U.S. metropolitan areas (for the full list see the Brookings Metropolitan Policy Program's *MetroMonitor*). The following shading system indicates these quintile rankings:

Strongest	Second-strongest	Middle	Second-weakest	Weakest

Overall performance during the recession



Metropolitan Policy Program at BROOKINGS

Employment

No Intermountain West metropolitan area has recovered all of the jobs it lost during the recession, and only four of the large Intermountain West metros added jobs in the second quarter of 2010 while five others saw job losses mount further. Posting job growth of 1 percent, Phoenix saw employment expand for the third straight quarter and was one of the strongest metropolitan performers nationally. Tucson and Denver registered positive quarterly gains in employment for the first time since the recession began. Meanwhile, Salt Lake City, which saw job increases in the final quarter of 2009 reverse in early 2010, resumed adding jobs in the second quarter. Colorado Springs held steady.

The hard-hit metros of Boise and Las Vegas were joined by formerly top-performing Ogden, Albuquerque, and Provo in suffering another round of employment declines, further evidencing the unevenness and unpredictability of the recession and its aftermath. Provo's contraction was the second starkest in the country; Ogden's the third.

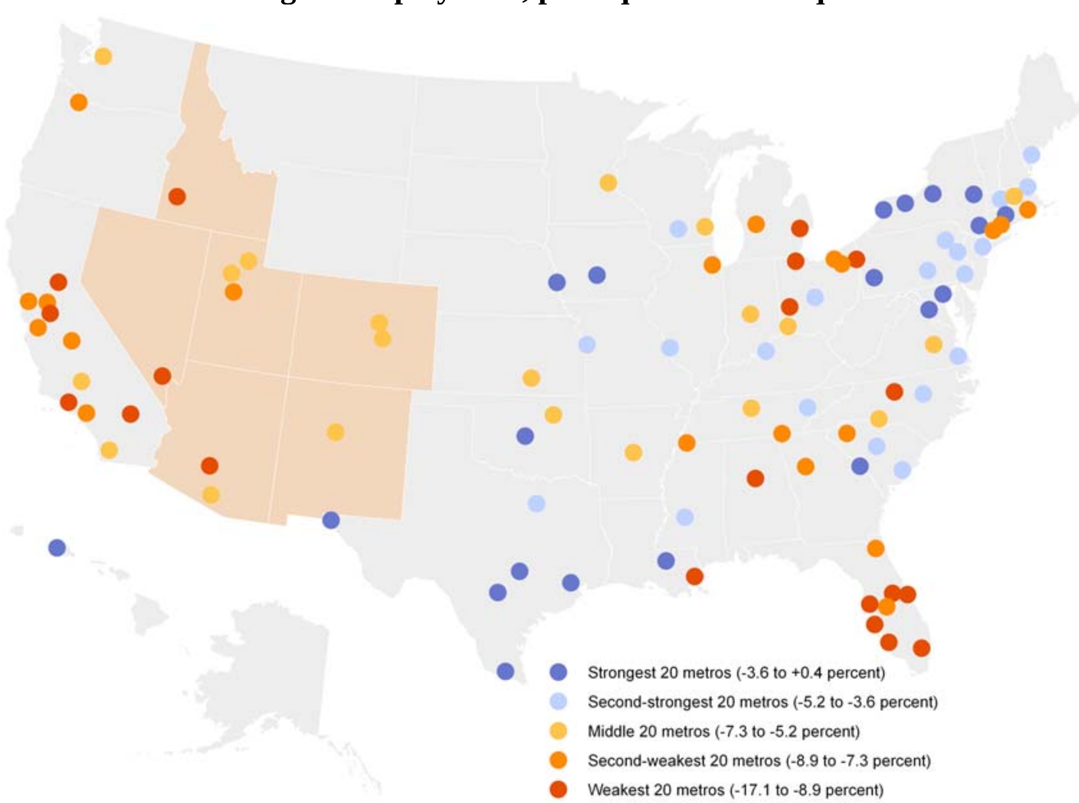
At the current lackluster pace of job growth, it will take seven years for employment to return to its pre-recession level. The largest 10 metropolitan areas in the Intermountain West together saw the first quarter of the year's 0.6 percent decline in employment swing to an increase of 0.3 percent in the second quarter. This tentative jobs recovery was feebler than the nation's, however; jobs nationally grew by 0.7 percent for the first positive value on this indicator since the *Mountain Monitor* started tracking four quarters ago. Overall, employment in the region languishes 8.7 percent below its peak in the fourth quarter of 2007. Not one of the region's metro's has fully recovered.

Temporary employment by the U.S. census explains the positive growth in the Intermountain West and roughly one quarter of the growth in the United States. Non-federal government employment stayed flat the region but expanded at a rate of 0.5 percent nationally and 0.3 percent in the 100 largest metros. Denver's job growth turns marginally negative in the second quarter if federal government jobs are excluded. Nine of the ten Intermountain West metros, with Provo being an exception, experienced faster federal government job growth than private job growth.

