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The Index of Economic Activity for Humboldt County

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INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

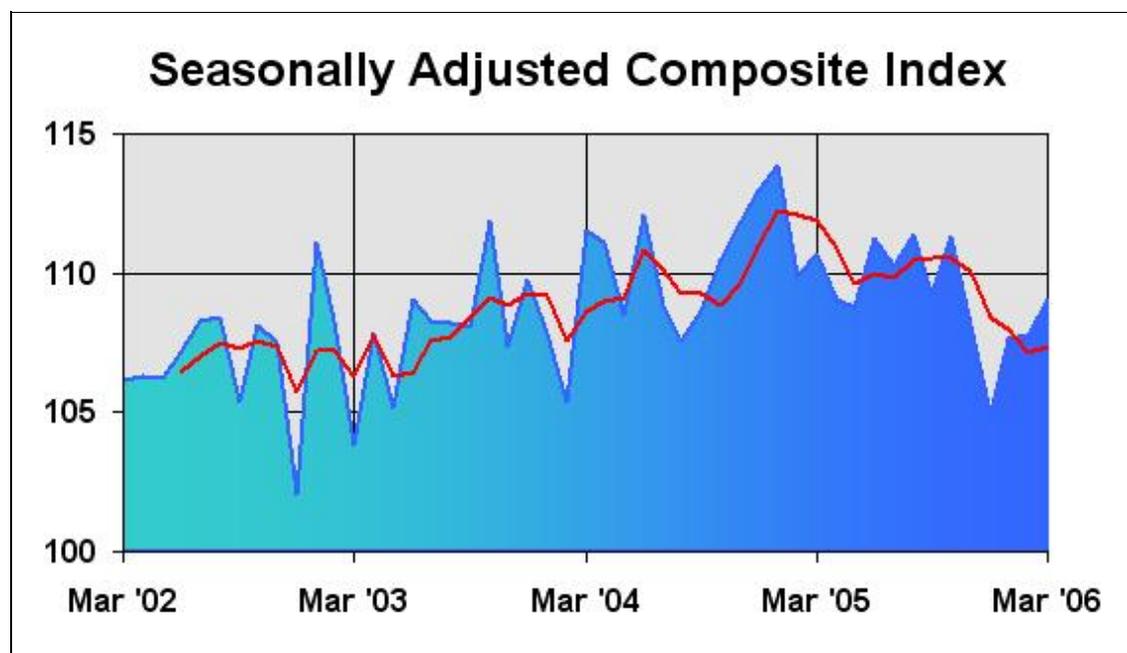
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April 2006



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

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.

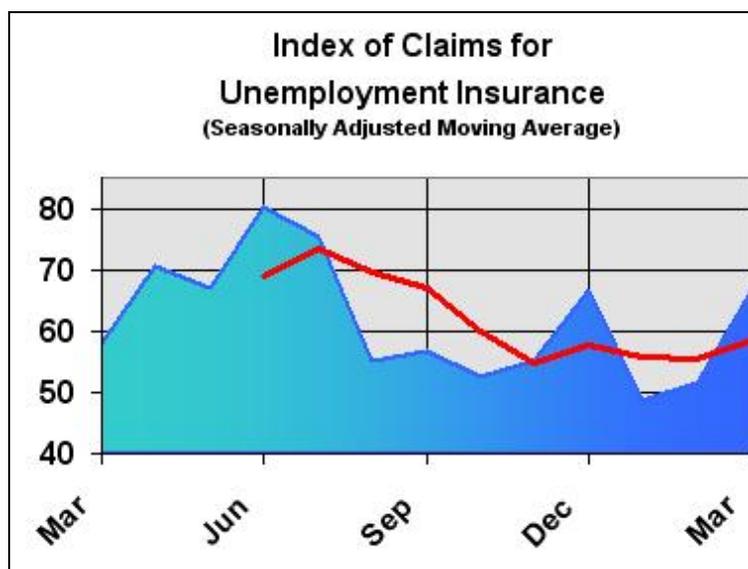
In March, the Index grew 1.1 percent to a composite Index value 109.1 (100 = January 1994). The Index was pulled down most notably by declines in the Retail Sales and Manufacturing Indices. The Home Sales, Hospitality and Employment Indices put the greatest upward pressure on the Index. Seasonally adjusted home sales in Humboldt County was the star performer this month, following last month's significant decline. The most interesting story in the March report is the astronomical increase in the Help Wanted Advertising Index. This is a leading indicator, giving insight into possible future developments in the county job market. The increase in help wanted advertising in March was totally unprecedented, and may indicate a more comfortable market for job seekers in months ahead. Also impacting the Index was a 5.9 percent decline in the Retail Sales Index which now stands at 136.8, and a 2.0 percent gain in the Hospitality Index which brings that indicator to 81.4.

