skip navigation

The Index of Economic Activity for Humboldt County

Current Issue

Archive

Projects

Sponsors

Links

Home

Readers Comments

Frequently Asked Questions

Acknowledgements and Past Participation

HSU Economics Department

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

Professor Erick Eschker, Director
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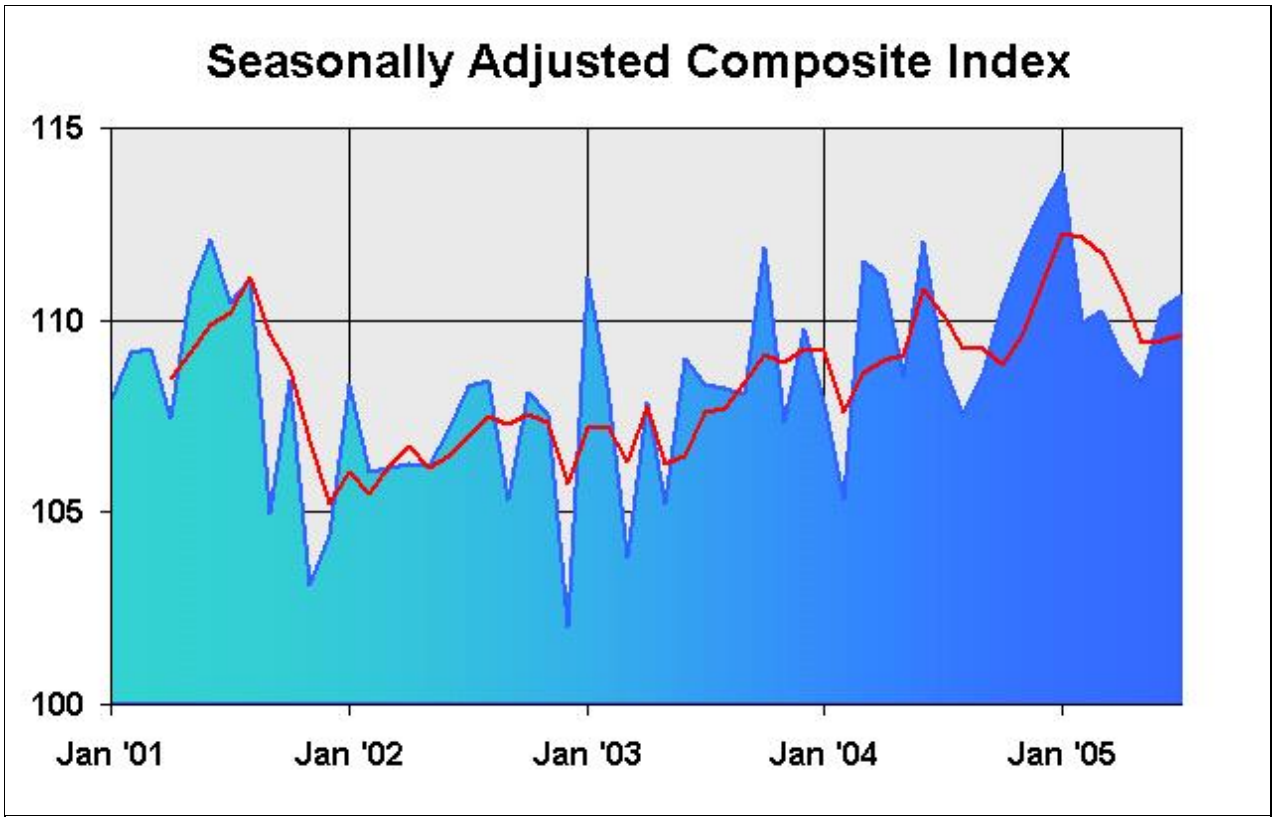
Jump to: Composite | Leading Indicators | Individual Sectors | The Bigger Picture

August 2005



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red trendline shows the 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.

The composite ticked upward slightly in July, continuing the gentle growth trend that began last month. The composite Index rose 0.3 percent and currently stands at 110.7 (100 = January 1994). The Index was pulled down by a decrease in the employment sector while the home sales and electricity consumption sectors showed measured growth. Hospitality, retail sales, and manufacturing grew just slightly this month. Seasonally adjusted home sales in Humboldt County continued to increase, but showed a more modest pace by growing just 3.1 percent to an Index value of 148.8. This represents a 2.4 percent increase from the same point last year. The retail sector showed more moderate growth, increasing 1.1 percent to an Index value of 134.6. The retail sector has struggled consistently since February, although July's value seems to indicate the end of that downward trend. The employment sector dropped 2.4 percent to an Index value of 103.9, though it is still 1.5 percent higher than July of 2004. Manufacturing continued to grow, increasing just 0.3 percent to an Index value of 84.4. Hospitality also showed a slight increase, rising 0.5 percent to 96.7 in July. The hospitality sector experiences a lot of month to month variability, and a change of this magnitude does not represent a significant trend for Humboldt County. Finally, the revised electricity consumption data showed a 5.5 percent increase from last month's revised figure, increasing to an Index value of 123.7.

