

Humboldt Economic Index

March 2011

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Housing at Over Three Year High

This month we welcome Cody Tescher as the Assistant Analyst to the Index. Cody is an economics major who has been training with us for a few months. He takes over from Mike Kowtko, who was with the Index for almost three straight years, longer than anyone else. We thank Mike for his hard work and dedication. Mike is finishing up his economics degree and plans to graduate next year.

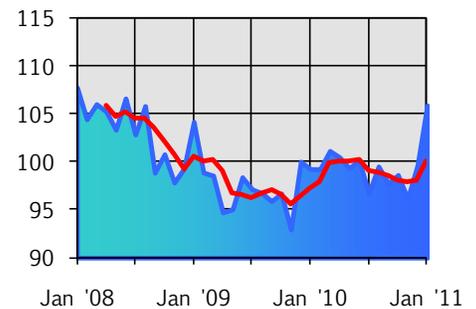
Overall, February was a strong month for the local economy. The composite index rose 6.3 percent to 105.8.

Not all sectors gained, but dramatic rises in Hospitality, Manufacturing and especially Home Sales brought the Index well into positive territory. Notably, Home Sales stands at the highest value since July 2007.

Leading indicators were mixed as unemployment claims remain higher and employment related advertising declined further.

County employment declined from last month, driving the unemployment

Composite Index



rate to 12.6 percent. A slight rise in the labor force as well as job losses in government and manufacturing drove the increase in the unemployment rate.

Nationally, employment conditions appear to be improving moderately as the economy added 192,000 jobs in February, most of which in the private sector.

As always, the outlook is uncertain. While the economy appears to be trending in a positive direction it is unclear whether the dramatic rise in gas prices will stymie a potential turnaround.

The Humboldt Economic Index is produced by the Economics Department at Humboldt State University. It 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.

Composite & Sectors

Index	Value*	Percent change from			
		Last Month	One Year ago**	Five Years ago**	Ten Years ago**
Composite	105.8	6.3	6.7	1.5	-2.0
Home Sales	108.8	33.6	39.6	-8.6	-8.6
Retail Sales	148.8	-0.4	1.3	9.9	11.5
Hospitality	99.1	21.5	6.1	8.1	6.2
Electricity	151.4	0.0	20.6	41.3	45.9
Employment	99.4	3.7	1.1	-5.5	-4.7
Manufacturing	34.0	16.2	-3.9	-48.1	-67.1

* 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.

The Index – Leading Indicators

Leading Indicators

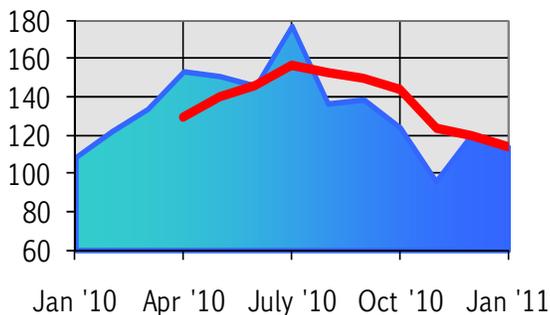
The Index tracks three leading indicators to get a sense of the direction that the county economy may take in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) building permits, and (3) help wanted advertising.

Leading Indicators			
	Unemployment Claims	Building Permits	Help Wanted Advertising
Change from prior month*	-5.3%	15.7%	-15.4%
* All values are seasonally adjusted.			

Key Statistics			
Median Home Price*	Monthly Rent**	Mortgage Rate†	Unemployment Rate‡
\$244,950	\$1,130	5.00%	10.0%
* The Humboldt Association of Realtors provides home price data. 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. ** Average rent on 2, 3 and 4 bedroom houses listed in the Times Standard. † 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.			

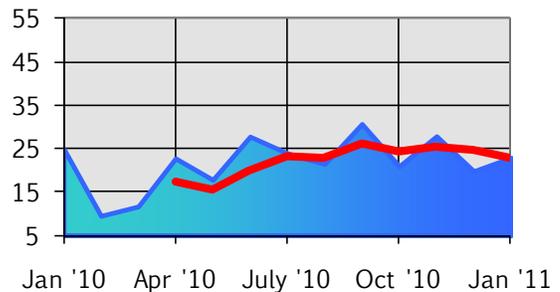
Unemployment Claims fell slightly to 114.2. The index has trended downward for the last seven months, since July's record value. Despite the decline, the index remains at an elevated level compared to 2007 and early 2008.

