



# Humboldt Economic Index

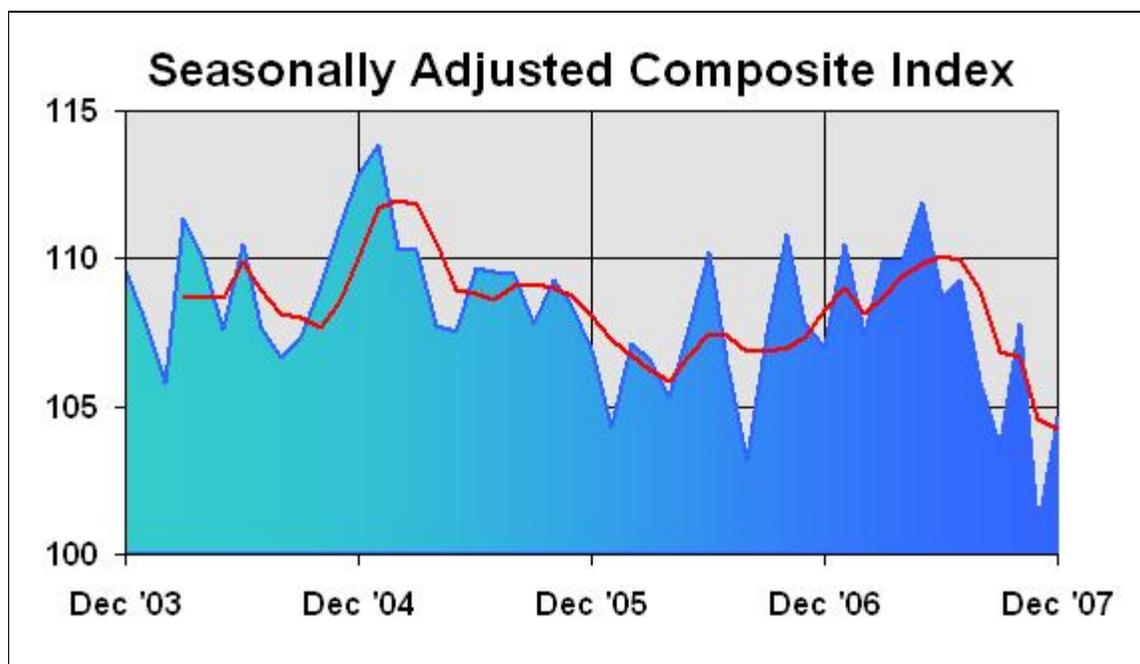
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## Humboldt Economic Index

### January 2008

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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.

Overall, December provided a much need reprieve after last months drop under 100. The Composite Index now stands at 104.6. Manufacturing fell again for the fifth month; while home sales also declined from last month by 22.7%. Retail Sales and Hospitality also jumped up by more then 10% during the holiday season. Electricity consumption edged up 1.7% to end out 2007, while H.R.6: Energy Independence and Security Act of 2007 was signed into affect in hopes to curb energy consumption and become more energy efficient. While Average Gas prices remain unchanged form last month the price per barrel of oil hit \$100 on the New York Exchange. However, even though December was a positive month many leading indicators support a contraction of the economy in coming months.

Composite & Sectors					
		Percent Change From:			
Index	Value*	Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	104.6	3.7	- 2.2	2.7	1.1
Home Sales	69.33	- 22.7	- 40.0	- 40.6	- 12.5
Retail Sales	167.9	18.6	6.5	16.1	53.1
Hospitality	97.2	13.3	3.5	20.7	- 2.8
Electricity Consumption	130.95	1.7	10.8	48.1	21.5
Total County Employment	104.0	0.5	0.9	2.5	3.0
Manufacturing	30.7	- 18.2	- 45.0	- 61.4	- 74.0

\* 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‡
<b>\$ 300,000</b>	<b>5.375 %</b>	<b>6.8 %</b>

\* 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.

