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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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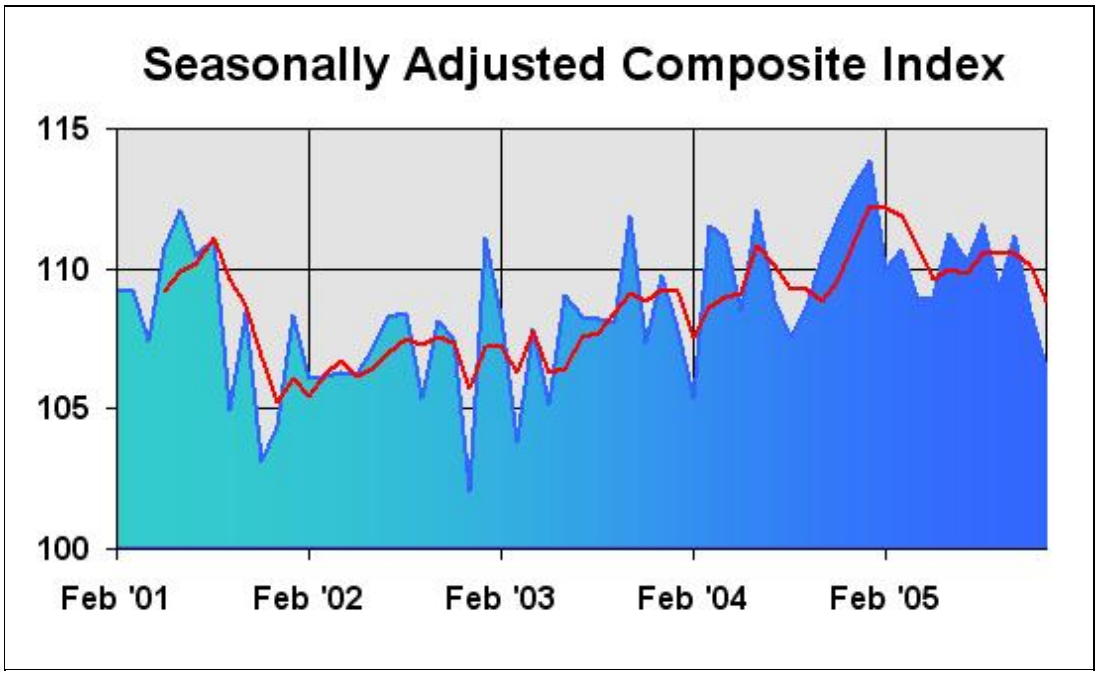
January 2006



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 December the Index declined, losing 1.9 percent to a composite Index value 106.4 (100 = January 1994). The Index was pulled down most notably by continued declines in the home sales and manufacturing sectors. The Hospitality sector put the greatest upward pressure on the Index, while county employment increased slightly but retail sales posted disappointing holiday numbers. Seasonally adjusted home sales in Humboldt County fell again more sharply this month, following last month's significant decline, and now stand at 90.3. This is the lowest level we've seen for several years. This decline in retail sales represents the lowest holiday numbers for several years. This may reflect a growing trend in online shopping. The declines in manufacturing are particularly distressing coming after two months of increased expected month-ahead orders in that sector. County Employment began to grow after a period of decline, with 500 fewer unemployed persons in the county and the Employment Index rising slightly. The county unemployment rate fell this month as well. This was driven mostly by an increase in business services and food service employment. Also this month, many sectors of the economy at the national level are showing inflationary pressure, with low inventories and increased orders, higher cost of inputs, rising wages and declining worker productivity.

Composite & Sectoral Performance, *Index of Economic Activity for Humboldt County*

* * *		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**
COMPOSITE	**106.4**	**-1.9**	**-5.8**	**-3.1**	**-4.3**	**2.0**	**-0.4**
Sector							
Home Sales	**90.3**	**-16.4**	**-36.9**	**-37.4**	**-22.6**	**-29.3**	**-17.1**
Retail Sales	**137.7**	**-5.6**	**-6.7**	**-2.7**	**-4.8**	**-5.7**	**6.7**
Hospitality	**98.3**	**6.8**	**27.6**	**4.3**	**20.7**	**-4.5**	**8.6**
Electricity Consumption	**148.4**	**6.4**	**9.2**	**29.5**	**67.8**	**31.0**	**26.2**
Total County Employment	**102.7**	**0.2**	**-0.2**	**0.2**	**1.2**	**4.8**	**1.6**
Manufacturing	**56.5**	**-19.2**	**-46.0**	**-35.4**	**-29.1**	**-24.7**	**-42.4**