Change in employment by metro

Rank	Metros ranked by percent change in employment from peak	Percent change in employment, peak to 2010Q2	Percent change in employment, 2010Q1 to 2010Q2	Pre-recession employment growth, 2002Q3 to 2007Q3
1	Colorado Springs, CO	-5.8%	0.0%	8.8%
2	Albuquerque, NM	-5.8%	-0.3%	5.5%
3	Ogden-Clearfield, UT	-6.2%	-0.4%	13.9%
4	Denver-Aurora, CO	-6.2%	0.2%	6.2%
5	Tucson, AZ	-6.7%	0.6%	12.6%
6	Salt Lake City, UT	-6.9%	0.4%	23.8%
7	Provo-Orem, UT	-7.7%	-0.4%	12.5%
8	Boise City-Nampa, ID	-10.2%	-0.3%	26.1%
9	Phoenix-Mesa-Glendale, AZ	-11.0%	1.0%	20.0%
10	Las Vegas-Paradise, NV	-13.9%	-0.1%	16.7%
	Comparison Aggregates			
	Intermountain West Metros	-8.7%	0.3%	15.2%
	100 Largest Metros	-5.9%	0.5%	5.9%
	United States	-5.5%	0.7%	5.6%
	Comparison Metros			
	Riverside-San Bernardino-Ontario, CA	-12.8%	0.0%	17.4%
	Sacramento--Arden-Arcade--Roseville, CA	-9.5%	-0.2%	8.7%

Percent change in employment, peak quarter to 2nd quarter 2010



Unemployment

Denver and Colorado Springs saw slight decreases in their unemployment rates from June 2009 to June 2010, but the region itself saw a small increase, and failed to make a dent in its 9.3 percent unemployment rate. Phoenix, Ogden, and Tucson stabilized their unemployment rates. Yet, in familiarly ambiguous fashion, the region was home to two of the nation's worst performers as well: Albuquerque experienced a one percentage point increase in its unemployment rate and Las Vegas' rose by 2.2 percentage points—the largest year-on-year increase in the nation's 100 largest metropolitan areas for the second straight quarter.

Nationally, high college attainment rates, exemplified by Denver and Colorado Springs, are highly correlated with lower increases in the unemployment rate between the second quarters of 2009 and 2010 (and low unemployment overall). Likewise, metros involved in heavily export-oriented activities like transportation equipment manufacturing, such as Ogden, benefited from increases in foreign and domestic demand over this period. Exports of motor vehicles were up 300 percent between the second quarters of 2009 and 2010, and motor vehicle parts exports, with large employment shares in Ogden and Tucson, were up 50 percent.[2] According to data from the Bureau of Labor Statistics, no industry added more jobs than motor vehicles and motor vehicles parts manufacturing over the past year, which expanded employment by 56,500 from June 2009 to June 2010.

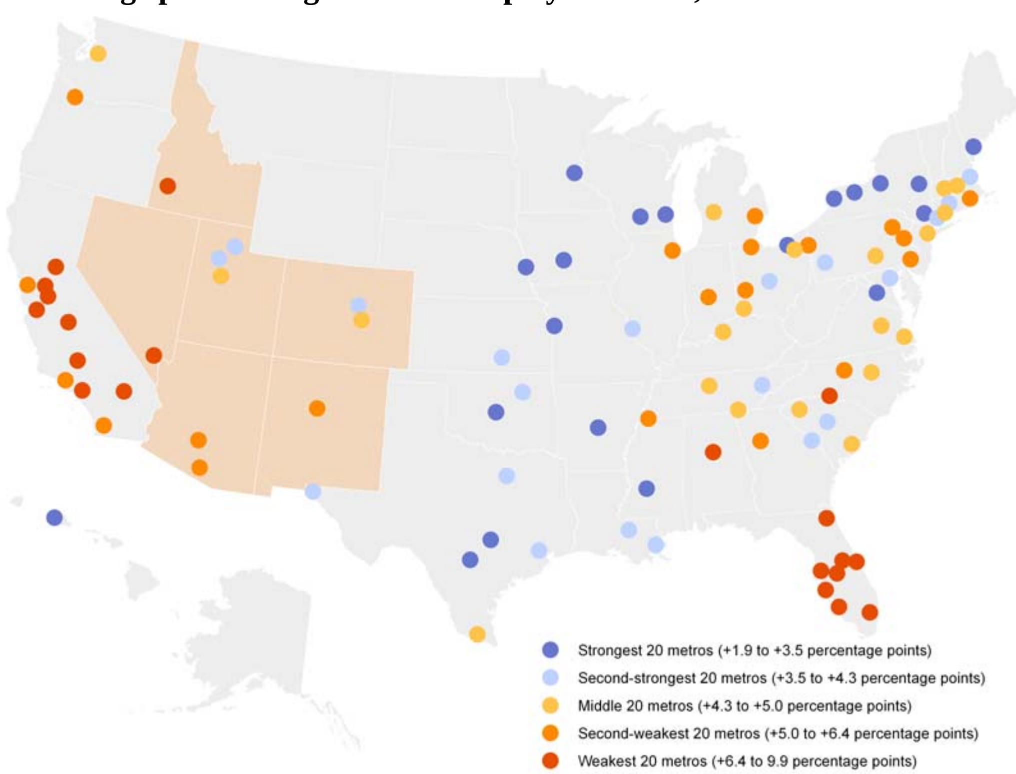
Unemployment rates remain lower in the Intermountain West than the rest of the country, but the gap closed this quarter. In June of 2007, unemployment rates in the region were just 3.6 percent on average, one full percentage point below the 100 metro average. Now, they stand at 9.3 percent and only 0.4 percentage points below the 100 metro average, though Las Vegas' aberrant performance weighs on the aggregate measure. Still, the region continues to struggle mightily to regain the labor market strength it had taken for granted just three years ago.

