Professor Steven Hackett, Executive Director
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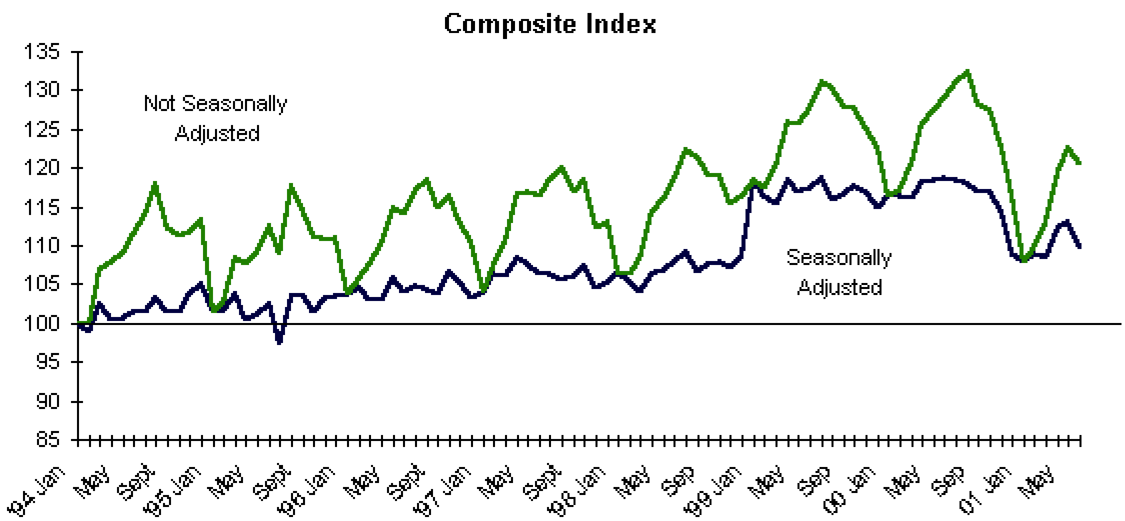
July 2001



Key Statistics		Leading Indicators	
Humboldt County		***Seasonally Adjusted***	**% Change From Previous Month**
Median Home Price*	$143,450	Help Wanted Advertising	-1.8%
30 Yr. Mortgage Rate (7/19)	7.125%	Building Permits	-7.1%
Prime Rate (7/19)	6.75%	Unemployment Claims	+18.8%

Unemployment Rate**	5.4%	Manufacturing Orders	-2.6%
* 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, *Index of Economic Activity for Humboldt County*							
* * *		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**
Lumber Manufacturing	100.0	+1.3	-8.4	-12.1	-10.2	-16.6	-7.0
Home Sales	134.8	+7.2	+21.8	+26.4	+36.7	+47.3	+81.1
Hospitality	115.9	+4.1	+4.7	+4.7	-0.8	+7.6	+1.8
Electricity Consumption	109.1	-9.0	-17.7	-15.8	+2.3	+3.0	+1.8
Retail Sales	156.9	+0.8	+4.2	+15.2	+19.3	+33.5	+57.8
Total County Employment	103.5	-0.4	-1.7	-2.2	-0.3	+1.3	+2.0

Discussion

Composite Index and Overall Performance

The seasonally-adjusted *Index of Economic Activity for Humboldt County* fell 3.1 percent from revised June *Index* value of 113.3. July's seasonally adjusted *Index* value, which now stands at 109.7, is also 7.7 percent below the same month in 2000 and 6.7 percent below the same month in 1999. Despite the decline, there is reason for some optimism among this month's numbers. Most of the sectors we track showed positive growth when compared to last month's figures. The Lumber Manufacturing sector appears to be the bright spot of this month's report. Even though figure in the June report was revised downwards, it still represents an 8.5 percent increase over the figure in the May report. Taken with increase in the current report, this is the first two consecutive month period of positive growth in lumber manufacturing sector since August-September 2000. The Home Sales and Hospitality sectors continue their consistently strong performance, and the Electricity Consumption sector's decline can even be viewed positively since the drop represents a relatively high level of conservation, which is contributing to lower wholesale electricity prices.

The Other Shoe
The employment sector continues its lackluster perforformance with Total County Employment falling slightly last month. This is the eighth consecutive month of either negative or weak positive (less than 1 percent) growth. Additionally, all of the Leading Indicators reflect moderate negative performance when compared to last month's numbers. Taken with recent performance of the *Index*, this suggests that while the local economy is showing some improvement since the sharp dropoff earlier this year, it has yet to regain firm footing.

