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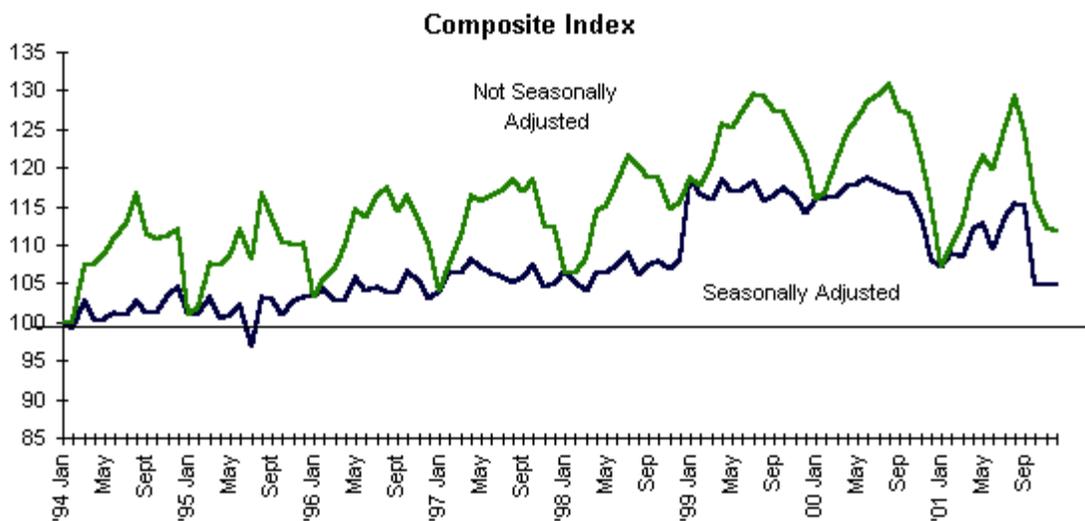
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January 2002

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Key Statistics		Leading Indicators	
Humboldt County		<i>Seasonally Adjusted</i>	% Change From Previous Month
Median Home Price*	\$140,000	Help Wanted Advertising	+36.5

30 Yr. Mortgage Rate (1/25)	7.0%	Building Permits	+43.3
Average Hotel Occupancy Rate	40.9%	Unemployment Claims	-29.6
Unemployment Rate**	6.0%	Manufacturing Orders	+7.2
* 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 EDD Website 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 2000	Same Month 1999	Same Month 1998	Same Month 1997	Same Month 1996
Home Sales	126.0	+17.0	+17.2	+18.2	+7.4	+61.1	+38.1
Retail Sales	152.8	+12.9	+4.9	+5.1	+2.8	+20.0	+56.6
Hospitality	81.2	-16.0	-9.9	-12.1	-13.9	-17.3	-10.5
Electricity Consumption	111.1	+1.8	-3.6	-12.7	--	--	--
Total County Employment	100.8	0	-0.2	-0.2	-1.8	0	-1.1
Lumber Manufacturing	76.1	-15.0	-22.7	-32.3	-35.4	-33.8	-30.4

Discussion

Composite Index and Overall Performance

The Humboldt County economy appears to have levelled off after the steep decline caused by the September 11th shock. The *Index of Economic Activity's* seasonally adjusted composite value, which now stands at 104.8, rose by less than 0.1 percent in December from November's revised figure. Although this leaves the *Index* essentially unchanged, it's nice to note that during a recession, any positive growth, however minuscule, is heartening. Taken with other positive indications explained below, there is evidence that a turnaround may already be under way.

Home sales and retail both bounced back sharply from the large drops they experienced in November. These two sectors are once again the strongest performers in the local economy. The electricity consumption sector registered modest growth, but this may be the result of seasonal weather conditions rather than increased economic activity. Countywide employment is unchanged, but due to a shrinking labor force, the unemployment rate fell by 0.1 percent, where it remains slightly above the state and national figures. Manufacturing and hospitality continue to bear the brunt of the more general nationwide downturn. Both of these sectors fell by large amounts in December, and are performing at or near record low levels. Lumber-based manufacturing is experiencing a structural decline as timber companies all over the country face rising production costs, dwindling resources and fierce competition from Canada. Likewise, the travel and tourism industry will probably not recover from the September 11th tragedy for some time to come.

