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The Index of Economic Activity for Humboldt County

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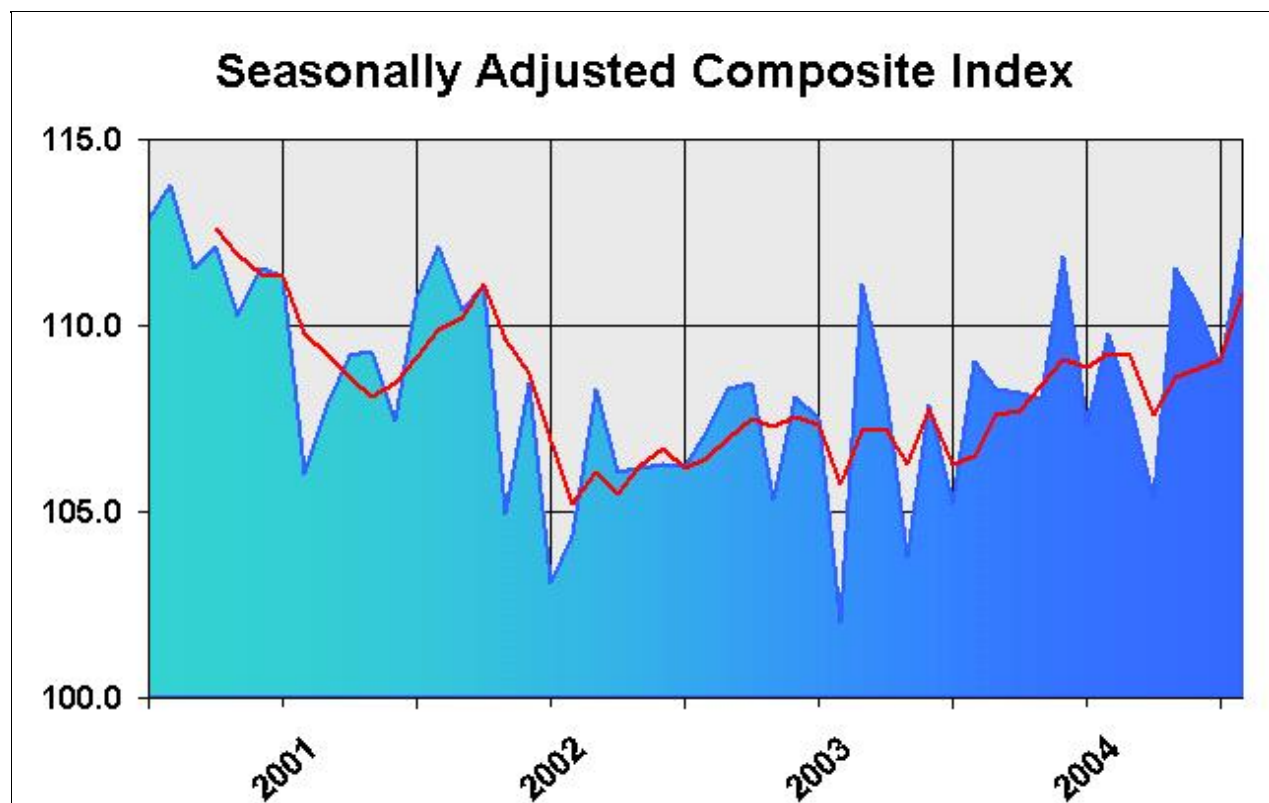
HSU Economics Department

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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This month's report is sponsored by
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July 2004



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red trendline shows the four-month moving average of the *Index* which smooths month-to-month volatility to show the long run trend.

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.

