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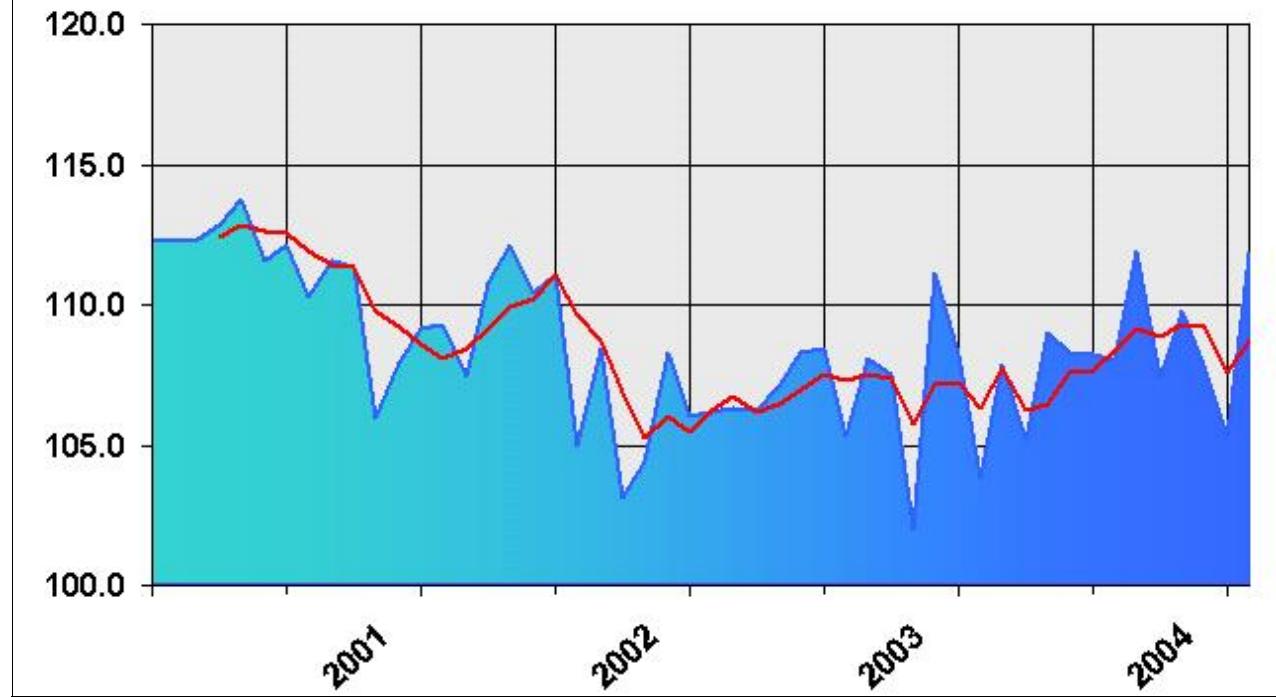
INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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April 2004

Seasonally Adjusted Composite Index



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red line shows a four-month moving average of the *Index* which smoothes month-to-month volatility to show the long run trend.

Composite Index and Overall Performance

The *Index of Economic Activity for Humboldt County* measures changes in the local economy using data from local businesses and organizations. The data are compiled into a seasonally adjusted *Index* that shows changes relative to the base month (January 1994). The composite *Index* is a weighted combination of six individual sectors of the local economy. The current *Index* is based on the most recently available data, which is generally data from the previous month.

Humboldt County's economy rebounded in March. After losing ground in January and February, the composite Index showed signs of life this month. The Index now stands at 111.8, up 6.1 percent from the previous month. Five of the six individual sectors showed positive growth. The housing sector skyrocketed back after last month's drop in sales. The home sales index jumped 30.1 percent to 150.7. The retail sector finally bounced back from the holiday season slump. The retail sales index

