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## The Index of Economic Activity for Humboldt County

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# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

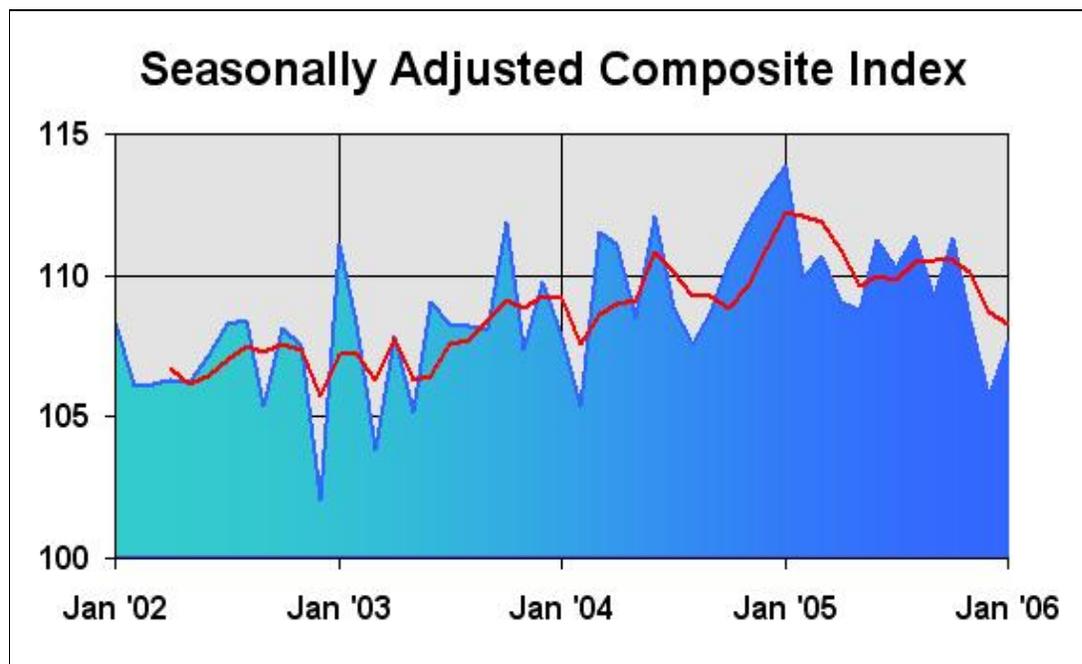
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February 2006



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

## Composite Index and Overall Performance

The *Index of Economic Activity for Humboldt County* measures changes in the local

economy using data from local businesses and organizations. The data are compiled into a seasonally adjusted *Index* that shows changes relative to the base month (January 1994). The composite *Index* is a weighted combination of six individual sectors of the local economy. The current *Index* is based on the most recently available data, which is generally data from the previous month.

In January, the Composite Index of Economic Activity in Humboldt County gained 1.8 percent to an Index value 107.6 (100 = January 1994). Most sectors were down this month, but the Composite Index was pulled up by sharp increases in Home Sales and Manufacturing, two sectors which have been otherwise trending downward of late. Manufacturing posted a spike of 16.1 percent in January, after consecutive and dramatic declines in recent months. Home Sales, which have also posted consecutive and sharp declines in recent months, spiked 30.5 percent. The considerable decline in the Help Wanted Advertising Index also bears watching. Although leading indicators of employment have looked rather strong of late, if this decline is sustained it will bode poorly for the job outlook in Humboldt County in coming months.

