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Acknowledgements and Past Participation

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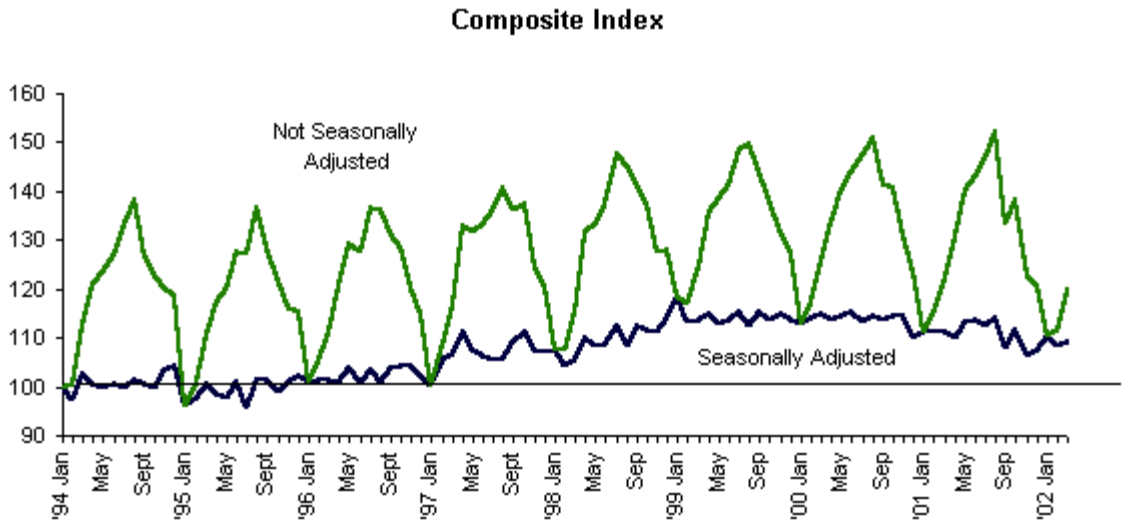
April 2002

This month's report is sponsored by Coast Central Credit Union



Key Statistics		Leading Indicators	
Humboldt County		***Seasonally Adjusted***	**% Change From Previous Month**
Median Home Price*	$149,750	Help Wanted Advertising	-5.9
30 Yr. Mortgage Rate (4/22)	7.00%	Building Permits	-30.2
Average Hotel Occupancy Rate	36.0%	Unemployment Claims	+20.1
Unemployment Rate**	6.9%	Manufacturing Orders	+15.4

* Home price data are provided by the Humboldt County Board of Realtors. MLS is not responsible for accuracy of information. The

** Preliminary EDD data. See the EDD Website for updates.

Sectoral Performance, *Index of Economic Activity for Humboldt County*							
* * *		Percent Change From:					
Sector	**Seasonally Adjusted Sectoral Index Value (1994=100)**	**Previous Month**	**Same Month 2001**	**Same Month 2000**	**Same Month 1999**	**Same Month 1998**	**Same Month 1997**
Home Sales	126.9	+4.5	+12.5	+5.9	+5.9	+20.0	+85.1
Retail Sales	161.4	+10.3	+6.4	+8.0	+11.8	+23.9	+28.2
Hospitality	87.5	+0.9	-14.4	-9.6	-2.8	+5.3	-8.2
Electricity Consumption	106.5	-3.3	-3.2	-16.5	-15.6	--	--
Total County Employment	102.4	-0.2	-1.7	-2.1	-2.3	-0.7	-0.9
Lumber Manufacturing	86.1	-9.7	-10.5	-23.7	-27.4	-23.1	-35.2

Discussion

Composite Index and Overall Performance

The *Index of Economic Activity*'s seasonally adjusted composite value, which now stands at 109.3, rose 1.0 percent from last month's downwardly revised figure.

