

# Humboldt Economic Index

January 2012

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## Large gains in housing, mixed leading indicators

A belated Happy New Year from the crew at the Index!

The Composite Index rose 1.3% from last month's revised value, and now stands at a reading of 98.9. The increase reflects mixed or unexceptional results in a number of sectors and outstanding growth in the housing market.

Leading indicators are mixed. Unemployment Claims increased, but insignificantly. The Building Permits Index experienced record growth. Help Wanted Advertising contracted, however.

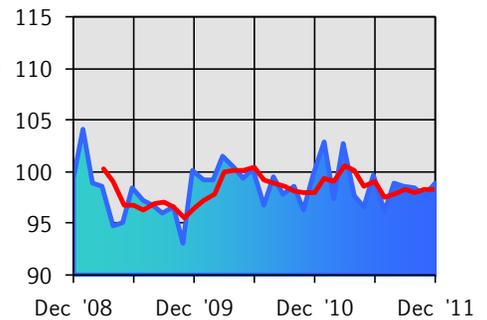
Growth in Home Sales proved to be just as explosive as the Building Permits Index, and sales increased in California as well as Humboldt County.

Employment changed little. On an annual basis, however, the number of county unemployed has noticeably decreased.

Gas prices rose slightly in the local area. Deflation, however, continued to be the rule in consumer goods.

Hospitality and Manufacturing both declined as the gray winter months set in, but Retail Sales and Energy Consumption both increased, thriving perhaps on the holiday season weather

Composite Index



and festivities.

In national politics, Mitt Romney seems poised to win the Republican Party's nomination for President. He may face a tough challenge from President Obama, however, if the economy continues its slow but steady improvement. Votes tend to follow feelings of economic security or vulnerability, and in a campaign likely to focus on "jobs" an economy that is slow but picking up may be either sides' for the claiming.

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** |
| <b>Composite</b> | <b>98.9</b> | <b>1.3</b>          | <b>-0.8</b>    | <b>-7.6</b>      | <b>-5.2</b>     |
| Home Sales       | 100.1       | 24.9                | 23.0           | -13.3            | -21.6           |
| Retail Sales     | 150.3       | 5.7                 | 0.5            | -4.6             | 2.7             |
| Hospitality      | 89.5        | -5.4                | 9.7            | -4.7             | 8.2             |
| Electricity      | 122.5       | 3.1                 | -19.1          | 3.6              | 8.1             |
| Employment       | 96.1        | -0.7                | 0.2            | -6.8             | -2.0            |
| Manufacturing    | 30.3        | -18.2               | 2.7            | -45.7            | -59.7           |

\* 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

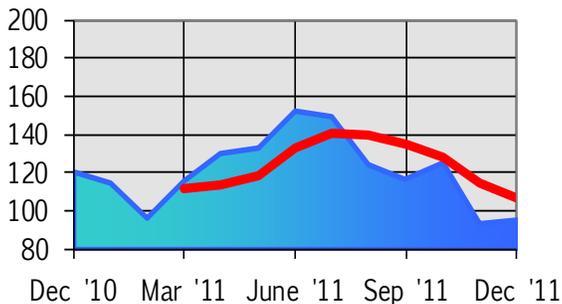
The Index tracks three leading indicators to get a sense of the direction that the county economy may take in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) building permits, and (3) help wanted advertising.

| Leading Indicators                    |                     |                  |                         |
|---------------------------------------|---------------------|------------------|-------------------------|
|                                       | Unemployment Claims | Building Permits | Help Wanted Advertising |
| Change from prior month*              | 2.3%                | 399.6%           | -25.8%                  |
| * All values are seasonally adjusted. |                     |                  |                         |

| Key Statistics  |                |                |                    |
|---|----------------|----------------|--------------------|
| Median Home Price*  | Monthly Rent** | Mortgage Rate† | Unemployment Rate‡ |
| \$229,000   | \$1,361        | 3.75%          | 11.2%              |
| <p>* 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.</p> <p>** Average rent on 2, 3 and 4 bedroom houses listed in the Times Standard.</p> <p>† 30-year owner occupied conforming conventional fixed rate provided by Umpqua Bank.</p> <p>‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.</p> |                |                |                    |