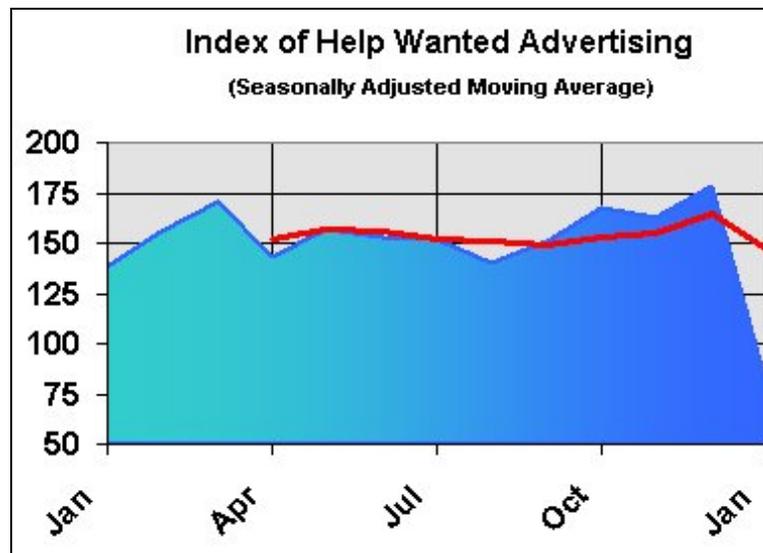
<b>Composite &amp; Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i></b>							
***		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2005	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001
<b>COMPOSITE</b>	107.6	1.8	-0.7	-0.2	-3.2	-0.6	-0.3
<i>Sector</i>							
Home Sales	119.2	30.5	-12.9	-11.4	-14.7	-13.8	0.0
Retail Sales	135.6	-1.5	-9.0	0.7	-3.8	-2.6	1.8
Hospitality	91.7	-1.4	4.5	3.3	-7.2	0.3	-1.8
Electricity Consumption	148.4	0.0	15.9	26.7	27.2	30.5	43.0
Total County Employment	101.0	-1.7	-3.3	-4.2	-3.1	-1.4	-3.1
Manufacturing	65.6	16.1	-37.0	-17.9	-26.1	-23.8	-36.4

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## Leading Indicators

The Index tracks three leading indicators to get a sense of the direction that the county economy may take in the near future. The three leading indicators are (1)

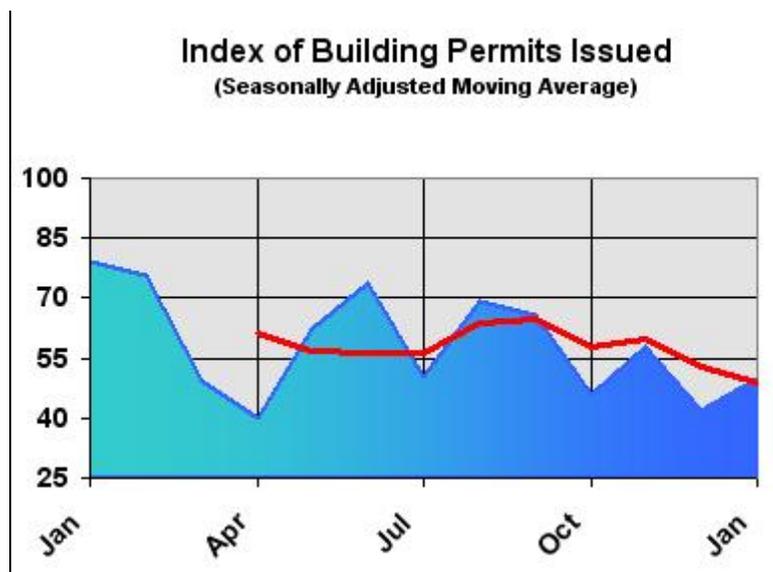
help wanted advertising, (2) building permits, and (3) manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.



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

The Index of help wanted advertising is an indicator of labor market conditions and job creation. It may suggest future trends in the Humboldt County labor market. This Index is based on help wanted advertisements posted in the *Eureka Times Standard*. In January, the Index fell dramatically by a whopping 54.9 percent to an Index value of 80.7. This is the lowest value in the history of our data series, going back to 1994. The Index has been in the double digits only four times before, and has never before been lower than 90.

National help wanted advertising slipped a point this month according to the Conference Board from its previously sustained level of 38. Their Index of help wanted advertising now stands at 37. This is five points lower than the same month a year ago. Ken Goldstein, labor economist at the Conference Board expects that the economy as a whole may be accelerating, but that the labor market indicators may not be reflecting that. He notes that the US economy added new 195,000 jobs in January. ([conference-board.org](http://conference-board.org))



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

The Index of building permits issued gives insight into future home sales and construction. In January the Index of building permits rose 18.8 percent, but this increase does not recover all of December's decline of 26.9 percent. The Index continues to have the appearance of a downward trend over the last several months. This is consistent with a continued slowing in the housing market.

