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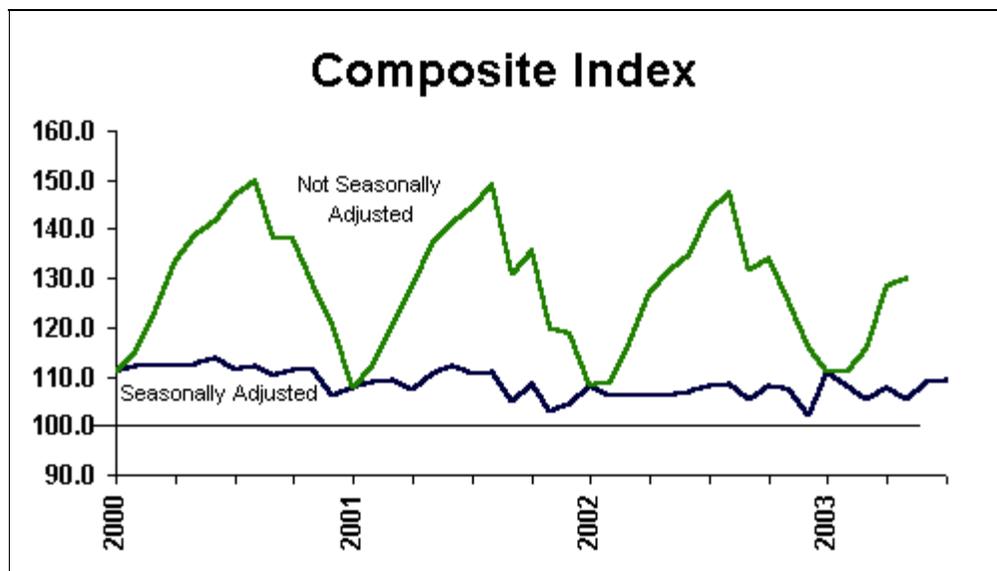
HSU Economics Department

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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August 2003

This month's report is sponsored by [Humboldt Bank](#)



The seasonally adjusted composite index value for July is a preliminary 109.2. This is 0.2 percentage points lower than June's downwardly revised 109.4. In July 2002, the composite index value was 108.3.

Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$215,000	Help Wanted Advertising	-13.5
30 Yr. Mortgage Rate	--	Building Permits	1.2
Average Hotel Occupancy Rate	80.6%	Unemployment Claims	16.4
Unemployment Rate**	6.3%	Manufacturing Orders	-2.4
* 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.			

Sectoral Performance, Index of Economic Activity for Humboldt County							
***		Percent Change From:					
Sector	Seasonally Adjusted Sectoral Index Value (1994=100)	Previous Month	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
Home Sales	128.8	7.4	-2.9	4.7	10.8	1.5	1.4
Retail Sales	135.9	-11.2	-4.6	-3.2	9.9	6.3	11.4
Hospitality	102.7	7.3	3.1	5.3	-2.4	3.8	2.0
Electricity Consumption	116.7	8.4	16.4	-6.2	-13.0	-11.1	--
Total County Employment	103.5	0.8	0.2	0.2	-0.5	-1.9	-1.2
Lumber Manufacturing	83.5	-2.2	-3.0	-7.8	-19.3	-23.6	-28.7

Humboldt County Employment Estimate

Due to technical difficulties the employment estimate will not run this month. Please continue to look for this feature in future issues.

Discussion

Composite Index and Overall Performance

Despite the fact that four of the Index's six seasonally adjusted sectors registered positive growth relative to June's revised numbers, the overall composite index fell slightly to a preliminary 109.2. Lumber-based manufacturing decreased slightly this month from the previous month's unchanged figure, yet the same month of activity for the past five years continues to remain in the red. Retail sales lost the most ground this month from last month's record figure of 153.0, but continues to be a nationally popular topic. While electricity consumption, home sales, and hospitality gained the most ground as total county employment nudged upwards, home sales set numerous records this month as houses are selling faster and at higher prices than realtors expected.

