

[skip navigation](#)



[Current Issue](#)

[Archive](#)

[Projects](#)

[Sponsors](#)

[Links](#)

[Home](#)

[Readers Comments](#)

[Frequently Asked Questions](#)

[Acknowledgements and Past Participation](#)

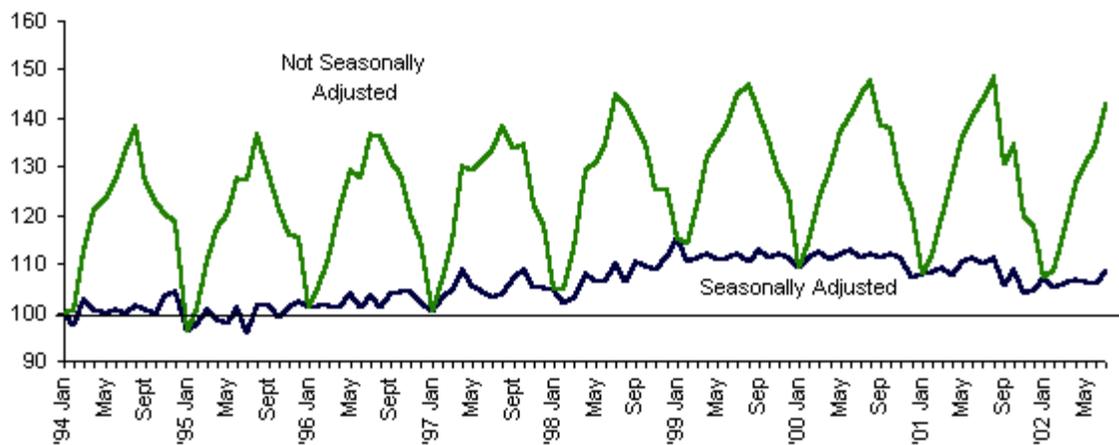
[HSU Economics Department](#)

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

**August 2002**

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

**Composite Index**



Key Statistics		Leading Indicators	
<b>Humboldt County</b>		<i>Seasonally Adjusted</i>	<b>% Change From Previous Month</b>
Median Home Price*	\$175,000	Help Wanted Advertising	<b>-6.9</b>

30 Yr. Mortgage Rate (8/19)	6.5%	Building Permits	+42.7
Average Hotel Occupancy Rate	78.2%	Unemployment Claims	+38.0
Unemployment Rate**	6.0%	Manufacturing Orders	-0.8
* 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. See the <a href="#">EDD Website</a> for updates.			

Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
* * *		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	132.0	+4.2	+7.9	+14.2	+4.6	+9.6	+53.9
Retail Sales	134.3	+0.3	+1.1	+12.1	+8.4	+10.6	+25.8
Hospitality	97.7	+1.3	+2.1	-0.6	+7.3	-1.1	+13.1
Electricity Consumption	103.9	+6.4	-15.3	-21.5	-19.7	--	--
Total County Employment	103.6	+0.1	0.0	-0.7	-2.1	-1.4	+1.6
Lumber Manufacturing	95.5	+8.1	-5.2	-16.7	-19.7	-23.9	-27.5

## Discussion

### Composite Index and Overall Performance

The *Index of Economic Activity's* seasonally adjusted composite value, which now stands at 108.4, rose a healthy 2.1 percent from last month's downwardly revised figure. See the retail sales section below for an explanation of the revision.

A look at the graph above shows that the Humboldt County economy exhibited signs of increased activity in July after having been essentially flat in each of the four previous months. The gain was led by a turnaround in the home sales sector and by improvement in the hospitality and lumber manufacturing sectors. This is definitely good news, but there is still some doubt as to whether this upturn will have any staying power. Additionally, mixed indications on the national economic front, as well as potentially disruptive factors like an impending West Coast dockworker strike or a pre-emptive invasion of Iraq, have done little recently to ease lingering uncertainty.

