

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

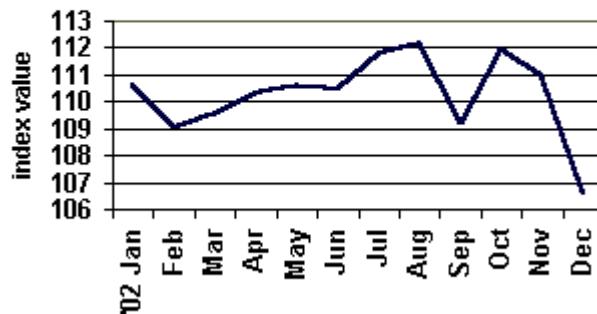
**Professor Steven Hackett, Executive Director
John Manning, Managing Director**

2002 Retrospective

Note: The data in this report are based on our customary end-of-the-year revisions. As a result, the various scales of index levels (the vertical axes on most of the graphs below) may, in some cases, be substantially different from those appearing in recent monthly reports. All of the percent change figures given are relative to the beginning of 2002 (December 2001 index levels). The Index of Economic Activity began with a value of 100 in January 1994.

Composite Index**Composite Index, 2002**

(seasonally adjusted)

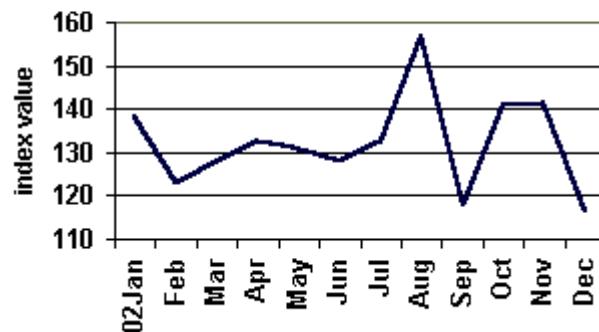


Through November, the Humboldt County economy had grown a respectable 2.6 percent since the beginning of the year. Then a series of severe storms hit the North Coast in December. In addition to causing more than \$7 million in reported damages countywide, the storms had a powerful impact on economic activity as well. The Composite Index fell sharply in December resulting in a net decrease of 1.5 percent for the year. This "weather effect" appears in several of the sectoral graphs below. The good news is that much of the lost ground has already been regained.

Sectoral Performance

Home Sales, 2002

(seasonally adjusted)

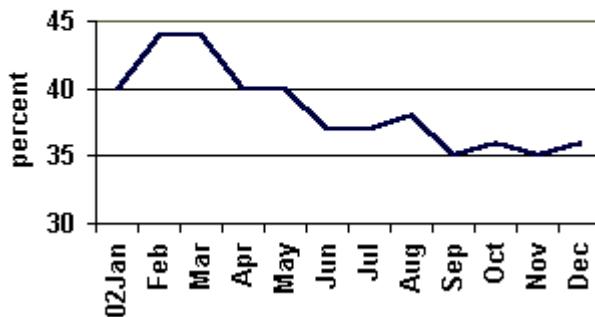


A record number of homes were sold in Humboldt County in 2002, and the **Home Sales** index reached its highest level ever, as a result. Because of the steep December decline however, this sector ended up 1.6 percent lower than last year.

Humboldt County Median Home Price
Adjusted for Inflation



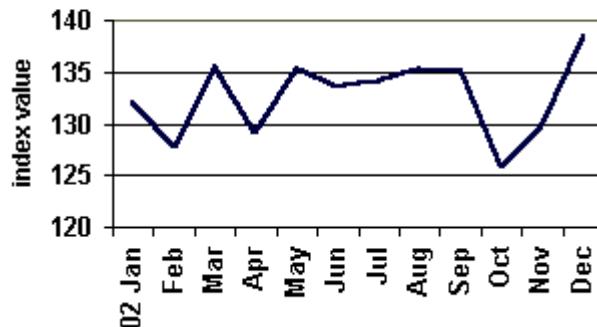
Humboldt County Housing Affordability Index



The big story in the local economy this year was rapidly rising home prices. As the graph on the left illustrates, median home prices jumped a staggering 25.5 percent over the course of 2002. Since increases in residential rents have thus far kept pace with climbing home prices, it appears that the huge rise represents a real gain in value rather than the emergence of a housing bubble. While this is good news for homeowners, the trend is troubling for renters and many first-time home buyers. The Humboldt Association of Realtor's Housing Affordability Index, which represents the percentage of Humboldt County households that can afford to buy a median priced home, illustrates that income growth is falling behind home price appreciation at an alarming rate.