[2] Export data is from the U.S. International Trade Commission's (USITC) DataWeb, available at http://dataweb.usitc.gov/.

Change in unemployment by metro

Rank	Metros ranked by percentage point change in the unemployment rate, Jun. 2007 to Jun. 2010	Percentage point change in the unemployment rate, Jun. 2007 to Jun. 2010	Percentage point change in the unemployment rate, Jun. 2009 to Jun. 2010	Unemployment rate, Jun. 2010
1	Ogden-Clearfield, UT	4.2%	0.1%	7.2%
2	Colorado Springs, CO	4.5%	-0.2%	9.0%
3	Albuquerque, NM	5.1%	1.0%	8.9%
4	Denver-Aurora, CO	4.3%	-0.5%	8.2%
5	Salt Lake City, UT	4.3%	0.2%	7.1%
6	Provo-Orem, UT	4.5%	0.6%	7.4%
7	Tucson, AZ	5.4%	0.1%	9.0%
8	Phoenix-Mesa-Glendale, AZ	5.7%	0.0%	9.0%
9	Boise City-Nampa, ID	6.4%	0.3%	9.0%
10	Las Vegas-Paradise, NV	9.9%	2.2%	14.6%
	Comparison Aggregates			
	Intermountain West Metros	5.7%	0.3%	9.3%
	100 Largest Metros	5.1%	0.0%	9.7%
	United States	4.9%	-0.1%	9.6%
	Comparison Metros			
	Riverside-San Bernardino-Ontario, CA	8.6%	0.8%	14.4%
	Sacramento--Arden-Arcade--Roseville, CA	7.2%	1.0%	12.4%

Percentage point change in the unemployment rate, June 2007 to June 2010



Metropolitan Policy Program at BROOKINGS

Gross Metropolitan Product

Eight of the ten large Intermountain West metros posted relatively high growth in GMP from the first quarter of 2010 to the second, and all ten saw positive growth. But for the second straight quarter, GMP growth slowed in the Intermountain West and nationally. GMP grew 0.9 percent in the Intermountain West's largest metros in the second quarter of 2010, down from 1.1 percent in the previous quarter and 1.6 percent closing out 2009. National output followed the same trend.

But the second quarter's 0.9 percent regional GMP growth rate was considerably stronger than the 0.6 percent observed both nationally and for the 100 largest metropolitan areas. Indeed, the economies of five large Intermountain West metros—Ogden, Phoenix, Colorado Springs, Salt Lake City, and Tucson—grew by one percent or more, which puts them on track for a rapid annual growth rate of four percent should they maintain it through June of 2011. Ogden and Phoenix actually grew at double the U.S. rate. Ogden benefited from strong industry performances in petroleum and primary metals manufacturing, as well as a high concentration of federal jobs. Solely Albuquerque and Las Vegas lagged the national average, managing only modest growth. Nationally, GMP contracted in four of the 100 largest metropolitan areas over the course of the second quarter: Jacksonville, Palm Bay, Providence, and San Francisco.

Five of the region's metros have now completely recovered GMP and surpassed their pre-recession peaks. In the second quarter Provo and Salt Lake City joined the ranks of Ogden, Albuquerque, and Colorado Springs, as metros having fully recovered output. These five metro economies are now larger than they were before the recession. Nationally, 43 of the 100 largest metropolitan areas have recovered to or surpassed their pre-recession GMP peaks, up from 32 metros last quarter.

High college attainment and public sector employment is associated with better GMP performance over the course of the recession, and Provo, Colorado Springs, and, to a lesser extent, Salt Lake City, boast highly educated workforces. Ogden, Colorado Springs, and Albuquerque have benefited from a disproportionate number of federal jobs.

