



Humboldt Economic Index

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Humboldt Economic Index

February 2009

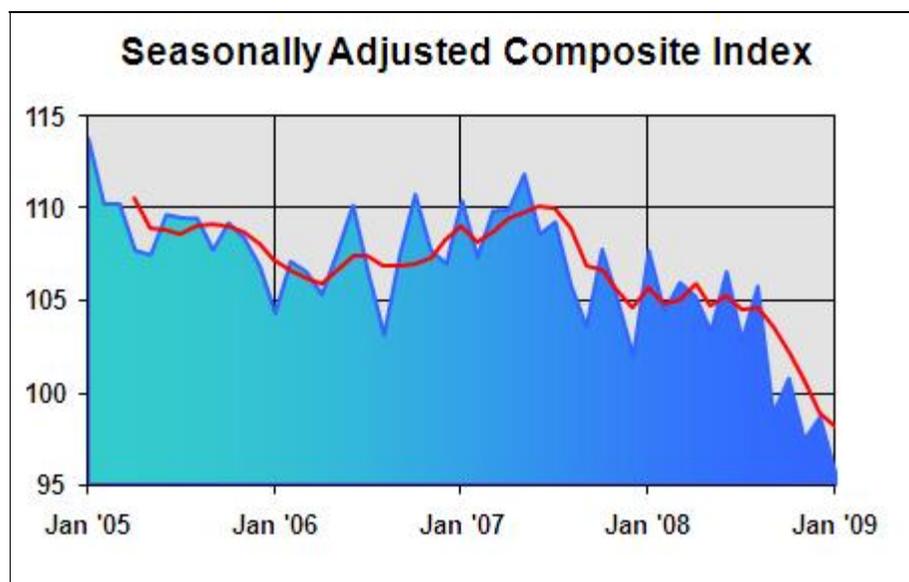
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The seasonally adjusted composite Index is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Composite Index and Overall Performance

The Humboldt Economic Index 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 Index overall grew 5.8 percent from last month to 104.3. All sectors showed signs of growth throughout January with major increases from the Housing and the Hospitality index. It is important to note that comparing the level of overall activity for the county year-over-year, is consistently below historic levels. Retail and Manufacturing saw the biggest year-over-year declines of 10.0 and 23.1 percent respectively. The rise in home sales also propped up the median home price in Humboldt County. While all sectors were positive throughout January for the index it is important to address the current economic action being made by the Federal Government. Throughout this report you will find how the U.S. Government is planning to expand activity through federally funding new initiatives. Some sectors that will be affected in Humboldt County is employment, housing, and manufacturing. Leading indicators do not provide support for either growth in the coming months as unemployment claims rose and help wanted advertising is down. The increase in federal spending may bring temporary relief in the near future while the economy works its way through this recession.

| Composite & Sectors | | | | | |
|-------------------------|--------|----------------------|----------------|------------------|-----------------|
| | | Percent Change From: | | | |
| Index | Value* | Last Month | One Year Ago** | Five Years Ago** | Ten Years Ago** |
| Composite | 104.3 | 5.8 | -3.2 | -3.3 | -9.7 |
| Home Sales | 95.6 | 63.9 | -9.7 | -28.9 | -23.5 |
| Retail Sales | 145.3 | 0.5 | -10.0 | 7.9 | 2.6 |
| Hospitality | 96.3 | 20.8 | 9.1 | 8.5 | 1.0 |
| Electricity Consumption | 144.8 | 0.0 | 11.3 | 23.6 | 14.1 |
| Total County Employment | 101.7 | 0.9 | -4.4 | -3.5 | -3.7 |
| Manufacturing | 36.0 | 6.3 | -23.1 | -55.0 | -70.6 |

* These values are adjusted to remove seasonal fluctuation. The base month is Jan. of 1994, with an Index value of 100.
** The percent change from the same month one, five and ten years ago.

| Key Statistics | | |
|--------------------|----------------|--------------------|
| Median Home Price* | Mortgage Rate† | Unemployment Rate‡ |
| \$275,000 | 4.625% | 9.0% |

* 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.
† 30 year owner occupied conforming conventional fixed rate provided by Umpqua Bank.
‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

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Leading Indicators

| Leading Indicators | | | | |
|--------------------------|---------------------|-------------------------|------------------|----------------------|
| | Unemployment Claims | Help Wanted Advertising | Building Permits | Manufacturing Orders |
| Change from Prior Month* | -15.5% | -25.3% | -54.1% | N/A |

* All values are seasonally adjusted.