Nationally, the Pending Home Sales Index as reported by the National Associations of Realtors (NAR) continued its contraction, dipping 1.1 percent to an Index value of 116.3 from an upwardly revised level of 117.6 in December. This is 4.8 percent down on the year. Pending sales have been declining steadily at the national level since last August when the Index was at 129.2. From August through the end of the year, declines in national pending sales averaged about 3 percent per month. The January decline of 1.1 percent may signal a leveling off of this year-end slide. The NAR expects pending home sales to pick up in the months ahead. ([realtor.org](http://realtor.org))



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

The Index of manufacturing orders shows expectations for future manufacturing sales. This leading indicator fell again sharply by 15.7 percent in January and now stands at 62.5. This dramatic decline together with that of December have eclipsed the unprecedented increases of October and November. The Index has now returned to more normal levels.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$319,900	Unemployment Claims	-
30 Yr. Mortgage Rate	--	Help Wanted	-54.9
Unemployment Rate**	6.3%	Building Permit	18.8
		Manufacturing Orders	-15.7
<p>* Home price data are provided by the Humboldt Association of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does not verify such information provided and disclaims any responsibility for its accuracy. Each Participant agrees to hold the Service harmless against any liability arising from any inaccuracy or inadequacy of the information.</p>			
<p>** Preliminary EDD data (not seasonally adjusted). See the <a href="#">EDD Website</a> for updates.</p>			

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# Individual Sectors

## Home Sales

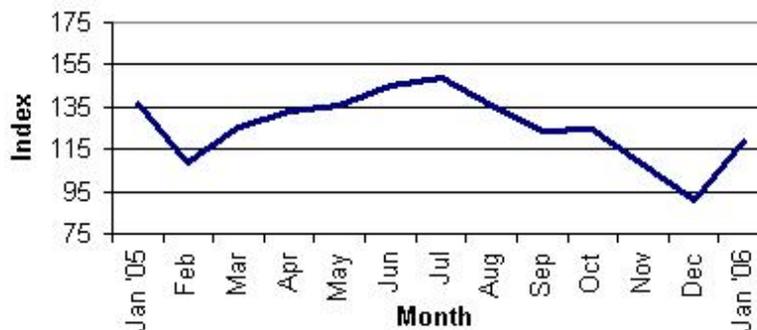
The Index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

In January, the Index of Home sales jumped up to 119.2 from the previous level of 91.3. This is an increase of 30.5 percent. This nearly recovered the entire loss incurred in the last two months of 2005. This timely increase, together with a similar increase in the manufacturing Index for the month held the composite Index in the black. Real estate was the single most significant factor lifting the composite Index in January. The current level of 119.2 is not historically high, but neither is it a record-breaking low in the way December was. The median price of a home sold in January was \$319,900, down from the previous month's median selling price of \$339,000. The median selling price is not adjusted for inflation and does not affect the Index.

Affordability continues to be a major concern for California and Humboldt County. For the first time since 1998, more people migrated out of California than moved into California, according to the California Department of Finance. Howard Roth, chief economist with the department, said California's housing costs discourage people from other states from moving here. Roth said "houses were already unaffordable, but they've become more so in the last two years. It's discouraging people from taking job offers in California." The National Association of Home Builders reports that 9 out of the top 10 least affordable areas to live in were in California. The Humboldt Association of Realtors (HAR) calculates that Eureka's affordability was only 11% in December, down from 12% in November and down from 22% in December 2004.

There is potential good news for future home buyers as evidence from around the state points to future price reductions. According to the California Association of Realtors, the number of homes sold in California plummeted in January, as existing home sales were down 6% from December and 24% from a year earlier. ([car.org](http://car.org)) At the same time, inventories are rising throughout California. In Humboldt County, seasonally adjusted house sales have fallen since their record July peak (see figure below).

### Seasonally Adjusted Home Sales Index, Humboldt County

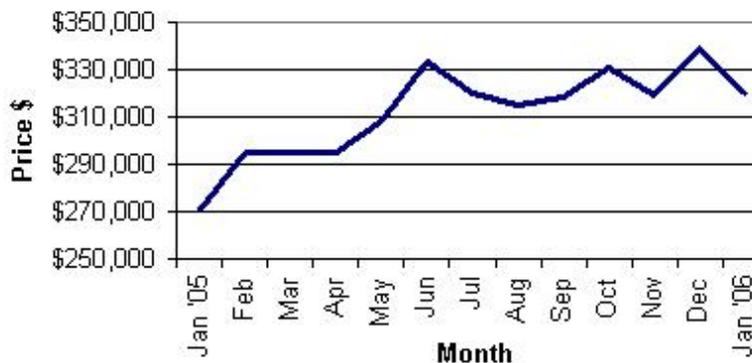


January, 1994=100.