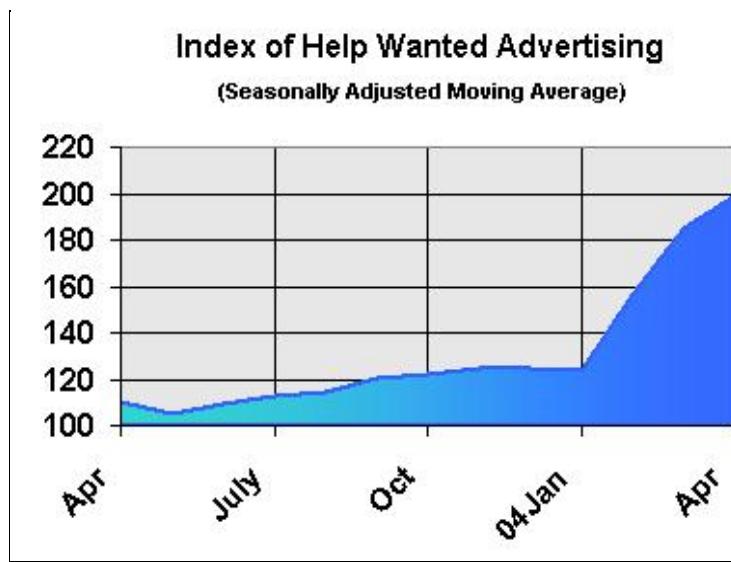
posted a 13.2 percent gain and now stands at 147.0. First-quarter electricity data is in, and it shows that electricity consumption is up in Humboldt County. The electricity consumption index rose 3.7 percent to 123.4. Labor market conditions are showing signs of improvement, and the employment index inched up 0.3 percent to 104.8. The manufacturing sector joined in this months upswing, gaining 10.2 percent to stand at 85.6. Hospitality was the only sector that did not see growth during March. The index for this sector fell 1.2 percent to 87.4.

Composite & Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999
COMPOSITE	111.8	6.1	7.7	5.3	2.3	-0.4	0.6
<i>Sector</i>							
Home Sales	150.7	30.1	21.0	17.6	32.3	24.5	24.5
Retail Sales	147.0	13.2	13.9	3.8	4.3	9.6	14.8
Hospitality	87.4	-1.2	-0.1	-1.9	-16.0	-11.3	-4.6
Electricity Consumption	123.4	3.7	4.6	15.0	11.4	-3.9	--
Total County Employment	104.8	0.3	3.8	2.0	0.7	0.4	0.2
Manufacturing	85.6	10.2	14.5	7.8	-4.1	-19.1	-24.5

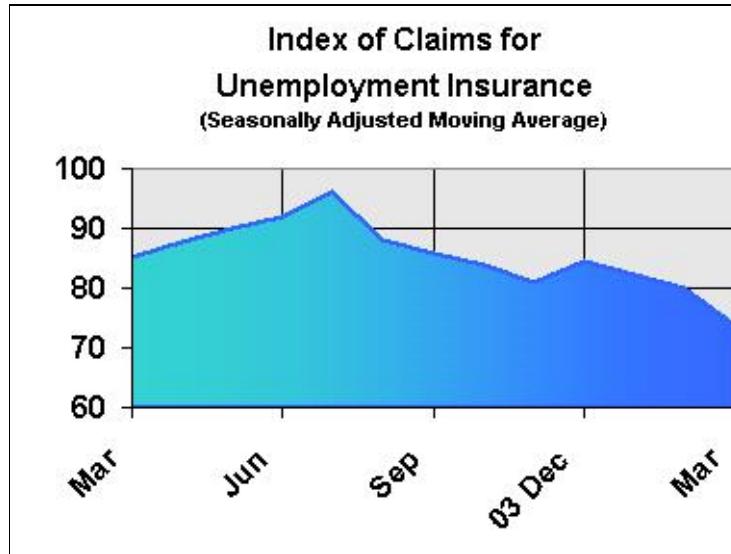
Leading Indicators

The Index tracks three leading indicators to get a sense of the direction of change in the county economy in the near future. The three leading indicators are (1) number of help-wanted advertisements in the Eureka *Times-Standard*, (2) number of claims for unemployment insurance, and (3) number of building permits issued. 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 and reveal underlying trends.

Employment Leading Indicators:



The Index of Help Wanted Advertising is an indicator of new job creation and producer confidence. In March, the four month moving average of job advertisements continued an upward trend.