The Index tracks four leading indicators to get a sense of the direction that the county economy may take 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) expected 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.



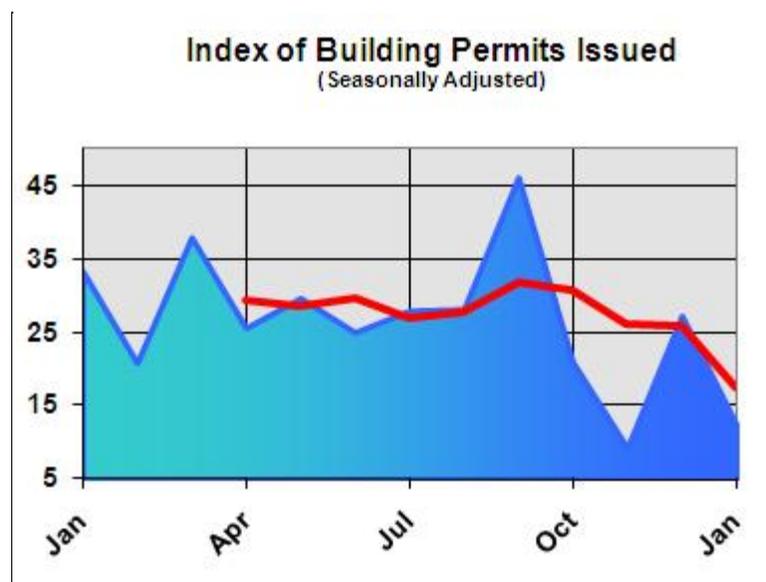
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment Claims declined through January as the unemployment rate dropped for the first time in nearly a year. The 15.5 percent decline this month shows signs of strength in labor markets; however, fears that extended unemployment benefits may cause those unemployed to stay unemployed could cause a higher level of unemployment claims throughout the remainder of this recession.



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.

Help Wanted fell by 25.3 percent from December 2008 to a seasonally adjusted index value of 81.1. This is the lowest level of help wanted advertising since the inception of the index in 1994. Continued decline in this index could symbolize future softness in local job markets.



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.

Building Permits also contracted in January from the previous month by 54.1 percent. The Building Permits Index now stands at 12.5, the second lowest level in the history of the index. Currently this index has performed below normal historic levels. This decline may resemble a slowing of construction jobs and a lack of expansion from local business.

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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.

Home Sales in Humboldt County had an exceptional month of growth expanding 63.9 percent from last month to a seasonally adjusted value of 95.6. The inflation adjusted median home price rose by nearly \$20,000 to \$238,736; this is an 8.7 percent rise from December 2008. The rise in the median home price could be due to the high number of buyers purchasing homes on the market that are either distressed or undervalued by home owners. Future strength in this market can be sustained and generated if employment returns to the county. The increasing unemployment rate will cause sales across the board to deteriorate as incomes shrink and discretionary spending declines.

The California Association of Realtors reported sales rose by 100.8 percent while the median home price fell by 40.8% in January 2009 when compared to January 2008. Moreover, when compared to December 2008 sales rose by 14 percent and median home prices dropped by 9.5 percent to \$281,180. Freddie Mac reported that the average thirty-year fixed-mortgage rate was 5.05 percent throughout January 2009 down from 5.75 percent same time last year.

Entry-level housing afford ability in California rose to 59 percent in January as the minimum household income to purchase a home at \$248,030 was \$48,900. The rise in affordability is due entirely to housing prices falling, rather than incomes rising, and we can expect affordability to rise in the future in most areas of the state as prices continue to fall. This affordability level of income is 48 percent lower than the January 2008 level required to entering into the housing market. January's Median income for Californians is reported to be \$59,160. However, the rising concern of unemployment in California may drive potential buyers out of the market as they are unsure about future employment and refuse to be locked into a mortgage.