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 2005	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001
COMPOSITE	109.1	1.1	-1.5	-2.2	5.1	2.7	-0.2
<i>Sector</i>							
Home Sales	128.1	36.5	1.9	-15.0	2.9	0.0	12.5
Retail Sales	136.8	-5.9	-2.0	-6.9	-7.0	-2.9	1.0
Hospitality	81.4	2.0	-11.7	-6.9	-7.0	-8.7	-2.2
Electricity Consumption	148.4	0.0	21.3	20.3	25.8	38.4	34.0
Total County Employment	106.1	0.3	-1.0	2.0	5.1	3.2	2.0
Manufacturing	66.2	-3.0	-24.6	-22.7	-11.5	-16.6	-25.9

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Leading Indicators

The Index tracks four leading indicators to get a sense of the direction that the county economy may take in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.



Graphic description: The seasonally adjusted Index of claims for unemployment insurance is represented by the blue area in the graph above. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of claims for unemployment insurance is a negative leading indicator of economic activity. An upward trend in this indicator may indicate lower economic activity in coming months. This leading indicator rose by 28.8 percent this month. A rise in this indicator suggests the possibility of decreased economic activity in the county in coming months. The Index of claims for unemployment insurance now stands at 66.51.

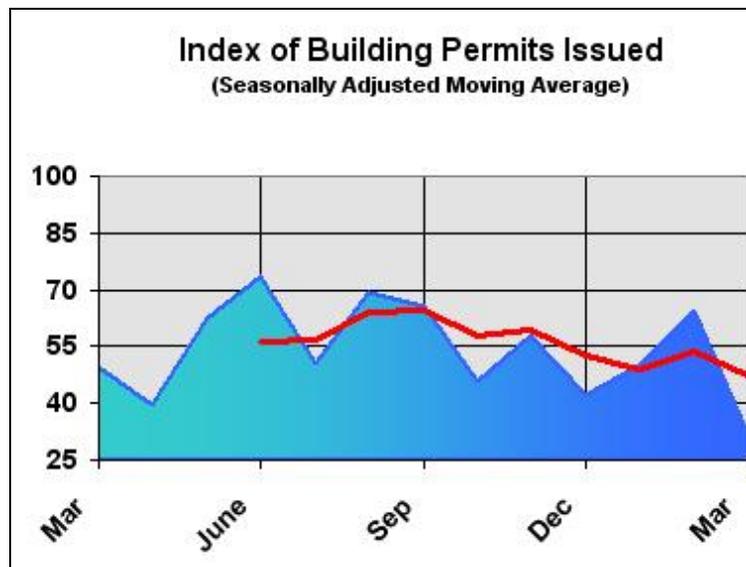


Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

In March, the Index of Help Wanted Advertising is by far the most interesting development in our monthly report. This Index is an indicator of labor market conditions and job creation. It may suggest future trends in the Humboldt County labor market. The Index is based on help wanted advertisements posted in the *Eureka Times Standard*. In March, the Index rose stratospherically, adding an unprecedented 129.4 percent. This increase is an order of magnitude above the normal monthly fluctuation in this Index. The new value of the Help Wanted Advertising Index is 379.6. This is more than double the next highest month on record which was March of 2000 at 181.7. An increase this dramatic raises questions about what might be causing it. We have rechecked our data collection to ensure there was no error on our part. If in fact this increase simply reflects an increase in job openings in the County, then we should expect an impact on the employment picture in the County in coming months. We will be continuing to carefully follow developments in the Humboldt County job market to see if in fact a boon is in store as the tremendous number of advertised positions begin to be filled.

