

[skip navigation](#)



[Current Issue](#)

[Archive](#)

[Projects](#)

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[Links](#)

[Home](#)

[Readers Comments](#)

[Frequently Asked Questions](#)

[Acknowledgements and Past Participation](#)

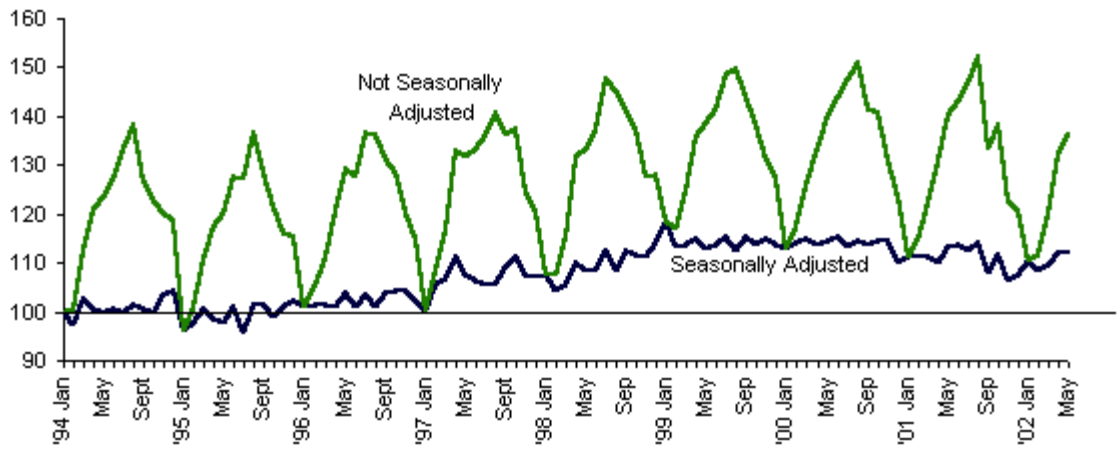
[HSU Economics Department](#)

**Professor Steven Hackett, Executive Director  
John Manning, Managing Director**

**June 2002**

**This month's report is sponsored by Six Rivers National Bank**

**Composite Index**



Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$159,500	Help Wanted Advertising	-18.2
30 Yr. Mortgage Rate (6/26)	6.75%	Building Permits	+82.2

Average Hotel Occupancy Rate	54.7%	Unemployment Claims	-25.1
Unemployment Rate**	5.5%	Manufacturing Orders	+3.1
* 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 <a href="#">EDD Website</a> for updates.			

Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
* * *		Percent Change From:					
Sector	Seasonally Adjusted Sectoral Index Value (1994=100)	Previous Month	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998	Same Month 1997
Home Sales	129.7	-1.6	+3.8	-1.5	+22.7	+28.6	+77.6
Retail Sales	157.3	+8.0	+1.7	10.1	+9.2	+13.0	+22.1
Hospitality	85.8	-5.9	-10.7	-5.4	-10.0	-19.6	-11.1
Electricity Consumption	125.8	-1.3	+6.6	-3.7	-2.3	--	--
Total County Employment	103.6	-0.3	-0.4	-1.7	-1.7	+0.2	-0.2
Lumber Manufacturing	95.9	+0.2	-7.3	-14.3	-12.5	-12.6	-26.3

## Discussion

### Composite Index and Overall Performance

The *Index of Economic Activity's* seasonally adjusted composite value, which now stands at 111.9, fell 0.2 percent from last month's upwardly revised figure.

A look at the graph above shows that while economic activity was flat in Humboldt County during May, the local economy has recovered much of the ground lost during the recession. The seasonally adjusted *Index* level fell 6.8 percent from a peak of 114.3 in August 2001 to a trough of 106.5 the following November. The level of the *Index* over the past couple of months suggests that a modest local recovery may be solidifying. Sectors contributing to this recovery include total county employment, electricity consumption, and retail, the latter of which never exhibited any recessionary behavior. Clouds on the larger economic horizon preclude unreserved optimism, however. Ongoing revelations of accounting improprieties threaten to dampen, if not end, the already weakening national recovery.

