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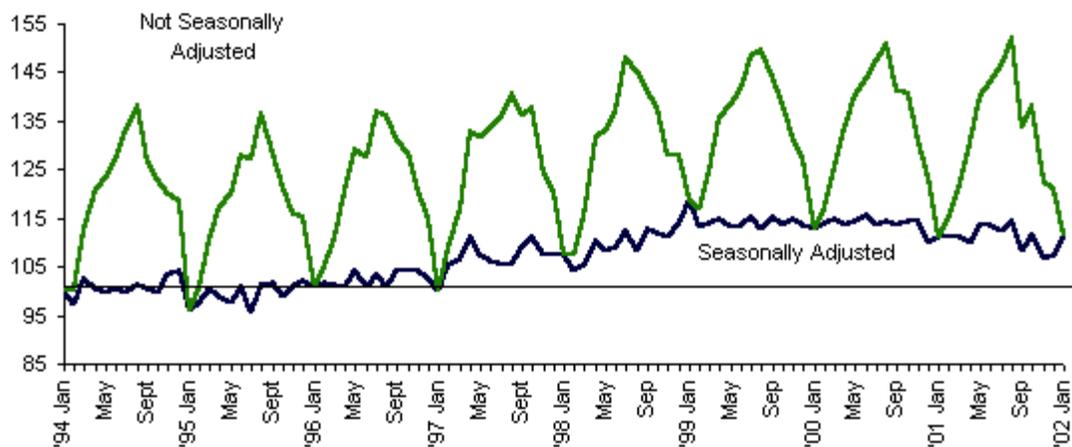
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**February 2002**

**This month's report is sponsored by Six Rivers Bank**

**Composite Index**



Key Statistics		Leading Indicators	
<b>Humboldt County</b>		<i>Seasonally Adjusted</i>	<b>% Change From Previous Month</b>
Median Home Price*	\$158,250	Help Wanted Advertising	-10.7

30 Yr. Mortgage Rate (2/19)	6.875%	Building Permits	+9.6
Average Hotel Occupancy Rate	29.0%	Unemployment Claims	+62.1
Unemployment Rate**	7.5%	Manufacturing Orders	n/a
* Home price data are provided by the Humboldt County Board 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	Sectoral Index Value (1994=100)	Previous Month	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998	Same Month 1997
Home Sales	138.2	+10.5	+16.1	+30.6	+10.6	+62.1	+129.3
Retail Sales	151.8	-4.6	+0.6	-4.1	-5.2	+14.5	+41.3
Hospitality	96.3	+16.4	+3.2	+23.9	+1.0	-8.5	+13.6
Electricity Consumption	119.7	+8.5	+15.3	-6.8	-5.7	--	--
Total County Employment	100.6	+2.2	-3.5	-2.5	-4.7	-2.7	-2.7
Lumber Manufacturing	92.6	+4.4	-15.7	-21.0	-21.1	-13.2	-19.3

## Discussion

### Composite Index and Overall Performance

The Humboldt County economy may be on the road to recovery. The *Index of Economic Activity's* seasonally adjusted composite value, which now stands at 111.6, rose a healthy 3.9 percent in January from December's upwardly revised figure. Nonetheless, several factors discussed below suggest the road may be slow going.

A look at the sectoral performance table shows that home sales continues to be the star of the local economy. Hospitality, which has been struggling in recent months made the largest gain and now compares favorably with years past. Preliminary figures for lumber based manufacturing are positive for the first time in several months, though the timber industry continues to experience structural difficulties all across the country. The *Index* figure for Countywide employment grew in January due to seasonal adjustment, but actual employment fell slightly. Despite the decline in retail sales, which may be due to slowing automobile sales, this sector remains at the highest level relative to where the *Index* began eight years ago. The growth in electricity consumption is at least partly the result of colder weather.

After last month's strongly positive showing, the Leading Indicators currently are mixed. The *Index* value for help wanted advertising is down by over 10 percent. Unemployment insurance claims rose by over 60 percent, though much of this increase can be explained by a change in benefits. Data on manufacturing orders were not available this month. As explained below, this indicator could go either way. Finally, building permits are up by nearly 10 percent.

As the green line in the graph above illustrates, Humboldt County's economy clearly ebbs and flows depending on the time of year. Our seasonal adjustment factors take this into consideration and smooth these fluctuations. The resulting blue Seasonally Adjusted line provides a better indication of underlying economic trends. Each February we fine-tune the model based on the preceding year's activity. Longtime readers of the *Index* will notice that this year's adjustment has resulted in a somewhat flattened Seasonally Adjusted composite index. We feel this updated version more accurately depicts recent economic activity.