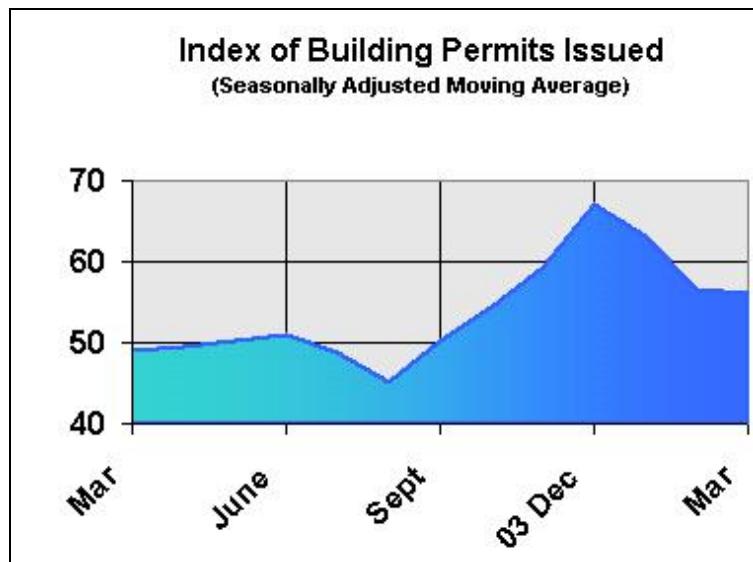
The index of claims for unemployment insurance is an indicator of negative economic activity. In March new claims for unemployment insurance fell. Increasing employment coupled with decreasing claims for unemployment insurance provide a positive signal for future labor market conditions in Humboldt County.

Manufacturing Leading Indicator:



The manufacturing orders leading indicator gives insight to future trends in the local manufacturing industry. In March the four month moving average of manufacturing orders declined slightly, but remains at a higher level than was seen during the same time last year.

Home Sales Economic Indicator:



The index of building permits issued gives insight to future home sales and construction. Though the total number of permits issued increased in March, when smoothed with a four month moving average, the Index value showed little change from last month.

Key Statistics

Leading Indicators

			% Change From Previous Month
Median Home Price*	\$232,900	Help Wanted Advertising	-37.2%
30 Yr. Mortgage Rate as of 4/30	6.25%	Building Permits	68.5%
Unemployment Rate**	7.1%	Unemployment Claims	-7.6%
* Home price data are provided by the Humboldt Association of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does not verify such information provided and disclaims any responsibility for its accuracy. Each Participant agrees to hold the Service harmless against any liability arising from any inaccuracy or inadequacy of the information.			
** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.			

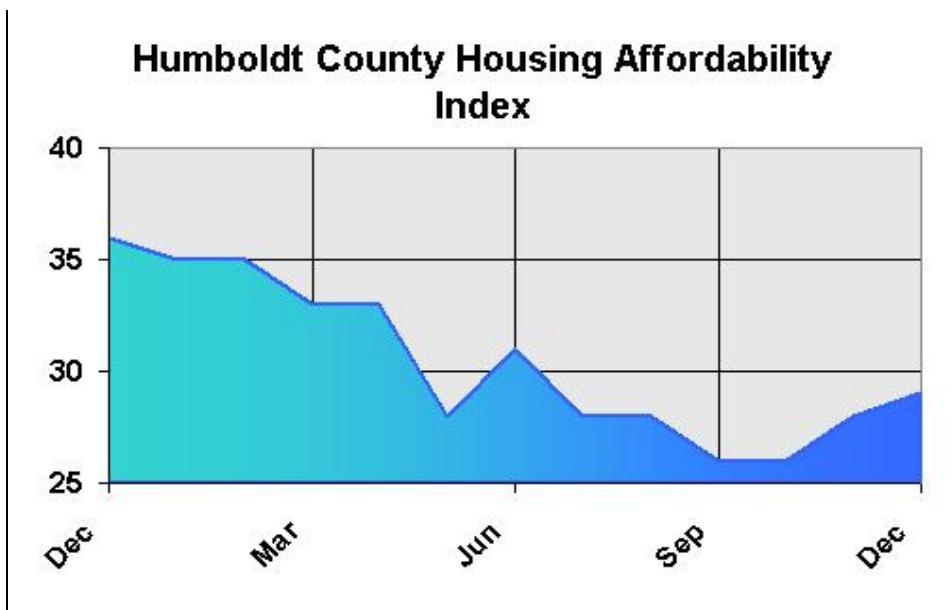
Individual Sectors

Home Sales

The index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Home sales skyrocketed in March. The 30.1 percent increase in the home sales index more than erased last months loss. The index which now stands at 150.7 is at one of its highest levels ever.