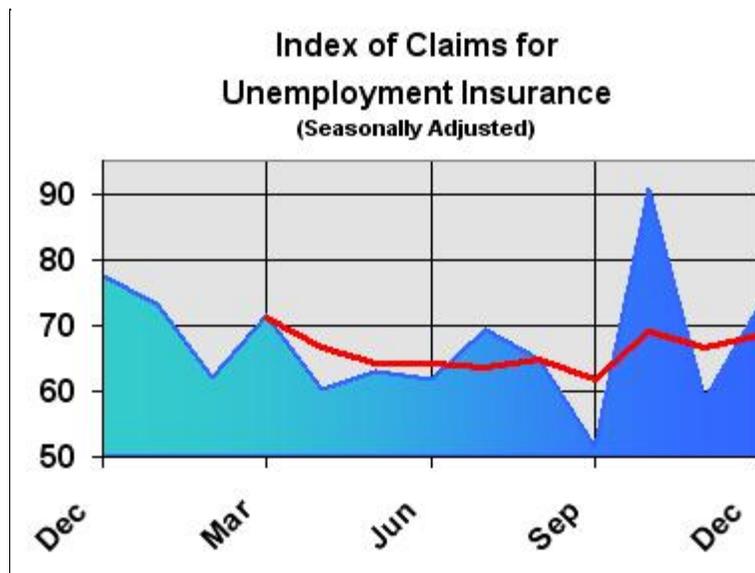
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## Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	23.4	- 13.7	41.5	not available

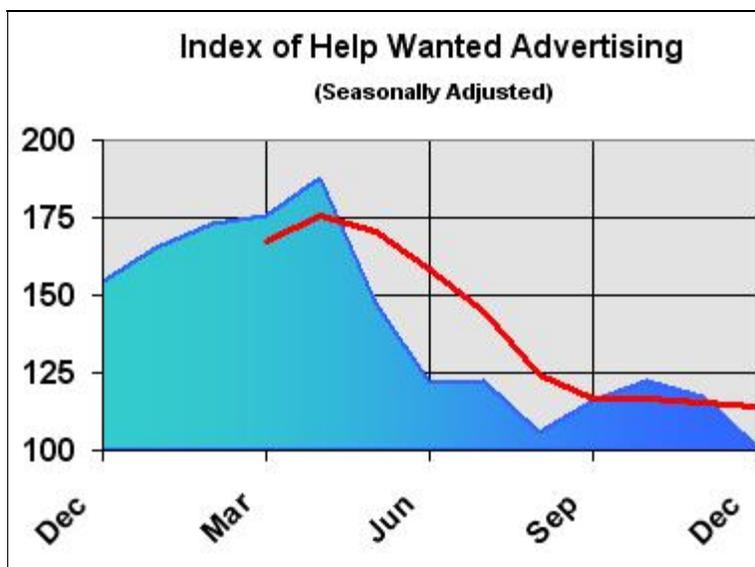
\* All values are seasonally adjusted.

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.



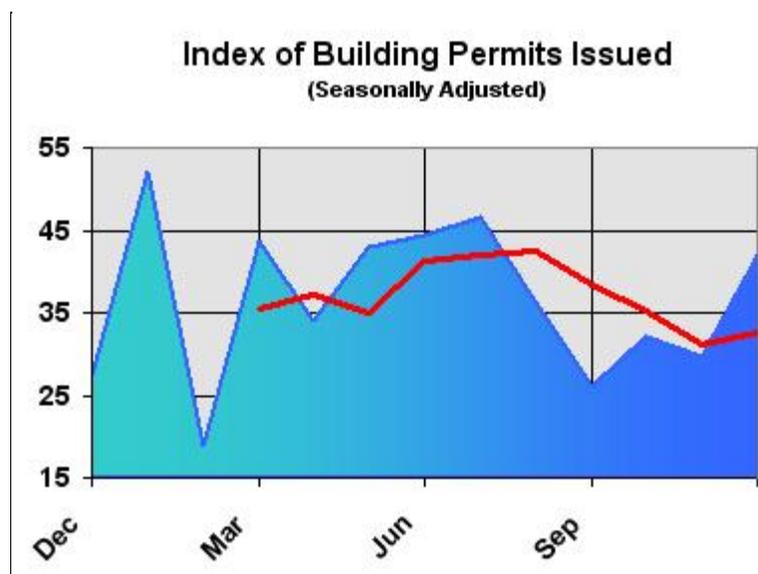
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of Claims for Unemployment Insurance rose 23.4% from last month. Considered together with the decline in Help Wanted Advertising which began in the Spring, this may be an indicator of a weakening Humboldt County labor market.



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.

Although Help Wanted advertising experienced a slight increase in September and October, fell again in November and December. The continual drop in advertising and increasing unemployment claims suggests to a weaker markets and a general slowing of economic activity.



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 rose in December by 41.5% from last month, coming to an Index value of 42.1. While up on the month, this is not an historically high value. In light of the unreavelling Humboldt County housing market, we might expect a lower value of this Index. Its moderate level may be a result continued commercial building activity even as residential building suffers.

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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. House prices do not affect the Index.

December home sales took a considerable drop, falling down 22.7% from November. Home sales were at essentially the same level as in September, when the effect of the summer credit crunch was at its fullest. Housing sales have not been this low since 1997. This drop is most likely attributed to buyers and their reluctance to buy into a market where property values may continue to fall and as buyers still believe it to be too risky to enter the housing market. Median home price has stayed constant for 3 months running while mortgage interest rates fell further by 0.625%.