Something noteworthy appears when looking at this month's sectoral performance table. Believe it or not, this is the first time in the eight plus years of the *Index's* existence that all six sectors registered positive month-over-month growth in the same month (woohoo!). The seasonally adjusted *Index* values of both home sales and retail sales (see below for an explanation of the revision made in the latter data series) showed strong improvement in virtually all comparisons. The increased activity in the hospitality sector is especially welcome considering all the recent publicity given to the forest fires affecting our region and the prolonged

downturn affecting this industry nationally. The strong month-over-month increase in lumber manufacturing must be tempered with the fact that the previous month's *Index* level is the second lowest on record for this sector. Furthermore, the poor showing in all of the year-over-year comparisons corroborate other indications that this industry is undergoing adverse structural changes that will likely continue. Another area of concern is the lackluster performance of the employment sector. July's slight increase is due to seasonal adjustment rather than added jobs. The preliminary report from the Employment Development Department shows that Humboldt County actually lost jobs during the month. Moreover, the local labor force shrank by 1.3 percent in July, representing approximately 800 potential workers who have left the county or have given up on actively seeking jobs. Finally, our preliminary estimate of electricity consumption suggests increased economic activity may be taking place.

Unfortunately, the Leading Indicators are not performing as well. Only building permits showed positive growth in July with a huge increase over the previous month's level. The four-month moving average of this indicator also on an upswing. Manufacturing orders experienced a modest dropoff, while help-wanted advertising declined by a larger margin. The latter indicator, when looked at together with the huge increase in unemployment claims and the near zero growth in the employment sector suggests ongoing weakness in the local labor market. The four-month moving averages of these three indicators exhibit mildly negative trends.

## Home Sales

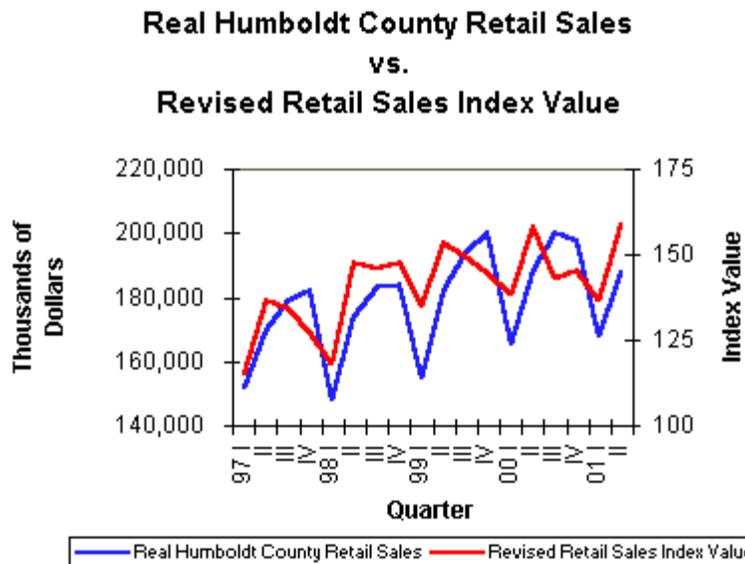
The *Index* value of this sector is based on the number of homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

The seasonally adjusted *Index* value for this sector rose respectably in July after having declined in each of the two previous months.

July's median home price climbed 2.0 percent from June's \$171,500. This sometimes volatile measure is over 15 percent higher than it was in July 2001. The current statewide median sale price of \$323,700 for existing homes rose less than one-tenth of a percent from June's downwardly revised number. This figure is up a whopping 21.0 percent from July 2001, when it was \$267,520 ([www.car.org](http://www.car.org)). July's national median price for existing homes fell 0.4 percent from June's level to \$162,800, while the similar figure for new homes dropped 6.6 percent to \$170,500. These two measures are up by 7.3 percent and down by 2.6 percent, respectively over July 2001([www.realtor.org](http://www.realtor.org) and [www.census.gov](http://www.census.gov)).

## Retail Sales

We have made some technical adjustments to this data series that we believe result in a slightly more accurate representation of the local retail sector. The graph shows how the revision affects the mean quarterly *Index* values compare to actually Humboldt County retail sales as reported to the state Board of Equalization (adjusted for inflation). The revised figures led to a slight improvement in the coefficient of correlation over what we reported in our recently posted [Retail Sales Ground Truthing Project](#).



That said, the local retail sector experience a slight turnaround in July with virtually every *Index* participant reporting modest improvement. Additionally, the current level of that value, as well as most of the year-over-year comparisons, show that retail sales remains the strongest segment of our economy.