Home prices in Humboldt County set a new record high in March, with a median priced home costing \$232,900. Statewide home prices leveled off, but remain historically high. Statewide home prices resumed an upward trend after leveling off briefly last month. "The median price of a home continued its run of double-digit price increases last month as buyers scrambled to purchase homes amid concerns of rising mortgage interest rates," said C.A.R. President Ann Pettijohn. "This unprecedented demand helped push the median price of a home in many regions in the state to record highs in March. And at \$428,280, the median price for the state also hit a record high in March compared to \$351,130 just one year ago." (www.car.org)



Graphic Description: The Humboldt County Housing Affordability Index is compiled by the Humboldt Association of Realtors, and shows the percentage of households that can afford a median priced home in Humboldt County. Data for 2004 is not yet available.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of April 29th, was 6.01 percent with an average 0.7 points. "With financial markets more optimistic that the economy is expanding nicely, mortgage rates had no where to go but up this week," said Amy Crews Cutts, Freddie Mac deputy chief economist. "Then, as a result of Gross Domestic Product (GDP) figures released today, the market began weighing which part of GDP it feels is most dominant, growth or inflation." (www.freddiemac.com)

Retail Sales

The index value of the retail sales sector is based on the seasonally adjusted dollar value of sales each month from a cross section of local retail businesses.

Retail sales finally gained some ground in March. After a sluggish beginning of the year, local retailers are finally seeing increases in sales. The retail sales index rose 13.2 percent in March to stand at 147.0.

Nationwide retail sales, as reported by The Commerce Department, continued to increase steadily in March. Seasonally adjusted sales were \$333.0 billion, an increase of 1.8 percent ($\pm 1.0\%$) from the previous month and up 8.2 percent ($\pm 1.0\%$) from March 2003. The increase was again led by building material and garden equipment suppliers which increased 20.8 percent from March 2003. Food services and drinking places increased 11.1 ($\pm 2.3\%$) percent from March of 2003. (census.gov)

The latest release from the Conference Board shows that consumer confidence is on the rise. The Consumer Confidence Index, which now stands at 92.9, is up 4.4 percentage points from the previous month's revised number. "This latest improvement in consumer confidence was sparked by a more favorable assessment of current business and labor market conditions and increased consumer optimism about the next six months," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The job market, which has a major impact on confidence, appears to be gaining strength. The percentage of consumers claiming jobs are hard to get is now at its lowest level since November 2002, and more consumers expect this trend to continue." (www.conference-board.org)

Hospitality

The index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.

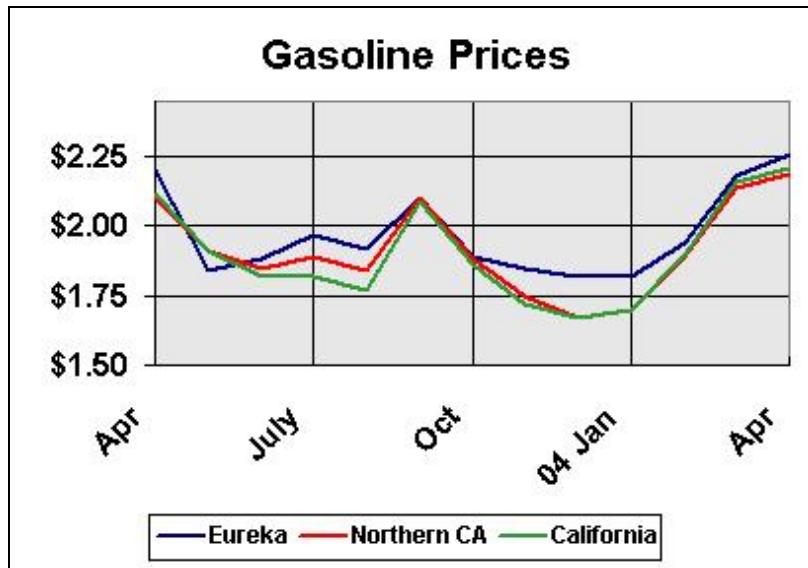
While residents have been enjoying the beautiful spring weather, the tourists are missing out. March occupancy rates in Humboldt County have remained low, and the hospitality index declined 1.2 percent to 87.4. As we move into late spring and early summer, the hospitality sector should expect to see a turnaround.