Retail Sales, 2002

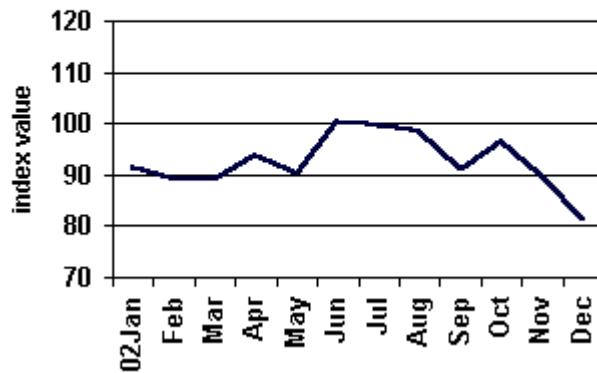
(seasonally adjusted)



Retail Sales was the one sector that doesn't seem to have been affected by December's poor weather. Although the sector ended the year on a pronounced upswing, it was down a net 1.0 percent from the previous year. This is partly because of slower than usual growth in holiday sales. Much of the month-to-month volatility seen in the graph was due to fluctuations in automobile sales. This sector remains higher relative to where the Index began nine years ago than any of the other five sectors.

Hospitality, 2002

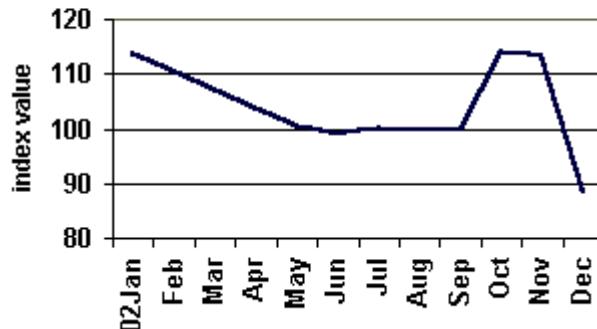
(seasonally adjusted)



The **Hospitality** sector experienced a nice growth spurt in the summer of 2002, but ended the year down a net 3.5 percent. Prior to the December slide however, activity was up a net 7.4 percent.

Energy, 2002

(seasonally adjusted)



The **Energy** sector, as measured by electricity consumption, declined steadily through the first half of 2002, leveled off during the summer months and surged in the fall. Comparing this graph with the one for the **Composite Index** suggests that the downward trend early in the year was likely due to conservation efforts, while the later jump probably resulted from increased economic activity. The precipitous plunge in December reflects the fact that the storms left many PG&E customers without power for extended periods of time. This sector fell a net 4.0 percent over the year.

Employment, 2002

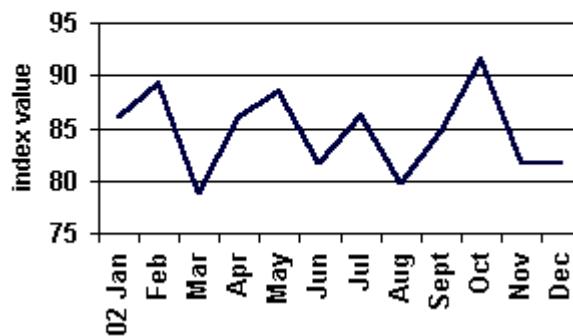
(seasonally adjusted)



Employment climbed steadily in the winter and spring, then experienced minor fluctuations throughout the rest of the year before dropping sharply in December. This sector ended the year up a net 3.5 percent.

Manufacturing, 2002

(seasonally adjusted)



Despite regularly registering monthly index levels among the lowest ever, **Manufacturing** was the only one of the Index's six sectors to end 2002 higher than when the year began. The local lumber industry, which has been undergoing structural decline for the past several years, appears to have bottomed out and may be beginning a slow recovery. This sector gained a net 7.9 percent in 2002.

Leading Indicators

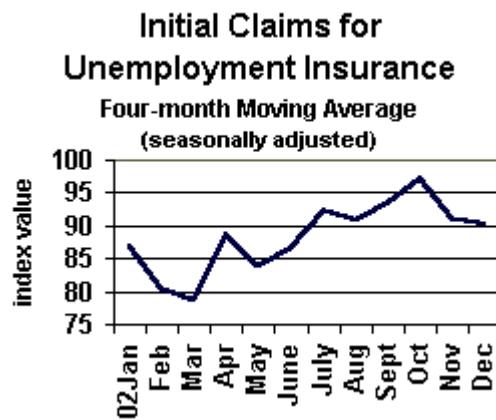
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. Our two employment-based indicators point towards a struggling labor market. **Claims for Unemployment Insurance** trended strongly upwards over most of the year and **Help-Wanted Advertising** has been on a down slide since mid-year. Our other two indicators are more positive. The slow, but steady upward trend in **Manufacturing Orders** is a welcome cause for optimism for the stressed lumber industry. The consistent growth in **Building Permit** activity since the spring reflects a response by the construction industry to opportunities in the local housing market.

The graphs in this section use a four-month moving average of seasonally adjusted Index values in order to "smooth" ordinary month-to-month volatility. In this way, any underlying trends present in the series become more apparent.

Employment-Based Economic Indicators:



A count of help-wanted ads indicates the number of new job openings.



Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the number of new unemployment claims is a negative indicator of economic activity.

Manufacturing Economic Indicator:



Manufacturing orders are a leading indicator of production activity and employment in the County.

Home Sales Economic Indicator:



The number of building permits indicates residential construction activity. Note: The low index levels for this indicator are something of an anomaly. The number of permits issued in January 1994 was extraordinarily high. Thus, subsequent readings of this measure appear to be worse than they actually are. The mean index level over the past nine years is 56.2.