National retail sales rose 1.2 percent in July from the previous month's level. Sales at health and personal care stores and at automobile and automotive parts dealers led the advance. Overall retail sales were 4.6 percent higher than in July 2001 ([www.census.gov](http://www.census.gov)). According to an Associated Press article, July retail sales are typically slow as stores clear out their summer inventories at a discount in order to make room for the back-to-school season ([www.times-standard.com](http://www.times-standard.com)).

The August release of the Conference Board's Consumer Confidence Index fell another 4.0 percent to 93.5 from July's revised 97.4. This is the Index's lowest level since last November. From a historical perspective, the current figure is indicative of an ongoing, albeit slow, economic expansion. The business research organization claimed this performance is "a strong signal that business conditions have yet to turn around" ([www.nytimes.com](http://www.nytimes.com)).

## Hospitality

Our preliminary figure for average occupancy at the participating hotels, motels and inns experienced a double-digit improvement for the second consecutive month, rising by over 10 percentage points in July. This follows an 11+ percentage point gain in June. As a result, the seasonally adjusted *Index* value for this sector rose 1.3 percent from June's level.

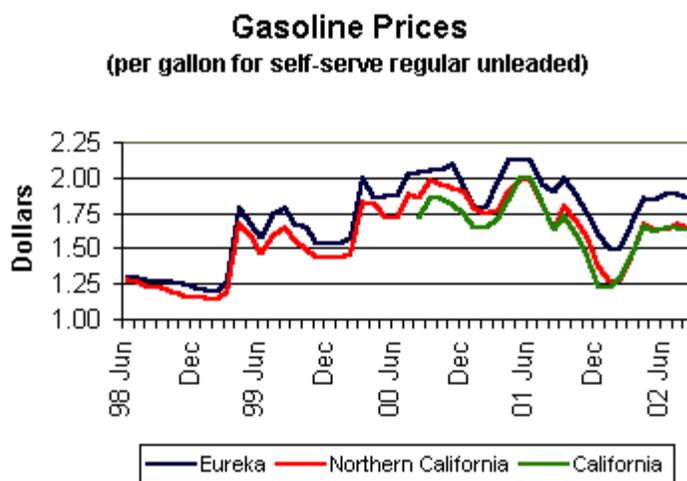
This performance corroborates a recent press release from the Humboldt County Convention and Visitor Bureau which stated that the severe wildfires afflicting Northern California and Southern Oregon have had little, if any, effect on the local tourism industry. A trend among Californians to travel closer to home this year and cool coastal weather were cited by the Bureau as reasons for July's strong showing ([www.redwoodvisitor.org](http://www.redwoodvisitor.org)).

According to the Travel Industry Association of America, a Washington, D.C. based nonprofit trade organization, economic and social conditions such as the recent recession and the events of September 11th have resulted in increased domestic travel this summer. The group reports that the number of Americans travelling to family reunions is up 37 percent this year, following a 25 percent increase last year. Meanwhile, overseas travel will have declined by double digits by the end of this summer. Roper ASW, a polling firm based in New York, claims this a trend that won't change soon. Fears over terrorism and reduced financial resources have led to many people choosing to vacation closer to home ([www.sfgate.com](http://www.sfgate.com)). This presents an

excellent opportunity to the local tourism industry. In addition, the falling value of the dollar may help offset any reduced travel here by foreign tourists that might result from uncertainty about security or economic conditions.

### Gasoline Prices

The graph below shows a comparison between average gasoline prices locally, regionally and statewide based on data provided by the California State Automobile Association. The monthly average price of a gallon of self-serve regular unleaded gasoline in Eureka and in Northern California is tracked from June 1998 through the present. The same average price for California as a whole is shown from August 2000 through the present. We have been unable as of yet to obtain price information prior to these periods. The graph clearly illustrates that local and regional prices were essentially equal in mid 1998 (the difference ranges from 2 cents higher in Eureka in June to 5 cents higher in September). The difference grew slowly up to the price spike seen in early 1999. By April of that year, gasoline was 10 cents per gallon higher in Eureka than the regional average. Until the second large spike occurred in early 2000, the difference typically varied from 10 to 15 cents, with a couple of exceptions. In March 2001, following the third spike, the difference jumped to 21 cents. Since then, the difference has remained in the 20 to 25 cent range with a few exceptions (a low of 13 cents in June and July 2001 to a high of 27 cents in August 2001). The difference between Eureka and the statewide average is even more pronounced. Since August 2001, it has not been below 20 cents and it reached a high of 36 cents in December 2001.