Based on data from Humboldt Association of Realtors.

We are already beginning to see prices fall in major markets from their summer highs. In Sacramento, one home builder has reduced prices by \$50,000-\$150,000, and order cancellations rates are at record highs. In San Diego, median house prices are 9% lower than six months ago. In Humboldt County, prices have plateaued and are basically unchanged since June (see figure below).

### Median Selling Price of House, Humboldt County



Source: Humboldt Association of Realtors

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of March 2nd ticked upward to 6.24 percent with an average 0.6 points. The 30-year fixed mortgage rate averaged 5.79 percent during the same period last year. Frank Nothaft, Freddie Mac vice president and chief economist stated that Freddie Mac forecasts predict rates to increase over the course of the year by a quarter point. ([freddiemac.com](http://freddiemac.com))

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

## Retail Sales

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

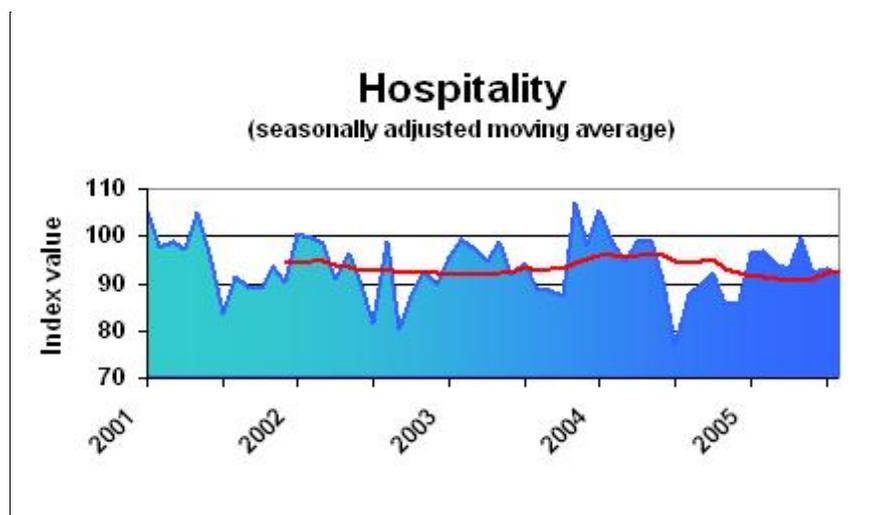
The retail sales sector fell again, only more slightly in January, losing 1.5 percent to a seasonally adjusted Index value of 135.6. This is a 9.0 percent decrease from the same period last year. This sector showed strong growth in the late nineties, but has been waffling near its current level since 2000.

In contrast, National retail sales, as reported by U.S. Census Bureau, increased in January. Seasonally adjusted sales were \$365.4 billion, up 2.3 percent ( $\pm 0.7\%$ ) from the previous month and 8.8 percent ( $\pm 0.8\%$ ) higher than January 2005. Notable among the increases were gasoline station sales, up 22.7 percent and building equipment and garden supply retailers, up 14.7 percent over January of 2005. ([census.gov](http://census.gov))

National consumer confidence as measured by the Conference Board decreased in February, falling 5.1 points to 101.7. A level of 100 is equivalent to the base year of 1985's level. On the other hand, the Present Situation Index, which measures consumer's perception of the current economic situation rose by 0.5 points to 129.3. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "The Present Situation Index continues to hold steady at a four-and-a-half year high (August 2001, 144.5) suggesting that, at least for now, the start of 2006 will be better than the end of 2005" She added however that, "consumers are growing increasingly concerned about the short-term health of the economy and, in turn, about job prospects." This is reflected in the lower Consumer Confidence Index, and the drop in the Expectations Index which measures consumer's perceptions about the near term economic future. The Expectations Index fell 8.8 points to 83.3. This is the lowest level since March 2003 when the level was 61.4. All three of these Indices are calculated by the Conference Board on the basis of a monthly survey of 5000 US households. ([conferenceboard.org](http://conferenceboard.org))

## Hospitality

The Index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.



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

The hospitality sector declined by 1.4 percent in January to an Index value of 91.7. This represents a 4.5 percent increase from the same month last year. The hospitality Index continues to be fairly stable, fluctuating near its current level for some time with little or no perceptible long term trend either upward or downward...