Existing-home sales on the national level, reported by the **National Association of Realtors**, declined in January to a sales pace of 4.49 million a 5.3 percent drop from the December 2008 sales pace. While some home buyers wait for the \$8,000 stimulus for buying their first home and higher conforming loan limits with a 50-year lifespan. A home bought at the median home price in Humboldt at the average 30-year rate resulted in a monthly mortgage payment of about \$1413, while a 50-year mortgage with the same interest rate has a month payment of \$1178, approximately \$240 dollars off each month, but you have to pay for an additional 20 years. Will a 50-year mortgage really help homeowners? It seems that this 50-year mortgage will merely keep Americans indebted longer.

The national median home price for all housing types decline 14.8 percent to \$170,300 when

compared to the same period last year. Single-family home sales declined by 4.7 percent from the previous month and 7.1 percent down from January 2008. The single-family median home price declined farther to \$169,900, 13.8 percent below the January 2008 level.

Housing is receiving a helping hand from the federal government as President Obama pledged up to \$275 billion dollars on Wednesday (2/18/2009) to help prevent further home foreclosures. This plan not only helps those in foreclosure, but also those who are having difficulty making payments and may soon default on payments. Obama's plan is to lower mortgage payments through the joint effort of the lender and the U.S. Treasury to approximately 31 percent of the homeowners' income. 5 million "at risk" homeowners could refinance through Fannie Mae and Freddie Mac as conventional refinancing options are no longer applicable due to the deflated home values. New legislation is in the house to determine if judges would be granted the power to restructure mortgages, passing in the house by a vote of 234-191, while still tied up in the senate. Furthermore, a survey from the Mortgage Bankers Association reported that 12 percent of homeowners were in foreclosure or behind their payments by the end of 2008.

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. Also, visit the [Humboldt Real Estate Economics Page](#).

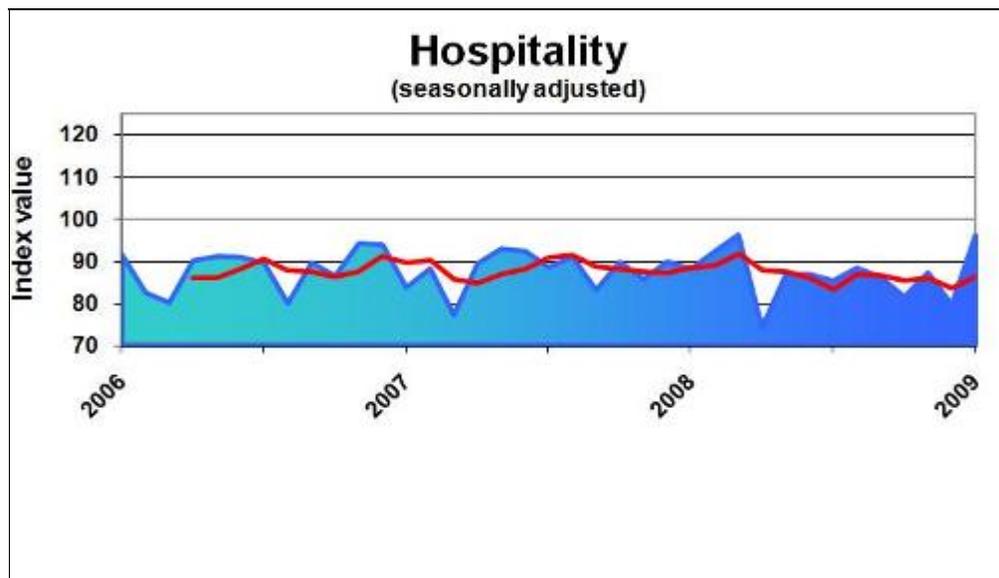
Retail Sales

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.