Click [here](#) for a brief look back at Humboldt County's economic performance in 2001.

## Home Sales

This sector continues to perform strongly. January's *Index* value rose 10.5 percent from December's level and is now at its highest point since August 2000. It is also up by double digit percentages when compared to same month performance for the past four years and is up by an astounding 129.3 percent over January 1997.

January's median home price increased 13.0 percent to \$158,250 from the previous month's \$140,000. This measure is up 21.7 percent from January 2001. The current statewide median sale price is up 0.2 percent from December's upwardly revised number to \$285,860, while nationally the figure for existing homes rose 2.4 percent to \$151,000 (The California Association of Realtors and the National Association of Realtors). The national median price of new homes climbed 7.8 percent to \$183,400 ([www.census.gov](http://www.census.gov)).

According to the latest data released by the National Association of Realtors, the annualized sales rate of existing homes in January jumped 16.2 percent from December to 6.04 million. This is the highest figure on record, as well as the largest one month increase ever realized. The association's chief economist claims a number of factors beyond low mortgage interest rates are responsible for the record breaking performance. Pent-up demand in the wake of September 11th, signs of a nascent economic recovery that are bolstering potential buyers's confidence and unusually mild weather across the country have all contributed to the increased activity. Analysts expect this trend to continue into the spring. There are enough existing homes presently on the market to last 3 to 4 months at the current sales pace. Data on new home sales dampens this optimism somewhat. This measure plummeted 14.8 percent in January from the previous month. The current annualized figure of 823,000 units is 12.2 percent lower than it was in January 2001. The inventory of available new homes will last over four months at this pace ([www.census.gov](http://www.census.gov)).

While the above information is generally good news for the economy, housing affordability remains an issue of concern. According to the National Association of Realtors's First-time Homebuyer Affordability Index (for the fourth quarter of 2001) a typical first-time buyer, 25 to 44 years old, had just 85.2 percent of the income needed to buy a median priced starter home (\$125,800) with a 10 percent down payment. With annual earnings of \$36,720, the median income for this age group, a buyer could afford a home priced at \$107,200. In California the situation is worse. According to research conducted by the California Association of Realtors, only about 30 percent of California households can afford to buy a median priced home, compared to around 60 percent nationally. Furthermore, the portion of total home sales comprised of first-time buyers has been on a downward trend since 1995. About 35 percent of the homes sold statewide in 2001 went to first-time buyers. The state Department of Housing and Community Development recently awarded \$50 million in grants to cities, which may help ameliorate the situation. Arcata will use much of its \$750,000 grant on a first-time buyer assistance program ([www.times-standard.com](http://www.times-standard.com)).

A report issued by Congress's Bipartisan Joint Committee on Taxation illustrates one of the major advantages of home ownership. Homeowners will split a total \$101.9 billion in federal tax deductions in fiscal year 2002. The savings roughly break down as follows: \$66.5 billion in mortgage interest deductions, \$21.4 billion in local property tax write-offs, and \$14 billion in tax-free home sale profits. Renters receive nothing. For those who care about growing wealth disparity, it's interesting to note that 62.7 percent of the mortgage interest subsidies go to homeowners earning more than \$100,000 per year. Homeowners with annual incomes between \$75,000 and \$100,000 will get 18.9 percent of the savings. Deductions by those who earn between \$50,000 and \$75,000 account for 12.2 percent of the total, while homeowners who make less than \$50,000 per year will get around 6

percent of the total ([www.mercurycenter.com](http://www.mercurycenter.com)).

## Retail Sales

The *Index* value for the local retail sector dropped 4.4 percent in January from the prior month's revised figure. Because of our seasonal adjustment, this decline is probably not a result of post holiday retrenchment. Typically, the January *Index* value is several points higher than the previous December's. As was the case nationally, the local drop may be due to lower auto sales.

Nationally, retail sales fell by 0.2 percent in January. According to the U.S. Commerce Department, the decrease is entirely due a decline in auto sales. The sector rose a healthy 1.2 percent when vehicles sales are excluded. Economists are generally cautious about the prospects of consumer's spending their way into prosperity. They claim that since consumer spending never dropped off in the sustained way that usually occurs during a recession, it can't grow at a rate high enough to vigorously propel a recovery. As such, the recovery that is likely under way will probably be lackluster, and many analysts fear another downturn sometime in 2003 ([www.sfgate.com](http://www.sfgate.com)). The latest release of the Conference Board's Consumer Confidence Index supports this view. The February's measure fell 3.8 percent from the prior month. Persistent weaknes in the nation's labor markets was cited as the chief cause for the decline ([www.nytimes.com](http://www.nytimes.com)).