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.

As mentioned above, even though number in the June report was revised downwards, the Lumber Manufacturing sector still grew a robust 8.5 percent over the May report. July's 1.3 percent monthly increase marks the first time this sector has experienced a two-month rise since September 2000. Unfortunately, this month's performance is down across all other comparisons.

The overall manufacturing picture remains bleak. As noted below in the employment section, this sector experienced some 113,000 layoffs in June, and the numbers reflecting industrial production activity fell for the ninth consecutive month (dismal.com). Although this sector has been contracting for nearly a year now, the economy as a whole refuses to dip into recession. Analyst's had been predicting that without a turn around in manufacturing activity, GDP growth for the second quarter would likely be negative. Preliminary data suggest, however, that while moribund, the economy still has a pulse. The second quarter figure for GDP growth came in at a 0.7 percent increase (www.sfgate.com).

Home Sales

Home Sales remains the most consistently strong sector that we track. June's figure is up across all comparisons. 134 units were sold this month. Our June quote shows the 30-year fixed mortgage rate (zero points) in Humboldt County remained unchanged at 7.125 percent.

The national numbers, while mixed, still reflect generally positive conditions. Sales of new homes nationally rose for the second straight month. June's figure is 1.7 percent higher than that for May. Comparable sales for existing homes dropped slightly with the June number coming in 0.6 percent lower than May's. Nonetheless, the existing home sales subsector continues to perform above analysts's expectations. Aggressive monetary and fiscal actions recently taken by the Federal Reserve and the Bush Administration, respectively, seem to be fueling consumer confidence. The Consumer Confidence Index rose 2.4 percent in June, up to 118.9 from 116.1 in May.

Despite the strong performance, economists are beginning to express concern about how much longer Homes Sales can continue to prop up the ailing economy. They cite several conditions to support their doubt: mortgage rates are inching upwards, mortgage applications are down slightly, inventory levels are up 9 percent, the unemployment rate is on the rise, large scale layoffs are beginning to move beyond manufacturing and technology industries, and finally, personal income growth is slowing (www.dismal.com).

Hospitality

We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The Hospitality sector continued its strong performance this month. As reported last month, gasoline prices that remain high despite recent decreases, don't seem to be deterring travelers from visiting our area. It remains to be seen whether or not the local decline in employment for this sector this month (see the Total County Employment section above) indicates softening conditions.

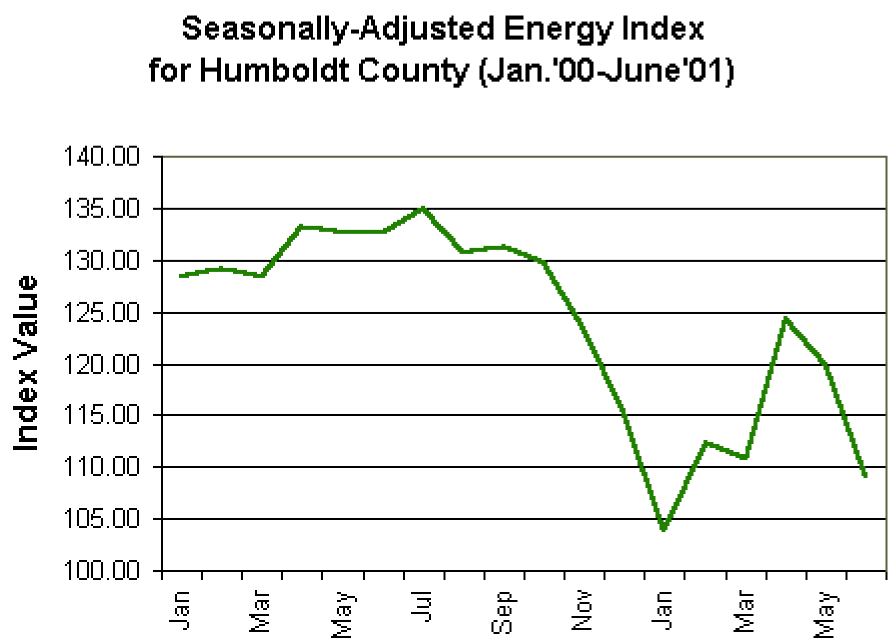
Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Energy has been one of the most stable of the sectors that we track, usually varying by no more than a few percentage points from month to month. This changed dramatically beginning late last year, as Californians cope with the higher prices and restricted supply that resulted from a restructured electricity market.