National help wanted advertising fell slightly in March according to the Conference Board. Their Index of help wanted advertising fell one point to arrive at 38. This is the same value that the Index has held every month since September of 2005 with the exception of February in which the Index temporarily added a point to 39 before losing it again in March. One year ago the Index was 39, a point higher than it now stands. Ken Goldstein, labor economist at The Conference Board is not exuberant about employment at the national level. He commented in the March help wanted advertising press release, "If the economy cools a little, under the unrelenting pressure of higher energy prices, the labor market might also cool. Even if energy prices were not going through the roof, the biggest road block would still be the cost of a new hire. Average hourly wage increases are picking up. Benefit costs

(especially to cover health insurance premiums) are also moving higher. And pension costs remain high. Moreover, productivity growth has slowed, which means it cannot offset rising cost pressures the way it did last year." (conference-board.org)



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of building permits issued gives insight into future home sales and construction. In March the Index of building permits fell, more than reversing last month's gain and giving the Index the appearance of continuing its downward trend over the last several months coming off of its peak above 70 in June of 2005.. The Index dropped 50.2 percent to a value of 32.1. This is the lowest value for this Index on record, which is consistent with a slowing housing market. This may indicate fewer sales in months ahead or even declining prices.

Nationally, the Pending Home Sales Index as reported by the National Associations of Realtors (NAR) also reported a contraction, although much more modest. The Index dipped 1.2 percent to an Index value of 116.2 from a level of 117.6 in February. This is 6.0 percent down on the year. Pending sales have been declining at the national level since last August when the Index was at a seasonally adjusted 128.2. (realtor.org)



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of manufacturing orders shows expectations for future manufacturing sales. This leading indicator rose sharply by 71.3 percent in March and now stands at 73.1. This dramatic increase is not unusual for this historically erratic index. Last month was an extremely low month coming on the end of a downward trend. It remains to be seen in future months if March's gain will be a momentary interruption or a reversal of that trend.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$349,500	Unemployment Claims	28.8
30 Yr. Mortgage Rate	6.375	Help Wanted	129.4
Unemployment Rate**	6.0%	Building Permit	-50.2
		Manufacturing Orders	71.3
<p>* 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.</p>			
<p>** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.</p>			

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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.

After last month's decline, March saw a large rebound in the real estate Index. The Index rose 36.5 percent, the largest single-month increase since October of 2001. This more than recouped last month's dramatic loss. The Home Sales Index now stands at 128.15. Although considerable territory was gained in March, this Index is still well below the peak reached in June of 2004 when it reached its all time high of 156.95. The median price of homes sold in March in Humboldt County continued to rise, outstripping February's record level of \$343,450. The median price is now at a new all time high of \$349,500. The median selling price is not adjusted for inflation and does not affect the Index. For sale listings in Eureka climbed 12 percent in April compared to March and 34 percent compared to February.

The housing market in other regions continue to show worsening conditions. New house sales were down 57 percent in the first quarter of this year compared to a year ago. The parent company of Ameriquest, a large sub-prime lender, announced the immediate closing of over 200 branches and the layoff of 3,800 workers. According to DataQuick, California notices of default were up 29 percent in the first quarter compared to a year ago and according to Realtytrac.com, U.S. foreclosures were up 63 percent in March compared to March 2005. And prompted by plunging affordability, Statewide Bancorp of Rancho Cucamonga started to offer a 50-year mortgage loan.

At the state level, the median selling price of a home as reported by the California Association of Realtors, increased 4.8 percent to \$561,350 from February's level of \$535,470. This month's price is 13 percent higher than the price a year ago. The number of sales in March is up 4.9 percent over February. The total number of homes sold has decreased dramatically since last year, however. Total California home sales in March are 15.1 percent fewer than last March. (www.car.org)

According to the Census Bureau, the median price of new houses fell by 6.5 percent from February to March and 2.2 percent from March 2005 to March 2006. The pace of new house sales fell by 7.2 percent from March 2005 to March 2006. According to the National Association of Realtors, the number of existing home sales at the national level was 0.7 percent lower than the level of March 2005 and 4.8 percent lower than the seasonally adjusted peak in June of last year. The

national median sales price for existing homes was \$218,000 in March, unchanged from the February level and 7.4 percent higher than year ago levels of \$203,000.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of May 4th rose to 6.59 percent with an average 0.6 points. The 30-year fixed mortgage rate averaged 6.35 percent with 0.5 points last month. In March of 2005, 30-year fixed rate mortgages averaged 5.75 percent. The current rate is the highest since June 2002, when the average rate was 6.63 percent. Frank Nothaft, Freddie Mac vice president and chief economist expects rates to continue their modest upward trend over the remainder of the year. (freddiemac.com)

For a local perspective on the possibility of a housing bubble, visit our [Special Projects page](#) for a study of the Humboldt County housing market.