The spikes in 1999 and 2001 have been attributed to decreased supply after fires at gasoline refineries greatly reduced aggregate California production. The spike in 2000 is believed to have been caused by an abrupt increase in the price of crude oil. The longer, though less steep, reduction in prices that occurred in late 2001 is due to reduced demand for petroleum products, particularly aviation fuel, in the aftermath of September 11th. While the rise and fall of gasoline prices over time can be explained by market forces, the reason behind the increasing difference between the average price in Eureka and other parts of the state is not so clear. Is demand greater or supply lower here than elsewhere? We don't think so. Are transportation costs greater here than elsewhere? Potentially, but this doesn't explain the increase in the average price difference over the past four years. Are local gasoline distributors taking advantage of local market conditions such as a single fuel terminal on Humboldt Bay, relatively concentrated ownership of retail outlets and inelastic demand for their products in order to maximize their profits at the expense of consumers? Possibly, but in the absence of overt collusion, this type of business behavior may be legal. Clearly, more information is needed to adequately explain why gasoline is so much more expensive here than virtually anywhere else in the state or country.

### Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with

economic activity. However, beneficial increases in energy efficiency and conservation reduces the sector's *Index* value. Because we collect our data for this sector quarterly, the *Index* values are estimated, and are revised when the quarterly data are received.

Estimated July consumption of electricity rose a seasonally adjusted 6.4 percent from the previous month. Month-over-month improvements in the retail sales, hospitality and lumber-based manufacturing sectors point towards increased economic activity as the reason behind the higher level of consumption. Taking a longer view, the large drops in the year-over-year comparisons suggest that some combination of increased conservation and reduced economic activity continue to be the dominant factor in this sector's performance. As we reported last month, there is reason to believe that consumer behavior at the household level is playing the larger role.

Officials at the Federal Energy Regulatory Commission recently announced there is evidence that natural gas prices might have been manipulated by suppliers resulting in skyhigh power prices during the energy crisis last year. They also suggested that they would pursue charges of misconduct against several energy trading companies that may have engaged in the illegal activity. FERC investigators allege that published prices of natural gas costs may not have been a reliable indicator for what the companies actually paid. FERC claims that the common method for reporting these prices did not use statistically valid procedures and was subject to manipulation by traders with an obvious incentive to strengthen their trading positions. Industry insiders still maintain the high prices during the winter of 2000-2001 resulted from an actual shortage of natural gas and a pipeline "bottleneck" into California. The energy commission went on to place some of the blame for the crisis on the state and its poorly structured electricity market ([www.nytimes.com](http://www.nytimes.com) and [www.sfgate.com](http://www.sfgate.com)).

For those who don't recall, California largely deregulated its electricity market with the passage of Assembly Bill 1890 back in 1996. Readers with a dark sense of humor may find section 1.(a) of this legislation amusing:

It is the intent of the Legislature to ensure that California's transition to a more competitive electricity market structure allows its citizens and businesses to achieve the economic benefits of industry restructuring at the earliest possible date, creates a new market structure that provides competitive, low cost and reliable electric service, provides assurances that electricity customers in the new market will have sufficient information and protection, and preserves California's commitment to developing diverse, environmentally sensitive electricity resources.

For anyone who still believes that bi-partisanship is inherently positive, the market structure that emerged from the unanimously passed AB 1890 closely resembled a model provided by industry lobbyists.

Nevertheless, the FERC finding should strengthen the state's position as it seeks to renegotiate long-term contracts worth billions of dollars that were signed at the height of the crisis. Thus far, Sempra Energy Resources, Williams Energy and four other firms with smaller contracts have agreed in principle to new contracts that would save California over \$11 billion. A FERC administrative law judge has scheduled a hearing in early December for the state and any companies that have not yet reached agreement on contract renegotiations ([www.sfgate.com](http://www.sfgate.com)).

A U.S. District Court judge recently ruled against a Public Utilities Commission lawsuit that claimed PG&E's bankruptcy reorganization plan violated several state laws. According to published reports, the decision affirms "that federal bankruptcy law overrides any state law that interferes with a debtor's proposed reorganization." If PG&E's plan prevails in the bankruptcy court, the company will be allowed to spin off large portions of its business into subsidiaries that would no longer fall under state regulations ([www.sfgate.com](http://www.sfgate.com)).