As we expected, Electricity Consumption in June was down sharply. Local consumers appear to be conserving power at a significantly higher level than elsewhere in the state. According to a report in the San Francisco

Chronicle, this behavior, along with cooler than usual weather, has led to an easing of the energy crisis. State officials announced that further rate increases are unlikely, and rates may be reduced as soon as 2003.

Lower temperatures and reduced demand has resulted in both lower wholesale prices and fewer rolling blackouts. This is good news for the state economy. Economists predicted earlier this year that rising electricity prices and episodic power shortages would have a devastating effect on the economy this summer. So far, the impact has been less than was anticipated. We are not out of the woods yet, however. If normal temperatures return during late summer, demand for electricity will surge and higher prices and interupted service will once again become likely.



In addition, natuaral gas usage, (which is not included in calculating the *Index* figure), is down dramatically in Humboldt County. Year to date consumption of this commodity fell a whopping 39.1 percent over the same six month period in 2000. While consumers reap the benefits of conservation, the natural gas production industry seems to remain unimpressed. A recent New York Times article cites an Energy Department claim that current production will not meet projected demand in coming years. In order to meet this demand, producers maintain that the current rate of drilling needs to double. While this may, in fact, be the case, a cynical person might think the industry is merely priming the public to once again accept rising prices in the near future, and/or setting the stage for a public relations battle over drilling new wells in environmentally sensitive areas.

Retail Sales

While Retail Sales grew by only 0.8 percent from the previous month, June's *Index* figure for this sector is the highest on record for a non-holiday season month. Humboldt County consumers seem to be expressing their confidence through continued buying.

Nationally, June's retail sales posted an even weaker gain of just 0.2 percent over May's. This performance is partly due to the lower price of gasoline and heavy discounting by retailers looking to clear excess inventories. An upward revision in May's number, from a preliminary 0.1 percent to 0.4 percent, also played a role in limiting the increase (www.dismal.com). Some analysts argue that when inflation is taken into account, the slight gain is virtually eliminated (www.cepr.net).

Auto sales continues to be the most consistently performing subsector (the sales of new cars remain strong locally, as well). Electronics and Appliance Stores and Food Services and Drinking Places also showed positive growth this month.

There is little optimism among economists for near future improvement in this sector, however. Many of the factors causing concern in the Home Sales sector (see above) also effect retail sales. Consumers are facing rising unemployment, slowing income growth, a weak stock market, and higher levels of debt. The experts claim that significant growth in this sector cannot continue indefinitely under these conditions. Policy makers are hoping that additional interest rate cuts by the Fed and the recent tax rebate engineered by the president will encourage a level of consumption sufficient to keep the economy wheezing along. If retail sales falter further before the manufacturing sector can recover, recession becomes almost certain (www.dismal.com).

Total County Employment

In their preliminary report for June, the Employment Development Department (EDD) reported that 57,000 people were employed in Humboldt county, down 100 jobs, or 0.4 percent from May's revised figure. June's employment figure is also down when compared to the same month's performance in the most recent years. Preliminary EDD data indicate the following changes in Humboldt county employment:

- **Total county employment in the various service industries decreased 0.7 percent from a revised 43,000 during the month of May to a preliminary 42,700 for the month of June. This sector is also down 0.2 percent over last year's figures. The decrease was led by lost jobs in the hotel and lodging and business services subsectors. The decline was minimized by gains in the wholesale trade, restaurants and bars, health services, and other retail, which includes specialty shops, subsectors. The preliminary figure for June shows 10,900 jobs in the retail subsector of services, which is an increase of 1.9 percent over the revised May figure.**
- **Due to an upward revision of last month's data, Total county employment in manufacturing remained constant in June at approximately 6,000 jobs. Manufacturing employment is down 3.2 pecent from June 2000. Any effect on this sector by the recent closing of the Eureka Fisheries processing plant is not reflected in these numbers. A report in the Times-Standard stated that more than 100 jobs may have been lost as a result of the closure.**

Nationally, 114,000 jobs were lost in June. Yet again, reports indicate manufacturing led layoffs with 113,000 jobs shed. This is the eleventh consecutive monthly decrease for this sector. According to an article in the New York Times, the effect of the continued hemorraging in manufacturing on other sectors is beginning to show up in the statistics. Wholesalers who resell manufactured items, and distributors who transport the goods lost a combined 27,000 jobs this month. Even more significant than these losses, are the 21,000 jobs shed in the service sector in the second quarter (June accounted for 6,000 of these). This is the first quarterly loss in this sector in forty-two years. Service jobs had been growing, on a quarterly basis, since 1958, and they accounted for most of the gains that occurred during the latest economic expansion (www.nytimes.com). Furthermore, the 271,000 jobs lost across all sectors this quarter represent the weakest three-month performance since the last recession in 1991 (www.sfgate.com). Industries adding positions in June include health services, engineering and management services, and retail trade (www.dismal.com).