A look at the sectoral performance table shows that the modest improvement in the composite value came almost entirely on the coattails the *Index*'s two most consistently strong sectors. Home sales and retail sales each registered vigorous growth in March, exhibiting resilience after poor showings in February. The hospitality sector also showed improvement in March. This news is particularly welcome considering that a growing segment of our economy is dependent on tourism,and that this sector has suffered more than any other as a direct result of the third quarter recession last year. Last month's biggest gainer, lumber based manufacturing, lost the most ground this month, falling to its lowest level in the the history of the *Index*. We suspect things will improve in this sector in the near future as the surviving local mills increase their production, and at least some of the idle mills come back on line, in order to supply the spring/summer construction season. Although local employment rose slightly in March, the employment sector of the *Index* fell due to seasonal adjustment. Finally, with hard data in hand for first quarter electricity consumption, we see that we over-estimated energy use in our last two reports. Consumption rose in January from December, then fell in both February and March. The decline in the latter two months is likely due to a combination of reduced economic activity, relatively mild weather and conseravation.

Trying to parse the Leading Indicators is one of the more frustrating duties associated with this project. Frequently, one month's indications of future activity turn out to have little relation to the following month's actual performance. With this in mind, we've made some changes in how we analyze these indicators in the hope of more accurately indentifying likely future activity. Although the help wanted advertising and unemployment insurance claims indicators each performed negatively in April, the six-month moving average

for both (see the appropriate sections below) suggest a continuing positive trend in the local labor market. Similarly, the six-month moving average for building permits implies a levelling off rather than the steep decline predicted by April's month-over-month drop. Unfortunately, if the above is true, then it's reasonable to conclude that this month's improvement in manufacturing orders may not be adequate to reverse the downward trend in lumber based manufacturing. An important caveat concerning this last indicator needs to be offered, however. Because we have not been receiving information from one of our participants, the measure may be skewed one way or the other. Therefore, one should be wary of drawing conlusions based solely on its performance.

Due to end-of-the-semester time constraints, this month's report is not as comprehensive as usual. . .our apologies.

Home Sales

This sector rebounded nicely in March from its weak showing the previous month. The current figure, which climbed by 4.5 percent, is also up by large margins in all of the year-over- year comparisons.

March's median home price increased as well, rising 3.3 percent to $149,750. The measure is up 11.4 percent from its March 2001 level (not taking into account the effects of inflation). The current statewide median sale price for existing homes reached the $300,000 level for the first time ever in March. The new record represents a 2.6 percent increase from February's upwardly revised number. According to the president of the California Association of Realtors, the California housing market is not riding a bubble and will likely continue to perform well into the foreseeable future (www.car.org). Industry analysts claim three factors are primarily responsible for the climbing median price. First, construction of new housing is not keeping pace with the growing population. Second, continued price appreciation, along with a weak stock market, is encouraging people to invest more in their homes. And third, low mortgage rates are allowing more buyers into the market, exacerbating the supply-demand imbalance (www.sacbee.com). The national median price for existing homes rose 2.0 percent to $153,000, while the similar figure for new homes fell 1.7 percent to $176,600. The sales pace for both existing and new homes in March slowed from the previous month and from the same month of the previous year (www.realtor.org and www.census.gov).

Recently released data from the Census Bureau indicates that the hot real estate market is not significantly altering the percentage of Americans who own their homes. The first quarter 2002 rate of homeownership is just 0.3 percent higher than it was in the same period of 2001 and is 0.2 percent lower than in the fourth quarter of 2001 (margin of error is plus or minus 0.2 percent). This study may lend support to the opinion that housing affordability is not being substantially affected by historically low interest rates. Essentially, the positive effect of lower mortgage rates is being offset by higher home prices.

Retail Sales

The Index value for the local retail sector soared 10.3 percent in March, reaching its highest level ever. Huge increases in food sales and continued strong vehicles sales seem to be primarily responsible for the impressive jump. More general factors that may have contributed to the surge include mild spring weather which encourages home improvement spending and Easter, with its associated spending, falling in March this year.