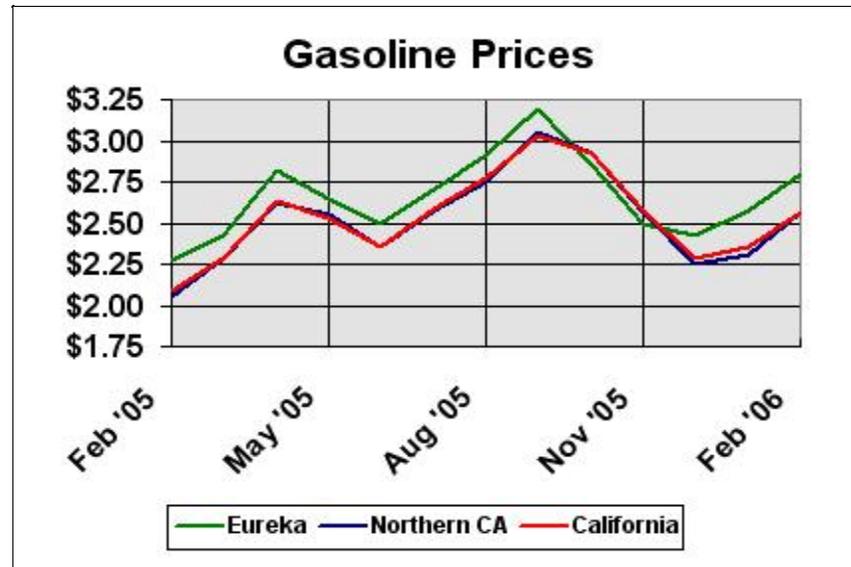
## Gasoline Prices

The American Automobile Association reports that county gas prices have risen again as of February 14, this time by 23 cents , to an average price of \$2.80. Eureka is now tied with Santa Barbara as the most expensive gasoline market in the state. Prices also rose even more dramatically for Northern California, putting on 25 cents to come to \$2.56 per gallon. The average price per gallon of gas in California as a whole rose again as well adding 20 cents to come to price of \$2.56 per gallon. Spokesperson for AAA of Northern California, Sean Comey noted that inventories and supply and demand for gasoline are all rather more favorable than one might expect in light of the price hikes we have seen, but blames the prices on rioting and unrest in the Middle East and a recent threat from Venezuela to divert oil exports away from the US. On the upside, he notes also that although prices rose sharply since the last survey, they had begun to decline in the week before the most recent survey. ([csaa.com](http://csaa.com))

For a local perspective on gasoline prices, visit our [Special Projects page](#) for our study of the Eureka gasoline market and an examination of how Humboldt County gas prices compare to San Francisco's.

Average Price* (as of 01/11/06)		Change From Prev. Month (cents/gal.)
Eureka	\$2.80	23¢
Northern Ca	\$2.56	25¢
California	\$2.56	20¢

Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association's monthly gas survey ([www.csa.com](http://www.csa.com)).



## Electricity Consumption

The Index value of this sector is based on seasonally adjusted kilowatt-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation reduce the sector's index value, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

We will report on the performance of this sector for the months of January, February and March when quarterly data are received.