The Good News

The Leading Indicators are all strongly positive for the first time in twelve months. The *Index* value for building permits jumped by over 40 percent in December after having plummeted in the two previous months. Help wanted advertising also experienced a huge increase following three consecutive months of declining activity. The other labor-base indicator, unemployment insurance claims, fell sharply, and is down for the second straight month. While at least a portion of this decrease is due to changes in unemployment benefits, its magnitude suggests improving conditions. Finally, according to preliminary data, manufacturing orders, though off in most of the year-over-year comparisons, are at their highest level in eleven months.

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

Home Sales

This sector continues its extremely volatile behavior. Most of the ground lost in November was regained in December. This follows a decrease and an increase in September and October, respectively. Nonetheless, the unusually high number of homes sold in December, compared to the same month of years past, may well signify this sector's underlying strength.

The current interest rate (1/25) for a thirty year mortgage (no points) is 7.0 percent. This is just slightly higher than the national average of 6.97 percent according to the California Association of Realtors. December's median home price dropped 9.7 percent to \$140,000 from the previous month's \$155,000. This measure is up 0.5 percent from December 2001. The current statewide median sale is up 17.3 percent to \$276,940, while nationally the figure rose 6.1 percent to \$147,500 (www.sfgate.com).

According to the National Association of Realtors, roughly 5.25 million existing homes were sold in 2001, up 2.7 percent from 2000's 5.11 million units and breaking the record 5.21 million sold in 1999 (www.sfgate.com). Approximastely 946,000 new homes were sold nationally in 2001. This represents a 5.7 percent increase from November's revised annualized pace of 895,000 units, but the number is down 5.5 percent from 2000's total of 1,001,000 homes sold (www.census.gov).

Unfortunately, analysts claim that housing activity has no where to go but down. According to the Dismal Scientist, many of the factors that support this industry are weakening, such as rising interest rates and a decreasing pool of potential refinancing customers. Total combined mortgage applications for new purchases and refinancing were down nearly 50 percent in the week ending December 28th.

Santa Cruz, CA now has the least affordable housing of any city in the United States according to an annual list compiled by the National Association of Home Builders. The measure is based on third quarter median income and median home prices. In Santa Cruz, these numbers are \$65,000 and \$420,000 respectively. Five of the ten most expensive localities fall within the greater San Francisco Bay Area and nine of the top ten are in California. Rockford, IL has the most affordable housing based on a median income of \$57,100 and a median home price of \$99,000 (Eureka Times-Standard).

Retail Sales

The *Index* value for the local retail sector jumped 12.9 percent in December from the prior month. It also up respectably in all of the year-over-year comparisons.

Nationally, retail sales fell by just 0.1 percent in December, much less than was expected following November's huge 3.7 percent decline. According to the Commerce Department, most of the decrease resulted from a 4.2 percent drop in gasoline sales due to lower prices. Respectable gains made in the home furnishings, electronics and appliances, and clothing sectors contributed to keeping the decline tiny. Excluding gasoline, retail sales rose 0.2 percent from the previous month. Sporting Goods and Building Supplies were the two subsectors losing the most ground in December.

Last minute shopping seems to have saved retailers from a disastrous holiday season. Weekly mall sales, following the Thanksgiving weekend, were down from last year in all but the final week before Christmas (www.icsc.org). Same store sales at the nation's largest retailers rose 2.3 percent over last December's figure, but the combined November-December average sales increase of 2.2 percent from last year made for the chainstores's weakest holiday performance since 1995.

Apparently, this was enough to edge Kmart into bankruptcy. The huge retailer, which has seen consistently declining sales in recent months, has \$17 billion in assets, making this the largest retail bankruptcy in history. The company hopes to emerge from Chapter 11 in 2003 (www.sfgate.com).

Hospitality

We use occupancy rates at participating county hotels, motels, and inns as the indicator of this sector's performance. The hospitality sector fell a staggering 16.0 percent in December. The current *Index* value is at its lowest level since January 2000. Average monthly occupancy for 2001 was 56.1 percent.