The National Association of Realtors has been a long time advocate of increasing loan limits. In late January Gov. Arnold Schwarzenegger also expressed his concern in the current housing situation by asking congress to raise the conforming loan limit. January 22, the Federal Reserve Board cut 75-basis points in the Fed funds rate and further reduced rates by 50 basis points the following week. This drop in the Fed funds rate to 3.0% could attribute to buyers saving \$3,000 to \$5,000 annually.

**NAR** reports on January 29, an economic stimulus bill has been approved by the house and that would raise the loan limit. NAR's president Richard Gaylord states "... that increasing FHA loan limits will help an additional 138,000 Americans achieve the dream of home ownership and will allow nearly 200,000 homeowners to refinance and potentially keep their home," Gaylord said. While this is true, and increased conforming loan limits may help some distressed borrowers, it is never good policy to stimulate increased demand in the midst of a bubble. This is likely to prolong the market imbalance and increase its impact on the greater economy, while unfortunately doing little for the most distressed borrowers who will be unable to find lenders willing to refinance, even with the higher conforming loan limits.

**California Association of Realtors** reports that statewide home sales also experienced a significant decline compared to last year. The 33.4% drop from last year was also accompanied by a 16.5% decrease in the median home price.

For a local perspective on housing, visit the [Humboldt Real Estate Economics Page](#).

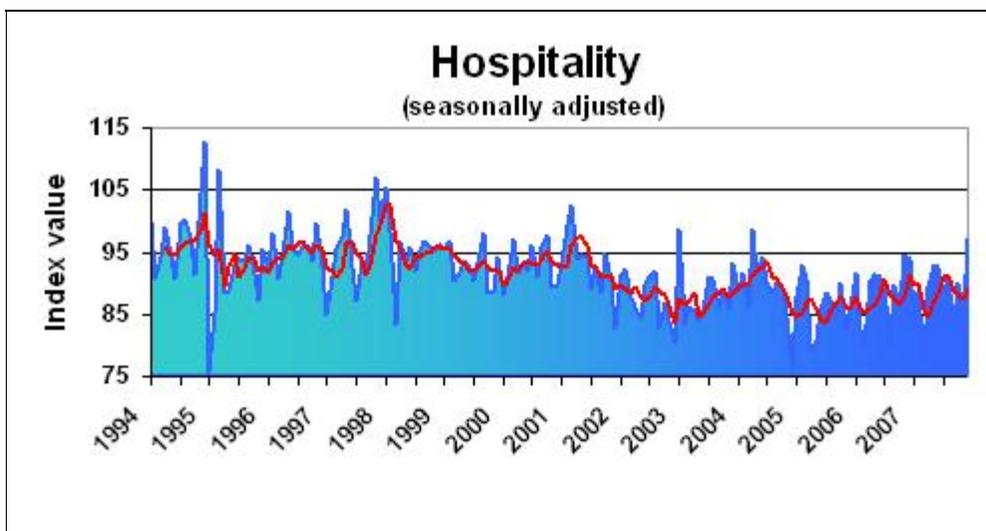
## Retail Sales

The Retail Index rose throughout the holiday season jumping up 18.6% to 167.9. However, the drop in November still puts retail under its peak just the last October. Furthermore, this has been the first time in three years since retail sales have risen over the holiday season. Retail undoubtedly experienced some loss as mail in orders and online shopping rose in December.

According to the **The U.S. Census Bureau** reports that a 4.1% increase from last years sales. The increase in retail sales throughout December are attributed to an increase in electronics, food, and clothing. Auto sales continue to lack strength, especially for domestic manufacturers, as the market falls short from last years sales. Retailers nationwide did experience growth in tourism as Canadians and Europeans visited the states participating in winter tourism aided by the weak dollar.

## 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.

The Hospitality Index rose over the holiday season to 97.2, a 13.3% change from last month. The Hospitality index continues to hold onto its long run trend of fluctuating from the 80's to slightly over 100; while this is the first month since August that it has risen above 95. This increase in hospitality implies a strengthening in tourism-related industries.