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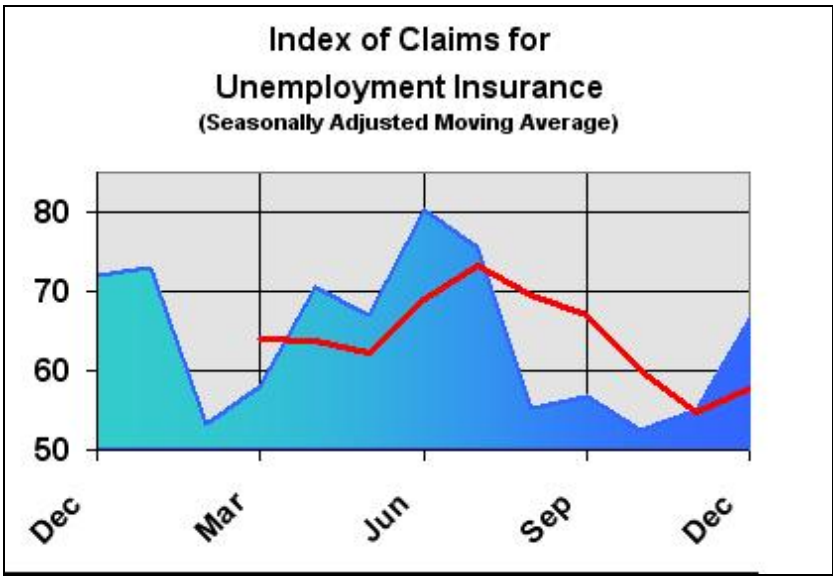
Leading Indicators

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) 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.



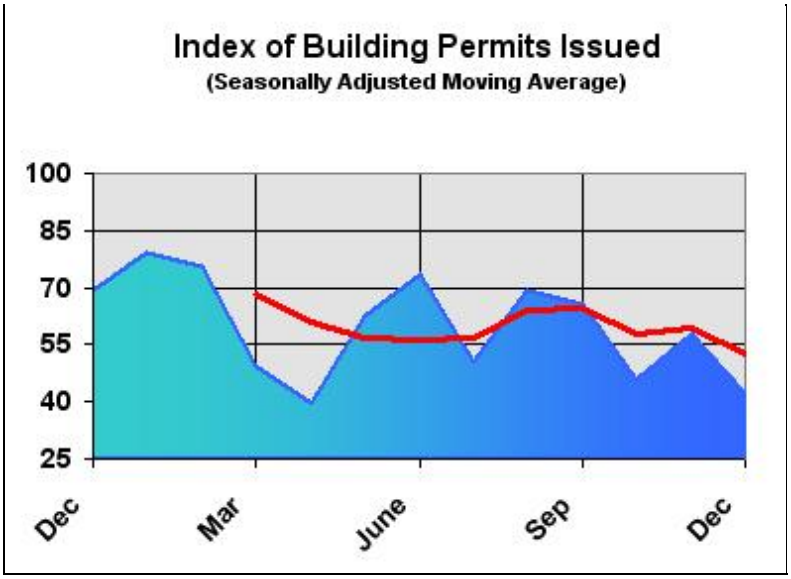
Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator jumped by 21.0 percent this month, indicating possibly worsening job market conditions in future months, but this number is still not historically very high, and is lower than last December by 7.5 percent, and lower than the same period in four of the last five years. Considering historically high levels of help-wanted advertising, as noted below, and the remarkably low levels of this Index in past months, the county's labor market may have more improvement still ahead.

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 December, the Index increased 10.0 percent to an Index value of 164.8. This is a 32.8 percent increase in help wanted advertising from December of 2004. This continues to bode well for job creation in the county.