Index of Claims for Unemployment Insurance



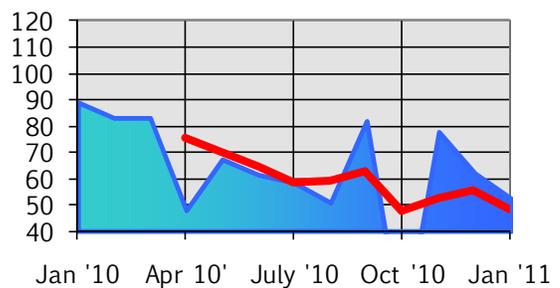
Building permits rose 15.7 percent in January to 22.9.

Index of Building Permits Issued



Help Wanted Advertising contracted 15.4 percent in January to 52.4.

Index of Help Wanted Advertising



Graphs Explanation: The blue area represents the seasonally adjusted Index of Unemployment Claims 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 Index – 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, which rose 35.4 percent in December, rose a further 33.6 percent in February. The unadjusted number of homes sold remains constant at 74, while the median home price rose by \$4,900 to 249,050. The dramatic rise in the index is driven by seasonally higher number of homes sold as well as a modest rise in the median home price, while December's rise was driven by a steep rise in home sales. The index stands at 108.8, the highest value since July 2007.

The mortgage rate remained constant at 5.00 percent while monthly rents fell to \$1,130 from \$1,260.

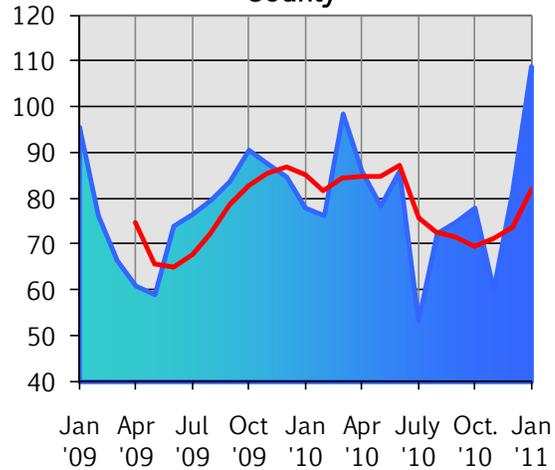
Nationally, Case Shiller reported a slight decline in the Composite 20 index, which tracks home prices in the 20 largest US cities, to 142.2. Home values in San Francisco, Los Angeles, Portland and Seattle experienced a slight contraction in December.

The graph below tracks the price-to-rent ratio of homes in Humboldt County. Analogous to the price-to-earnings ratio used to value stocks, the price-to-rent ratio gives an indication of the costliness the flow of housing services (the value of not having to pay rent) received when purchasing a home. The rise and decline in the price-to-rent ratio below follows a similar pattern seen

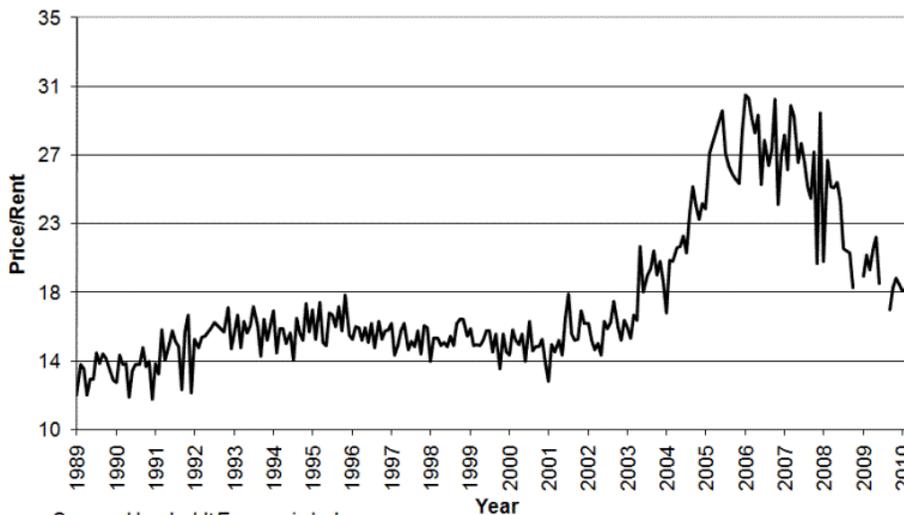
nationally and in the price-to-earnings ratio in the late 1990's technology bubble.