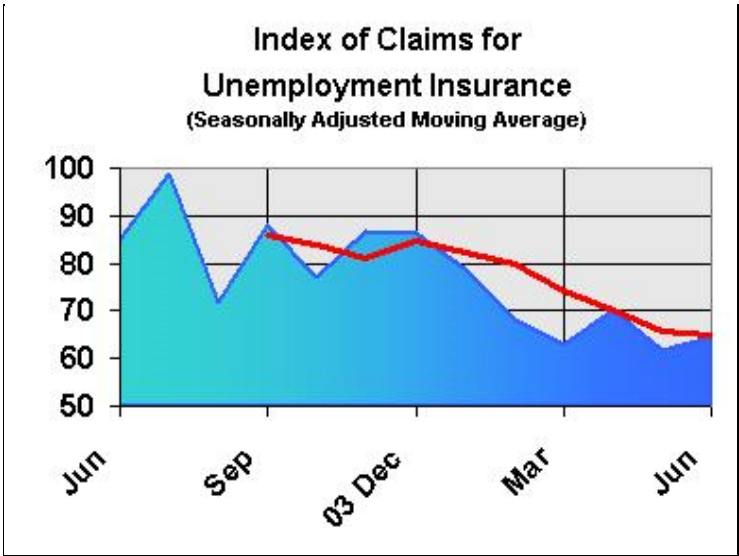
The Humboldt County economy showed strong signs of recovery in June. A 3.1 percent increase pushed the Composite Index to 112.3. This is on par with levels prior to the 2001 recession and is a sign of healthy growth. Impending interest rate increases drove many home buyers into the market. This resulted in the highest month ever for home sales. After leaping 34.1 percent the home sales index stands at 157.0. Hospitality was also up in June. With a strong tourist season underway, the hospitality index posted gains of 7.4 percent and stands at 105.4. The retail sector experienced it's second best month on record. An increase of 3.0 percent pushed the retail sales index to 151.3. Growth in the labor force outpaced new job creation in June, with the employment index dropping 1.7 percent to 102.1. A drag on economic growth came from the manufacturing sector. The manufacturing index posted a 7.5 percent loss, to stand at 78.3. Estimated electricity consumption remained unchanged at 113.6.

Composite & Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999
COMPOSITE	112.3	3.1	3.0	4.8	0.2	-1.3	0.8
Sector							
Home Sales	157.0	34.1	30.8	22.7	17.2	42.7	48.1
Retail Sales	151.3	3.0	-1.3	7.3	3.8	8.4	24.4
Hospitality	105.4	7.4	10.1	4.9	0.0	2.3	1.7
Electricity Consumption	113.6	0.0	5.6	14.6	3.1	-15.2	--
Total County Employment	102.1	-0.7	-0.5	-1.1	-1.4	-2.8	-3.3
Manufacturing	78.3	-7.5	-8.2	-3.9	-17.9	-25.7	-29.6

Leading Indicators

The Index tracks four leading indicators to get a sense of the direction of change in the county economy in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, and (3) building permits. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to "smooth" ordinary month-to-month volatility and reveal underlying trends.

Employment Leading Indicators:



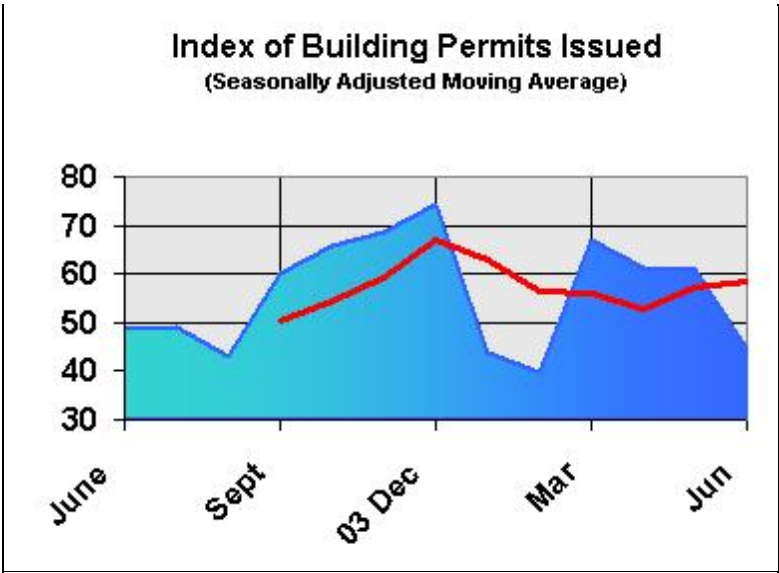
Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The index of claims for unemployment insurance is an indicator of negative economic activity. This month the unemployment index ticked upward. The 4.8 percent increase leveled off the four month moving average which has been trending downward since January.



Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The index of help wanted advertising is an indicator of labor market conditions and job creation. Help wanted advertising also leveled off this month with a 2.6 percent decrease in the index.



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The index of building permits issued gives insight to future home sales and construction. The building permits index dropped 27.0 percent in June, however strong growth at the beginning of the year is still pulling the moving average upward.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$265,000	Help Wanted Advertising	-2.6%
30 Yr. Mortgage Rate as of 6/30	%	Building Permits	-27.0%
Unemployment Rate**	6.0%	Unemployment Claims	4.8%
* 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.			

Individual Sectors

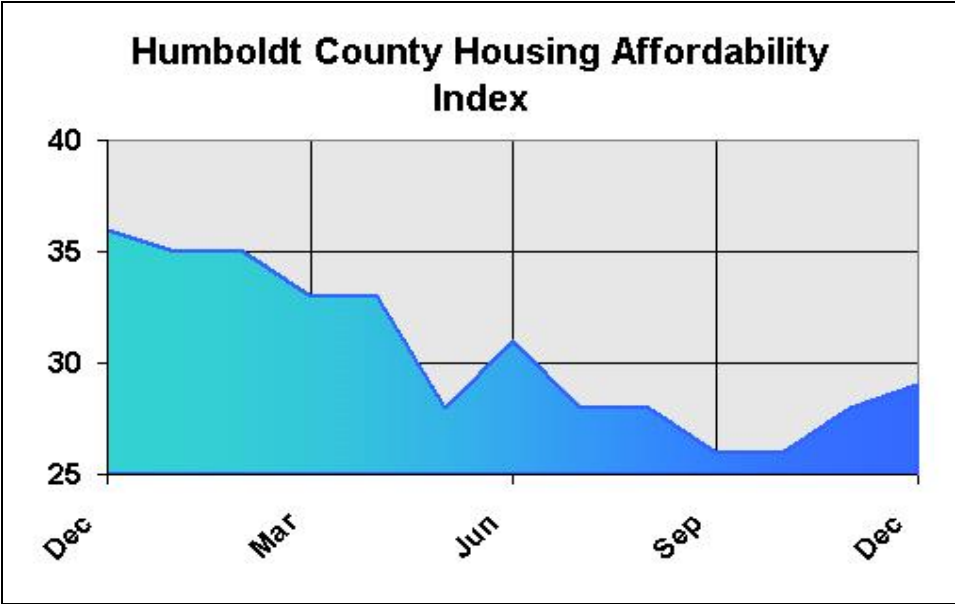
Home Sales

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.

Humboldt County home sales and prices hit record highs in June. The home sales index spiked up 34.1 percent to 157.0, the highest level on record. Home prices also reached a new record high. Strong demand and purchasing power from low interest rates helped to drive the median home price to \$265,000. Home buyers jumped into the market just before a June 30th interest rate hike by the Federal Reserve. The recent action by the Fed is the first increase to the discount rate in four years, and marks the beginning of a tighter monetary policy. Economists anticipate another rate increase when the Fed meets again next Tuesday. The impact of this policy on the local housing market will likely be high home sales through the summer, with a cooling in the market toward the end of the year.