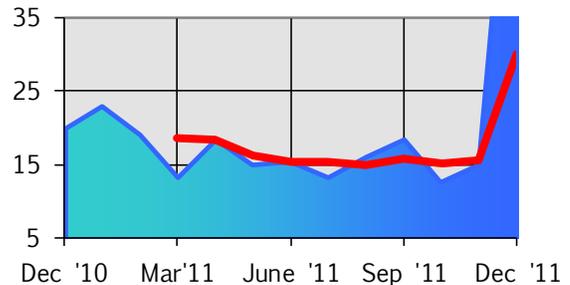
**Unemployment Claims** remained essentially unchanged in January. The raw number of claims for unemployment insurance rose by a mere 36. For an indicator that often moves in swings of hundreds of claims, this is probably not significant. The result was a minor change in the Unemployment Claims Index, which rose by 2.3% to a value of 95.2. With the exception of last month, this is still below levels achieved by the Index since late 2009

Index of Claims for Unemployment Insurance



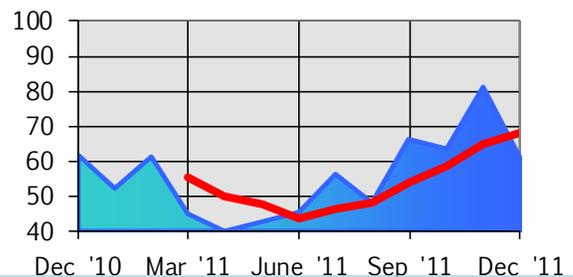
**Building permits** were anything but stationary last month. The number of permits reported as issued rocketed from 8 to 30. This drove the Building Permits Index to increase in an unprecedented spurt from 14.9 to a current value of 74.3, a level not seen since February of 2005 and an increase of 400%. It remains to be seen whether the increase will be an anomalous blip, or, more unlikely, will transform into a sustainable trend.

Index of Building Permits Issued



**Help Wanted Advertising** suffered in January, by contrast. The Help Wanted Index declined by almost 26% last month, more than erasing December's gains. The Index fell from a value of 81.6 to a current reading of 60.6. This remains higher than the past year's monthly average value of 55.4, however.

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 rose a great deal in December. The raw number of homes sold rose to 91, which is the highest monthly number since June of 2008. Consequently, the Home Sales Index rose 24.9% from 80.2 in November to a current value of 100.1, making this the second month in 2011 that the Index has broken the 100 mark, a feat likewise not achieved since 2008. The current Index value is also substantially above last December's reading of 81.4.

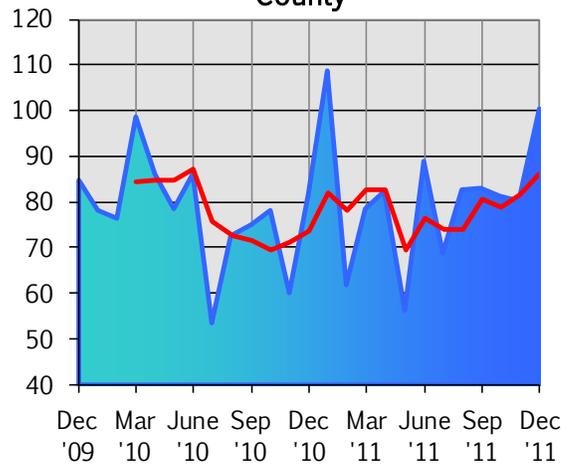
The average price of a home rose somewhat from November's low, but remained relatively cheap. The median price of homes sold in December was \$229,000. Mean and Median rent followed suit, increasing to \$1,361 and \$1,295, respectively. The mortgage rate, meanwhile, continued to fall, dropping another 0.25 percentage points and coming to rest at 3.75%, the lowest rate in at least the past few years.