Nationally, this sector continues to perform poorly. As reported last month, occupancy and average nightly rates are down virtually everywhere. Industry analysts do not expect significant improvement in the foreseeable future.

Gasoline Prices

Despite an 11 cent per gallon decrease from one month ago, gasoline still costs more in Eureka and Arcata than nearly everywhere else in the nation. The average price of self-serve regular unleaded gas in central Humboldt County was \$1.50 per gallon according to the latest monthly survey (released 1/15) conducted by the California State Automobile Association. This is 23 cents more than the Northern California average price and 28 cents higher than the statewide average. The national average rose 2 cents to \$1.13 per gallon since last month's survey (www.csaa.com). According to an article in the Times-Standard, the only major metropolitan area with a higher price is Honolulu, where the average price was \$1.69 per gallon. The lowest price reported was \$0.88 per gallon in Madison, GA.

As reported last month, production cutbacks and rising crude oil prices will cause gas prices to rise within the next couple of months due to declining supply. In addition, upward pressure on prices will increase as demand rises once the spring driving season begins. A state regulation, enacted in 1999, phasing out the use of gasoline additive MTBE exacerbates the supply issue. The ban, a state response to widespread environmental harm, established a deadline of December 31, 2002 for replacing the suspected carcinogen with ethanol, another additive that also reduces harmful exhaust emissions. Thus far, few refineries have made the conversion that is expected to have a total state-wide cost of tens of millions of dollars. In addition, the necessary annual supply of up to 950 million gallons of ethanol is anything but certain. This amount represents roughly half of the current total yearly production. Getting the additive to California from the Midwest, where it is produced from corn, presents another set of substantial problems that have yet to be resolved. As a result, analysts predict a very serious supply bottleneck that could cause prices spikes as high as 50 cents per gallon. Governor Gray Davis is considering several options, including pushing back the MTBE deadline (www.sfgate.com).

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. With the actual data for the fourth quarter in hand, the numbers for both October and November have been revised substantially downward. The *Index* value for October is now 101.8, down from 130.6. The figure for November is now 109.2, down from 126.3. Since electricity use is a major component of economic activity, these numbers, taken with December's 111.1, corroborate other indications of a slowing local economy. They may also indicate that consumers are continuing conservation habits formed last winter. Both electricity and natural gas consumption were much lower in this quarter than in the same period of 2000. The retail price of natural gas is as much as 60 percent lower this winter than last according to PG&E, which is

consistent with declining demand for natural gas. Another reason demand may be declining is because we are in a recessionary economy.

A hearing was held on January 25th to determine if PG&E would be allowed to transfer several of its power plants and hydro-electric facilities to its unregulated parent company. A lawyer for the utility argued that federal bankruptcy law supersedes the various state regulations cited by opponents trying to prevent the transfer. An attorney for the state PUC countered that the laws PG&E is contesting are protected by a 1994 U.S. Court of Appeals ruling that allows state law to prevail in cases relating to public health and safety. He accused the utility of asking to be excused "from their duty to serve" the public. A U.S. Justice Department lawyer, representing the interests of the Environmental Protection Agency and the Interior Department, argued that PG&E's proposal "would make bankruptcy court a haven for environmental scofflaws". The judge has yet to make a ruling, though he did order PG&E and the PUC to attempt to resolve their differences in mediation (www.sfgate.com).

In an earlier ruling, the judge, while expressing skepticism, allowed the PUC to file an alternate reorganization plan with the court. Under this proposal, the \$10 billion owed to PG&E's creditors would be paid partly with cash the utility has on hand. According to a Securities and Exchange Commission filing, the company has cash reserves of \$4.9 billion. This plan would also keep rates under state regulation (www.sfgate.com).

Total County Employment

In their preliminary report for December, the Employment Development Department (EDD) reported that 56,300 people were employed in Humboldt county, down 700 jobs, or 1.2 percent from November's revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries decreased 0.2 percent from a revised 43,300 in the month of November to a preliminary 43,200 for the month of December. This sector is up 2.4 percent over last year's figure. The decrease came from losses in the State Education, Local Government and Other Services subsectors. The preliminary figure for the retail subsector in December shows 11,300 jobs, up 0.9 percent from November's revised 11,200. All of the gain was made in the Other Retail Trade classification, and is likely due to the holiday shopping season.
- Total county manufacturing employment decreased by 3.6 percent from last month's revised figure. The Logging and Sawmills subsectors each lost approximately 100 jobs. The number of people currently employed in this sector stands at approximately 5,300. Total manufacturing employment is down 11.7 percent from December 2000.