Statewide home prices rose again in June. The median home price in California is \$469,170, up 1.2 percent from the previous month. "The real estate market in June experienced the confluence of what is traditionally the peak selling season and consumers' responses to a changing interest rate climate," said C.A.R. President Ann Pettijohn. "As mortgage rates began to increase, consumers' expectations of even higher rates in the future pushed many off the fence and into the market." (www.car.org)

David Lereah, chief economist for the National Association of Realtors commented on home sales throughout the country. "Although we've been expecting sales to ease, it's clear the market has tremendous momentum," he said. "The improving job market and higher consumer confidence are feeding into a large demographic demand for housing. It's unlikely that we'll top the pace in June, but home sales remain very healthy and are likely to stay quite strong, even with some easing expected in the second half of the year." (www.realtor.org)



Graphic Description: The Humboldt County Housing Affordability Index is compiled by the Humboldt Association of Realtors, and shows the percentage of households that can afford a median priced home in Humboldt County. Data for 2004 is not yet available.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of August 5th, was 5.99 percent with an average 0.7 points. "Additional economic indicators this week confirmed that June was a weak month for the nation as a whole. Consequently, the upward pressure on interest rates eased, allowing mortgage rates to return to

earlier, lower levels," said Frank Nothaft, Freddie Mac vice president and chief economist. "Inventories of available homes for sale are very tight right now. Fortunately, mortgage rates have been most accommodating for homebuyers lately, which allows families looking for a new home the additional time needed to find their home of choice," added Nothaft. (www.freddie.mac.com)

Retail Sales

The index value of 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 Humboldt County retail sector remained strong in June. A 3.0 percent increase pushed the retail sales index to 151.3, the second highest level on record. The record high for the retail sales index is 153.3, and was set in June 2003.

Nationwide retail sales, as reported by The Commerce Department, decreased in June. Seasonally adjusted sales were \$331.9 billion, down 1.1 percent ($\pm 0.8\%$) from the previous month, but up 6.3 percent ($\pm 1.0\%$) from June 2003. (census.gov)

The latest release from the Conference Board shows that consumer confidence rose again in July. The Consumer Confidence Index, which now stands at 106.1 (100=1985), is up 3.3 percentage points from last month's figure. "Consumer confidence has now increased for four consecutive months, and is at its highest level since June 2002 when it registered 106.3," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The spring turnaround has been fueled by gains in employment, and unless the job market sours, consumer confidence should continue to post solid numbers." (www.conference-board.org)

Hospitality

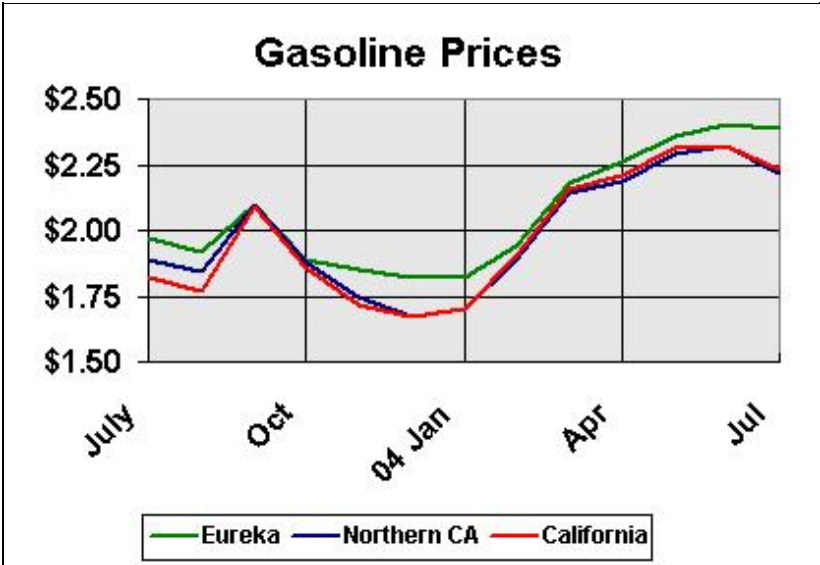
The index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.