Statewide, the housing market also continued to expand. The California Association of Realtors reported that sales were up 3.3% from November, a seasonally adjusted and annualized total of 521,000 units this month. This is roughly equivalent to last December's sales, and the Association noted that the data suggest the market has proved capable of holding its own "in the first full year without government stimulus" since the Great Recession. The prices of housing also rose slightly in California, reaching \$286,000, but for the nation as a whole Case-Shiller reported that housing prices continued to fall. The latest report covers data through the month

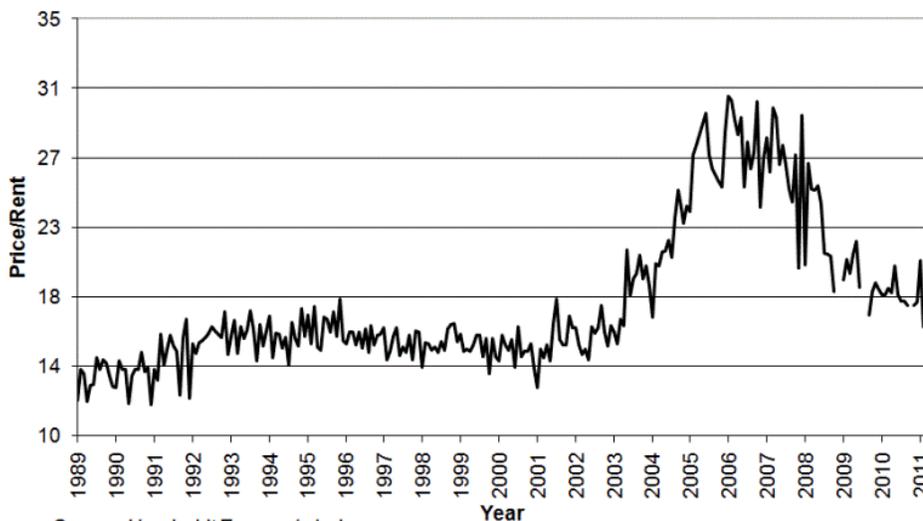
of November and noted price decreases of more than a percent from the October 2011 and of close to 4% from last year. .

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](#).

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

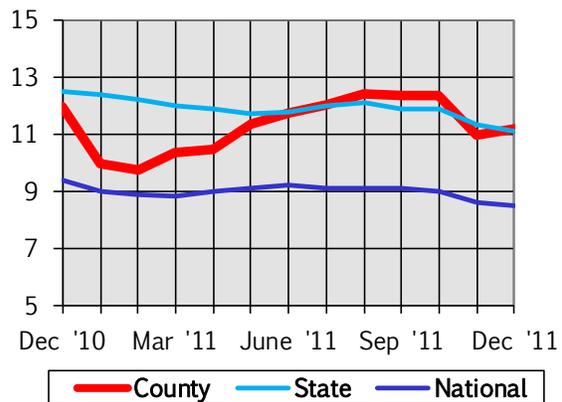
## Total County Employment

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

Employment declined in December, for the first month since July. The result was a drop in the Employment Index of about 0.7% to a current value of 96.1, still slightly ahead of last December's value of 95.9. The California Employment Development Department reported that 500 jobs were lost within the county in December, and that 400 persons exited the county labor force. The county workforce currently stands at 59,900 people, of whom 53,600 are employed and 6,300 are looking for work. This represents a slight decrease in the labor force from last year, but an 8.7% decrease in the number of unemployed.

The county unemployment rate edged upwards slightly, to a seasonally adjusted value of 11.2%. The national and state rates both fell, however, to 8.5% and 11.1%, respectively.