## Hospitality

We use occupancy rates at participating county hotels, motels, and inns as the indicator of this sector's performance. The hospitality sector recovered the huge loss last month with a 16.4 percent gain in January. This month's average occupancy rate compares favorably with the *Index*'s lifetime January average of 27.5 percent.

Recently released transient occupancy tax data confirm that the events of September 11th had a definite negative impact on Humboldt County's tourist industry. Inflation adjusted collections for July-September 2001 were 2.0 percent higher than in the same period of 2000, while October-December 2001 collections were 5.1 percent lower than in 2000. Thanks to Don Leonard of the Humboldt County Convention & Visitor Bureau for compiling this information.

## Gasoline Prices

Humboldt County gas prices are on the rise once again. The average price (as of 2/20) of a gallon of self-serve regular unleaded rose 5 cents to \$1.55 since last month ([www.times-standard.com](http://www.times-standard.com)). According to the California State Automobile Association, this is 27 cents more than the Northern California average price and 26 cents higher than the statewide average. The national average fell 1 cent to \$1.12 per gallon since last month's survey ([www.csaa.com](http://www.csaa.com)).

Many local drivers are pinning their hopes on Costco's plan to retail gasoline within the next couple of months. According to an article in the Times-Standard, gas sales by the giant discounter in other areas have resulted in falling prices as competitors react to Costco's lower price ([www.times-standard.com](http://www.times-standard.com)). Economic analysis of this situation points to a couple of likely outcomes. Costco has indicated that it wants to earn a profit on fuel sales and it faces the same transportation constraints as other suppliers. If the profit margins of the two major local gasoline distributors are reasonable, then Costco won't have much room for lowering their price. In this event, Costco's price will probably be the same 2 to 3 cents lower that other discount stations offer. Obviously, this would not lead to any great changes in the market. If, however, the dominant suppliers's profit margins are significantly higher than the industry norm, Costco may be able to sell its gas at a significantly lower price and still make money. In this case, we predict Costco's price would be 7 to 8 cents cheaper than the current average, and other participants in the market would have to lower their prices in response or lose market share. Click [here](#) for a brief description of the local gasoline market's structure.

## Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Because we collect our data for this sector quarterly, the *Index* values for the first two months of each quarter are estimated. Revised data for the first quarter will be provided in our April report.

The preliminary figure for January came in 8.5 percent higher than December's revised number. The rise is more likely due to a period of colder weather during the month rather than to increased economic activity.

A federal bankruptcy court judge rejected a plan by Pacific Gas & Electric Co. to transfer several of its power plants, hydroelectric facilities and transmission networks to its unregulated parent company. Lawyers for the utility had argued that the move, which conflicted with several state laws, would allow the company to charge market rates for its electricity. PG&E claims this would increase its value and allow it to borrow enough money to pay creditors. The state Public Utilities Commission, consumer advocates, environmentalists and several federal agencies opposed the plan. Among their concerns are higher retail electricity prices in the long term and potential degradation to the tens of thousands of acres of pristine land the company holds as part of its hydroelectric operations. PG&E is appealing the decision. It also announced that it is revising the plan to meet the judge's standards as a contingency should the appeal fail.

Meanwhile, the PUC presented a counter-proposal to the court. The state agency claims the utility can meet its obligations to creditors through a combination of actions. Under this plan, PG&E would relinquish its growing cash reserve (\$4.9 billion as of last November), shareholders would forgo dividends for the next two years and electricity rates would be frozen at the current level until sometime next year. In criticizing the plan, PG&E's chief financial officer claimed the proposal would reduce the company's credit rating to junk bond status for some time to come ([www.sfgate.com](http://www.sfgate.com)).

#### The Good News

The price of natural gas continues to decline. A typical local residential consumer will pay around \$41 for the gas portion on their February bill. This is over 14 percent less than in January and around 64 percent lower than in February 2001 ([www.times-standard.com](http://www.times-standard.com)).

The Federal Energy Regulatory Commission recently announced it would formally investigate whether Enron Corp. manipulated energy markets in California last winter. If the agency finds that the company exerted illegal influence, the state may be allowed to renegotiate the high priced energy contracts it signed on behalf of financially strapped public utilities. California's two senators are also demanding that electricity generators refund the state \$8.9 billion in alleged overcharges ([www.sfgate.com](http://www.sfgate.com)).