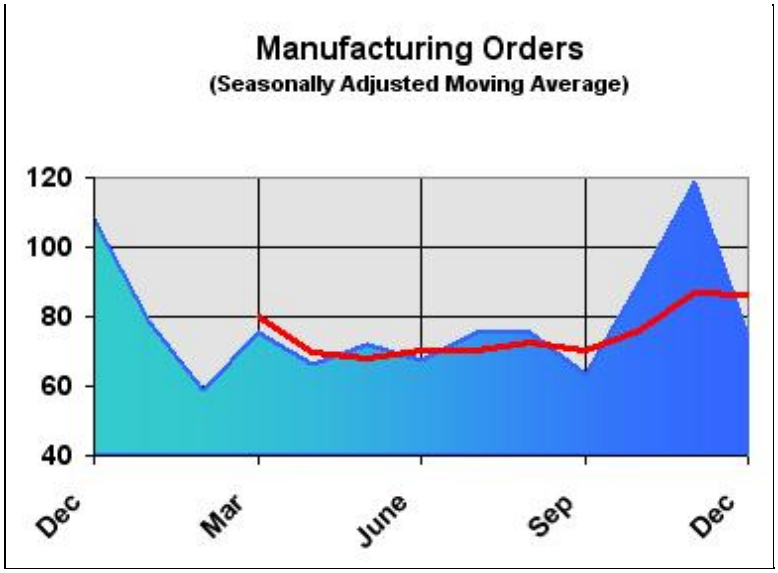
National help wanted advertising was unchanged this month according to the Conference Board. Their Index of help wanted advertising remained at 39. This is a point lower than the same month a year ago. The Conference Board points out that in the last three months only four of nine U.S. regions reported gains, but that the Pacific Region was among the regions that showed gains. Posting a 0.8 percent gain, the Pacific Region was fourth overall among regions, last among the gainers. Ken Goldstein, labor economist at the Conference Board feels that for the nation as a whole, job growth will continue but not accelerate in the months ahead, not reaching the level of adding 200,000 jobs a month for at least the next few months. (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 December the Index of building permits fell, more than reversing last month's gain and giving the Index the appearance of a downward trend over the last few months. The Index dropped 26.9 percent to a value of 42.1. This is the lowest value since April 2005. This is consistent with a slowing housing market, which is indicated by other factors as well, not the least of which is the dramatic fall in the Home Sales Index, discussed below under Individual Sectors.

Nationally, the Pending Home Sales Index as reported by the National Associations of Realtors (NAR) also reported a contraction, dipping 3.0 percent to an Index value of 116.4 from a level of 120.0 in November. This is 5.5 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. Nonetheless, the NAR expects pending home sales to pick up in the months ahead. (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 sharply by 37.5 percent in December and now stands at 74.1. This dramatic decline has not fully reversed the unusual growth seen the last two months, but the decline may be sustained in future months as the soaring expectations of the past months have not been fully borne out in manufacturing output, as can be seen in the Manufacturing Index below.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	$339,000	Unemployment Claims	21.0
30 Yr. Mortgage Rate	--	Help Wanted	10.0
Unemployment Rate**	5.3%	Building Permit	-26.9
		Manufacturing Orders	-37.5

* 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.

** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.

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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.

December saw the fifth consecutive decline in the home sales Index, with this month's decline being the largest yet, giving up 16.4 percent. Excluding September 2001, when national uncertainty sharply depressed home sales, this month's Index value is the lowest in over seven years. The sharp decline in this area strongly contributes to the overall decline in the Composite Index this month. The median price of a home sold in December was $339,000, up from last month's median selling price of $319,450. The median selling price is not adjusted for inflation and does not affect the Index.

There is also evidence of big changes coming in other housing markets. San Diego is seen by some as a bellwether housing market. The California Association of Realtors reports that the median price of an existing home in the San Diego region was down 2.1 percent in December, and sales were down 21.3 percent, compared to the same period in 2004. The National Association of Realtors reported that the U.S. housing inventory in November, a measure of the number of homes available for sale, hit the highest level in 20 years. DataQuick Information Systems reports that lending institutions sent 14,999 default notices to California houseowners during the fourth quarter, which is an increase of 19 percent from the third quarter and and increase of 15.6 percent from the fourth quarter of 2004. Sacramento foreclosure activity increased by 31.4 percent over the fourth quarter in 2004. Finally, the National Association of Realtors reports that 43 percent of first time home buyers last year put zero money down on their purchase, which makes these buyers particularly vulnerable when prices fall, since they may find themselves owing more than the property is worth.