Retail Sales

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

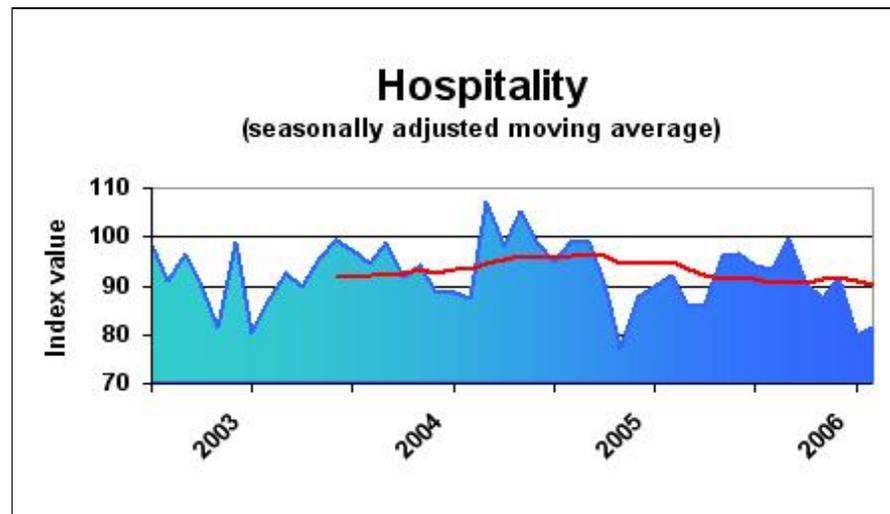
The retail sales sector shrank in March, falling 5.9 percent to a seasonally adjusted Index value of 136.8. This is a 2.0 percent decrease from the same period last year. This performance ranks the Retail Sales Index as the worst performing Index this month. In spite of the disappointing performance, this Index is still not at a remarkably low level historically. The Index was lower two months ago, and lower again in September and October of last year. Prior to that there have been a number of other periods when the Index was at or below current levels. In June of 2003, This Index was at its all time high of 153.3.

National retail sales as reported by the Federal Reserve Board's Beige Book on April 26 were also expanding in ten of twelve districts. Consumer spending was generally increased, but comparison to the same month a year ago was complicated by the shift of Easter from March in 2005 to April in 2006. (federalreserve.gov)

National consumer confidence as measured by the Conference Board increased again in March, adding 2.1 points to 109.6. A level of 100 is equivalent to the base year of 1985's level. The current level of this Index is the highest since May of 2002, when the Index stood at 110.3. "Improving present-day conditions continue to boost consumers' spirits," says Lynn Franco, Director of The Conference Board Consumer Research Center. "Recent improvements in the labor market have been a major driver behind the rise in confidence in early 2006. Looking ahead, consumers are not as pessimistic as they were last month." (conferenceboard.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.



Graphic description: The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The hospitality sector increased 2.0 percent in March to an Index value of 81.4. This represents a 11.7 percent decrease from the same month last year and is still a somewhat low level historically. February and March are the two lowest months on record since December of 2004 and both are among the lowest five months since the Index data series began in January of 1994.

Gasoline Prices

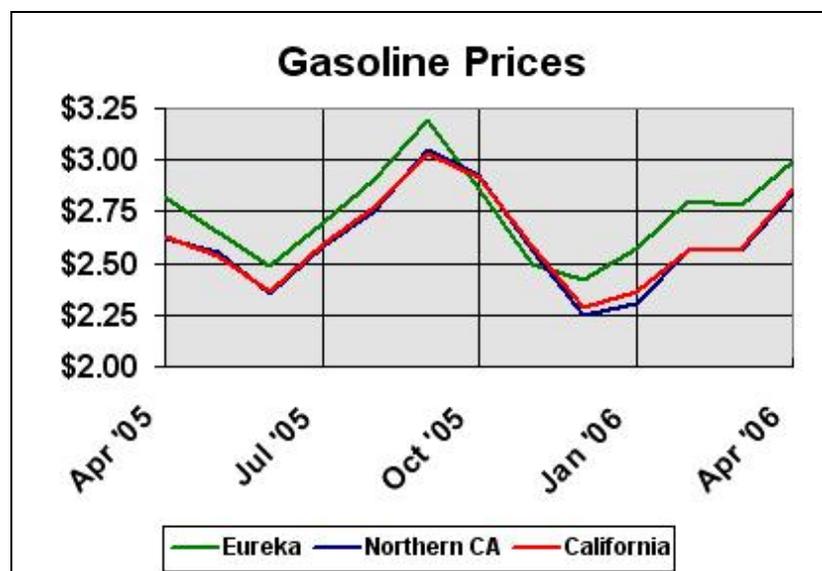
The American Automobile Association reports that county gas prices have risen 21 cents as of April 11, to \$2.99, The highest prices in this area since September. This is a sharp increase, but the state as a whole experienced more dramatic increases, bringing prices seen in other areas of the state closer to Eureka prices. There are now many communities near the level of Eureka's prices. The average price per gallon of gas in California rose 29 cents to \$2.86 and the Northern California price added 28 cents to \$2.84. International developments are largely to blame for this painful spike in prices and the worst may be yet to come. Tensions over Iran's atomic aspirations among other issues have caused a recent bidding up of oil prices. Sean Comey, spokesman for AAA of Northern California put it this way, "We wish we could tell you there's light at the end of the tunnel, but it's probably an oncoming train. Unless international tensions ease to the point where the cost of crude oil drops significantly, there's nothing to suggest that consumer