## Gasoline Prices

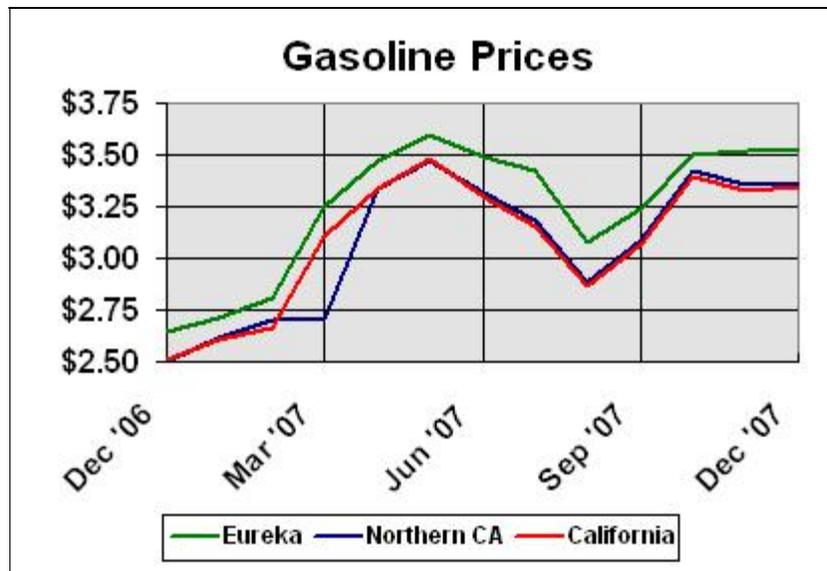
Average gas prices rose slightly by 2 cents in California; however this increase was attributed to Southern California as both Eureka and Northern California remain unchanged. **BBC News** documented that due to a weakening dollar and foreign disputes the price hit \$100 a barrel in the New York Exchange. As of Sunday February 3, 2008 Brent Crude Oil stands at \$92.36 per barrel. President Bush has said he would not be drawing on the SPR (US Strategic Petroleum Reserve) to try to bring down prices. Many have been dreading the day when oil hits \$100 per barrel; however as long as we are experiencing a weakening dollar, growing demand, and contracting oil supply oil prices will increase in the long run well over the \$100 mark.

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 01/08/2008	Average Price*	Change from Previous Month

<b>Eureka</b>	<b>\$ 3.52</b>	<b>\$ 0.00</b>
<b>Northern CA</b>	<b>\$ 3.36</b>	<b>\$ 0.00</b>
<b>California</b>	<b>\$ 3.35</b>	<b>\$ 0.02</b>

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



## Electricity Consumption

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

Ending out 2007, fourth quarter data show an increase in electricity consumption. The September Index was 125.4, but this rose 2.9% to 129.06 in October, fell slightly to 128.8 in November, then rose 1.7% to 130.95 in December. The December Index was approximately 0.55 shy from this years peak back in March. The steady increase of this Index since inception leads to growing concerns of supply keeping pace with demand.

**U.S. News** reports growing concern over H.R.6: Energy Independence and Security Act of 2007. This new legislation starts the process of phasing out the 128-year old incandescent lights bulb with new more energy efficient fluorescent bulbs. Incandescent bulbs are highly inefficient for lighting an area, using only 5% of energy to create illumination while the remaining 95% is released as heat energy. For more information on this new legislation visit [GovTrack.us](http://GovTrack.us).

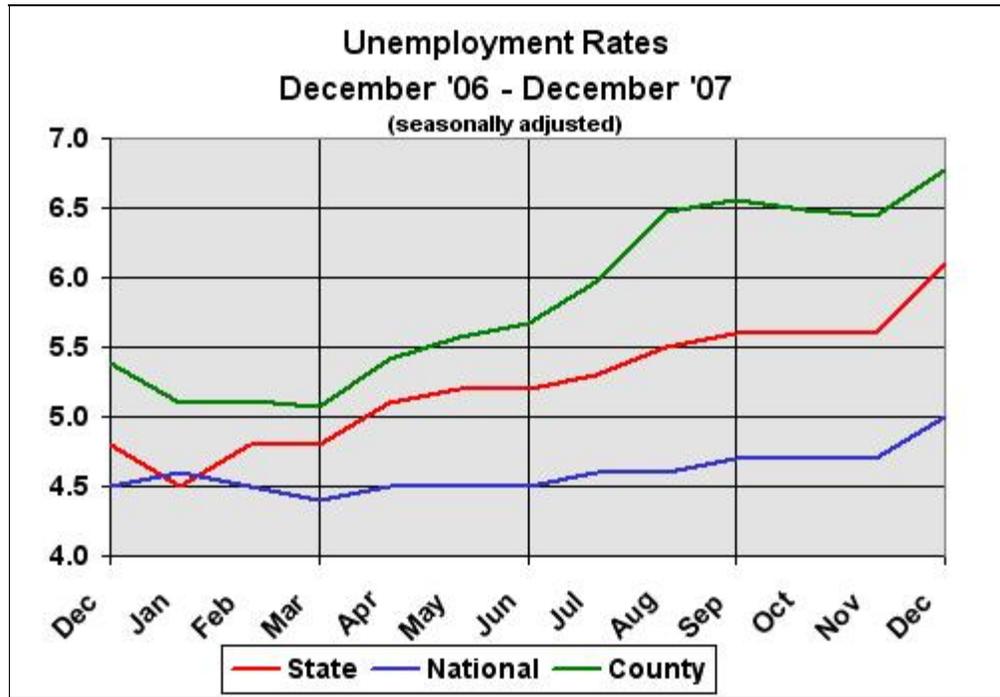
The **International Herald Tribune** reports that state regulators seem confident in acquiring the emergency power to control individual thermostats. Managing electricity shortages by using radio-controlled devices that will be required in new or substantially modified houses and buildings. Pacific Gas and Electric currently has a volunteer pilot program in Stockton, CA. While some Californians are now expressing concerns of hacking into the FM radio waves; Nicole Tam, a spokeswoman for PG&E who works with the pilot program in Stockton assures that these radio pages "are encrypted and encoded."