California's median selling price, as reported by the California Association of Realtors, decreased very slightly in December, falling to $548,430 from $548,680 in November. This level is still 15.6 percent higher than the median home selling price for the same period last year. The number of homes sold in the state in December fell sharply by 17.6 percent when compared with December of 2004. C.A.R. President, Vince Malta noted that the decline was "prompted by consumers' concerns about rising interest rates." He also noted that, "Consumers also were rattled by both the spike in energy costs and the hurricanes late last year... Looking ahead, we expect those concerns to impact transactions completed in January as well." (car.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of February 2nd ticked upward to 6.23 percent with an average 0.5 points. The 30-year fixed mortgage rate averaged 5.63 percent during the same period last year. Frank Nothaft, Freddie Mac vice president and chief economist noted that, "Declines in worker productivity coupled with accelerating labor costs increase the threat of inflation down the road. Inflationary pressure generated by these two factors pushes long-term mortgage rates upward, which is why we have seen rates rise these last two weeks." (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 shrank in December, falling 5.6 percent to a seasonally adjusted Index value of 137.7. This is a 6.7 percent decrease from the same period last year. This is consistent with slightly lower than expected retail sales for the holiday shopping season at the national level as well. National sales grew somewhat, although most analysts were disappointed with the numbers. Some have commented that this is at least partially due to the notable increase in purchases of gift cards this holiday season, which are not counted as sales until they are redeemed. This may result in increased sales volumes in coming months as cards are redeemed. It is not clear whether this was a factor in Humboldt County or not.

National retail sales, as reported by U.S. Census Bureau, increased slightly in December. Seasonally adjusted sales were $357.8 billion, up 0.7 percent (±0.7%) from the previous month and 6.4 percent (±0.8%) higher than December 2004. Total sales for 2005 were up 6.3 percent (±0.5%) from the previous year. Notably, gas station sales in December were up 17.9 percent (±3.3%) from December 2004. This is probably a result of higher prices at the pump rather than an increase in the amount of gas sold. (census.gov)

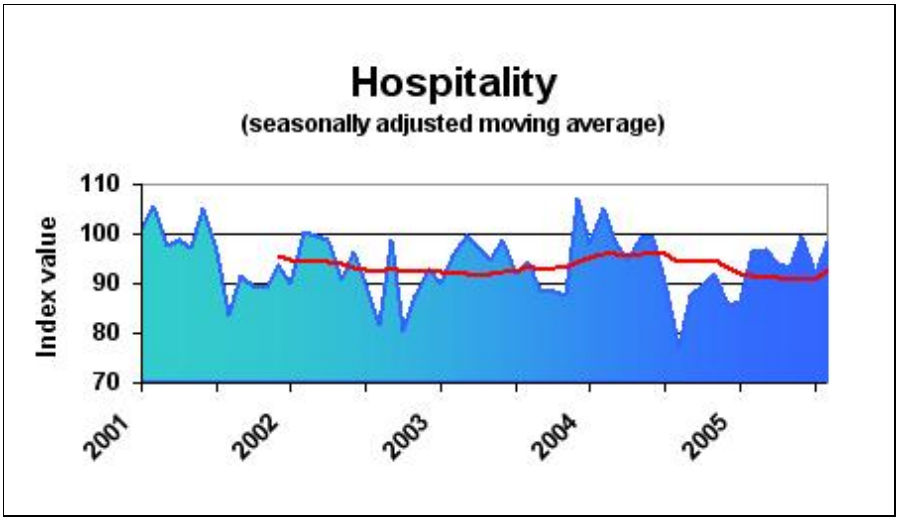
The Federal Reserve Board's Beige Book reported on January 18 that at the national level, activity in all twelve of its districts was expanding. Consumer spending was generally higher than month-ago levels. This was bolstered by strong tourism in all districts that reported on it. Most districts reported that consumer borrowing was flat or falling. This may be good news in light of recent trends toward increasing consumer indebtedness. (federalreserve.gov)