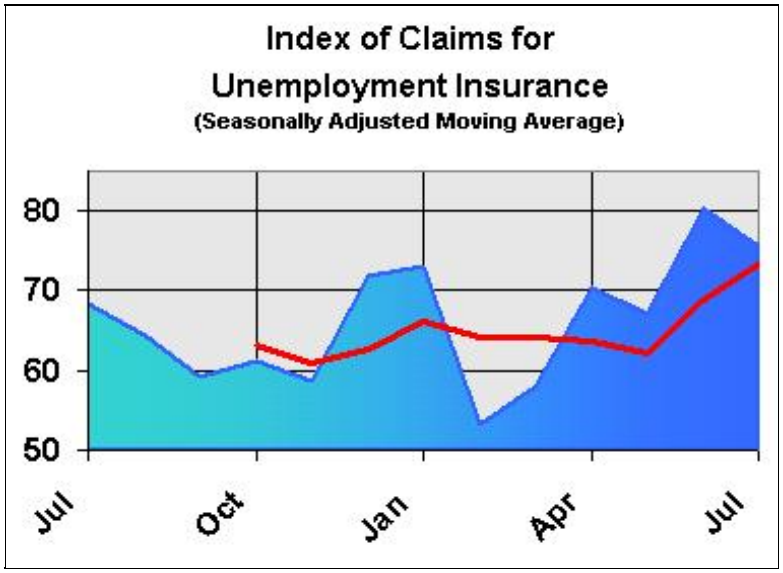
Composite & Sectoral Performance, *Index of Economic Activity for Humboldt County*

* * *		Percent Change From:					
Index	**Seasonally Adjusted Index Value (1994=100)**	**Previous Month**	**Same Month 2004**	**Same Month 2003**	**Same Month 2002**	**Same Month 2001**	**Same Month 2000**
COMPOSITE	**110.7**	**0.3**	**1.7**	**2.2**	**2.2**	**0.2**	**-0.8**
Sector							
Home Sales	**148.8**	**3.1**	**2.4**	**15.5**	**12.1**	**21.0**	**28.0**
Retail Sales	**134.6**	**1.1**	**-3.9**	**-1.6**	**-5.6**	**-4.2**	**8.8**
Hospitality	**96.7**	**0.5**	**-1.7**	**-2.7**	**-2.9**	**-0.9**	**-8.0**
Electricity Consumption	**123.7**	**5.5**	**11.3**	**11.1**	**23.4**	**-0.5**	**-7.8**
Total County Employment	**103.9**	**-2.4**	**1.5**	**0.2**	**0.6**	**0.6**	**-0.6**
Manufacturing	**84.4**	**0.3**	**5.8**	**1.1**	**-1.9**	**-6.7**	**-18.4**

Jump to: Composite | Leading Indicators | Individual Sectors | The Bigger Picture

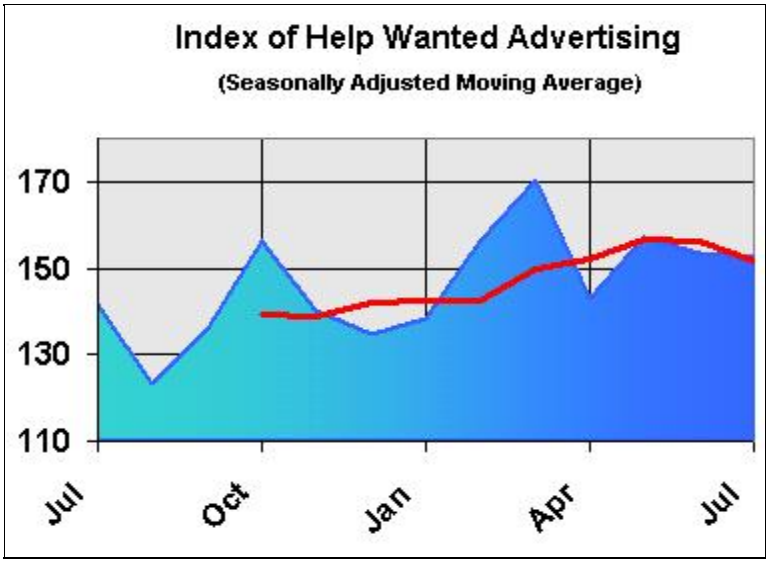
Leading Indicators

The Index tracks 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 (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 "smooth" ordinary month-to-month volatility and reveal underlying trends.



Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The Index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator decreased by 6.0 percent this month, suggesting an increase in economic activity in general and employment in specific in the future. The Index of claims for unemployment insurance now stands at 75.4, 10.6 percent higher than the same period last year. The four month moving average now stands at 73.3, indicating an overall upward trend despite July's contraction.

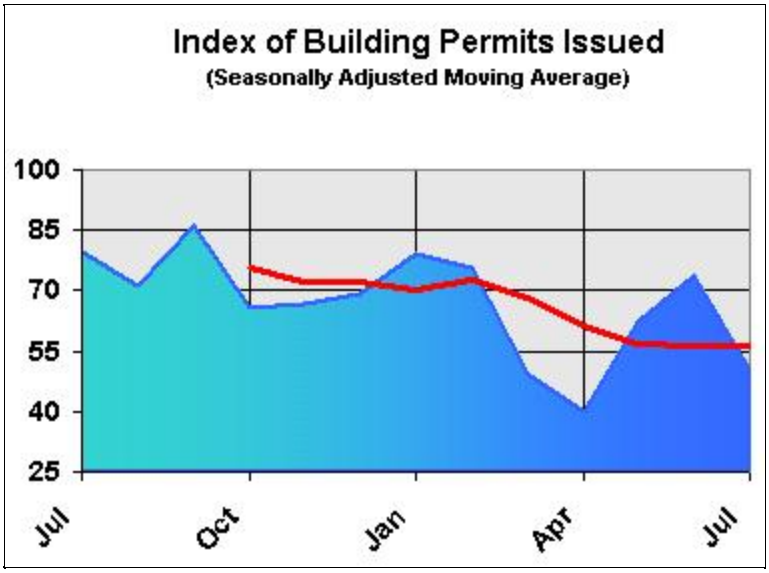


Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The Index of help wanted advertising is an indicator of labor market conditions and job creation. This

Index is based on help wanted advertisements posted in the *Times Standard*. In July the number of help wanted advertisements changed only slightly, decreasing by 0.7 percent an Index value of 152.33. The four month moving average for this indicator remained close to the actual Index, slipping to 151.5 Increases in the help wanted advertising Index imply future growth in county employment

Nationally, the Conference Board's help wanted advertising Index continued the upward trend began last month. Before June the help wanted advertising Index reported stagnation and decline since January. The Index now stands at 39, up one point from 38 in June. Says Ken Goldstein, The Conference Board's Labor Economist: "The labor market indicators turned a little more positive this summer. Print want-ad volume edged up in both June and July. Online volume was 10 percent higher in July than in April. Initial unemployment claims also moved down a little. Job openings were essentially unchanged through June. And the consumer appraisal of how hard it might be to find a new job was essentially at the same level in July as in May. That's a mixed bag on forward indicators but with a little more positive direction in July than two or three months earlier." (conference board.org)