The seasonally adjusted leading indicators are mostly negative this month, with three of the four indicators looking gloomy. New claims for unemployment insurance in July rose this month by 16.4 percent from June's number. On a four-month moving average basis, which is an average of the indicator over the past four months, the seasonally adjusted unemployment claims is still trending negatively as it reached its second highest point. Help-wanted advertising for August decreased 13.5 percent from its July level, as seasonal employment opportunities declined for a second month, although the four-month moving average for help-wanted advertising is leveling off and not yet decreasing. Last month's slight decrease for Manufacturing came down another 2.4 percent this month from last month's decrease of 2.2 percent, as it lost momentum to keep the four-month moving average up for the third time. Building permits was the only leading indicator to move ahead this month, pushing forward at an increase of a mere 1.2 percent. Moving the four-month moving average trend downward again since last December, although building permits tend to be volatile, and it cannot be clearly determined the direction this leading indicator will take. The Humboldt County Employment Estimate estimates the number of jobs to be added in the job market for the next month. However, this feature is not available this month due to technical difficulties.

Home Sales

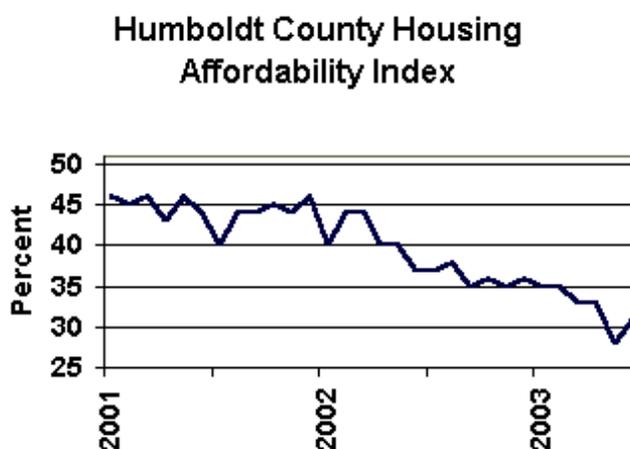
The *Index* value of this sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Seasonally adjusted home sales rose this month by more than 10 points from June's index level, which is a increase of 7.4 percent. As July came to a close, the state and national pace and price set even more records this month than of June.

June's drop in median home price didn't last long as the price bounced back up to another record for the Index to reach an all time high of \$215,000, an increase of 9.4 percent from \$196,500. The current statewide median sale price for existing homes rose once again in July, setting a new record of \$383,320 from June's downwardly revised number. This is an increase of 2.1 percent from last month and is 19.1 percent higher than in July 2002, when it was \$321,900.

July's national median price for existing homes increased 3.2 percent from July's level to stand at \$182,100, and is still 11.9 percent higher than it was in June 2002 (www.realtor.org). Along with the statewide record for median priced homes, this is also a record for the national median price of existing home sales. The similar figure for new homes rose 2.4 percent this month after last month's short lived decreased figure of \$187,000 to come in this month at \$191,500. This is the second highest level recorded in the Index, only to be beat by May's level of \$195,200. This measure is up 9.1 percent when compared to July 2002 (www.census.gov).

The most recent release of the Humboldt Association of Realtors' Housing Affordability Index, which represents the percentage of Humboldt County households that could afford to purchase a median priced home in June, rose three percentage points from the previous month's record low of 28 percent. The Housing Affordability Index now stands at 31 percent, which is a decline of 6 percentage points from in June 2002. The next graph shows the five-year tend:



According to the California Association of Realtors, closed escrow sales of existing, single-family detached homes in California totaled a record seasonally adjusted annualized rate of 595,860. C.A.R. President Toby Bradley attributes this month's increase to "Concerns about rising mortgage interest rates helped propel potential buyers who were on the fence into the housing market last month. As a result, sales in July hit their highest level this year."

Concurring with C.A.R. President Bradley, the National Association of Realtors reports many records as well. David Lereah, chief economist at N.A.R., says that "When mortgage interest rates first began to rise from record lows, it appears some buyers jumped into the market to take advantage of good affordability conditions before interest rates moved even higher." Although he adds "Given the underlying demand for housing from a growing number of households, it's hard to gauge how much 'fence jumping' may have accounted for the sales record."

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a

30-year fixed rate mortgage as of August 28th, was 6.32 percent with an average 0.7 points. Last year at this time, the average rate was 6.22 percent with an average 0.7 points (www.freddiemac.com).

Retail Sales

We use the dollar value of sales in a cross section of local retail stores.

Seasonally adjusted July sales at participating retailers declined 11.2 percent from June's unchanged level, falling for the first time in four months. This sector lost over 17 points this month from last month's record level of 153.0 to stand at 135.9, and is down 4.6 percent from the same month of last year.