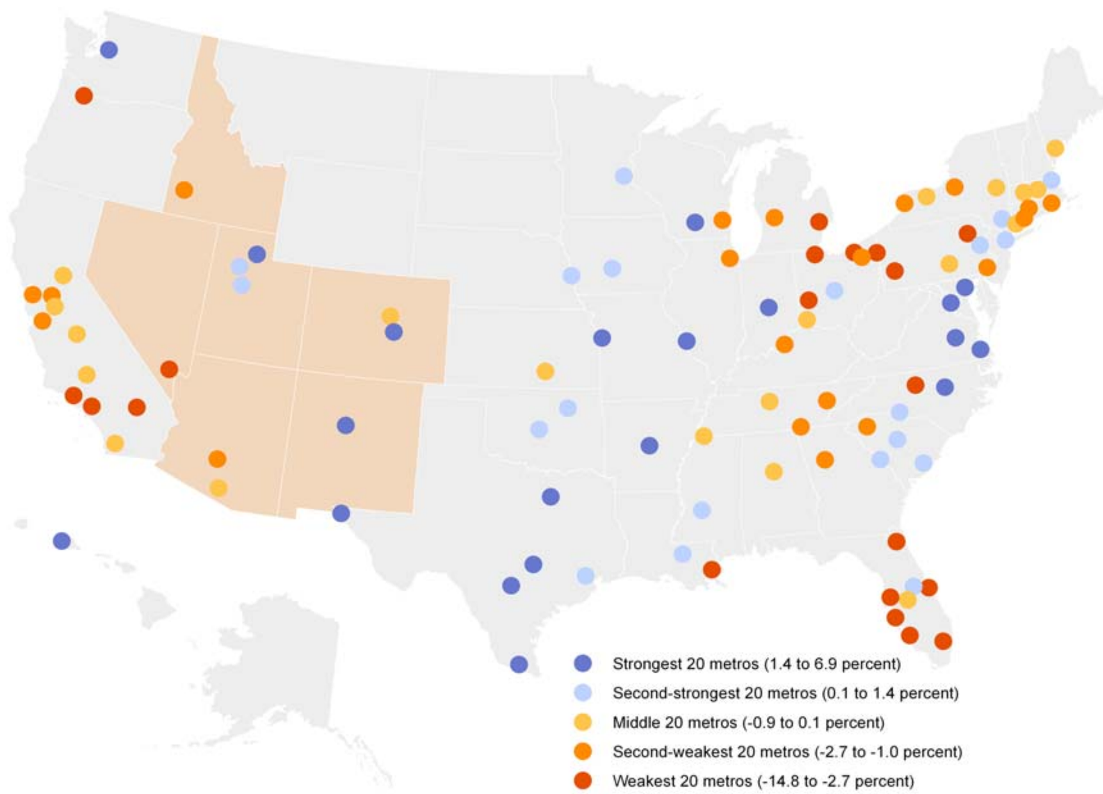
These GMP growth trends are difficult to reconcile with the region's lackluster employment performance. Job losses are highly correlated with contractions in output, but the Intermountain West metros have lost an extra 2.5 percent of jobs above and beyond what their GMP declines would predict.[3] Ogden, the region's best performer in terms of GMP recovery, illustrates the point: despite full economic recovery and an economy 5.7 percent larger than it was before the recession, there were still 6.2 percent fewer jobs in Ogden in the second quarter of 2010 than there were at its peak in the fourth quarter of 2007.

[3] This figure is based the average loss of jobs in the Intermountain West adjusted for GMP declines. The adjustment uses data from the 100 largest metropolitan areas to observe the relationship between GMP growth and employment growth since the quarter of pre-recession peaks.

Percent change in GMP by metro

Rank	Metros ranked by percent GMP change from peak	Percent GMP change, metro peak to 2010Q2	Percent GMP change, 2010Q1 to 2010Q2
1	Ogden-Clearfield, UT	5.7%	1.2%
2	Albuquerque, NM	3.3%	0.5%
3	Colorado Springs, CO	1.9%	1.0%
4	Salt Lake City, UT	0.3%	1.0%
5	Provo-Orem, UT	0.3%	0.8%
6	Denver-Aurora, CO	-0.1%	0.9%
7	Tucson, AZ	-0.1%	1.0%
8	Phoenix-Mesa-Glendale, AZ	-1.0%	1.2%
9	Boise City-Nampa, ID	-2.0%	0.9%
10	Las Vegas-Paradise, NV	-4.2%	0.1%
	Comparison Aggregates		
	Intermountain West Metros	-0.2%	0.9%
	100 Largest Metros	0.5%	0.6%
	United States	1.1%	0.6%
	Comparison Metros		
	Riverside-San Bernardino-Ontario, CA	-3.2%	0.2%
	Sacramento--Arden-Arcade--Roseville, CA	-0.9%	0.5%

Percent change in real GMP, peak quarter to 2nd quarter 2010



Housing Prices

The housing market has yet to find a floor as prices in every large Mountain West metro fell further in the second quarter of 2010. The region's house prices fell another 2.6 percent in the second quarter, 1.2 percent further than in the country's large metros as a group. In Las Vegas prices declined a mild 0.9 percent, while Phoenix and Boise homeowners endured more painful 4.0 and 4.4 percent falls, respectively. Prices in Albuquerque and Provo's markets were relatively more stable but fell by over 1 percent nonetheless.