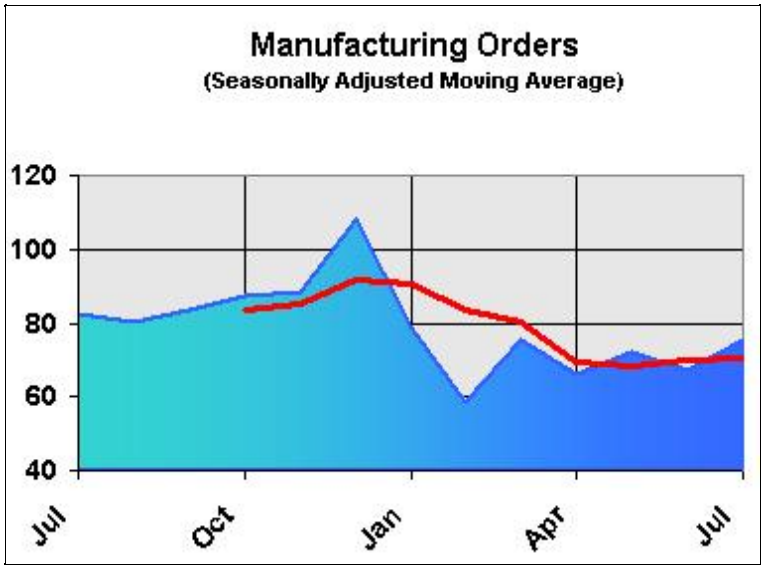


Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The Index of building permits issued gives insight to future home sales and construction. In July the Index of building permits dropped sharply to a value of 50.3. This is a 31.6 percent increase from last month and a 36.9 percent increase from July of 2004. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above the moving average remains fairly steady, balancing this month's contraction with May and June's expansions. The four-month moving average currently stands at 56.5.

Also looking to the future, The National Association of Realtors' (NAR) Pending Home Sales Index declined slightly after reaching historic levels last month. The Index fell 1.0 percent to 125.1, 3.5 percent higher than July of 2004. This is still a historically high level for the Pending Home Sales Index. David Lereah, NAR's chief economist, said the level of the index is more important than minor shifts in direction. "The Pending Home Sales Index is at the fifth highest reading on record, meaning we can expect historically high home sales to continue in the months ahead," he said. "The Index has been fluctuating in a fairly narrow range over the last six months – a very high range – so the overall market is moving forward with a lot of momentum." Existing-home sales in June were at the highest level on record. The pending Home Sales Index is based on pending sale of existing homes, and

NAR began collecting this data in 2001. Because 2001 corresponds with a boom in sales, the Index base of 100 conveys that industry high. (realtor.org)



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The Index of manufacturing orders shows expectations for future manufacturing sales. This leading indicator showed a 12.5 percent increase in July and now stands at 75.5. The represents an 8.2 percent decrease from the same period last year. Because manufacturing orders are subject to dramatic shifts, the four month moving average helps to illustrate the larger trend. The average of the last four months of manufacturing orders now stands at 70.3, up just slightly from last month's average of 70.2.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	$320,000	Unemployment Claims	-6.0
30 Yr. Mortgage Rate as of 6/28	5.875%	Help Wanted	-0.7
Unemployment Rate**	5.7%	Building Permit	-31.6
		Manufacturing Orders	12.5

* 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.

Jump to: Composite | Leading Indicators | Individual Sectors | The Bigger Picture

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.

July saw another measured increase in the home sales sector of the economy. Increasing 3.1 percent from June, July's Index value now stands at 148.8. This represents a 2.4 percent increase from July of 2004 and a 15.5 percent increase from July of 2003. The home sales Index value increased in response to a continued increase in the raw number of homes sold. The median selling price for a home in Humboldt County remained high as well, dropping $13,000 to $320,000. The median selling price does not affect the Index.

Statewide home prices remain strong, though July saw a mild contract to a median selling price of $540,800. This represents a 17.1 percent increase in the median home price for the same period last year, and a 0.4 percent decrease from June's revised median selling price. The state sales Index also grew, increasing 1.3 percent when compared with the same period last year. “Year-to-date sales continue to outpace last year's, but are moderating compared with the levels experienced earlier this year,” said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. “This is in line with our expectation that sales in 2005 will be 1.4 percent ahead of last year’s record pace. Historically, June accounts for the largest share of annual sales and there typically is a month-to-month decline in sales from June to July in the regional and county sales figures, which are not seasonally adjusted." (car.org)

Existing home sales, a measure of the housing market produced by the National Association of Realtors (NAR), reported an increase in selling price in July despite a drop from June’s record setting sales. The seasonally adjusted number of single family homes sold dipped 2.6 percent to 7.16 million this month. This represents a 4.7 percent increase from July of 2004, when the sales level rested at 6.84 million homes. David Lereah, NAR’s chief economist, said home sales remain in historic territory. “The level of existing -home sales in July was the third highest on record,” he said. “This is a big number any way you slice it, and housing is continuing to stimulate the overall economy.” Lereah noted that growth in selling price tend to move geographically. “In examining the hottest markets for home appreciation, we see a rolling boom moving from metro area to another over time, as well as a spillover effect into nearby areas with lower home prices.” The national median selling price of a home reached $218,000 in July, 14.1 percent higher than in July of 2004. (realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of September 1st ticked downward to 5.71 percent with an average 0.6 points. The 30-year fixed mortgage rate averaged 5.77 percent the same time last year. Mortgage rates have been slowly moving down over the last few weeks, following a steady few months. In fact the 30-year mortgage rate –apart from a brief two-week stint in March – has stayed below six percent all year. However recent shocks to the economy may begin affecting the housing market shortly. "Market jitters about high energy costs and the spill over into other sectors of the economy have led to a decline in bond yields, which typically means lower mortgage rates," said Frank Nothaft, vice president and chief economist at Freddie Mac. "And speculation that the Federal Reserve may soon take a break in raising short-term rates reduces upward pressure on long- and short-term interest rates. As if all that wasn't enough, the devastation caused by Hurricane Katrina and the echo effects on future energy prices in the US may mean that mortgage rates will fall even further in the coming days ahead." (freddiemac.com)

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.