National consumer confidence as measured by the Conference Board increased again in January, adding 2.5 points to 106.3. A level of 100 is equivalent to the base year of 1985's level. According to Lynn Franco, Director of The Conference

Board Consumer Research Center, “Consumer Confidence is now at its highest level in more than three years (June 2002, 106.3)” She added that, “This month's increase was driven solely by consumers' assessment of current economic conditions, especially their more positive view of the job market.” (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 increased 6.8 percent in December to an Index value of 98.3. This represents a 27.6 percent increase from the same month last year and was the top performing sector this month. Nonetheless, the overall hospitality Index value for the month of December is not unusual. The Index has fluctuated near this level for quite a long time with the exception of a few outlying months.

Gasoline Prices

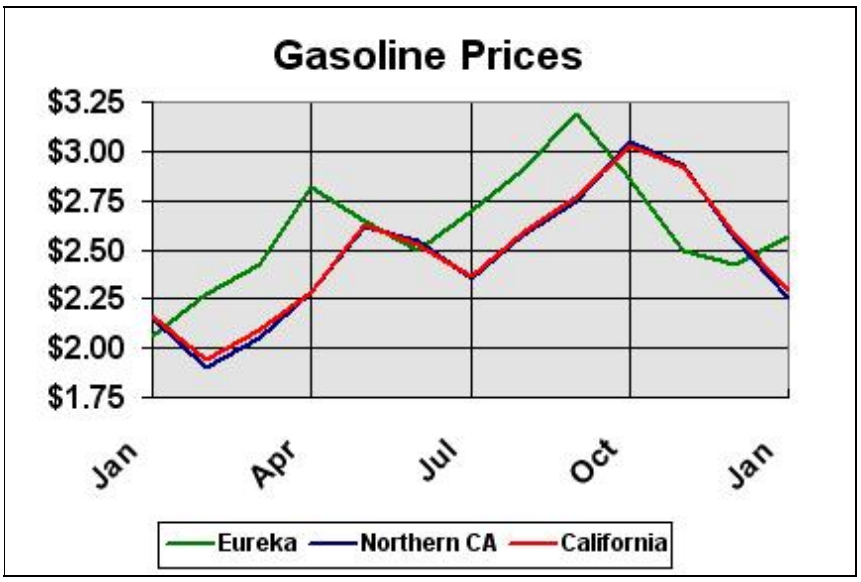
The American Automobile Association reports that county gas prices have risen 15 cents as of January 11, to $2.57, more than erasing the drop of the previous month. Eureka now stands as the second most expensive community in the state for gasoline purchasers. Prices also rose, although less dramatically for Northern California and the state as a whole. The average price per gallon of gas in

California rose 7 cents to $2.36 and the Northern California price added 6 cents to $2.31. Spokesperson for AAA of Northern California, Sean Comey noted that high gas prices are being driven by the high cost of crude oil, and finds it particularly troubling that although prices are commonly up in January, we are beginning the year with prices considerably higher than those we began last year with. Prices in Eureka are more than 50 cents up on the year. (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 why Humboldt County gas prices tend to be higher than the rest of California's.

Average Price* (as of 01/11/06)		Change From Prev. Month (cents/gal.)
Eureka	$2.57	15¢
Northern Ca	$2.31	06¢
California	$2.36	07¢

Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association's 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 estimated, and are revised when the quarterly data are received.