Despite a few bright spots, year-on-year house price declines were sharper in the second quarter of 2010 than they were in the first. Second quarter prices in the region taken as a whole were down 12.0 percent from one year ago, compared to 10.1 percent over the year to the first quarter. In previous quarters the Mountain region's house price declines had tracked the nation's; this quarter's 12.0 percent decline breaks from this past trend and far outpaces the 100 largest metro areas' 7.5 percent decline. Only in Denver, Colorado Springs, and Albuquerque were year-on-year price declines more mild than average.

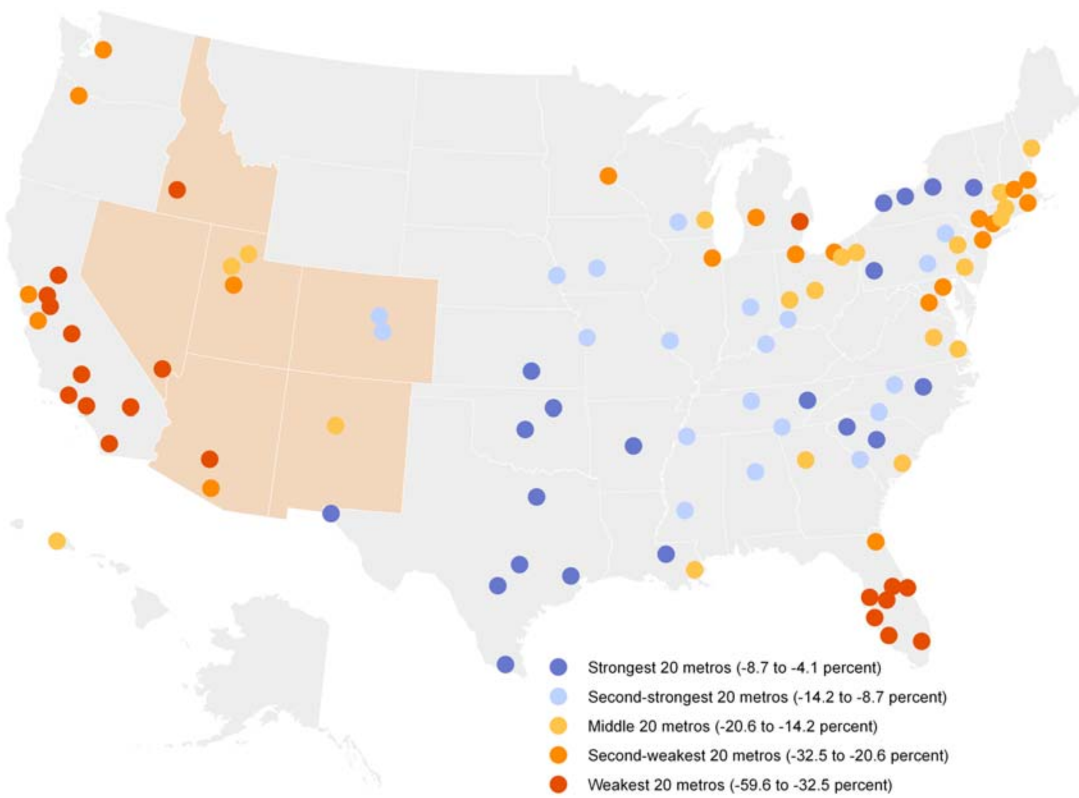
Brookings analysis of historical trends suggests that Mountain West housing markets have overcorrected and that homes by the second quarter of 2010 were undervalued, to varying degrees, in all of the region's major metros except Colorado Springs.[4] Just as bullish behavior aggravated the boom, bearish behavior has exacerbated the bust and both of these dynamics have played out exaggeratedly on the stage of the Mountain West. In Ogden, Salt Lake, Provo, Tucson, Phoenix, Boise, and Las Vegas, home prices by the second quarter of 2010 had fallen to levels more than 2 percent below where they would have been had they tracked pre-boom trends in employment, wages, and interest rates over the past decade—in other words, had there been no boom and bust. Housing in Colorado Springs, where prices have already fallen 14.1 percent from their peaks, may still be overvalued by roughly 7.8 percent. Prices in Salt Lake City currently look undervalued by the same amount, and the market in Provo too has overcorrected by about 6.0 percent. Las Vegas homeowners—reeling in a market 55.2 percent off peak—can be forgiven for finding little solace in evidence that prices there have declined 3.0 percent too far.

[4] The analysis, conducted by Howard Wial and Richard Shearer for the Brookings *Metro Monitor*, predicts current prices based on the historic link between average wages, employment, 30-year FHA mortgage rates, and prior housing prices.