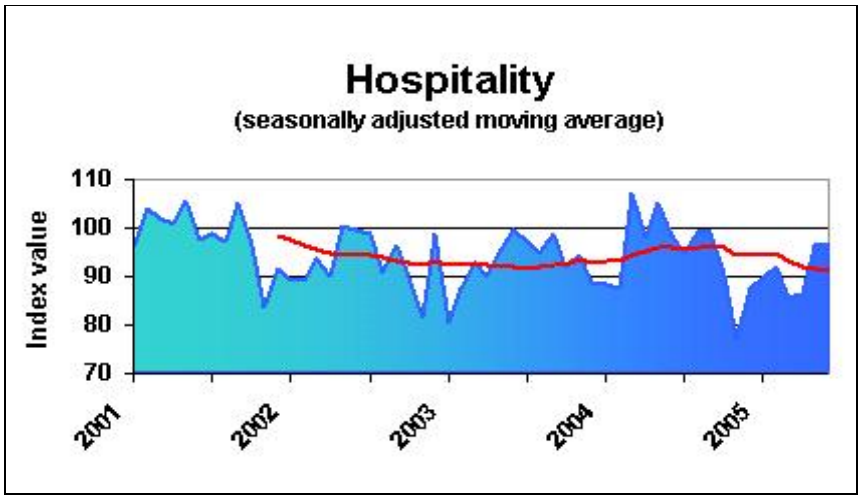
The retail sales sector regained some ground, increasing 1.1 percent to a seasonally adjusted Index value of 134.6 in July. This is a 3.9 percent decrease from the same period last year. Retail sales have been consistently low this year, after reaching a high point in January, when it reached 149.0. July's slight increase is the first growth in the retail sector since April. The four month moving average, which reflects the recent trend of the sector, fell as a result of the last few months and now stands at 134.6.

National retail sales, as reported by U.S. Census Bureau, increased in July. Seasonally adjusted sales were $357.0 billion, up 1.8 percent (±0.7%) from the previous month and up 10.3 percent (±0.8%) from July 2004. Total sales for the May through July 2005 period were up 8.8 percent (±0.5%) from the same period a year ago. (census.gov)

Looking to the future, consumer confidence as measured by The Conference Board bounced back from last July's dip. The consumer confidence Index now stands at 105.6 (1985=100), up from 103.6 last month. "Consumers appear to be weathering the steady rise in gas prices quite well," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "In fact, consumers' confidence in the current state of the economy, and particularly in the labor market, has propelled the Present Situation Index to its highest level in nearly four years (125.4 in September 2001). Expectations continue to suggest more of the same for the remainder of this year." (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.



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

The hospitality sector inched upward in July, increasing just 0.5 percent from June to an Index value of 96.7. This is a 1.7 percent decrease from July of 2004 and a 2.7 percent decrease from July of 2003. The four-month moving average remained nearly constant as well, moving up 0.1 percent to

90.3. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. The twelve-month moving average, indicated by the red trend line, shows that while the hospitality sector fluctuates from month to month beyond seasonal variability, the overall trend is one of consistency. The twelve-month moving average has not dropped below 90.0 or reached above 100.0 in four years.