Gasoline Prices

Gasoline prices have been on the rise throughout the state and will probably continue the upward trend as the price of crude oil rises and the peak summer season approaches. "This probably won't be the last record high price set this summer," cautions Sean Comey, spokesman for AAA of Northern California. "There's such a precarious balance between supply and demand for fuel, it wouldn't take much to trigger another round of price hikes." (www.csaa.com)

Average Price* (as of /)		Change From Prev. Month (cents/gal.)
Eureka	\$2.26	¢
Northern CA	\$2.19	¢
California	\$2.21	¢

Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association's monthly gas survey (www.csaa.com).



Electricity Consumption

The index value of this sector is based on seasonally adjusted kilowatts-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator

that usually correlates with economic activity. However, increases in energy efficiency and conservation reduce the sector's index value. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

The actual value of the electricity index rose 3.7 percent to 123.4 in March.

First quarter electricity consumption figures have been revised:

- January's electricity index which was originally reported at 114.4, was revised up to 117.2.
- February's electricity index which was originally reported at 110.5, was revised up to 119.0.

Total County Employment

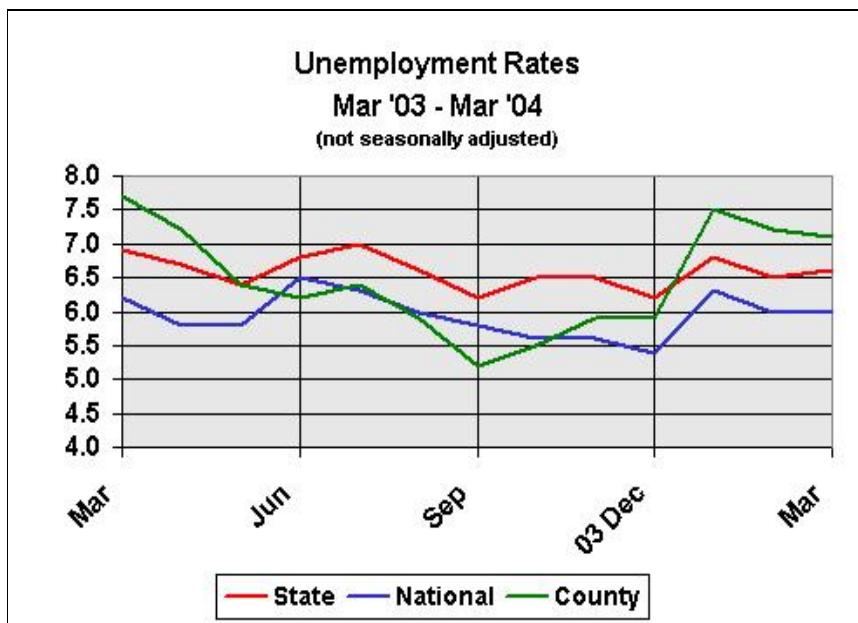
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

In the preliminary report for March, the EDD reported that 56,700 people were employed in Humboldt County. This is up from February's revised figure, indicating a net gain of 600 jobs. The total civilian labor force increased by 500 people to 61,000. The seasonally adjusted total county employment index rose in March by 0.3 percent, and now stands at 104.8.

Sectoral changes in Humboldt County employment:

- The service sector gained back some of the jobs which were lost earlier in the year. Professional-business, educational-health, food, and other services each gained 100 jobs.
- Government employment increase in March. State education gained 200 jobs, and local government gained 100 jobs.
- Employment in wood product manufacturing and construction were stable in March. While food manufacturing employment increased by 100 jobs.
- Employment in the agricultural sector did not change.