Conditions in Humboldt County's labor market improved slightly in December, with the unemployment rate falling to a preliminary 6.0 percent from November's upwardly revised 6.1 percent. Once again the change in this measure is largely due to a change in the size of the county's labor force, which shrank 1.3 percent. There were some 800 fewer people working or actively seeking work in December than in November. The national jobless rate rose an additional 0.1 percent to 5.8 percent. California's rate fell 0.2 percent from last month's revised figure and now stands at 5.7 percent (www.nytimes.com and www.sfgate.com).

Some 124,000 people lost their jobs nationally in December. In light of the fact that a total of 799,000 positions were eliminated in October and November, many analysts see the easing in the number of layoffs as a sign for hope. The cuts spanned many industries, but manufacturing, yet again, was hardest hit. This sector experienced its seventeenth consecutive monthly decline with 133,000 jobs lost. There are now roughly 1.3 million fewer manufacturing jobs than there were at the beginning of 2001. Retail also suffered heavy losses with 77,000 jobs cut. Health care and private education added approximately 31,000 and 28,000 jobs, respectively (www.nytimes.com).

Unfortunately, the negative trend in employment isn't likely to end anytime soon. A study recently released by the Milken Institute estimates 1.64 million jobs will be lost in 2002, mostly as a result of the steep economic downturn following the September 11th attacks. California is expected to absorb 230,000 of these layoffs

(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 timber industry continues to struggle in Humboldt County as it does elsewhere across the country. The *Index* value for this sector dropped a depressing 15.0 percent in December from November's already low figure. The current number is the lowest it has ever been in the eight years of this report's existence. It is also down by double-digit percentages in all of the year-over-year comparisons for the third straight month.

Eel River Sawmills recently accepted a buyout offer made by a Nevada-based corporation. The sale is pending approval of Eel River's shareholders. According to a report in the *Times-Standard*, the company's Fortuna mill may run out of work in early February, leaving many of the 120 remaining employees idle.

An article in the *Washington Post* reports that the Canadian timber industry is feeling the effects of large tariffs imposed by the U.S. on imported softwood lumber. Officials claim 30,000 jobs have been lost due to the sanctions, 18,000 in British Columbia alone. Despite little, if any progress, made thus far, negotiators hope to resolve the issue before it goes before the World Trade Organization in September.

When will it end?

National manufacturing activity fell for the seventeenth consecutive month in December based on the Institute of Supply Management (formerly known as the National Association of Purchasing Management) Index. Analysts are offering tepid optimism for this sector based on a rapidly slowing rate of decline in the ISM measure. This month's number came in higher than was expected, and it is currently hovering just below the level signifying positive growth (www.nytimes.com). Meanwhile, industrial production shrank by a scant 0.1 percent for the month. This measure has declined in fourteen of the last fifteen months and now stands at a level 6 percent lower than in December 2000 (www.dismal.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. As noted above, this is the first month since December 2000 that all of our leading indicators are strongly positive at the same time .

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. December's *Index* figure jumped an impressive 36.5 percent from the previous month. The measure is down 5.0 percent and 11.2 percent from the same month in the boom years of 1999 and 2000, respectively, but is substantially higher in the other year-over-year comparisons: 8.9 percent from 1998, 27.8 percent from 1997, and 37.1 percent from 1996.

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. This measure registered its second straight month of decline with an appreciable 29.6 percent drop from November. As noted above, at least part of this change is probably due to benefits that increased in January. The newly unemployed in December had an incentive to hold off filing for benefits until after January 6th, when the maximum allowance increased from \$230 to \$330 per week. Those who filed before this date were not eligible for the increase. Statewide traffic at the Employment Development Department seems to corroborate this. In the week of January 13th, for example, around 74,000 people filed claims. By comparison, only 36,800 claims were filed in

the final week of December (www.sfgate.com).