Nationall retail sales also improved slightly in March, moving up 0.2 percent according to the Census Bureau's advance report. Strong sales of electronics and appliances, and health and personal care items were responsible for the modest overall gain. This figure is 3.2 percent higher than it was in March 2001 (www.census.gov).

Hospitality

The hospitality sector registered a seasonally adjusted 0.9 percent improvement in March. Average occupancy at the participating hotels, motels and inns was 36.0 percent for the month. While this measure is down in most

of the year-over-year comparisons, we expect the overall situation in this sector to improve as the tourist season gets under way.

Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. With the actual first quarter consumption data in hand, the following revisions have been made:

- **January's *Index* level was 110.2, down from an estimated 122.2.**
- **February's *Index* level was 113.8, down from an estimated 119.7.**

March consumption fell 3.3 percent from the revised February number and the measure is down in all of the year-over-year comparisons, as well. It's difficult to ascertain how much of the drop is due to reduced activity versus other factors like conservation. If natural gas consumption is any indication, conservation efforts are starting to wane. Use of this commodity in February and March was higher than in any other months since the beginning of last years energy crisis. The change in consumer behavior is probably a result of drastically lower gas prices this winter.

The Good News
The California Independent System Operator, which oversees operation of the state's electricity grid, recently announced that blackouts will not be likely this summer. New plants generating a total of 4,300 megawatts have been brought on line since last year's crisis. This is enough power to supply over 3.2 million homes. Heavier rains this winter will also help out. The ISO expects to receive about 10,000 megawatts from hydroelectric sources this summer. Last year's drought severely limited this source in 2001. We are not completely out of the woods, though. In the wake of Enron's banruptcy, the energy industry is experiencing difficulty raising investment capital. As a result, plans for 62 new plants in California have been cancelled or postponed. This could lead to supply shortages in the future. The ISO estimates that the state needs to add 1,500 megawatts of generating capacity each year to keep pace with its growth (www.sfgate.com)

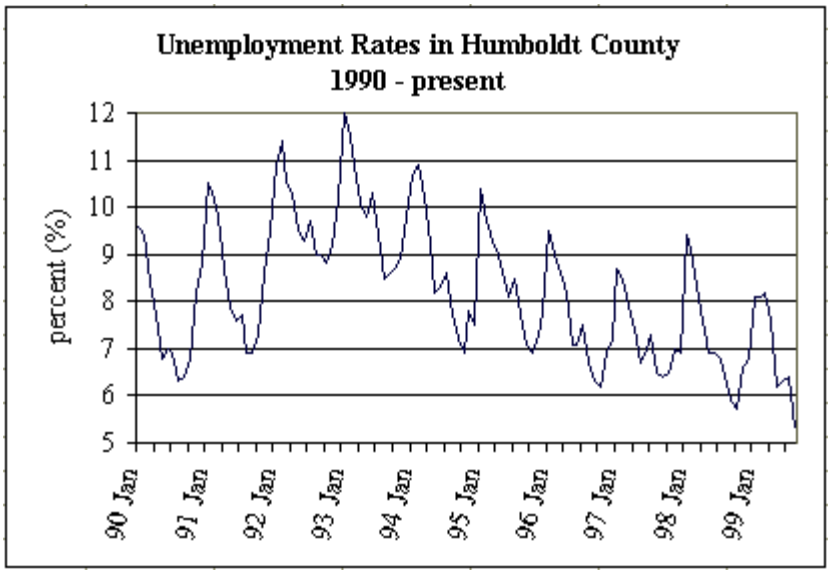
Total County Employment

In their preliminary report for March, the Employment Development Department (EDD) reported that 55,300 people were employed in Humboldt County, up 300 jobs, or 0.5 percent from February's revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- **Total county employment in the various service industries increased 1.0 percent from a revised 42,000 in the month of February to a preliminary 42,400 for the month of March. This sector is up 1.0 percent over last year's figure. The State Education and Local Government classifications each added roughly 200 positions in March. The 100 retail jobs lost in the Food Stores classification were balanced by the 100 positions added in the Other Retail Trade classification. The preliminary figure for the retail subsector as a whole in March shows 10,800 jobs, which is unchanged from February. Total service employment is 1.0 percent higher than it was in March 2001.**