## Total County Employment

In their preliminary report for January, the Employment Development Department (EDD) reported that 53,800 people were employed in Humboldt County, down 900 jobs, or 1.6 percent from December's revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries decreased 1.9 percent from a revised 42,400 in the month of December to a preliminary 41,600 for the month of January. This sector is up 1.0 percent over last year's figure. The largest losses were in the Hotels and Other Lodging and the General Merchandise classifications. The roughly 100 jobs lost in each of these industries registered as 12.5 percent and 10.0 percent declines, respectively. The preliminary figure for the retail subsector in January shows 10,600 jobs, down a substantial 4.5 percent from December's revised 11,100.
- Total county manufacturing employment decreased by 4.3 percent from last month's revised figure. The Nondurable Goods subsector accounted for most of this change with some 200 jobs lost. The Sawmills classification lost another 100 jobs, while Logging added 100 positions. The number of people currently employed in manufacturing stands at approximately 4,400. Total manufacturing employment is down 15.4 percent from January 2001.

These losses are reflected in a county unemployment rate that took a dramatic leap in January. The measure rose to a preliminary 7.5 percent from December's upwardly revised 6.3 percent. Humboldt County's labor force continued to shrink, though the rate of people leaving the local labor market slowed in January. Civilian employment fell by just 0.5 percent. This means that the increase in the unemployment rate is probably not an accounting anomaly, as it may have been in recent months, but a true indication of deteriorating conditions. Though it's little solace to those who have lost their jobs, rising unemployment is not uncommon as an economy emerges from a recession because labor market conditions tend to lag more general economic conditions. As a result, many economists don't expect significant improvements in the labor situation until after midyear.

The national jobless rate fell by an unexpected 0.2 percentage points in January, erasing the rise experienced in December. Analysts are wary of expressing too much optimism over the news, however. They claim that post-holiday fluctuations can skew the overall outlook ([www.nytimes.com](http://www.nytimes.com)).

The statewide rate jumped nearly a full percentage point from last month's revised figure and now stands at 6.7 percent. Continuing weakness in the Bay Area's technology industry is responsible for a large portion of the increase. The once red-hot labor markets in San Francisco and Santa Clara Counties have chilled considerably, resulting in current unemployment rates of 7.0 percent and 7.5 percent, respectively. ([www.sfgate.com](http://www.sfgate.com)).

Nationally, approximately 89,000 net jobs were lost in January. While this remains sizeable number, it compares very favorably to the nearly one million positions shed during the last three months of 2001. It shouldn't surprise anyone that manufacturing once again led the losses with 89,000 layoffs. This sector has now suffered eighteen consecutive months of decline. Construction lost an additional 54,000 jobs due primarily to poor weather. The largest improvement came in the retail sector, which added some 69,000 seasonally adjusted positions. Finance, insurance and real estate added a total of 9,000 jobs to service the consistently strong home sales market ([www.nytimes.com](http://www.nytimes.com)).

Weak conditions affect more than those who have lost their jobs. Rising unemployment often leads to downward pressure on wages. Additionally, when employees see their colleagues being laid off, they often feel obliged to produce more. According to the World Tourism Organization, Americans have the fewest paid vacation days of any industrialized nation--an average of just 13 per year--yet an insurance company study indicates as many as 1 in 6 workers feel they are too busy to use all the days they've earned. Having the highest worker productivity in the world has some obvious economic advantages, but the resulting stress often felt by individuals can have serious health ramifications. A number of studies have established a clear link between job stress and heart disease and depression. Two different studies have found that regular vacations reduce the risk death in men aged 35 to 57 by 20 percent, and in women aged 45 to 64 by 50 percent ([www.sfgate.com](http://www.sfgate.com)).

## 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 *Index* value for this sector an encouraging 4.4 percent in January Unfortunately, it is down by double-digit percentages in all of the year-over-year comparisons for the fourth straight month. One local industry source claims that, based on planned shipments, the market is beginning to show signs of strength. Recent data on new construction starts corroborates this view. Since there is a lot of capacity locally for Douglas Fir--a prime construction material--there's a good chance local mills will increase production in the near future to meet the demand.

As of February 20th, the proposed sale of Eel River Sawmills remains on hold as the buyer seeks to finalize financial arrangements. Eel River's last operating mill was shut down earlier this month and an additional 100 workers were temporarily laid off.

When will it end?