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, increased 7.2 percent in December, but are down across all nearly all other comparisons. The current preliminary figure fell 18.3 percent from December 2000, rose 0.1 percent from December 1999, and fell 33.7 percent, 23.6 percent and 38.3 percent from December of 1998, 1997 and 1996, respectively.

Home Sales Economic Indicator:

The building permits indicator soared 43.3 percent in December from the previous month. This volatile sector is up by 23.8 percent, 13.1 percent, 53.0 percent and 53.0 percent when compared to same month performance in 2000, 1999, 1998 and 1996, respectively. The current figure is 25.7 percent lower than it was in December 1997.

Nationally, the Conference Board's Index of Leading Indicators rose 1.2 percent in December. This is the third straight month of improvement, and the current figure represents the largest monthly increase since February 1996. Likewise, the ECRI Weekly Leading Index has been steadily rising for the past three weeks (www.dismal.com).

The Bigger Picture

The latest release of the Federal Reserve's Beige Book, covering economic activity for late November to early January, reported that while conditions remain generally weak, there are signs in several of the twelve districts of stabilization, and in a few districts, of slight improvement. Unfortunately for those of us on the west coast, the positive conditions are occurring elsewhere. The San Francisco District reported continued contraction across virtually all sectors.

According to preliminary data released by the Commerce Department, The U.S. economy grew 0.2 percent in the fourth quarter of 2001. Although this figure is small, it lends credence to those economists who feel the worst of the recession is behind us (www.nytimes.com).

Based on these promising indications, the Fed did not lower interest rates at the January 30 meeting of its Open Market Committee. Fed watchers expect the federal benchmark rate to hold steady at 1.75 percent for the next few months as the nascent recovery unfolds. Further rate cuts, as needed, have not been ruled out. (www.nytimes.com).

Less optimistic economists are still expressing doubt about both the timing and the magnitude of the pending recovery. They are worrying about gloomy forecasts for the other large economies across the world, among other things. The European Central Bank predicts 2002 economic growth of between just 0.7 and 1.7 percent for the twelve-nation euro zone. Their prediction for 2003 is only slightly better at 2.5 percent. In Japan, the outlook is considerably darker. Recent statistics show that this country's industrial production is at its lowest level since 1988, its unemployment rate is higher than at any time since World War II, and its annual economic output has been negative in four of the past ten years. Since Japan's economy is heavily export dependent, and most of its trading partners are also struggling, analysts expect things to get worse before they get better (www.nytimes.com). These factors adversely affect the domestic economy mainly by decreasing the demand for U.S. goods and services abroad. In the case of Japan, where a potential financial crisis is more likely, there is a possibility of Japanese firms dumping cheap products into domestic markets in a desperate effort to generate income at the expense of profits. While this would be beneficial to American consumers, it would be devastating to our manufacturers.

An additional serious cause for concern on the national front is a rising debt level. According to the Federal Reserve, consumer credit is at a record \$1.5 trillion. Over the last decade, personal debt soared 123 percent while personal income rose by only 72 percent. This means that a typical consumer with at least one credit card

now has over \$8500 in debt. At an average interest rate of around 14 percent, it can take years for these people to pay off their balances. Of course, this leaves less money available for the new purchases that help spur economic growth. This situation isn't expected to improve anytime soon. The national savings rate has averaged only about 1 percent for the past couple of years and is currently just above zero percent. Ten years ago, the savings rate was around 8-9 percent. Some economists, particularly among those on Wall Street, feel that concern over debt is misplaced. They claim that if net worth is used instead of income, the outlook is not nearly so dire. Large gains made in stock holdings and home values make debt load relatively easier to bear. It's essential to note that this argument depends on the stock market maintaining most of its current value (www.sfgate.com and www.nytimes.com).

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 "January 2002" report reflects data from December 2001. 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 San Francisco Chronicle webpage](#)

[The New York Times webpage](#)

[The Washington Post webpage](#)

[California Association of Realtors webpage](#)

[International Council of Shopping Centers webpage](#)

[The Dismal Scientist webpage](#)

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

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