- **Total county manufacturing employment came in at 4,900. This is up 2.1 percent from February's revised figure. The roughly 100 additional jobs were all in the Sawmills classification. Total manufacturing employment is down 9.3 percent from March 2001.**

The unemployment rate for Humboldt County fell for the second consecutive month in March according to the latest EDD report. The current 6.9 percent is two-tenths of a percentage point lower than February's revised number. Meanwhile, the national rate climbed two-tenths of a point to 5.7 percent and the state rate remained unchanged at 6.4 percent. The three year trend, including the boom years og 1999 and 2000 is illustrated below.



Lumber Manufacturing

We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about two-thirds of total county manufacturing employment.

The preliminary *Index* value for this sector dropped off steeply in March after having experienced two consecutive months of improvement earlier this year. As mentioned at the top of this report, the 9.7 percent decline leaves this sector at its lowest level in the *Index*'s history. The figure is also down by double-digit percentages, in all of the year-over-year comparisons. One of our participating lumber manufacturing firms has not been able to report their data over the past several months, though we did receive March data, which accounts for the *Index's* sharp dropoff. This decline happened because the firm's actual activity in March was considerably less than our estimate for February, which was based on an average of same month performance from years past. In other words, this month's decline is likely to have actually occured late last year, but we will only know for sure once we receive the actual data from this firm.

There is yet hope, however. We noted in last month's report that the local timber industry will likely be helped by recent tariffs instituted on Canadian softwood lumber. There is a good possibility that at least some of our area's idle mills locally will resume operation in the near future as demand, and presumably prices, for the local product rise.

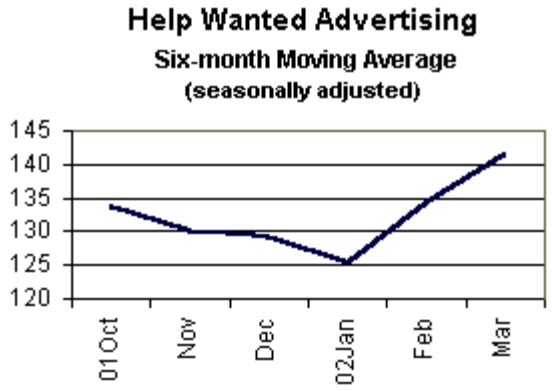
National manufacturing grew for the second straight month in March. The Institute of Supply Management (ISM) Index rose 1.6 percent to 55.6 and industrial production increased by an unexpectedly robust 0.7 percent. The latter measure experienced its largest one month gain since May 2000. Factory output was particularly impressive with its strongest showing since March 2000 (www.dismal.com and www.nytimes.com). The positive data moved analysts at the Dismal Scientist to declare an "official" end to the 18 month long manufacturing recession.

Leading Indicators

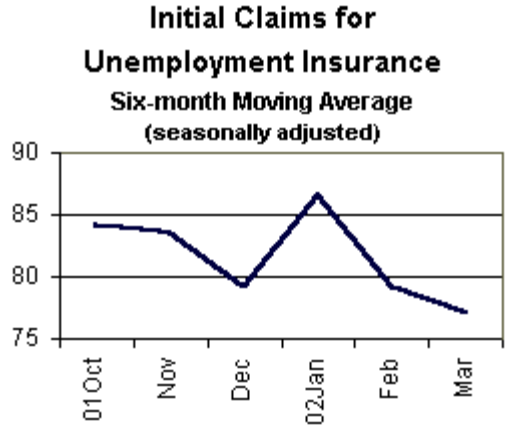
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Times Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued. Our graphs in this section use a six-month moving average in order to "smooth" ordinary month-to-month volatility. In this way, any underlying trends present in the series become more apparent. owest

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. Despite a 5.9 percent decrease in April, we are cautiously predicting improving conditions in the local labor market based on the trend of the six-month moving average.