The Commerce Department reports that national July retail sales were up 1.4 percent from the previous month's level, and up 5.6 percent from July 2002. The increase was led by strong activity in furniture and home furnishings (up 8.7 percent), building material and garden equipment and supply dealers (up 8.2 percent), and retail trade sales (up 1.4 percent), when compared to June 2002. (www.census.gov).

The Conference Board's Consumer Confidence Index, which dropped in July, rebounded in August. The measure, which now stands at 81.3, is up 4.3 points from the previous month. "The welcome bounce back in confidence this month was entirely due to consumers' increasing optimism about the future," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "Growing optimism about the economy over the next six months echoes the latest gain in The Conference Board's Leading Economic Index. However, continued optimism will depend on positive developments in the labor market."(www.conference-board.org).

According to the San Francisco Chronicle, summer clearances and an improving economy help move retail sales in July above expectations nationwide. Michael Niemira, vice president of Bank of Tokyo-Mitsubishi, said "It was a good month, and it was a month that actually may contain a telling tale for the future. Consumers were motivated to shop in July because of the warmer weather, coupled with tax-rate cuts and overall improvements in the economy." Niemira also said that the retail industry would still have to conquer some difficulties such as getting customers to come into their stores after the summer sales end.

Hospitality

We use average occupancy at a cross section of local hotels, motels and inns as our indicator of economic activity in the hospitality sector.

Average occupancy at the participating hotels, motels and inns increased 26.3 percent in July from the previous month's level as summer continued. The seasonally adjusted index number for the sector increased 7.3 percent to stand at 102.7.

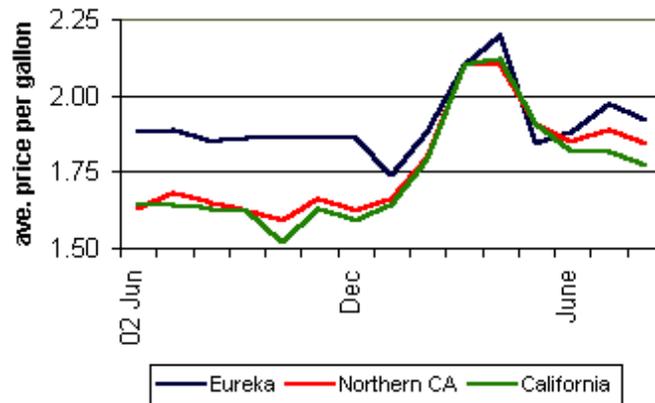
According to the Washington Post, Tom Mack, chairman of Tourmobile Inc. in Washington D.C., says his company has experienced the longest decline in earnings in 35 years. Mack comments on the tourism industry saying, "The economy is a factor, but people are doing fewer things and they're taking fewer trips. When people are laid off or looking for jobs, they realize they can live a long time without sightseeing."

Gasoline Prices:

Average Price* (as of 8/12)		Change From Prev. Month (cents/gal.)
Eureka	\$1.92	-5
Northern CA	\$1.84	-5
California	\$1.77	-5
Current average price per gallon of self-serve regular un-		

leaded gasoline as reported by the American Automobile Association's monthly gas survey (www.caaa.com).

Gasoline Prices



It should be noted that the gas prices have increased significantly since this survey was taken from the American Automobile Association (AAA).

According to CNN Money, Trilby Lundberg, publisher of the Lundberg Survey, which is an assessment of over 7,000 gasoline service stations, almost reached a national all time high with a weighted average of \$1.75. Just short of the \$1.76 record set in March. Lundberg attributes the increases due to temporary refinery shutdowns after the enormous blackout in the Northeast, combined with the break of one of Arizona's major pipelines interrupting supply. Lundberg also says "This latest increase is likely due to continued unrest in Nigeria and Indonesia and delays in getting Iraq to get its oil production up to speed."

Electricity Consumption

We use kilowatts-hours 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 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.

Estimated July consumption of electricity rose a seasonally adjusted 8.4 percent from the previous month.