The tourist season started with a bang and is still going strong. The hospitality index increased 7.4 percent and now stands at 105.4. The index has only reached above the 100 mark three times since September 2001. Healthy numbers for the past three months could indicate an upward trend in the tourism industry.

Gasoline Prices

Gas prices are dropping, but there is still cause for concern. "It's an encouraging trend, but we have a long way to go before most consumers would be able to cross high gas prices off their list of concerns," said Sean Comey, spokesman for AAA of Northern California. "Even if prices continue to decline at this rate--- and that's a big if--- it would take months before we'd be back to where prices were a year ago." (www.csaa.com)

Average Price* (as of 6/15)		Change From Prev. Month (cents/gal.)
Eureka	\$2.40	4¢
Northern CA	\$2.32	3¢
California	\$2.32	1¢
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 kilowatts-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. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

The estimated electricity consumption index for June is 113.6, unchanged from the previous month.

Total County Employment

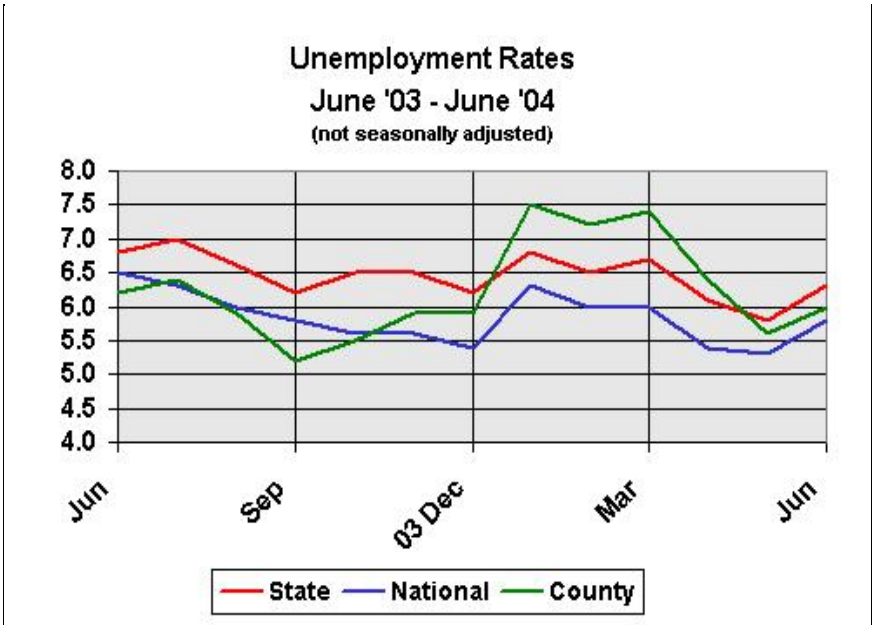
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

In the preliminary report for June, the EDD reported that 56,700 people were employed in Humboldt County. This number is up from May's revised figure, indicating a net gain of 100 jobs. The total civilian labor force increased by 200 people to 60,300. The seasonally adjusted total county employment index fell in June by 0.7 percent, and now stands at 102.1.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net loss of jobs in June. Professional and business, miscellaneous, arts and entertainment, and other services each gained 100 jobs. While transportation and education/ health services each lost 100 jobs.
- State government education and local government each lost 200 jobs.
- Wood product manufacturing gained 100 jobs, while other manufacturing lost 100 jobs.
- Construction and natural resources/ mining each gained 100 jobs.