## Total County Employment

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

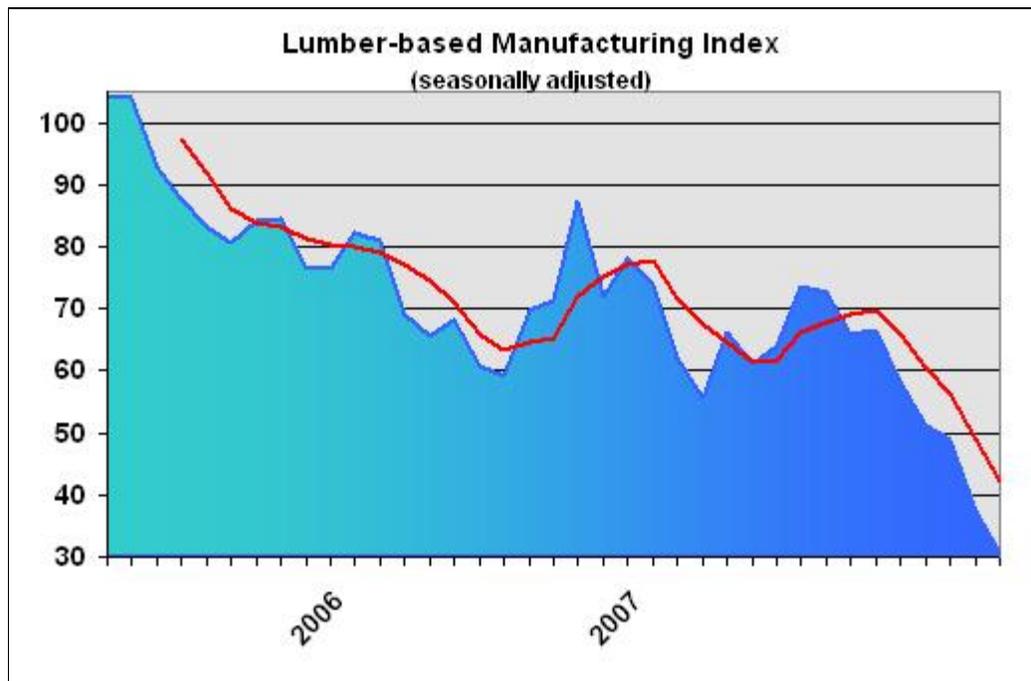
Unemployment rose to a seasonally adjusted rate of 6.8%. In December the civilian labor force lost 200 participants, civilian employed dropped 500, and unemployment rose by 300. Job losses in December were fairly spread out among all sectors such as educational and health services, leisure and hospitality, and construction. The increase in unemployment claims and decrease in help wanted advertising seems

to dictate that unemployment in the county could continue to rise further into 2008.



## 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.

The Lumber-based Manufacturing index has been on a downward march and continues to an all time low of 30.7 a decline from last month of 18.2%. This index has proved to be a constant weight on the overall composite by continually falling since July.

On a national scale the **Institute for Supply Management** reports manufacturing is still growing; however, it is showing signs of contracting as prices for commodities in January rose corn, diesel fuel,

natural gas, steel, and more. Despite higher prices new orders rose 2.6% on ISM's New Order Index. The overall economy seems to be contracting, but still expanding at a slower rate.

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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:

[BBC News](#)

[California Association of Realtors](#)

[GovTrack.us.](#)

[Institute for Supply Management](#)

[International Herald Tribune](#)

[National Association of Realtors](#)

[U.S. News](#)

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