Gasoline Prices

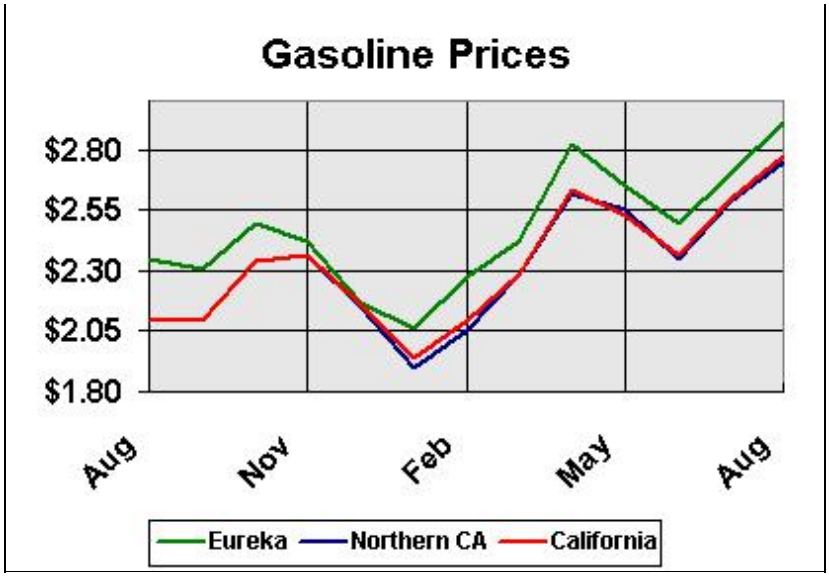
When the California State Automotive Association (CSAA) reported monthly gas prices, record high retail prices had been shattered by an increase in the cost of crude oil. As of August 16, 2005 the average gas price in California stood at $2.77, 18 cents higher than last month and 82 cents higher than at the beginning of the year. At mid-August Eureka had the highest gas price per gallon for regular unleaded gasoline at $2.91. (csaa.com)

Since CSAA's report, the state of retail gasoline has changed dramatically as a result of hurricane Katrina. In the wake of Katrina the refineries on the gulf coast remain closed. Approximately 10 percent of the United States' gasoline refining capabilities are dependant on those closed and in some cases flooded refineries. Across the nation gas has topped $3.00 for a gallon of regular unleaded, and for once Californians paid less for gas than many other states. While the average price in California reached $2.84 on Wednesday according to AAA, the gas tracking web site Gas Price Watch reported a national average of $3.08 and a national high of $3.79 for a gallon of gasoline in West Hampton, New York. The lowest reported price was $2.44 in Gulfport Mississippi.
In response to the constrained gas production, the federal government has temporarily suspended gas-formula reductions. There are 18 different blends of gasoline produced across the nation, included California reformulated gasoline, which is the cleanest burning, and is often cited as one of the reasons Californians pay relatively more than other Americans for a gallon of gas. Because of the very specific gas blend used in California, we refine 90 percent of our own gas, leading some to hope that our gasoline market will be impacted less severely by the hurricane's aftermath. (sfgate.com)

For a local perspective, visit our Special Projects page for Dr. Eschker's 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 8/16)		Change From Prev. Month (cents/gal.)
Eureka	$2.91	21¢
Northern Ca	$2.75	17¢
California	$2.77	18¢

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 value of the electricity Index is 123.7 in July, up 5.5 percent from June's revised figure.

Total County Employment

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

July's preliminary employment and labor force reported 57,300 people employed in Humboldt County. This is a net loss of 1,300 jobs from June's revised number. As you can see from the breakdown below, the vast majority of jobs lost were in the state and local government sector. The total civilian labor force also decreased by 1,300 people to 60,800. After adjusting for seasonal variation, the employment sector's Index value decreased 2.4 percent to 103.9. This represents a 1.5 percent increase from the same period last year. Employment in Humboldt County has followed a downward trend since March.