Percent change in real House Price Index

Rank	Metros ranked by percent change in real HPI, peak to 2010Q2	Percent change in real HPI, peak to 2010Q2	Percent change in real HPI, 2009Q2 to 2010Q2	Percent change in real HPI, 2010Q1 to 2010Q2	Percent over- or underpriced, 2010Q2
1	Denver-Aurora, CO	-14.0%	-6.2%	-1.9%	-0.2%
2	Colorado Springs, CO	-14.1%	-5.6%	-1.8%	7.8%
3	Ogden-Clearfield, UT	-14.2%	-8.4%	-2.3%	-2.6%
4	Albuquerque, NM	-14.4%	-6.2%	-1.2%	-1.0%
5	Salt Lake City, UT	-19.9%	-10.4%	-2.1%	-7.8%
6	Provo-Orem, UT	-23.6%	-12.2%	-1.3%	-6.0%
7	Tucson, AZ	-32.2%	-12.4%	-2.3%	-4.6%
8	Boise City-Nampa, ID	-32.5%	-16.2%	-4.0%	-4.5%
9	Phoenix-Mesa-Glendale, AZ	-45.6%	-15.8%	-4.4%	-4.0%
10	Las Vegas-Paradise, NV	-55.2%	-16.4%	-0.9%	-3.0%
	Comparison Aggregates				
	Intermountain West metros	-33.1%	-12.0%	-2.6%	-2.8%
	100 Largest Metros	-23.1%	-7.5%	-1.4%	-0.5%
	United States	-18.3%	-7.7%	-1.2%	n/a
	Comparison Metros				
	Riverside-San Bernardino-Ontario, CA	-49.5%	-6.6%	-1.4%	-6.9%
	Sacramento--Arden-Arcade--Roseville, CA	-45.6%	-10.8%	-2.8%	-7.2%

Percent change in inflation-adjusted House Price Index, peak quarter to 2nd quarter 2010



Metropolitan Policy Program at BROOKINGS

Real Estate Owned (REO) Properties

The stock of real estate-owned properties—foreclosed properties that failed to sell at auction and are now owned by lenders—in the Mountain region increased again during the second quarter of 2010 and remains comparatively high. The REO rate in the Intermountain West, at 8.9 properties per 1,000 mortgageable ones, stood over twice as high as the national rate of 3.99 per 1,000 in the second quarter. The housing market bust continues to plague the region, and REOs increased nearly twice as fast in the second quarter as they did in the first and over three times faster than they did nationally.

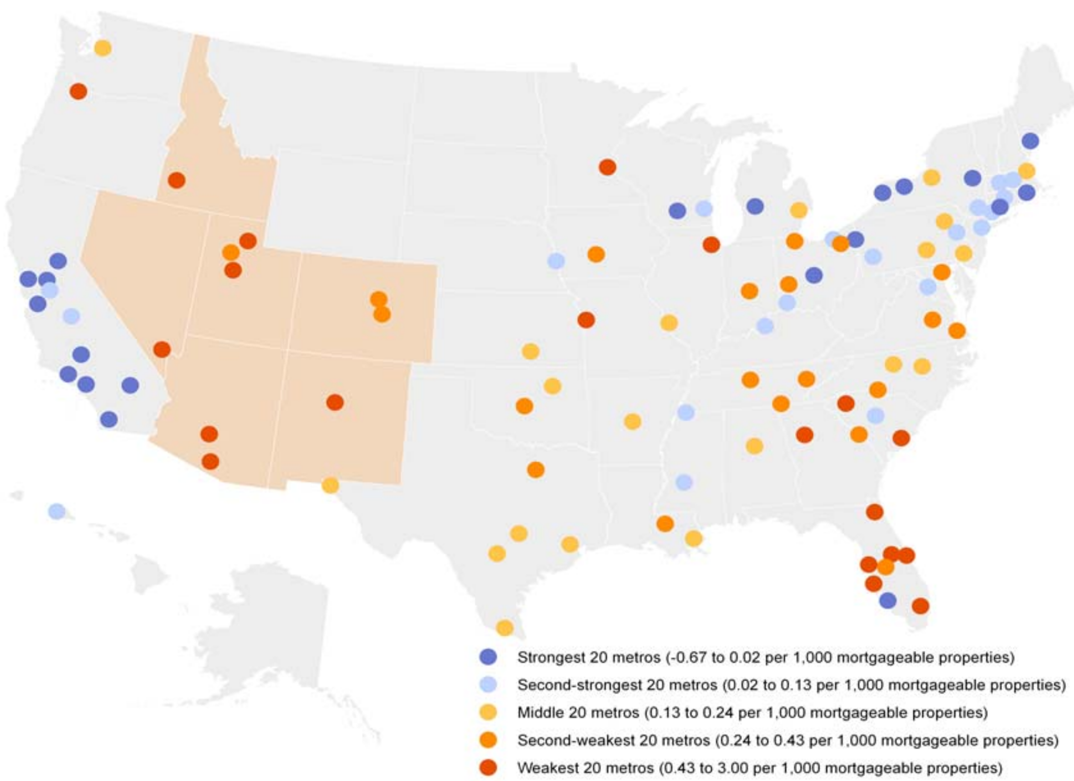
Every metro in the region except Salt Lake and Colorado Springs saw foreclosures accelerate in the second quarter, and added more properties to their REO inventories than in the previous one. Albuquerque, Provo, Tucson, Ogden, Boise, Phoenix, and Las Vegas all saw foreclosures increase faster than the nation's 100 largest metros on average, and ranked in the bottom fifth of performers. Salt Lake City, Denver, and Colorado Springs suffered milder increases. After two consecutive quarters of progress in reducing its overall stock of REOs—which proportionally remains the second largest in the nation's top 100 metros—Las Vegas stumbled and added to it 1.71 properties per 1,000. Phoenix stood right behind with the nation's third highest REO rate (14.09 REOs per 1,000 mortgageable ones) and third highest REO increase (1.37).