Finally, PG&E recently paid \$4.3 million to its creditors who had claims of \$5,000 or less. The U.S. Bankruptcy Court judge overseeing the case allowed the repayment with interest to approximately 4,000 individuals and small businesses that have been owed money since at least April 2001 when the utility filed for bankruptcy ([www.times-standard.com](http://www.times-standard.com)).

## Total County Employment

In their preliminary report for July, the Employment Development Department (EDD) reported that 56,400 people were employed in Humboldt County. This is down 1.1 percent, or 600 workers, from June's upwardly revised figure of 57,000. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries decreased 3.2 percent from a revised 43,500 in the month of June to a preliminary 42,100 for the month of July. This sector is up 2.4 percent over last year's figure. The preliminary figure for the retail subsector shows 11,400 jobs, an increase of 0.9 percent from June's revised figure. This number is 4.6 percent higher than it was in July 2001.
- Total county manufacturing employment came in at 5,200. This is unchanged from June's revised figure. Total manufacturing employment is down 5.5 percent from July 2001.

The unemployment rate for Humboldt County fell from June's revised 6.0 percent to the current 5.7 percent according to the preliminary EDD report. The seemingly contradictory improvement in this measure is due to a 1.3 percent contraction in the local labor force. Meanwhile, the national rate remained unchanged at 5.9 percent and the state rate rose one-tenth of a percentage point from June's upwardly revised 6.5 percent to a preliminary 6.6 percent.

According to a recent study done by the California Budget Project, a liberal policy think tank based in Sacramento, the income of most Californians did not rise appreciably during the greatest economic expansion in U.S. history. The report claims that after adjusting for inflation, the hourly wages of Californians rose just 1.4 percent from 1989 to 2001. Nationally, the real wage increase over the same time period was 4.9 percent. The Budget Project further states that the modest gain could potentially be erased in the current downturn. They cite the aggregate experience of Californian workers during the 1990s as evidence of the danger. Real wages fell 4.9 percent from 1989 to 1995 before climbing 6.7 percent from 1995 to 2001 ([www.sfgate.com](http://www.sfgate.com)).

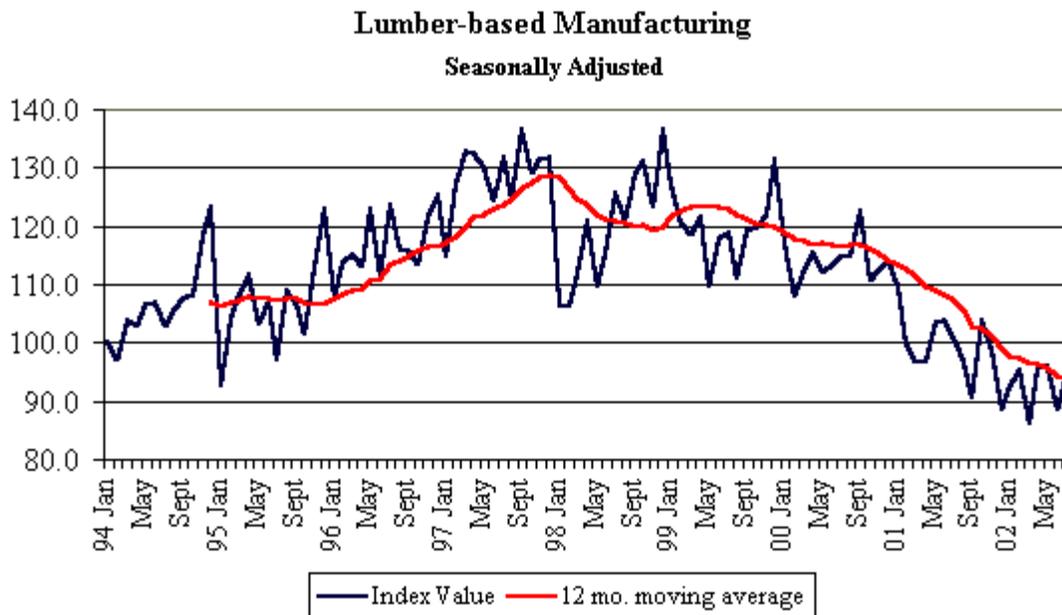
How did Humboldt County fare?