National manufacturing activity fell for the eighteenth consecutive month in January based on the Institute of Supply Management (formerly known as the National Association of Purchasing Management) Index. Analysts are growing more optimistic though because the measure now stands at 49.9. A level of 50 indicates positive growth ([www.nytimes.com](http://www.nytimes.com)). Meanwhile, industrial production shrank by a scant 0.1 percent for the month. Factory output has declined in fifteen of the last sixteen months and production lines are now operating at a 5 percent slower rate than in January 2001 ([www.dismal.com](http://www.dismal.com)). The measure is also at its lowest level in 40 years ([www.sfgate.com](http://www.sfgate.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. owest

### Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. January's *Index* figure fell 10.7 percent from the previous month. The measure is also down in all of the year-over-year comparisons: 21.6 percent from 2001, 16.7 percent from 2000, 3.2 percent from 1999, 9.0 percent from 1998, and 4.5 percent from 1997.

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. The expected surge in new claims--due to increased benefits--did take place in January. This measure soared 62.1 percent from December. It is also more than 30 percent higher than it was in January 2001, 2000 and 1999. The current figure is also higher than the January levels from 1998 and 1997 by 7.2 percent and 5.0 percent, respectively.

### Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, were not available by our deadline this month. Anecdotal evidence suggests this measure could go either way. On the one hand, the local lumber producers have been feeling the negative effects of this industry's structural decline. On the other hand, construction of new homes and apartments in January was at its highest level in nearly two years ([www.sfgate.com](http://www.sfgate.com)). Obviously, new construction activity increases demand for building materials like lumber. This series will be updated next month.

### Home Sales Economic Indicator:

The building permits indicator rose a solid 9.6 percent in January from the previous month. This volatile sector is also up by double digits in most of the year-over-year comparisons: 37.5 percent from January 2001, a whopping 120.0 percent from 2000, 6.5 percent from 1999, 73.7 percent from 1998, and 43.5 percent from 1997.

## The Bigger Picture

There are several positive factors this month that many economists claim indicate the recession is either already behind us or soon will be. The latest revision of 2001's fourth quarter Gross Domestic Product shows that the economy grew by 1.4 percent, up from an initial estimate of only 0.2 percent. December's trade deficit fell by \$3.2 billion from the previous month. Industrial production in January, registered its smallest drop in months. Finally, consumers continue to spend, the housing sector continues its strong performance and inflation is thought to be well under control. However, there are also a few indications that the recovery will be less than spectacular.

The Federal Reserve Chairman Alan Greenspan echoed these sentiments in his semiannual economic forecast to Congress. Greenspan characterized the recession as one of the mildest in U.S. history. He claimed that

improved computer technology that provides firms and individuals with real time information, allowing them to react quickly to changing conditions, is largely responsible for mitigating the effects of the downturn. Greenspan cautioned that the recovery will probably be moderate, though. He explained that because consumer spending stayed relatively strong in 2001, there is little reason to expect a large increase in activity in 2002. Consequently he expects the national economy to grow by between 2.5 percent to 3 percent over this year. This represents only about half the pace of the typical rebound from recession (www.sfgate.com and www.nytimes.com).

Other conditions that may limit the recovery include the impact of unemployment and the current budget difficulties cropping up in state and local governments. Since the unemployment rate is a lagging indicator of economic activity, the upward trend in this measure will continue well into 2002. Economists have projected that the national rate will top out at around 6.5 percent. This will not only affect the level of spending of those who lose their jobs, but could also decrease the amount of money being spent by the people around them who continue to work but feel less secure. Rising unemployment can also lead to falling revenue for state and local governments. As a result, these entities will have to cut spending, lay off more workers and perhaps raise taxes. All of these actions can further depress the economy (www.nytimes.com). A recent study done by the Dismal Scientist shows that 24 states (including the entire West Coast) are currently in recession, with another 19 near recession. Furthermore, 36 of these states are projected to experience zero or negative economic growth in 2002. One possible outcome of all this is what economists call a double-dip recession, in which an economy coming out of an economic trough goes through a brief period of improved conditions before dropping into recession once again.

**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 "February 2002" report reflects data from January 2002. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Eureka Times-Standard webpage](#)

[The Northcoast Journal webpage](#)

[The San Francisco Chronicle webpage](#)

[The San Jose Mercury News webpage](#)

[The New York Times webpage](#)

[Humboldt County Convention & Visitor Bureau webpage](#)

[California Association of Realtors webpage](#)

[National Association of Realtors webpage](#)

[The Dismal Scientist webpage](#)

[U.S. Bureau of the Census webpage](#)

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