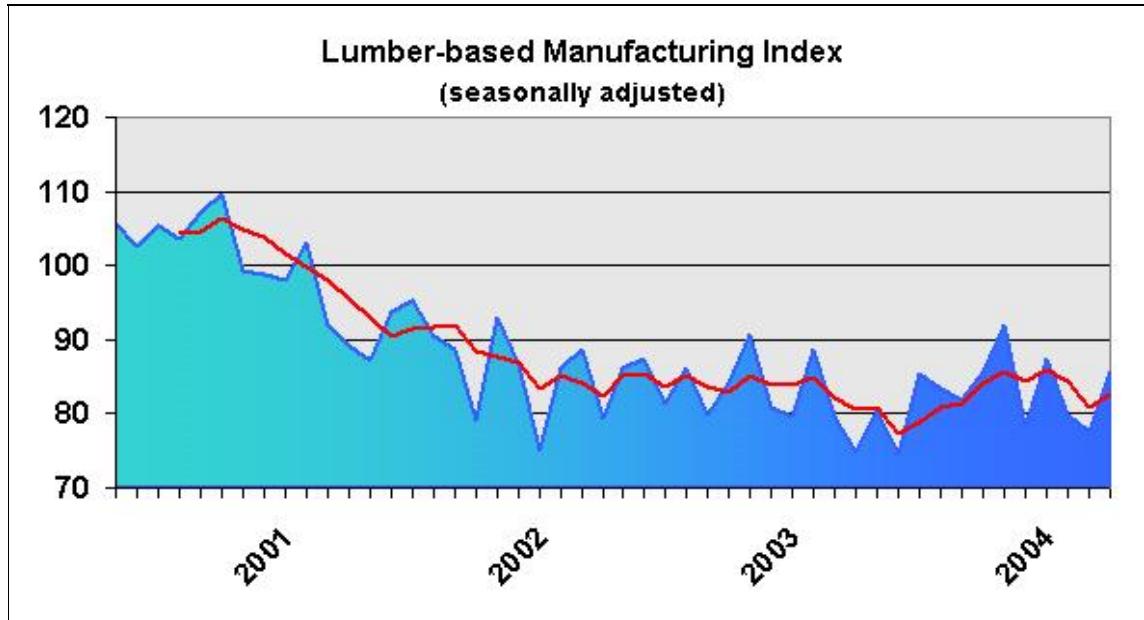
March's unemployment rate declined slightly from February's revised level, but still remains above the state and national rates. The increase in the size of the labor force dampened the effect of job gains on the unemployment rate.



Lumber Manufacturing

The index value of this sector is based on a combination of payroll employment and board feet of lumber production at major county lumber companies and is adjusted to account for normal seasonal variations. Lumber-based manufacturing generates about 60 percent of total county manufacturing employment.

In March the lumber-manufacturing index jumped 10.2 percent from last month's revised figure of 77.7. The measure now stands at 85.6.



Graphic description: The seasonally adjusted lumber-based manufacturing index is represented by the blue area in the graph above. The red line shows the four-month moving average of the lumber-based manufacturing index which smoothes month-to-month volatility to show the long run trend.

Economic activity in the manufacturing sector, as measured by the Institute of Supply Management, registered the 11th consecutive month of growth in April. Though the ISM Index level declined 0.7 percentage points from March's revised number, to register 62.4 percent, a number higher than 50 percent still indicates growth. "The second quarter is off to a very strong start. Many respondents indicate that order backlogs are growing for the first time in several years," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. "The list of metals up in price is quite extensive — almost every category of product has seen price movement." (www.ism.ws.cfm)

The Bigger Picture

Global Economic News

An interim ruling by the World Trade Organization on April 26th declared that U.S. agricultural subsidies to cotton farmers are illegal under international trade rules. The case was brought to the WTO by Brazil which claims that U.S. subsidies to cotton producers exceed the limits agreed upon in the Uruguay Round of trade negotiations. The \$3 billion in subsidies handed out to American cotton producers allows them to produce a greater quantity of cotton than would be produced under normal market conditions. This over-production increases the available supply, thereby driving down the world price of cotton. Millions of people in low income countries whose livelihoods depend on cotton production are being pushed further into poverty by the artificially low prices. Producers in these low income countries are at a competitive disadvantage for two reasons. First they must operate without large amounts of financial support from their governments. Second, as the price of cotton decreases,

they must produce more just to maintain the same level of revenue. (economist.com)