Retail Sales remained relatively unchanged from the previous month increasing by 0.5 percent to 145.3. The rise in retail activity was mostly contributed due to seasonal adjusting. Raw data shows a general decline in all sectors the index collects from. However, seasonal adjusting does support that more consumers are purchasing goods locally rather than leaving the county and purchasing goods and services elsewhere. Current economic conditions and the high unemployment rate could be one reason why people are staying local and buying local goods rather than leaving on vacation or personal trips. During recessionary times there is a general decline in goods services purchased; however necessary goods, such as food, tend to not be as effective as substitutes for these goods are hard to come by. Discount stores also become a favorite for some consumers as they buy from large discount stores to cut back costs. Retail sales will ultimately experience downward pressure throughout the months with high unemployment and rising gas prices.

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.



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.

Hospitality experienced increased activity throughout January. Compared from December 2008, hospitality increased by 20.8 percent to an index value of 96.3. As seen in the table above this level of activity in this sector is above all the listed time intervals. Hospitality generally fluctuates between mid 90's and low 80's. The four month moving average is relatively consistent over the past 3 year period

graphed above.

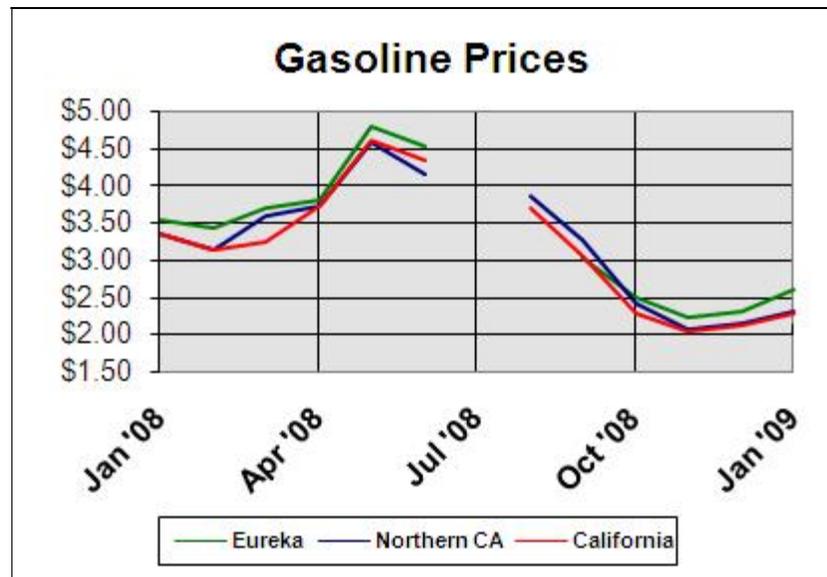
Gasoline Prices

Rising for the second month in a row after about six months of declining gas prices, the average price for a gallon of gas increased by 29 cents from last month to \$2.58. Reports have shown that oil supplies are beginning to shrink as oil producing countries scaled back production during the previous months and allowing the diminished demand to consume the available surplus on the market. California usually experiences gas price above the national average due to high demand from millions of California residents. Moreover, if oil producing countries continue to cut or hold production at current levels, oil and gas prices may start to elevate creating pressure on consumers during this time of economic downturn.

For a local perspective on gasoline prices, visit our [Special Projects page](#) for our 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.

| Gas Prices | | |
|---------------------------|-------------------|----------------------------------|
| Prices as of 1/10/2009 | Average Price* | Change from Previous Month |
| Eureka | \$2.58 | \$0.29 |
| Northern CA | \$2.30 | \$0.15 |
| California | \$2.27 | \$0.16 |

* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (www.csaa.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 frequently estimated, and are revised when the quarterly data are received.

Due to our quarterly collection of energy data this edition remains unchanged from the previous month at an index value of 144.8.

Arnold Schwarzenegger's Assembly Bill 32 requires the state to cut its greenhouse gas emissions to 1990 level by 2020. President Obama's stimulus plan allocates \$3.2 billion for energy efficiency and

conservation. Agencies throughout the nation should take this opportunity to gather additional funds so that they may have a head start on complying with their state regulations.