The county unemployment rate rose from a revised 5.3 percent for the month of May to a preliminary 5.4 percent for the month of June. Despite the increase, the gap between local job market and those for the state and the nation continues to close. The unemployment rate in the state increased half a percentage point from a revised 4.6 percent for May to a preliminary 5.1 percent for June. The substantial rise follows four consecutive months of falling unemployment rates in California. The national unemployment rate rose even more, 0.6 percent, from a revised 4.1 percent for May to 4.7 percent for June. As if this news isn't bad enough, many economists believe the figures are understating actual conditions. Because some 600,000 people have left the labor force since last January, the unemployment rate has not risen as fast as would be expected with so many people being put out of work. If these individuals were still actively seeking work, the jobless rate would be around 5 percent (nytimes.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.

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. The June figure is down 1.8 percent from the previous month. It is also down 11.5 percent and down 6.7 percent from the same month of 2000 and 1999, respectively. While the current number corroborates evidence of a slowing economy, this month's performance remains impressive when compared to those of the same month in the years 1998 back to 1996. The sector is up 21.9 percent from June 1998, 20.9 percent from 1997, and 24.7 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. After a sharp drop last month, this indicator returned to a level more consistent with the figures of the past several months. The number of claims rose 18.8 percent from May. The indicator is also up 3.9 percent when compared to June 2000. In other year-to-year comparisons, June's number is down 1.3 percent from 1999, down 12.9 percent from 1998, down 18.0 percent from 1997, and down 14.3 percent from 1996.

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, are down across all comparisons. Additionally, May's number was revised downward 2.1 percent to an *Index* value of 81.7. June's performance decreased 2.6 percent from May's revised figure, and fell 11.3 percent, 13.7 percent, 42.6 percent, 44.9 percent, and 41.3 percent in year-to-year comparisons from 2000 back to 1996, respectively. As noted in the past several reports, the relative lack of new orders nation-wide remains a significant drag on the economy.

Home Sales Economic Indicator:

The building permits indicator fell 7.1 percent in June, however it is up significantly when compared to June performance of the previous two years. The current figure increased 21.9 percent from 2000 and 25.8 percent from 1999. Going farther back, the year-over-year figure is up 2.6 percent from 1998, down 9.3 percent from 1997, and down 23.5 percent from 1996.

The Bigger Picture

In his latest bi-annual report to Congress, Federal Reserve Chairman Alan Greenspan warned that economic conditions could worsen before they get better. He testified that the current slump could last until the end of the year or longer, and he did not rule out further interest rate cuts.

As reported last month, economists characterized the Fed's most recent report on economic activity, covering late April and May, as the most bleak in recent memory. All of the Fed's twelve districts reported weakening or unchanged conditions across nearly every aspect of the economy. Second quarter rowth rate data for Gross Domestic Product corroborate the characterization. The 0.7 percent increase represents the slowest growth since early 1993. Technology was particularly hard hit as business investment in computers and software fell a stunning 19 percent this quarter (www.sfgate.com).

The latest figure on Consumer Confidence, released 7/31, reflects the waning optimism. The rise in confidence registered in June was erased in July, with the Consumer Confidence Index falling 2.0 percent to 116.5.

Meanwhile, The Dismal Scientist's Misery Index, which tracks a combination of the unemployment rate and the rate of inflation, reached a four-year high. The West fared worst by this measure, with both unemployment and inflation higher here than in any of the other three major geographic regions. Conditions in the Bay Area

exemplify the pain being felt in the West. Job losses there have been on the rise for several months now as the technology sector sputters its way through the current slowdown. And, with housing and energy costs already among the highest in the nation, the inflation rate there rose a full 1 percent during the latest two-month period. Nationally, this rate increased 0.6 percent over the same period.

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 "July 2001" report reflects data from June 2001. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

The Dismal Scientist webpage

The Eureka Times-Standard webpage

The San Francisco Chronicle webpage

The New York Times webpage

The Center for Economic Policy and Research webpage

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