According to an article in the Toronto Star newspaper, the recent blackout in the Northeast had many government agencies and conservationists concerned about saving electricity and reducing consumer prices, although mistakenly associating high use with waste. Many agencies want to implement higher rates to discourage consumer's use, as well as an inverted rate structure where those who used the most would pay a higher percentage price. Andy Frame, a consultant in the electrical power industry, comments "High use by industrial, commercial and residential customers does not mean electricity is wasted. A punitive rate structure will bring hardships to some residential customers and have a severe impact on industrial and commercial users that depend on electricity, the engine of our economy. It is easy to understand how growth in industry and commerce will lead to more electricity use. For example, a new factory bringing new jobs with new high-tech machinery will need more electricity. When commercial and retail stores expand, they require more space and, therefore, more electricity."

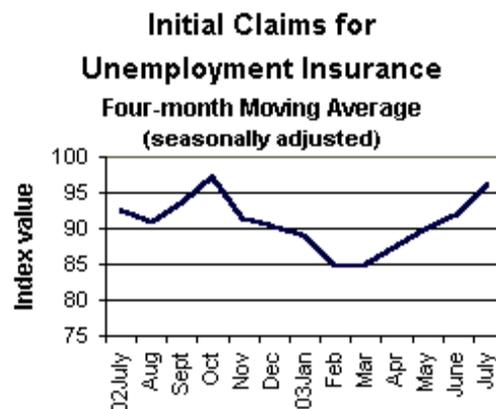
Total County Employment

In the preliminary report for July, the EDD reported that 56,500 people were employed in Humboldt County. This is a 0.1 percent decrease over June's revised figure, indicating a net loss of 200 jobs. However, when seasonally adjusted the index number rose 0.8 percent to stand at 103.5.

Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries had a reduction of 1,300 jobs in July at 41,700. This sector is unchanged from last year's figure, but down 3.0 percent from last month. Approximately 100 jobs were lost in the *Professional and Business Service* and 200 in *Residual-Arts and Entertainment* classifications. As well as 400 jobs were lost in the *State and Government Education* and the *Local Government* experienced a loss of 1,000 jobs. The preliminary figure for the Government sub-sector is down 10.5 percent from last month.
- Total County manufacturing employment came in at a preliminary 3,600. This is an increase in 100 jobs from June's figure. Total manufacturing employment is down 12.1 percent or 500 jobs from July 2002.

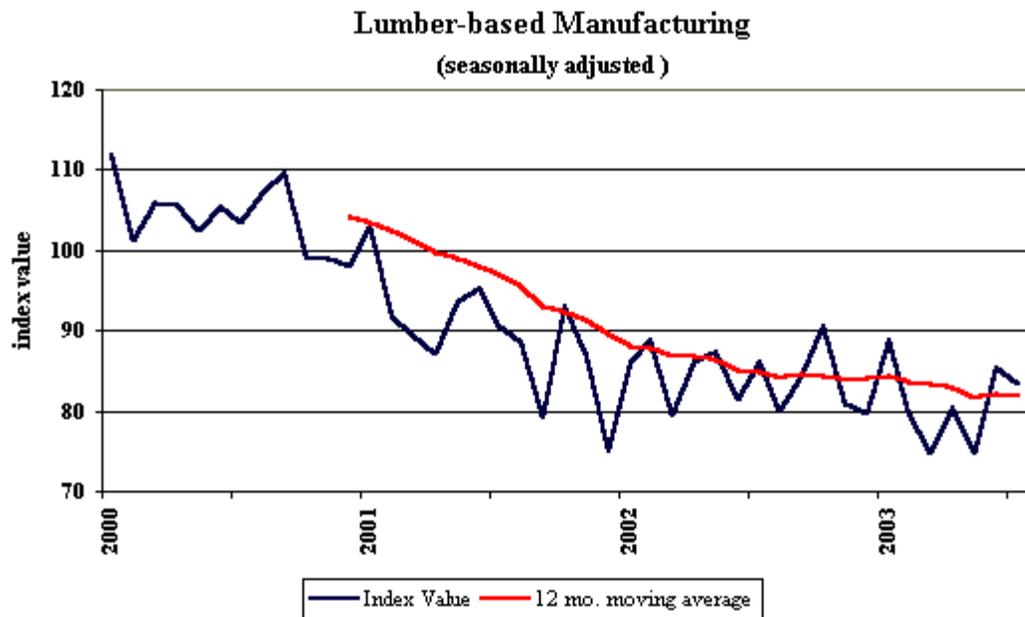
July's unemployment rate for Humboldt County increased one-tenth of a point from June's unchanged figure of 6.2 percent to a preliminary 6.3 percent. Meanwhile, the national rate (not seasonally adjusted) dropped two-tenths of a point to a preliminary 6.3 percent, and the state rate moved upward one-tenth of a percentage point to 6.9 percent from June's upwardly revised figure.