## Total County Employment

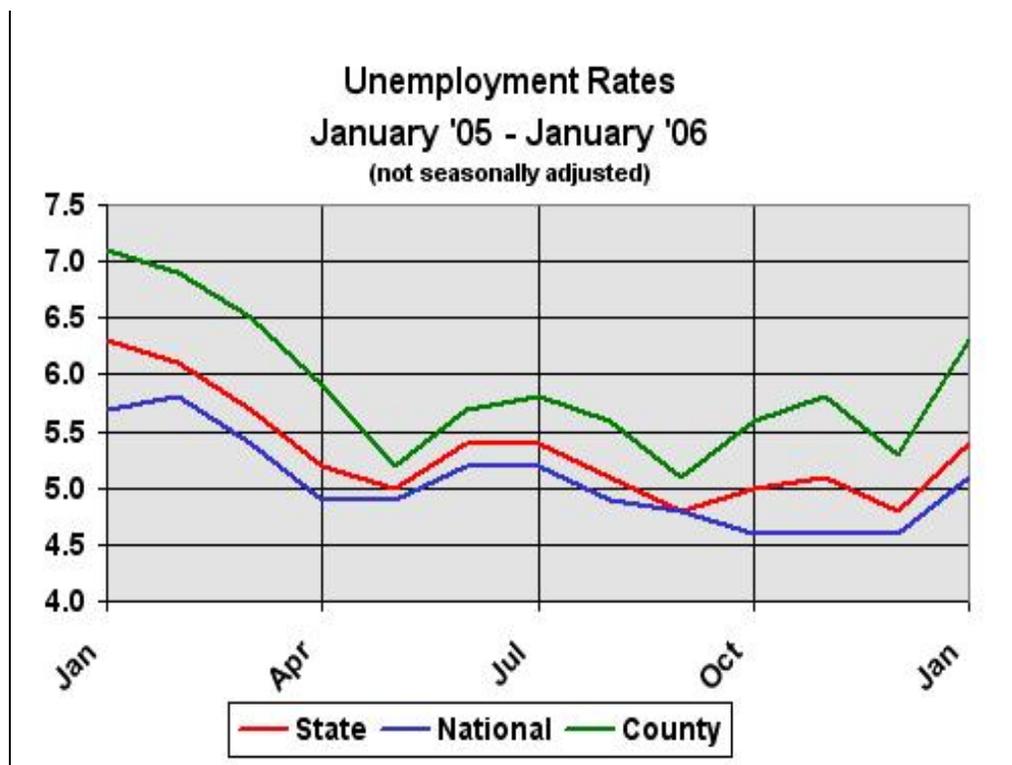
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the California Employment Development Department.

The employment sector's Index value fell in January 1.7 percent to a new value of 101.0. This is off 3.3 percent from the same month last year. Preliminary employment and labor force data for January indicate 60,100 people in the Humboldt County labor force, of whom 56,300 are employed. This means that the Humboldt economy lost 1,300 jobs during the month. Of these, 800 individuals left the labor force altogether and are not seeking new employment. This resulted in a non-seasonally adjusted increase in the unemployment rate from 5.4 percent to 6.3 percent. The lost jobs were not limited to any particular sector or sectors, but rather resulted from declines in employment in multiple sectors including both goods production and service sectors. The declines were disproportionately from private employers.

The state and national unemployment rates also rose in January. California's unemployment rate rose to 5.4 percent, from 4.8 percent last month, while the national unemployment rate rose to 5.1 percent from the previous month's low level of 4.6 percent. These rates are not seasonally adjusted. ([edd.ca.gov](http://edd.ca.gov))

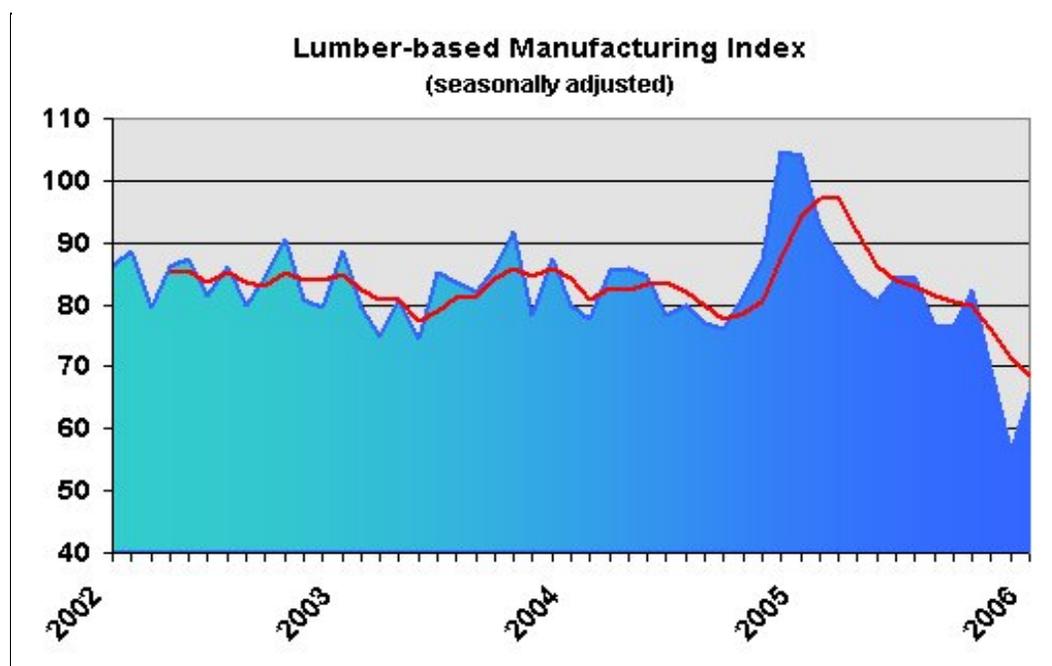
During 2005 the Humboldt County unemployment rate was always higher than the state or national rates. This has not happened for a number of years.