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

Home Sales Index, Humboldt County



Humboldt County Housing Price to Rent Ratio, 1989-2010
(medium home price/mean rent, adjusted for expenses)



Source: Humboldt Economic Index

The Index – Individual Sectors

Total County Employment

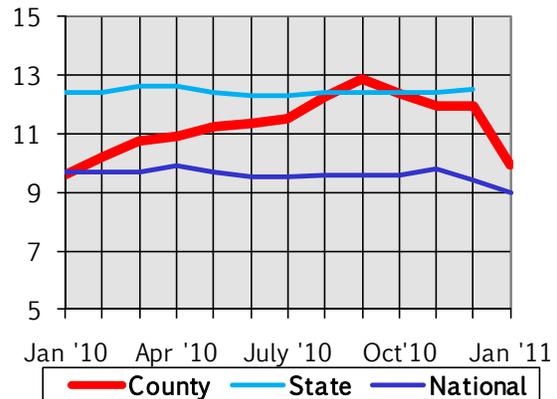
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

The California Employment Development Department reported a sharp monthly rise in county unemployment. Nonfarm employment fell 0.7 percent to 53,200, while the number of unemployed rose 8.7 percent to 7,600. The county unemployment rate rose 1.2 percentage points to 12.6 percent in January.

No sector experienced expansion in January and all sectors that experienced variation declined. Job loss in manufacturing, notably of nondurable goods, and in state funded education primarily drove the contraction in employment. The rise in unemployment is partially driven by a slight rise in the labor force.

The statewide seasonally unadjusted unemployment rate experienced a rise from 12.5 percent to 13.0 percent, driven by job losses in construction and state government employment. Nationally, the BLS reported that the economy added 192,000 jobs in February, primarily in construction, manufacturing, warehousing, healthcare and professional services. The national unemployment rate remains at approximately 8.9 percent.

Unemployment Percentage Rates



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.

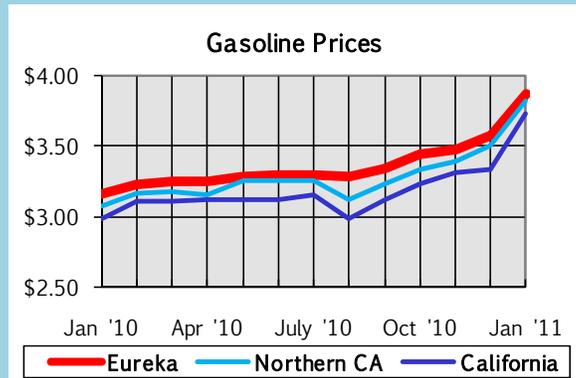
Hospitality rose from last month's lower value of 81.0 to 99.1. The rise was driven by seasonally typically occupancy rates and a significantly higher average room rate for the season.

Gasoline Prices

Gasoline Prices continued to rise in February as the price of oil continues the upward trend beginning last fall. Inflation adjusted local gas prices rose 8 percent to \$3.24, while the nominal price rose to \$3.87. A rise in commodities is often and indication of economic growth resulting from higher demand, yet in this case, the rise is likely the result in the growing instability in the Libya. Furthermore, part of the rise may be due to the inflationary pressures of recent monetary policy. The consumer price index rose 0.476 percent in January, the highest one month rise since June 2009.

Gas Prices		
Prices as of 2/28/2011	Average price*	Change from previous month
Eureka	\$3.87	\$0.29
Northern California	\$3.82	\$0.32
California	\$3.73	\$0.40

* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (www.csa.com).



The Index – Individual Sectors

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 remains strong as it is largely unchanged from December's value of 149.9. All sectors experienced slight contraction in retail sales from December. The index stands at 148.8.

The Conference Board reported another rise in [Consumer Confidence](#). The index rose by 5.6 points to 70.4 in January. The organization reported that January was the highest value since February 2008, attributing the rise to a moderately more optimistic consumer.

Beige Book reported that while consumers continue to be largely focused on discount and necessity spending, they appear to be trending toward more discretionary spending.

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.

Lumber-Based Manufacturing rose 16.25 percent to 34.0. Production rose sharply while payrolls rose somewhat.

Nationally, the Institute of Supply Management reported the highest PMI since May 2004. The index, which tracks the proportion of supply managers who expect improving business condition, stands at 61.0 percent. The organization reported Wood Products as one of the 18 sectors to experience improving conditions.

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.

Electricity Consumption remains unchanged, as quarterly data has yet been collected. The most recent value is 151.4.

Explanatory Note: We have been tracking economic activity since January 1994. The Composite Index at the beginning of this report is a weighted average of each of the six sectors described 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 the most recent data available, which is usually from the previous month. For example, the "August 2006" report reflects mostly data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

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Cited References:

California Association of Realtors - Case-Shiller Home Price Indices
Consumer Confidence - The Institute of Supply Management
National Association of Realtors

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