It depends on which figures are used. According to data from the 2000 and 1990 U.S. censuses, Humboldt County per capita income rose 3.4 percent, or \$573 from 1989 to 1999 (\$16,630 to \$17,203 in inflation adjusted 1999 dollars). Median household income dropped an inflation adjusted 1.0 percent over the same period, however, from \$31,541 to \$31,226 (1999 dollars). Furthermore, the percentage of Humboldt County households within the income bracket containing the median income fell during the decade. In 1989, the nominal median income was \$23,586 and 20.2 percent of county households earned between \$15,000 and \$24,999 annually. By 1999, the nominal median income was \$31,226, but only 14.2 percent of county households earned between \$25,000 and \$34,999 annually, a decrease of nearly 30 percent ([www.census.gov](http://www.census.gov)). Many public interest groups have claimed that the 1990s was a period during which wealth was redistributed upwards. Rising per capita income occurring while median household income is falling and fewer people are approaching the median level lends credence to this argument. The census data brings the issue a little bit closer to home.

## 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 July *Index* value for this sector regained most of the ground lost when it slipped in June to its second lowest level ever. The current level remains substantially lower than in years past.



According to the most recent data released by the Humboldt County Agriculture Department, timber sales dropped 33.2 percent in 2001 from 2000. Gross timber sales countywide were \$190.6 million for 2001, down dramatically from \$285.2 million in 2000 ([www.times-standard.com](http://www.times-standard.com)). The huge decrease is most likely the result of structural changes that have been adversely affecting this industry worldwide for some time now.

These changes will probably continue to impact Humboldt County lumber producers into the foreseeable future. A local industry source maintains that despite strong levels of construction activity, the market for Douglas fir remains soft. Foreign and domestic production of softwood lumber has more than risen to meet the demand. Large amounts of Canadian lumber shipped within a duty-free window before a recently enacted tariff went into effect are exacerbating the situation. This lumber, much of which is sitting at reload terminals just this side of the border, is effectively over-supplying the market. The same source reports that although the demand for redwood has been strong, the market is showing signs of weakness.

This outlook echoes other reports from industry analysts. In addition to the last minute Canadian exports, Russian, Scandinavian and Eastern European producers have stepped up their exports to the U.S. The added supply has led to tumbling prices. The current price per 1,000 board feet of green Douglas fir is around \$285. This is considerably lower than the \$400 average since 1996 and the approximately \$300 needed for the average American mill to break even ([www.nytimes.com](http://www.nytimes.com)).

The 27 percent tariff cited above, which went into effect last May, has begun to have a definite negative consequences for Canadian producers. Canadian softwood sales plummeted 40 percent in June and the rate of mill closures is rapidly increasing north of the border. In the 13 months prior to the tariff, 93 mills in the United States and 53 in Canada shut their doors temporarily or permanently. In the four months since the tariff, 42 Canadian mills and 28 American mills have either ceased or drastically reduced production ([www.nytimes.com](http://www.nytimes.com)).

Pacific Lumber Company and Blue Lake Forest Products are two local producers that have shut down some or all operations in recent months. Both firms scheduled auctions during August in order to liquidate unneeded machinery and equipment ([www.times-standard.com](http://www.times-standard.com)).

The potential sale of Eel River Sawmills took a turn for the better in early August when the firm agreed to sell its four mills, rolling stock and Fairhaven power plant to local trucking magnate Donald E. Nolan, Sr. for an undisclosed cash amount. The proposed sale includes an option to purchase some 7,000 acres of timberland. The deal is awaiting approval by Eel River's shareholders ([www.times-standard.com](http://www.times-standard.com)).

The national manufacturing picture was mixed in July. On the bright side, industrial production rose 0.2

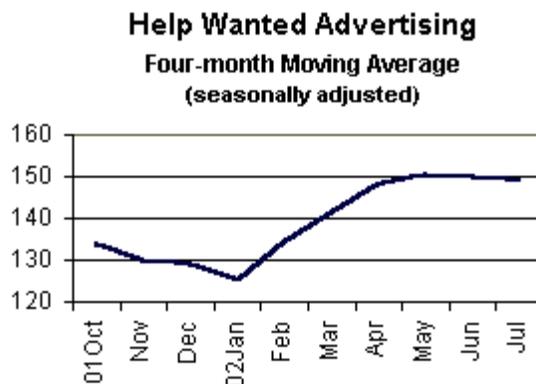
percent in July according to the Commerce Department. This is the seventh consecutive month of improvement for this measure ([www.sfgate.com](http://www.sfgate.com)). Recent performance of the Institute of Supply Management's Index of business activity is less encouraging. This number, plunged nearly six points to 50.5 in July, indicating a slowing rate of growth (a level higher than 50 indicates expansion)([www.nytimes.com](http://www.nytimes.com)).