fuel prices will be falling anytime in the near future." (csaa.com)

For a local perspective on gasoline prices, visit our [Special Projects page](#) for our study of the Eureka gasoline market and an examination of why Humboldt County gas prices tend to be higher than the rest of California's.

Average Price* (as of 04/11/06)		Change From Prev. Month (cents/gal.)
Eureka	\$2.99	21¢
Northern Ca	\$2.84	28¢
California	\$2.86	29¢

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 kilowatt-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, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

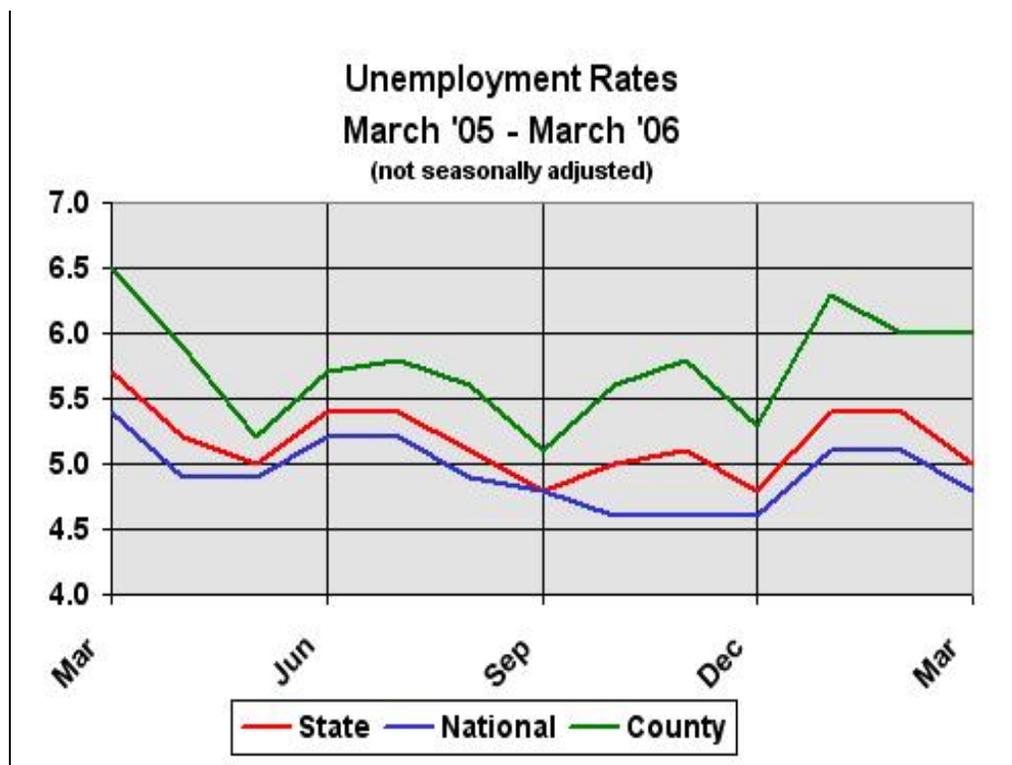
Data for the quarter ending in December indicate very high energy consumption. The revised Index values for October, November and December are 141.8, 139.6 and 148.4 respectively. These months represent the first second and third highest values on record for this index. Interestingly, the highest month on record prior to this quarter is September of 2001, the month of 9-11. PG&E has been warning consumers about future increases in energy costs. It will be interesting to note whether these levels of consumption are sustained as energy prices rise in coming months.