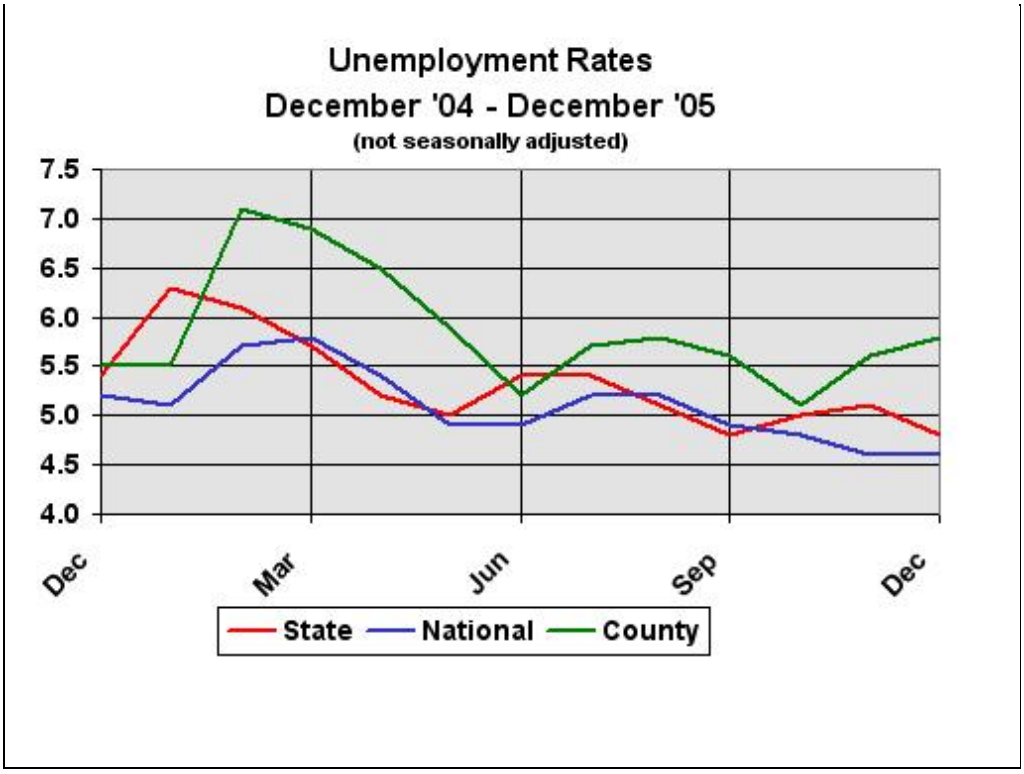
Data for the quarter ending in December indicate very high energy consumption. The revised Index values for October, November and December are 141.8, 139.6 and 148.4 respectively. These months represent the first second and third highest values on record for this index. Interestingly, the highest month on record prior to this quarter is September of 2001, the month of 9-11. PG&E has been warning consumers about future increases in energy costs. It will be interesting to note whether these levels of consumption are sustained as energy prices rise in coming months.

Total County Employment

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

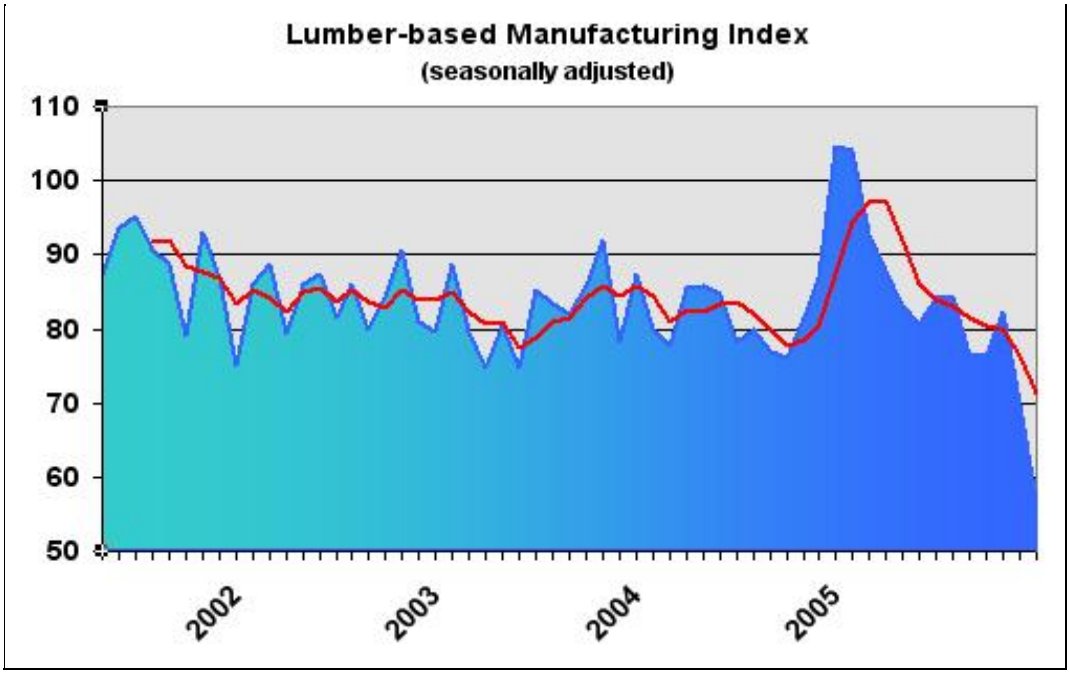
Preliminary employment and labor force data for December indicate 61,300 people in the Humboldt County labor force, of whom 58,100 are employed. This means that 300 individuals left the labor force in the month. Additionally, the Humboldt economy created 200 jobs during the month. Together this resulted in 500 fewer unemployed persons in the county, and a decline in the unemployment rate from 5.9 percent to 5.3 percent. The additional jobs were in professional and business services and in food and beverage stores. There are now 3,200 unemployed persons in the county who are actively seeking work. The employment sector's Index value recouped some of last month's loss, rising 0.2 percent to 102.7. This represents a loss of 0.2 percent from the same month last year.