National Economic News

An interesting follow up to last month's local spotlight on the cost of economic crimes comes from the San Francisco Chronicle. A look into recent white collar crime scandals reveals a disturbing pattern. A majority of executives who are prosecuted for corporate fraud don't pay their own legal fees. Company shareholders and insurers often pick up the bill instead. Even while under investigation for defrauding shareholders, executives will often be advanced legal fees by their corporation. This is exactly what happened with Frank Quattrone, a former investment banker at Credit Suisse First Boston, who during two trials had his company foot the bill for millions of dollars in legal fees. If an executive is convicted, the company could seek reimbursement; however it is not likely that legal fees would be recovered. Some defendants will choose to fund their own defenses, such as former Enron CEO Jeffrey Skilling who has already paid out \$23 million to his defense team. Either way, the risk of financial mismanagement should increasingly become a concern for investors. (sfgate.com)

On a similar note, Federal Reserve Bank Chairman Alan Greenspan commented recently on the risks of running large federal budget deficits. "Our fiscal prospects are, in my judgment, a significant obstacle to long-term stability because the budget deficit is not readily subject to correction by market forces that stabilize other imbalances," said Greenspan. Budget deficits can lead to higher interest rates and the crowding out of business investment. (wsj.com)

Local Spotlight

Many people are just beginning to recognize the long term costs of bad government policies and business actions such as those highlighted above. A group of students at Humboldt State University are asking how to turn those costs into benefits. The issue is sustainability. Now, there is somewhat of a stigma attached to the word "sustainability." It can conjur up images of an unattainable new age, utopian ideal. It is sometimes associated with environmental movements that many in mainstream culture view as extreme or blind to social and economic factors. Others believe that sustainability is a necessary way of life that we all must come to adopt. Regardless of where you fall along this spectrum, we need to set the stigma aside and come up with a definition of sustainability that works for our community.

Humboldt State students from a class on the Economics of a Sustainable Society, took their questions about sustainability to our local experts. Thirty-four experts including activists, businesspeople, tribal representatives, and government representatives were interviewed. Here are some of their responses as summarized in a comprehensive document put together by Dr. Steven Hackett and his students.

When asked, what should be the goals for sustainable development in the North Coast region of California?

- Half of interviewees listed the goal of helping local small business, and 30 percent listed the goals from Prosperity, the County of Humboldt's Comprehensive Economic Development Strategy: Focus on growing base industry clusters, support business growth and development, enhance our competitive edge, invest in our business, enhance regional quality of life.
- Half of interviewees listed the goal of restoring, enhancing, and sustaining natural capital, including natural resources, ecosystems, and degraded watersheds.
- Nearly half of the interviewees listed the goal of enhancing regional quality of life.
- Nearly 40 percent of interviewees listed the goal of creating regional energy and/or food self-sufficiency.

When asked, what are some practical steps toward these goals?

- Nearly 45 percent of interviewees suggested promoting entrepreneurship and small/local business development.
- 35 percent of interviewees suggested providing education to area residents about sustainable development principles and practices.
- One-third of interviewees suggested building consensus among area residents about sustainable development principles and practices.
- Slightly more than one quarter of interviewees suggested reinvesting in natural capital, such as watershed restoration.

When asked, what are the impediments to sustainable development on the North Coast?

- Slightly more than half of interviewees listed existing patterns of development, infrastructure, products, prices, and/or ways of life that reinforce the status quo.
- More than one-third of interviewees listed the cultural divide in the region that gets in the way of consensus and general acceptance of specific sustainable development strategies.
- More than one-third of interviewees listed residents' values and preferences relating to consumerism, "affluenza", and/or unsustainable lifestyle expectations.
- One third of interviewees listed the existing power structure and its influence on economic development and governance, regionally, statewide, and nationally.

Special thanks to Dr. Steven Hackett, the students of the Economics of a Sustainable Society, and all the interviewees who participated in this project.

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 red 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 provide a better indication of underlying growth and fundamental change in the economy. Each month's report reflects data gathered from the previous month. For example, the "August 2003" report reflects data from July 2003. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

Cited References

- [The Eureka Times-Standard web site](#)
[The San Francisco Chronicle web site](#)
[The New York Times web site](#)
[California Association of Realtors web site](#)
[National Association of Realtors web site](#)
[Freddie Mac web site](#)
[American Automobile Association web site](#)

[The Conference Board web site](#)

[Institute of Supply Management web page](#)

[U.S. Bureau of the Census's home page](#)

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