Total County Employment

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

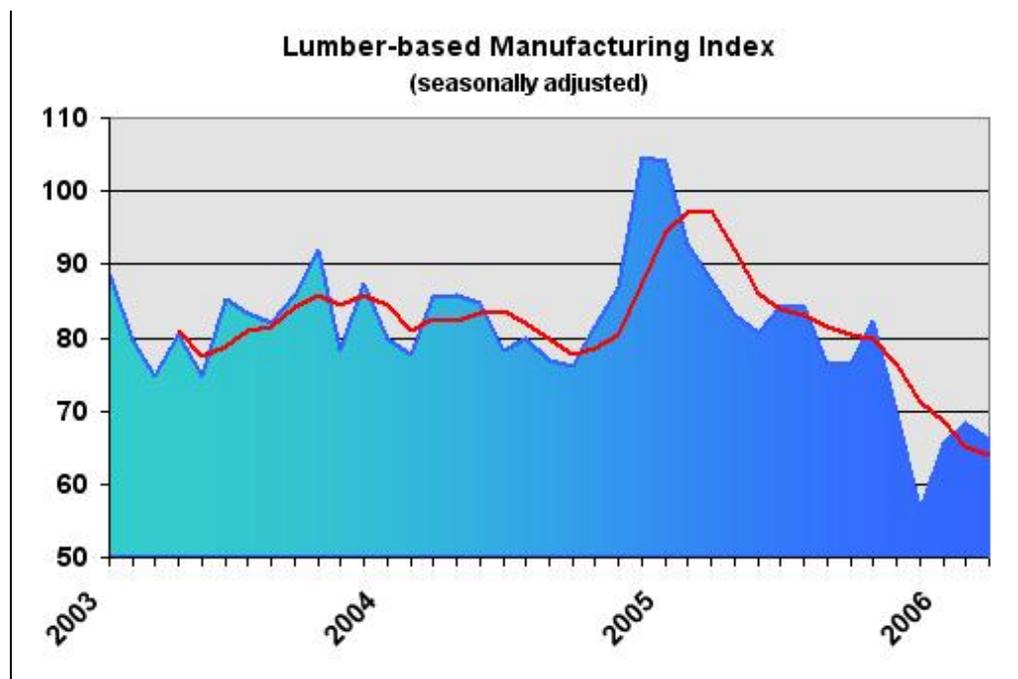
Preliminary employment and labor force data for March indicate 60,700 people in the Humboldt County labor force, of whom 57,100 are employed. This means that 300 individuals joined the labor force in the month. Additionally, the Humboldt economy created 400 additional jobs during the month. The individuals who joined the labor force prevented the additional jobs from significantly reducing the number of unemployed in the County, 3,600 people. As a result, the unemployment remained unchanged at 6 percent. The additional jobs were in retail trade and hospitality. The employment sector's Index value continued last month's gains, albeit at a slower rate, rising 0.3 percent to 106.1. This level is still one percent lower than the same month a year ago.

The seasonally non-adjusted national and state unemployment rate also remained constant in March. California's unemployment rate fell to 5.0 percent, from 5.4 percent, while the national unemployment rate fell to 4.8 percent from 5.1 percent. The rates we report each month are not seasonally adjusted, which is why rates reported for recent months in the media may differ. (edd.ca.gov)



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 55 percent of total county manufacturing employment.



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 which attempts to demonstrate the overall trend in the data with less monthly volatility.

In March, lumber based manufacturing fell, dropping 3.0 percent to an Index value of 66.2. This small movement leaves the index fairly stable over the last three months, holding between 65 and 70. This range is historically quite low for the Index. The past five months are the five lowest months on record in the history of this Index which dates back more than 12 years to January of 1994.

At the national level, the Institute for Supply Management reports that American manufacturing is quite strong. Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee announced that, "The manufacturing sector grew at a faster rate during April as production and employment showed significant strength." The Report observes that although prices were up, growth in both manufacturing and in the economy as a whole accelerated. The report was suggestive of ongoing inflation with orders, production, employment and the backlog of orders all reported as growing and customer inventories shrinking faster while supplier deliveries slowed. The report indicated that April was the 54th consecutive month of growth in the overall economy and the 35th consecutive month of growth in manufacturing. (www.ism.ws)

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The Bigger Picture

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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

[American Automobile Association](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[The Conference Board](#)

[Federal Reserve Board Beige Book](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

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