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 unsurprisingly declined by about 5.4% in December as occupancy rates dropped. The drop followed what revised data proved to be a gain of more than 10% in November, and left the Hospitality Index at a value of 89.5. This is slightly higher than 2011's average value of 88.5.

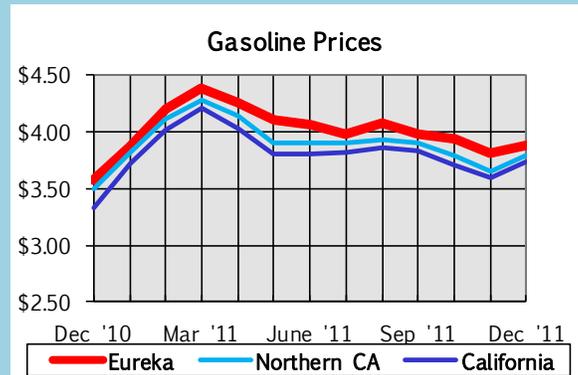
## Gasoline Prices

Gas prices rose in January for the first time since September of 2011. The price of a gallon of gas was up by \$0.07 to \$3.88 in Eureka. The increase was significantly more dramatic in the Northern California area and in the rest of the state as a whole, where prices when up by \$0.13 and \$0.14, respectively. The increase in the inflation adjusted price of gas roughly matched the increase in the nominal rate.

The CPI continued to fall in December for the third consecutive month, this time by 0.247%. The deflation indicated is potentially worrying, as falling price levels can put pressure on individuals who are in debt, making it difficult for them to pay their loans. Deflation is also strongly correlated with recessionary periods. The changes have been too small, however, to be seriously alarming just yet.

| Gas Prices             |                |                            |
|------------------------|----------------|----------------------------|
| Prices as of 1/30/2012 | Average price* | Change from previous month |
| Eureka                 | \$3.88         | \$0.07                     |
| Northern California    | \$3.79         | \$0.13                     |
| California             | \$3.74         | \$0.14                     |

\* 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)).



# 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 Sales grew in December, presumably due at least in part to the holiday boom in sales. From a revised November reading of 142.2, the Retail Sales Index increased by 5.7%, coming to rest at a current value of 150.3 in December. Last month was thus the second highest month for the Retail Sales Index in 2011, coming in only behind March, when the Index stood at a value of 159.1.

Nationally, the FED's Beige Book reported that the economy grew at a "modest to moderate" rate of speed through the end of December. The Conference Board's latest Consumer Confidence Survey, which reports on data through January, however, drizzles slightly on the retail parade. The Consumer Confidence Index fell in January by 3.7 percentage points, and now stands at a value of 61.1. The Index is based on a survey of consumers' economic expectations.

## 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 Manufacturing plummeted in December, to a current value of 30.3. This represents a drop of about 18.2% from the month of November, and is the lowest value the Lumber Manufacturing Index has reached this year. The drop is unsurprising, however. December is a weak month for the sector, and has registered the lowest monthly value every year since 2005.

"Wood Products" was one of the industries reporting contraction in the national economy in January, according to the Institute for Supply Management. The manufacturing sector itself continued to expand, however, as did the economy as a whole. The PMI continued to rise slightly, reaching a value of 54.1. The PMI (Producing Managers Index) is based on the number of manufacturing supply managers who expect business conditions to improve in the near future.

## 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.

Energy usage was up in December. After September's value of 120.0, the Energy Consumption Index rose sharply to 141.2 in October, and dropped even more sharply to 118.8 in November. The current value is up slightly both from last month's estimated and real values, and the Index now stands at 122.5. Consumption is likely to rise somewhat in the next data as the weather sours over the North Coast.

**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.

**HUMBOLDT STATE UNIVERSITY**

C O L L E G E O F P R O F E S S I O N A L S T U D I E S  
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**Cited References:**

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Consumer Confidence - The Institute of Supply Management  
National Association of Realtors

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