## Leading Indicators

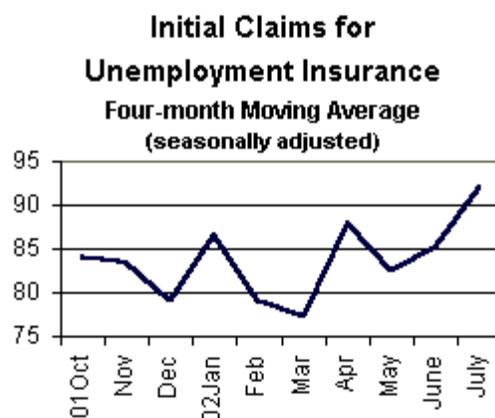
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Times Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued. Our graphs in this section use a four-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.

### Employment-Based Economic Indicators:

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



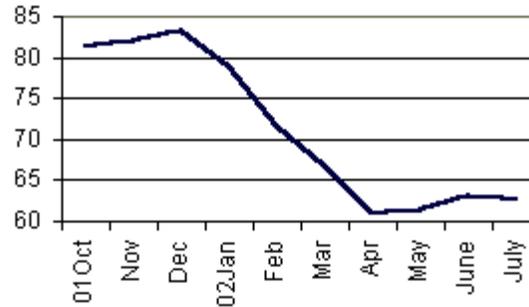
Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the number of new unemployment claims is a negative indicator of economic activity.



### Manufacturing Economic Indicator:

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

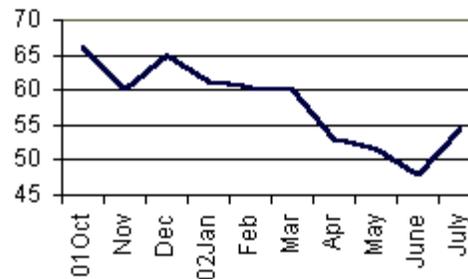
**Manufacturing Orders**  
**Four-month Moving Average**  
 (seasonally adjusted)



**Home Sales Economic Indicator:**

**Building permits are an indicator of both construction activity and the availability of new housing stock.**

**Building Permits**  
**Four-month Moving Average**  
 (seasonally adjusted)



**The Bigger Picture**

**Contrary to the hopes and expectations of many Federal Reserve watchers, the central bank's Federal Open Market Committee left interest rate unchanged at its most recent meeting in mid August. As a result, the federal funds rate remains at a forty-year low of 1.75 percent. In its statement following the meeting, the committee said that "still-robust underlying growth in productivity. . .should be sufficient to foster an improving business climate over time." Despite the vote of confidence in current conditions, further rate cuts in the near future were not ruled out, however. The statement went on to say the committee recognized that "for the foreseeable future. . .the risks are weighted mainly toward conditions that may generate economic weakness" (www.federalreserve.gov).**

**One week after the FOMC meeting, top Federal Reserve officials hit the road promoting an optimistic economic outlook for the near term. At a news conference following a speech given to a Bay Area Chamber of Commerce, the president of the Fed's San Francisco District said "my forecast is that the economy will grow at a pretty respectable rate." He estimated the national economy will be growing at a rate of about 3 percent by the end of the year (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 "August 2002" report reflects data from July 2002. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Eureka Times-Standard website](#)

[The San Francisco Chronicle website](#)

[The New York Times website](#)

[Humboldt County Convention and Visitor Bureau website](#)

[California Association of Realtors website](#)

[National Association of Realtors website](#)

[California State Automobile Association website](#)

[The Conference Board website](#)

[Institute of Supply Management webpage](#)

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

[U.S. Bureau of the Census's Economic Briefing Room webpage](#)

[The Federal Reserve Bank's Beige Book webpage](#)

[Back to Main Index Page](#)

 [Send us your comments](#)

Comments will be posted on our [Reader Comments](#) page unless otherwise requested.

Copyright © 2003 [Erick Eschker](#). All Rights Reserved.