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. Like the previous indicator, we are overlooking the one month increase in favor of the longer trend. If this perspective is accurate, conditions in the local labor market bode well in the near future.

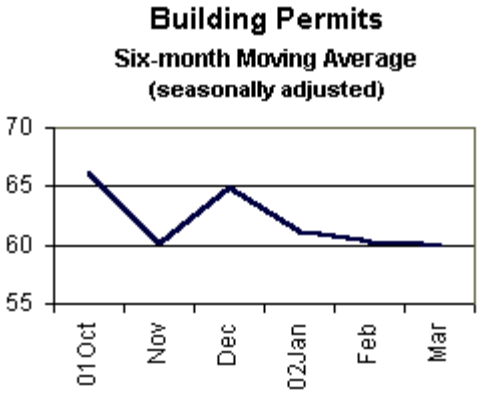


Manufacturing Economic Indicator:

Manufacturing orders, are a leading indicator of activity and employment in the County. As noted last month, the negative trend in the graph below may be indicative of a shrinking number of participants in the local market.

Home Sales Economic Indicator:

The trend in the building permits indicator is apparently levelling off. The six-month moving average doesn't suggest much of an increase in Humboldt County construction activity in the near future.



The Bigger Picture

In the latest release of the Federal Reserve's Beige Book, covering economic activity for March and early April, all but one the Fed's twelve districts reported signs of improvement or actual increases in economic activity since the last survey. The San Francisco District reported "slow but steady improvement." Sectors that have been struggling lately like manufacturing, travel and tourism and agriculture are beginning to turn around (www.federalreserve.gov).

In testimony before Congress' Joint Economic Committee, The Fed's chairman stressed that despite the positive news, the recovery currently underway is still fragile. Many analysts interpret this to mean the central bank will not raise interest rates when its Open Market Committee meets next month (www.sfgate.com).

According to a preliminary report issued by the Commerce Department, Gross Domestic Product jumped 5.8 percent in the first quarter of 2002. While this number is impressive, most economists aren't overly excited by it. More than half of the gain is due a slowdown in firms liquidating their inventories. If consumers and businesses fail to spend, and thus spur new production, sustained growth is unlikely. Estimates for the current quarter have the GDP growth rate slowing to between 3 percent and 3.5 percent (www.salon.com and www.sfgate.com).

Meanwhile, another Commerce Department report shows that personal income growth was far lower in 2001 than initially estimated. Since income is an important component of GDP, 2001 GDP growth figures were probably overstated. As a result, the third quarter recession, though mild, may have been deeper than first thought (www.sfgate.com).

Explanatory Note: For those of you who are new or less familiar with the *Index*, we have been tracking economic activity since January 1994. The composite indices plotted as blue and green lines in the diagram at the top of this page are weighted averages of each of the six sectors described in the table above. Each sectoral index, and the composite index, started at a value of 100 in 1994. Thus if the retail sectoral index value is currently 150, that means that (inflation-adjusted) retail sales among the firms that report data to us are 50 percent higher than in January 1994. We also *seasonally adjust* each sector, and the composite index, to correct for "normal" seasonal variation in the data, such as wet season vs. dry season, and so trends in the seasonally-adjusted composite index (the blue line in the diagram above) provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so the "April 2002" report reflects data from March 2002. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

The Eureka Times-Standard webpage

The Northcoast Journal webpage

The San Francisco Chronicle webpage

The Sacramento Bee webpage

The New York Times webpage

Salon Magazine webpage

California Association of Realtors webpage

National Association of Realtors webpage

The Dismal Scientist webpage

U.S. Bureau of the Census webpage

The Federal Reserve Bank's Beige Book webpage

Index of Economic Activity: 2001 Retrospective

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Send us your comments

Erick Eschker