When looking at month-to-month performance, only two of the *Index's* six sectors registered positive growth in May. Retail sales bounced back nicely form a large loss in April and was the only sector to log across the board increases this month. Lumber manufacturing increased very slightly for a second consecutive month for the first time since December 2001-January 2002. The most discouraging number in this month's report is the large drop in hospitality. While it is not uncommon for this sector's performance to drop slightly from April to May, the sharply lower activity this year from same month activity of years past may be cause for concern. Nevertheless, tourist activity generally peaks during the summer and early fall months, and the outlook for this year's season remains optimistic. The small decrease in home sales is probably not indicative of the sector's

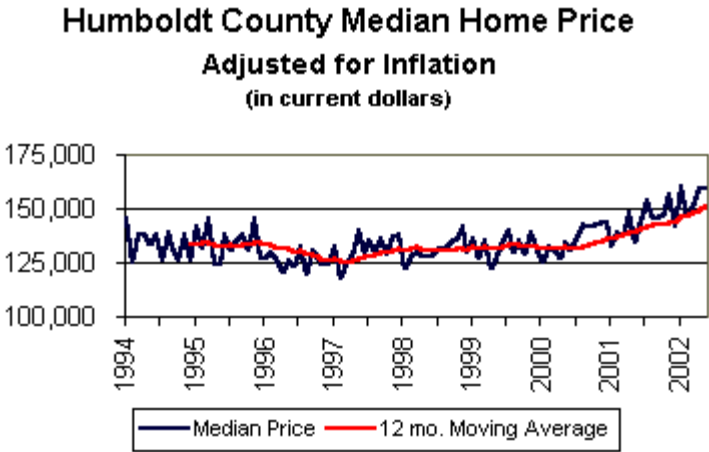
underlying trend. Likewise, the drop in the employment sector does not tell the whole story. The county's unemployment rate plummeted in May and is currently lower than both the state and national levels. Finally, electricity consumption fell modestly based on our estimation. Actual data for this sector's second quarter performance will be available in next month's report.

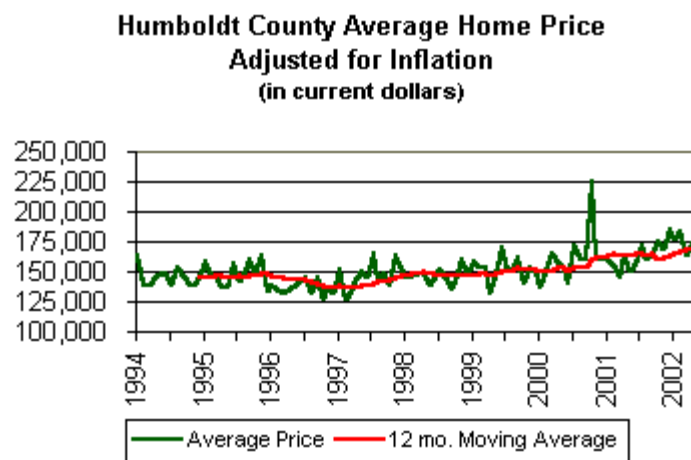
Three of the four Leading Indicators are positive this month. Manufacturing orders and building permits are both up and unemployment insurance claims are down. While this is good news, the huge swings in permits and unemployment claims are probably not indicative of any underlying trends. The seasonally adjusted four month moving averages (shown near the end of this report) show that building activity remains sluggish for the year and that claims for unemployment insurance can vary greatly from month to month. There does seem to be a noticeable turnaround underway in lumber manufacturing activity, however, and despite the large monthly drop in help wanted advertising, the trend here appears to suggest further growth.

### Home Sales

The seasonally adjusted *Index* value for this sector fell slightly in May from the previous month, but it compares favorably to same month activity in years past.

May's median home price remained unchanged at \$159,500. A look at the graphs below show how Humboldt County home prices, adjusted for inflation, have fared over the eight years of the *Index*'s existence. Using the 12 month moving average, a measure that smoothes month-to-month volatility and makes underlying trends more apparent, median price appreciation more or less kept pace with inflation (as measured by the Consumer Price Index) from 1994 through mid 2000. Since then, the median price has outpaced inflation by roughly 15 percent. Although the trend in the second graph appears less dramatic, average price appreciation has outpaced inflation by around 19 percent since 1994. The latter observation suggests that the portion of the local real estate market comprised of higher priced homes has been steadily growing for several years.