Despite across-the-board increases, the overall burden of foreclosed properties weighs unevenly on the Mountain West's varied metro areas. REO stocks in five metros—Salt Lake City, Colorado Springs, Albuquerque, Provo, and Ogden—stand below the top 100-metro average of 4.86 properties per 1,000. REOs weigh on Denver and Tucson's recovery slightly more, and Boise remains saddled with a foreclosure rate of 7.90 properties per 1,000 mortgageable ones. Housing markets in Phoenix and Las Vegas, where the boom and bust dynamics played out most intensely, are burdened with stocks of foreclosed properties roughly three times as large as the nation's top 100 metros in aggregate.

Change in REOs by metro

Rank	Metros ranked by change in REOs	Change in REOs per 1,000 mortgageable properties, Mar. 2010 to Jun. 2010	REOs per 1,000 mortgageable properties, Jun. 2010
1	Salt Lake City, UT	0.27	3.35
2	Denver-Aurora, CO	0.28	4.97
3	Colorado Springs, CO	0.30	4.18
4	Albuquerque, NM	0.47	2.80
5	Provo-Orem, UT	0.49	4.01
6	Tucson, AZ	0.67	5.93
7	Ogden-Clearfield, UT	0.68	2.92
8	Boise City-Nampa, ID	0.86	7.90
9	Phoenix-Mesa-Glendale, AZ	1.37	14.09
10	Las Vegas-Paradise, NV	1.71	14.70
	Comparison Aggregates		
	Intermountain West Metros	0.90	8.90
	100 Largest Metros	0.32	4.86
	United States	0.26	3.99
	Comparison Metros		
	Riverside-San Bernardino-Ontario, CA	-0.50	11.60
	Sacramento--Arden-Arcade--Roseville, CA	0.01	8.18

Change in REOs per 1,000 mortgageable properties, March to June 2010



Overall Performance of Smaller Intermountain West Metros

Job growth was positive in eight of the Mountain West's 21 smaller metro areas and output growth was positive in all of them—but a jobs recovery remains a long way off. Over the second quarter, Yuma, Las Cruces, and Prescott added jobs at impressive rates of 1.7, 1.4, and 1.4 percent, respectively, beating the national growth rate of just 0.7 percent. A second tier of small mountain metros saw weaker but still saw positive job growth, including Pueblo, Flagstaff, Fort Collins, Logan, and Greeley. The other 13 metros shed jobs, with losses at or exceeding one percent in Lewiston, Pocatello, and Grand Junction.

Even the fastest quarterly growers, however, have yet to recoup all the jobs they lost to the recession. Employment in Las Cruces has recovered more than anywhere else, although even it is down 2.1 percent from its pre-recession peak. In Prescott, employment is 12.9 percent off its peak, and in Yuma, 10.9 percent. In all of the region's smaller metros except Las Cruces, Fort Collins, and Pueblo, jobs are at least 5 percent fewer and farther between than they were before the recession. St. George has fared the worst, with employment down 16.7 percent, and Lake Havasu languishes not far behind with 16.5 percent fewer jobs than at its peak four years ago.

Notwithstanding lackluster employment recovery, all of the Intermountain West's 21 small metros experienced GMP growth in the second quarter of 2010. Only nine small metros have fully recovered from the recession in terms of output, however, and six lag even farther behind than battered Las Vegas. High shares of employment from the state or federal government, limited housing inflation leading up to the recession, and a high rate of bachelor's degree attainment are factors associated with greater stability and comparatively better GMP performance over the course of the recession.

Unemployment rates increased from June 2009 to June 2010 in 15 of the 21 small metropolitan areas of the Intermountain West, and 12 metros register spikes in unemployment higher than the national average over the three years to June 2010. Over the year ending in June 2010, only in six of the region's smaller metros did the unemployment rate fall, four of which were in Colorado. In contrast, Yuma, Farmington, and Reno witnessed massive yearly spikes in their unemployment rates of 2.9, 2.1, and 2.1 percentage points respectively.