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 60 percent of total county manufacturing employment.

The preliminary July Index value for this sector fell slightly by 2.2 percent from June's unchanged number to 83.5. Although this sector fell slightly from last month's largest recorded month-to-month increase, the four-month moving average only fell a small amount, suggesting that lumber manufacturing is on the turn around.



National manufacturing output in August, as measured by the Institute of Supply Management, grew for the second consecutive month. The current ISM Index level of 54.7 is an increase of 2.9 percentage points when compared to 51.8 in July (a number higher than 50 indicates growth). Norbert J. Ore, C.P.M., chair of the Institute for Supply Management says "The manufacturing sector showed improvement for the second month as the PMI is at its highest level since December of last year. Though two months of growth do not establish a trend, there is strength in the various segments of this report that we have not seen for some time. New Orders and Production have both been above 50 percent for four consecutive months; the continuation of a second half recovery appears on track." (www.ism.ws.cfm).

Leading Indicators

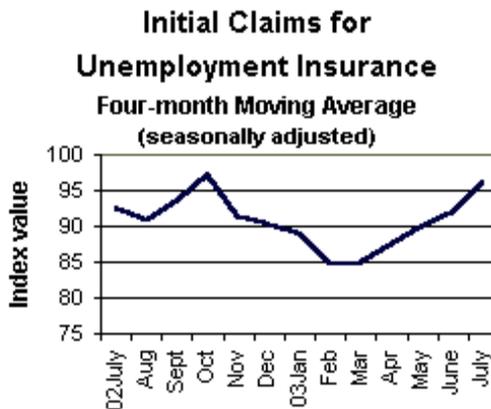
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Eureka Times-Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing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

Employment-Based Economic Indicators:

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



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



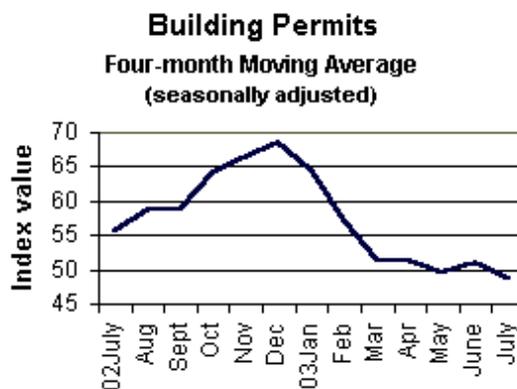
Manufacturing Economic Indicator:

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



Home Sales Economic Indicator:

Building permits:



The Bigger Picture

The gross domestic product (GDP), which measures the total value of the nation's output of goods and services, grew at a seasonally adjusted annual rate of 3.1 percent during the second quarter.

This is a revision from the previous estimate of 2.4 percent, 0.7 percent higher than economists had predicted. The revised pace was led by strong increases in activity for consumer and business spending. Consumer spending was revised to 3.8 percent growth, up from a preliminary 3.3 percent, while business investment on software and equipment increased at its fastest rate in three years to a revised number of 8.3 percent growth rate. David Littmann, chief economist at Comerica Bank comments on the revised figures, "It's really excellent. It's a great platform for the building momentum of the next four quarters. The rise is likely to continue in the coming quarters as a result of massive tax cuts and low interest rates."

Although conditions for economic growth have improved, many economists are still skeptical about a robust economy in the coming quarters due to the fact that business are seeing improvements but still are not hiring. This may contribute to a lack of employment growth, and leaving many people wondering why they still don't have a job. Independent economist Joel Naroff says "Businesses are clearly getting their bottom lines back in shape and that is having a very positive impact on the economy, as can be seen by the improving investment situation. Now, if firms would only translate that into some confidence about the future and start hiring, we would really be off to the races." While Chris Rupkey, senior financial economist at Bank of Tokyo-Mitsubishi says "All the buzz on the economy is that growth is red hot, but we just don't see it in the job market yet. It's not a full-fledged recovery until you put people back to work. We're probably within a month or two before seeing substantial job creation."

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 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](#)

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[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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