Steven Chu, President of the **U.S. Department of Energy**, hailed the American Recovery and Reinvestment Act of 2009 (ARRA09) stating that it will help lift the economy out of economic crisis and reduce our dependence on foreign oil. In his report, he systematically goes through 10 objectives set forth by the DOE and the ARRA09. These include creating more energy efficient homes, as home consume approximately 40 percent in the United States; upgrading federal buildings to be more green; renewable energy projects, smart grid and transmission infrastructure; battery research for long distance vehicle use; and more. The link at the bottom of this edition will allow you to search through more projects that the DOE has planned to undertake with the new funding from ARRA09.

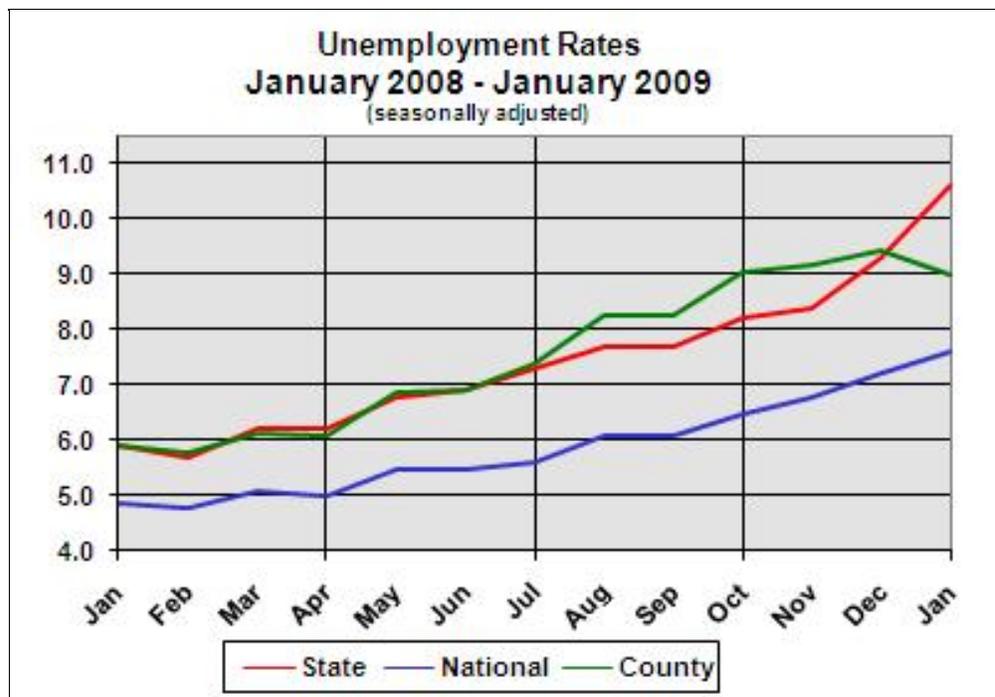
Total County Employment

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

Humboldt County Employment Index grew by 0.9 percent from the previous month to 101.7. While unemployment dropped for the first time since February 2008 to a seasonally adjusted level of 9.0 percent. More surprisingly was the dramatic increase in the California unemployment rate by 1.3 percent to 10.6 percent. This is the highest level of state unemployment since the inception of the Humboldt Economic Index.