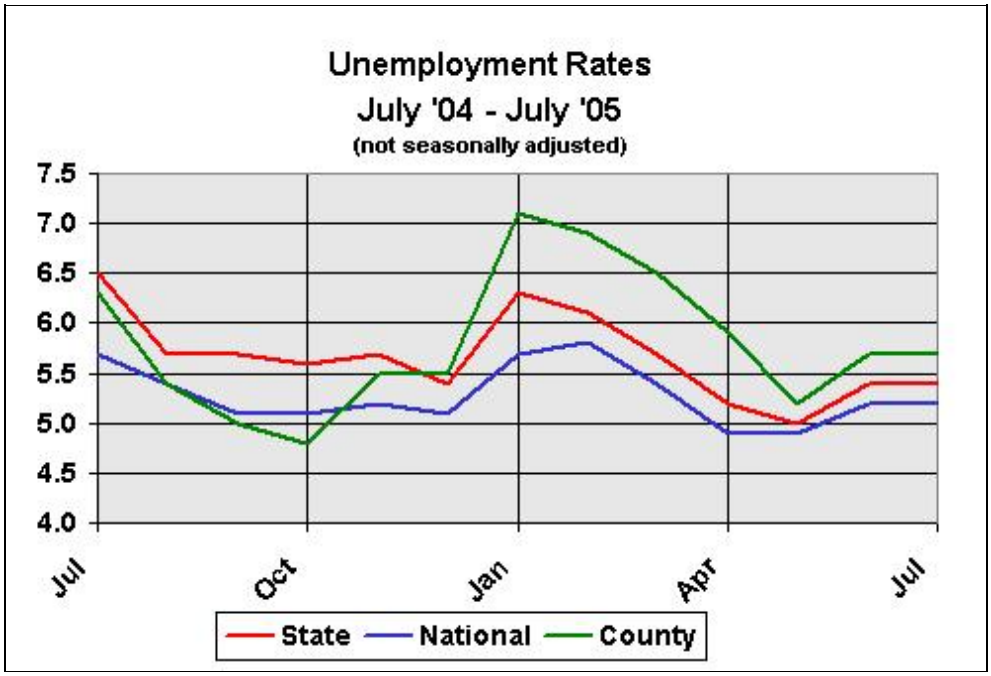
Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net loss of 1,700 jobs in July.
  - Retail Trade gained 100 jobs.
  - Food Service and Drinking Services lost 100 jobs.
  - Education and Health Services lost 100 jobs.
  - Arts, Entertainment and Recreation gained 100 jobs.
  - Local Government lost 1,300 jobs.
  - State Government Education lost 400 jobs.

- Net employment in the manufacturing sector posted a net loss of 100 jobs in July.

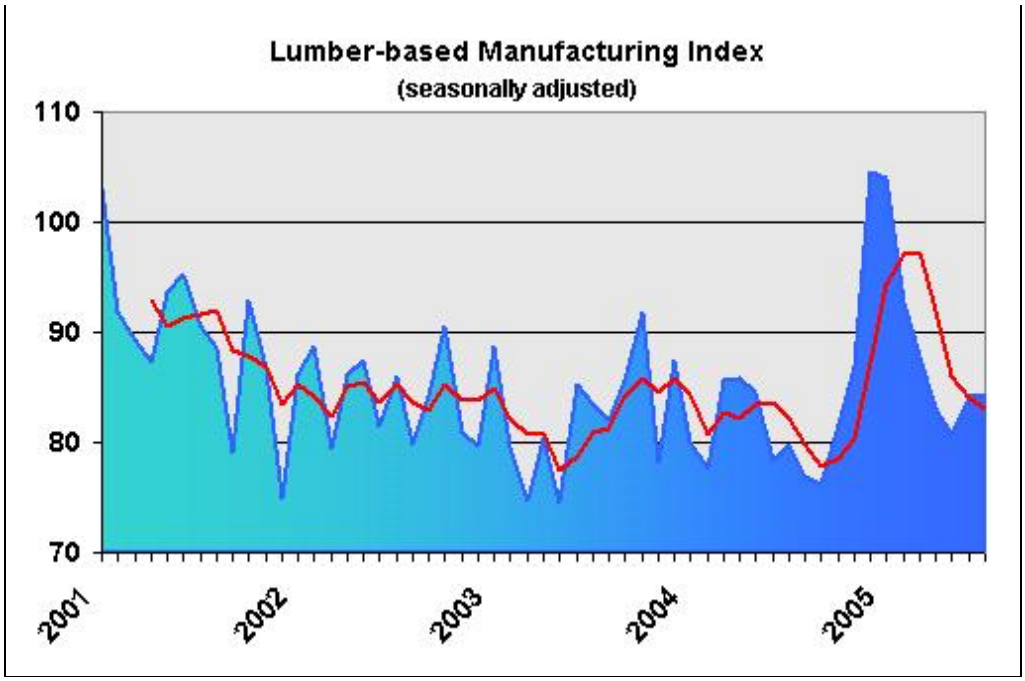
- Wood Product Manufacturing lost 100 jobs.

The revised county unemployment rate remained flat in July stagnating along with the state and national unemployment rates. Humboldt County's unemployment rate remains above California and the United States at 5.7 percent. California's unemployment rate holds at 5.4 percent and the national unemployment rate remains lowest at 5.2 percent.



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.



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.