Seasonal adjustment would statistically eliminate the expected seasonal fluctuations from the figures so that changes would reflect more fundamental shifts in the economy rather than normal seasonal trends. Since the unemployment rates we have cited are not adjusted in this way, it is important to be aware that fluctuations may as well be the result of normal seasonal trends in the labor market rather than fundamental changes. All of our Indexes, including the employment Index are seasonally adjusted.



## Lumber Manufacturing

The index value of this sector is based on a combination of payroll employment and board feet of lumber production at major county lumber companies and is adjusted to account for normal seasonal variations. Lumber-based manufacturing generates about 55 percent of total county manufacturing employment.



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

In January, lumber based manufacturing recovered a decent amount of last month's losses, increasing 16.1 percent to an Index value of 65.6. Together with the spike in real estate, this sector's increase was instrumental in holding the Composite Index in the black for the month. In spite of this gain, the Index still stands at a very low level historically, one unparalleled in past years, and the trend of the past several months is still in the downward direction.

At the national level, the Institute for Supply Management reports that the status of American manufacturing is quite the opposite. The Institute observes that American manufacturing has extended its near three year trend of uninterrupted strength, and is now growing even faster. This now amounts to 33 consecutive months of growth. Further, the ISM reports that the national economy as a whole both grew and accelerated its growth in February coming now to well over four years of uninterrupted growth. ([www.ism.ws](http://www.ism.ws))

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## The Bigger Picture

# Is it Really that Bad?

By: Garrett Perks

There seems to be a common perception that our national economy is struggling, but there are a number of indications that things are not quite as bad as we think.

The number of Americans looking for work is historically rather low right now. Our seasonally adjusted unemployment rate of 4.7 percent is quite low. A number of media outlets have pointed out that this figure is the lowest rate we have seen since prior to 9/11. Additionally, the US economy added nearly 200,000 new jobs in the month of January.

The growth of our economy is also strong, having posted nearly four and a half years of uninterrupted month-over-month gains. The Institute for Supply Management also reports that in addition to growing in January, the *rate* of growth also accelerated in that month. As well as growth in domestic output, the ISM reports that our nation's exports have not only increased in January, but in every month for more than three years.

The perception of weakness is especially pronounced with regard to the manufacturing sector, but in fact, our nation's manufacturing sector is not only growing now, but has posted nearly three years of uninterrupted growth. There are conspicuous areas of weakness, notably auto manufacturing, but in spite of this manufacturing as a whole continues to grow.

There are a number of reasons to believe that our economy is not only strong, but that it has been strong for some time. This strength is emphasized by the upsets and disasters that the economy has endured in logging these records of uninterrupted strength, particularly the powerful Atlantic hurricane season, the destruction it wrought on the Gulf states, and the economic fallout that resulted. Closely related has been the volatility of energy markets since that time, which has been exacerbated by international tensions on several fronts.

Throughout and in spite of these difficulties, the national economy has tracked a respectable pace and unemployment has fallen to quite a low level.

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**Explanatory Note:** For those of you who are new or less familiar with the *Index*, we have been tracking economic activity since January 1994. The composite indices plotted as blue and red lines in the diagram at the top of this page are weighted averages of each of the six sectors described in the table above. Each sectoral index, and the composite index, started at a value of 100 in 1994. Thus if the retail sectoral index value is currently 150, that means that (inflation-adjusted) retail sales among the firms that report data to us are 50 percent higher than in January 1994. We also *seasonally adjust* each sector, and the composite index, to correct for "normal" seasonal variation in the data, such as wet season vs. dry season, and so trends in the seasonally-adjusted composite index provide a better indication of underlying growth and fundamental change in the economy. Each month's report reflects data gathered from the previous month. For example, the "August 2003" report reflects data from July 2003. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

## Cited References

[American Automobile Association](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[The Conference Board](#)

[Federal Reserve Board Beige Book](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

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