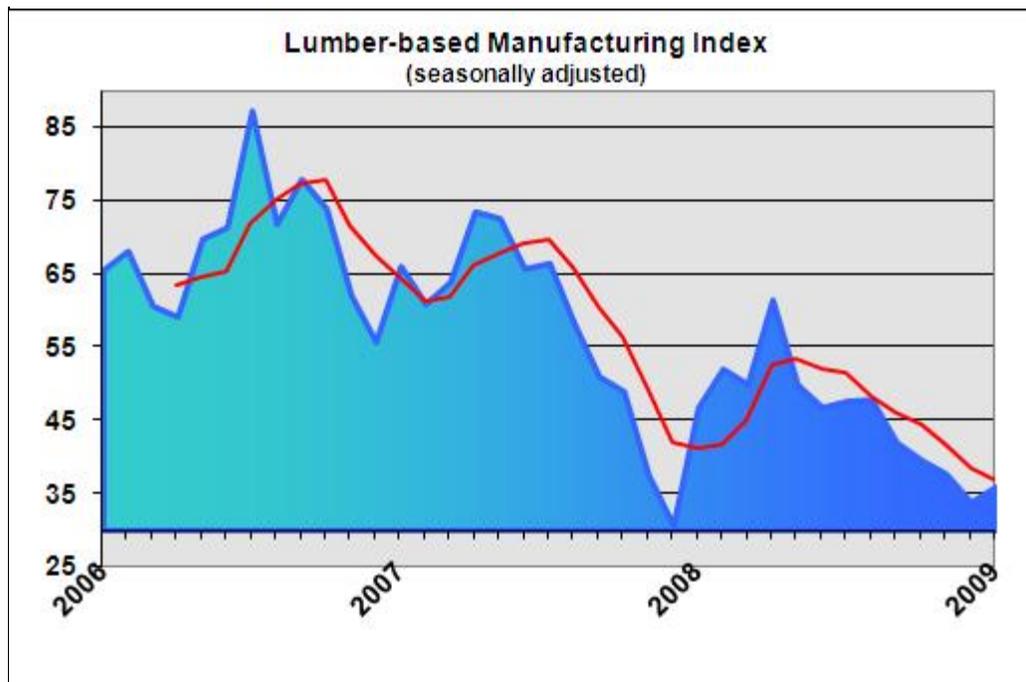
State Unemployment continues to rise partly due to restructuring the state's budget and party members not able to effectively and efficiently work together to pass the new budget. While the new budget cuts spending and requires a contraction of state government jobs the new stimulus may alleviate some of the unemployment through new infrastructure and research and development, however, part of the bill extends unemployment benefits. This may keep unemployed workers from actively seeking a job as they may free ride off of the government bill as long as they can.

On February 18 the Federal Open Market Committee revised its unemployment projections for 2009 to 8.5 to 8.8 percent. These projections were expected to increase from their original projection of 7.1 to 7.6 percent when the unemployment rate rose to 7.6 percent by mid-February. The ailing national economy continues to slip further into unemployment and will inevitably put greater pressure on employment in Humboldt County. The American Recovery and Reinvestment Act of 2009 projects it will save or create 3.5 million jobs, however, it is unclear how much aid will find its way to Humboldt County.



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.



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.

Lumber-based Manufacturing grew slightly to an index value of 36.0, a 6.3 percent increase from last month and down 23.1 percent from the same period a year ago. Lumber industries in Humboldt received relief from falling gas prices in the past months; however, with gas prices migrating north slowly, a continued increase in fuel costs could cut production in the coming months.

The Institute of Supply Management reported that manufacturing contracted for the twelfth consecutive month. The PMI showed signs of slower contraction through January than seen in December 2008 while new orders rose from 23.1 percent to 33.2 percent in January. However, the manufacturing sector is still contracting merely at a slower pace. One major contributor to this decline in national manufacturing is due to the ailing auto industry. Numerous manufactured goods are assembled into automobiles from plastic and rubber products, leather, electrical equipment, and etc. The only two industries that reported growth throughout January were the textile mills, and the petroleum and coal products. ISM's Employment Index was unchanged from the previous month at 29.9 percent and is the sixth consecutive month of contraction in employment. Suppliers continue to pull back production due to high inventories and falling prices; moreover, the ISM's Inventory Index fell by 2.1 percent from December to a seasonally adjusted value of 37.5 percent.

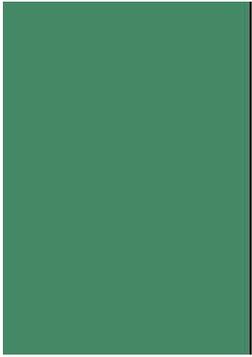
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Explanatory Note: For those of you who are new or less familiar with the Index, we have been tracking economic activity since January 1994. The composite indices plotted as blue and red lines in the diagram at the top of this page are weighted averages 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 2006" report reflects data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

Cited References:

[The California Association of Realtors](#)
[Entry-level housing afford ability](#)
[The Institute of Supply Management](#)
[National Association of Realtors](#)
[U.S. Department of Energy](#)

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