In July lumber based manufacturing rose just slightly, increasing 0.3 percent to an Index value of 84.4. This represents a 5.8 percent increase over July of 2004's figure. This up tick has actually resulted in a slight drop in the four month moving average, pulled down by May's low Index value. The four month moving average now stands at 83.1

Nationally manufacturing continued to grow in general. According to the Institute of Supply Management (ISM) the manufacturing sector grew for the 27th consecutive month, registering 53.6 percent on September 1st. A number over 50 indicates growth. Though still a strong value, this month's growth is less robust that the growth we saw last month, when ISM reported a value of 56.6 percent. "While not as strong as in July, the PMI still indicates significant economic growth in both manufacturing and the overall economy. Both New Orders and Production continue at relatively strong levels. This month's comments from supply managers indicate great concern over recent new highs in the energy commodities. Many express concerns as to whether current business strength can be sustained if high energy prices persist." said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (ism.ws.cfm)

Twelve industry sectors reported growth in August, including textiles, electronic components and equipment, glass, primary metals, wood and wood products, furniture, and food. Many industry representatives voiced concerns over increasing energy prices and the effect of ever rising interest rates.

Jump to: Composite | Leading Indicators | Individual Sectors | **The Bigger Picture**

The Bigger Picture

By Andrea Walters

No news publication is without coverage of hurricane Katrina, now being considered the largest natural catastrophe since the 1906 San Francisco earthquake and fire. While efforts are made to shuttle refuges to safe, dry places many individuals and organizations move to aid those who lost their homes to the hurricane and ensuing flood in New Orleans. Many numbers have yet to be articulated; the number of lives lost is still a rough estimate, and may never be fully known. The cost to repair the water ravaged communities is also still a broad estimate, but a figure that we will be able to measure very accurately as it grows in the coming weeks and months. The combination of the hurricane and breaks in the levee left much of the city of New Orleans destroyed, including but not limited to the infrastructure that would have allowed aid to funnel more quickly and effectively. Roads, ports, and both traditional and cellular phone systems have all been damaged, making repairing the city far more difficult.

While the Levee was repaired on Monday, September 5th, many homes and businesses remain under water and the city is still considered uninhabitable. Concerns have moved from evacuating and preventing looters to keeping people from going back to their broken homes and delaying the spread of disease. There is also still an effort to evacuate people who have refused to leave their homes. To that effect, the city has begun to refuse to give water to people who refuse to leave. "We have advised people that this city has been destroyed," said Deputy Police Superintendent W.J. Riley. "There is nothing here for them and no reason for them to stay, no food, no jobs, nothing." (sfgate.com)

The final impact of Katrina on our nation's economy remains to be seen, although there have been peripheral effects already. As discussed in the Gasoline Prices section above, Katrina incapacitated refineries all along the Gulf Coast, knocking out ten percent of the United State's refining capabilities. The International Energy Agency (IEA) responded by saying that it will release two million barrels of crude oil, gasoline and other fuels every day for thirty days in an effort to avoid an energy shock. The IEA is an energy watchdog organization made up of 26 different nations including the United States. The U.S. will additionally sell 30 million barrels from its emergency oil stockpile. (wsj.com)

While these additions to our national oil supply will supply much needed relief for all American consumers, it does raise some concern. The reserves drawn upon have been built up over the last twenty years. Today oil production is almost maximized, meeting demand just barely. Because supply is maximized, there is very little flexibility in the face of any increase in demand or, in the case of our current situation, and decrease in supply. Crude oil consumption has increased dramatically in recent years, pushed in no small part by the growth of developing economies like China.

Some argue that increasing fuel prices will not throw national economies into a depression because modern economies are less reliant on fuel for growth. The argument is that innovation, computers, and other high technologies are now the primary force behind economic growth, not fuel. Contrarily, other economists argue that the housing boom we continue to experience has, in effect, fueled our economic growth despite rising fuel costs. As U.S. savings rates remain low, there has been a surge in household borrowing. Because of increasing home sales and selling prices, homeowners have managed to offset increased costs by 'borrowing' against increasing home values. The concern is that, when home sales begin to decline there will be no substantial replacement or equivalent to borrow against. (economist.com)

Regardless of the future of oil production and consumption, the United States economy is headed toward a challenging period. While natural disasters can boost economies by creating a need for additional manufacturing and development to replace damaged infrastructure and capitol, there are concerns that the damage to ports and oil refiners may create more downward pressure on the economy than a surge in construction. The rising gas prices also have the potential to adversely affect consumer confidence and hurt the retail and investment sectors of the economy. Further, a dip in American consumption may result in a dip in other economies dependant on our importation of their goods.

Jump to: Composite | Leading Indicators | Individual Sectors | The Bigger Picture

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.

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Institute of Supply Management

National Association of Realtors

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U.S. Bureau of the Census's Economic Briefing Room

U.S. Bureau of Labor Statistic

The Wall Street Journal

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