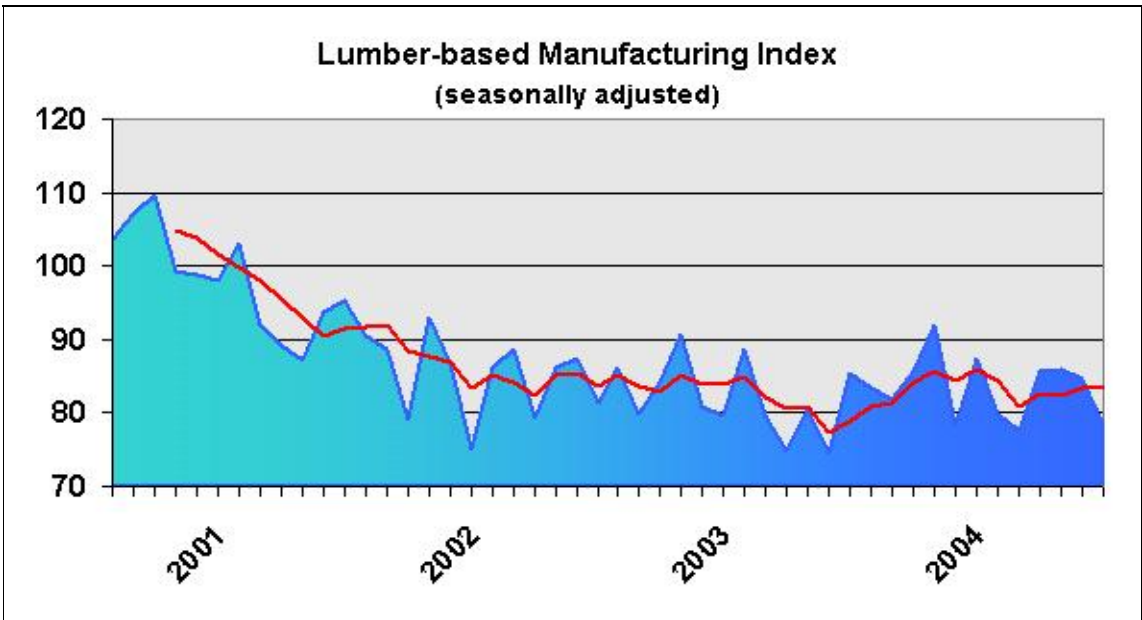
June's unemployment rate increased slightly, but remains lower than the statewide average. An increase in the size of the labor force mitigated the increase in total employment. The unemployment rate now stands at 6.0 percent.



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 60 percent of total county manufacturing employment.

In June the lumber-manufacturing index dropped again. After losing 7.5 percent the manufacturing index now stands at 78.3. The index for this sector has not reached above the 100 level since January 2001. This shows a long run decline in the local lumber industry.



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 of the lumber-based manufacturing index which smoothes month-to-month volatility to show the long run trend.

Economic activity in the manufacturing sector, as measured by the Institute of Supply Management, shows positive growth in August. The PMI registered 54.7 in the latest release, a number over 50 indicates growth. "The manufacturing sector showed improvement for the second month as the PMI is at its highest level since December of last year. Though two months of growth do not establish a trend, there is strength in the various segments of this report that we have not seen for some time," stated Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. "New Orders and Production have both been above 50 percent for four consecutive months; the continuation of a second half recovery appears on track." (www.ism.ws.cfm)

The Bigger Picture

Global and National Economic News

U.S. Gross Domestic Product (GDP) grew at an annual rate of 3.0 percent in the second quarter of 2004, according to advance estimates from the Bureau of Economic Analysis. First quarter real GDP growth was revised to a 4.5 percent increase. The second quarter growth was led by exports, residential fixed investment, equipment and software, personal consumption expenditures (PCE), government spending, and private inventory investment. (bea.gov)

Trade negotiators finally reached an agreement on the issue of agricultural subsidies, which had caused the collapse of WTO talks in Cancun last September. Under the new deal, rich countries will eliminate all agricultural export subsidies, and the United States will address the issue of cotton subsidies. However, no timeline for these changes was agreed upon. Setting deadlines for compliance will be addressed in future WTO talks. Though the deal will not result in immediate changes, it appears to have saved the Doha Round of trade negotiations. (economist.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 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.

Cited References

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