The state and national unemployment rates also fell in December. California's unemployment rate fell to 4.8 percent, from 5.1 percent last month, while the national unemployment rate fell to a low 4.6 percent again in December. The rates we report each month are not seasonally adjusted, which is why rates reported for recent months in the media have been lower. It is important to note that the seasonally adjusted rate for the month of January, 4.7 percent as reported by the U.S. Department of Labor, is the lowest unemployment rate for our nation since September of 2001. This represents a strong job market at the national level, so strong in fact that some businesses are concerned it will drive up inflation. (edd.ca.gov)



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 December, lumber based manufacturing fell sharply again, decreasing 19.2 percent to an Index value of 56.5. Together with last month, this decline has brought the Index down dramatically from 82.4 in October. The Index now stands at its lowest level on record, just over half of its year-ago value. This is a remarkable decline, reflecting the largest drop in so short a period for this indicator.

At the national level, the Institute for Supply Management reports that American manufacturing is quite strong. The Institute observes that although prices were up, the number of commodities that were up this month has decreased significantly since last month. At the same time, orders and production were described as "relatively strong" and Norbert J Ore C.P.M., chair of the ISM notes that the sector appears to have recovered from the difficulties caused by the Gulf Coast hurricanes. The Institute reports that in spite of the hurricanes and other disruptions, January represents the 32nd consecutive month of growth in the manufacturing sector and 51st consecutive month of growth in our national economy. (www.napm.org)

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The Bigger Picture

Oil Prices, Our Environment and Our Economy

By: Garrett Perks

What is the future for petroleum? Will gas prices go down? Certainly, the future of our planet's petroleum supplies is a controversial topic. In spite of the controversy, what things can we be confident about?

One obvious fact is that not all petroleum is the same. Some oil reserves are very easy to extract and refine, while some are more difficult to use. Some reserves are easy to bring to market, while some are so costly to extract and refine that the process can't be done profitably at current prices. As the most profitable reserves are extracted and brought to market first, those that remain are inevitably less profitable, being more costly to bring to market.

Because of this, we should expect rising oil prices in the long term, even as short term fluctuations in oil prices prove unpredictable, responding to a myriad of geo-political and meteorological events. It may be that in past decades new oil discoveries have kept prices down, but rates of discovery have fallen considerably from their peak in the 60's. At the same time, the rapidly growing economies of China and India are displaying an expanding appetite for oil. These factors together can be expected to lead to a future of higher not lower oil prices.

What do higher oil prices mean for us in the long run? An important economic implication is that a world where petroleum is becoming more expensive is also a world where alternatives are becoming more profitable. As gas gets more expensive, consumers will be willing to pay more for alternative technologies, and businesses taking advantage of less petroleum-intensive strategies will enjoy an economic advantage over their competitors. The implication for our environment will be the ascendancy of cleaner sources of energy that are also more economical. Those businesses who find ways to help us adapt to a world of more expensive oil will both save us money and find a growing place in the economic order of tomorrow.

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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.

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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

U.S. Bureau of the Census's home page

U.S. Bureau of the Census's Economic Briefing Room

Send us your comments. Comments will be posted on our Reader Comments page unless otherwise requested.