Over the three year period to June 2010, unemployment has—unsurprisingly—risen in every metro. Yuma, Reno, and Carson City have been the hardest-hit places, posting unemployment rate increases of over 9.0 percentage points. By comparison the unemployment rate in Logan has ticked up a more manageable 2.9 percent and in Boulder 3.1 percent.

The housing market's bust hit every metro in the region but with varying severity, and conditions deteriorated further in all housing markets last quarter except one. Mirroring their larger neighbors, small metros in Arizona and Nevada in the second quarter were contending with house price declines upwards of 30, 40, and in the case of Reno more than 50 percent off their peaks. As the homeowner tax credit expired and buyer sentiment deteriorated, prices fell faster from the first quarter to the second quarter of 2010 in 16 metros than they did nationally. Markets in Reno and Pueblo suffered quarterly blows of 5.0 and 6.8 percent, respectively. Only in Farmington did prices begin to recover noticeably, rising 0.8 percent but still down 8.7 percent from peak. House price recovery continued to elude even top-performing Colorado metros like Boulder and Fort Collins, where instead declines accelerated moderately.

Overall performance of smaller Intermountain West metros

Rank	Intermountain West metros not among 100 largest ranked by average overall performance	Percent change in employment, metro peak to 2010Q2	Percentage point change in the unemployment rate, Jun. 2007 to Jun. 2010	Percent GMP change, metro peak to 2010Q2	Percent change in HPI, 2007Q2 to 2010Q2
1	Boulder, CO	-6.6%	3.1%	3.5%	-7.4%
2	Las Cruces, NM	-2.1%	3.9%	5.0%	-13.5%
3	Fort Collins-Loveland, CO	-4.3%	3.4%	3.1%	-13.2%
4	Santa Fe, NM	-7.3%	3.8%	3.3%	-17.9%
5	Idaho Falls, ID	-7.0%	4.4%	0.8%	-12.7%
6	Spokane, WA	-6.6%	4.1%	0.8%	-14.7%
7	Pueblo, CO	-3.2%	4.9%	0.4%	-18.6%
8	Lewiston, ID-WA	-8.2%	3.8%	-3.8%	-8.5%
8	Logan, UT-ID	-7.7%	2.9%	-5.9%	-9.4%
10	Greeley, CO	-7.3%	5.3%	1.7%	-25.1%
11	Pocatello, ID	-8.0%	5.2%	-5.2%	-8.2%
12	Flagstaff, AZ-UT	-7.5%	5.1%	-0.2%	-30.6%
13	Grand Junction, CO	-12.0%	6.3%	1.4%	-17.7%
14	Farmington, NM	-9.6%	6.4%	-4.3%	-8.7%
15	Coeur d'Alene, ID	-7.7%	6.7%	-1.5%	-24.5%
16	Prescott, AZ	-12.9%	6.2%	-2.5%	-39.4%
17	Carson City, NV	-12.7%	8.7%	-0.8%	-42.9%
17	St. George, UT	-16.7%	6.3%	-2.9%	-38.7%
19	Yuma, AZ	-10.3%	9.7%	-5.8%	-34.2%
20	Lake Havasu City-Kingman, AZ	-16.5%	6.3%	-6.0%	-44.5%
20	Reno-Sparks, NV	-15.4%	9.3%	-4.3%	-50.3%
	Intermountain West Small Metro Average	**-9.0%**	**5.5%**	**-1.1%**	**-22.9%**
	United States	**-5.5%**	**4.9%**	**1.1%**	**-18.3%**

About the Metropolitan Policy Program at the Brookings Institution

Created in 1996, the Brookings Institution's Metropolitan Policy Program provides decision makers with cutting-edge research and policy ideas for improving the health and prosperity of cities and metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit: www.brookings.edu/metro

Brookings Mountain West

Established in 2009 as a partnership between the Brookings Institution and the University of Nevada, Las Vegas (UNLV), Brookings Mountain West (BMW) seeks to bring high-quality independent and influential public policy research to the critical issues facing the dynamic metropolitan areas of the Mountain West region. In this, the new initiative builds upon the work of Brookings' Metropolitan Policy Program, which focuses on helping metropolitan areas like Las Vegas grow in robust, inclusive, and sustainable ways through attention to the fundamental drivers of prosperity such as innovation, infrastructure, human capital, and quality of place, as well as regional governance. Along those lines, BMW, along with partners throughout the Mountain West, takes a deep interest in such areas as infrastructure improvement, economic growth, demographic change, environmental impact, alternative energy, and real estate investment.

As the Mountain West emerges as a new American Heartland, it will play an increasingly significant role in shaping national policy discussions. BMW provides a forum for this dialogue and offers knowledge-based policy solutions to help improve the quality of life in the West. Learn more at http://brookingsmtnwest.unlv.edu/

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