The current statewide median sale price of \$321,130 for existing homes fell a slight 0.3 percent from the previous month. This figure is up a whopping 25.5 percent from May 2001, when it was \$255,860 ([www.car.org](http://www.car.org)). May's national median price for existing homes rose 0.8 percent from April's level to \$154,600, while the similar figure for new homes dropped 8.4 percent to \$170,200 ([www.realtor.org](http://www.realtor.org) and [www.census.gov](http://www.census.gov)).

One result of rising home prices in California is the rising density of residents per home. According to recently released census data, 39 of the 50 cities with the highest percentage of crowded homes are in California. A crowded home is defined as one with 1.5 or more people per room. Santa Ana, where 34 percent of its homes are crowded, came in at the top of the list. Nationally, in cities with 25,000 or more homes, the average percentage of crowded homes is 3.4 percent ([www.sfgate.com](http://www.sfgate.com)).

## Retail Sales

The local retail sector rebounded strongly in May from April's large drop. The seasonally adjusted *Index* value grew more than any other sector this month. Retail sales was also the only sector to show improvement in all of the year-over-year comparisons. Healthy increases in food and food service sales, as well as the consistent sales of automobiles, seem to be responsible for the growth.

The Arcata city council recently passed, by a 3-2 vote, an ordinance that caps the number of formula restaurants allowed in the city at nine, the number currently in operation. The measure originated as a proposal from the city's Committee on Democracy and Corporations, which itself was established as a result of a successful 1998 ballot initiative intended to limit the influence of corporations. Most of the public comment at several hearings held over the past couple of months favored the proposal ([www.times-standard.com](http://www.times-standard.com)). While noting that the preservation of Arcata's unique character is a laudable goal, some critics of the move complained of government interference in the marketplace. Others hope it will not lead to the further gentrification of the downtown business district.

National retail sales fell 0.9 percent in May from the previous month's unrevised figure. Steeply lower sales at gasoline stations are primarily responsible for the decrease. The current figure is up 2.2 percent from May 2001 ([www.census.gov](http://www.census.gov)).

The June release of the Conference Board's Consumer Confidence Index fell 3.5 percent to 106.4 from May's 110.3. The business research organization cited "[w]eak labor market conditions, generally soft business conditions and waning public confidence in questionable business practices..." as the reasons causing the erosion in consumer confidence. Nonetheless, the current figure indicates continued spending and moderate economic growth ([www.conference-board.org](http://www.conference-board.org)).

## Hospitality

**Our preliminary figure for average occupancy at the participating hotels, motels and inns rose slightly in May, but seasonal adjustment led to a 5.9 percent drop in the *Index* value for this sector.**

**Local tourism professionals remain upbeat about the potential for a strong tourist season this year. As reported last month, the Humboldt County Convention and Visitors Bureau has received 66 percent more direct requests for visitor information this year than it did for the same period last year. A Bureau survey indicates that the percentage of inquiries that lead to actual visits is likely to be about the same this year as in years past, suggesting that the number of visitors should be appreciably higher this summer ([www.times-standard.com](http://www.times-standard.com)).**

**2001 was a tough year for the hospitality sector. An recently released report, based on a survey of 3,737 hotels from around the country, claims that industry profits were 19.4 percent lower in 2001 than in 2000. This was the first year-over-year decline since 1991 and the worst single-year decrease since 1938. The trend is expected to continue through 2002 with profits expected to fall a further 11 percent. There's good news for travelers in this analysis, however. The report estimates that average daily room rates will drop by an additional 4.6 percent this year ([www.sfgate.com](http://www.sfgate.com)).**

### **Gasoline Prices**

**Something stinks in Eureka and, for a change, it's not the pulp mill. While the price of gasoline has been stable or falling elsewhere around the state and country, central Humboldt County prices continue to rise. According to surveys by the California Automobile Association and the California Energy Commission, the price of a gallon of self-serve regular unleaded gasoline in Eureka is more than 30 cents higher than the state average. Industry analysts cite unusually high supplies at refineries and the falling price of crude oil as reasons for the lowest summertime gas prices in three years. Though local prices currently are some 20 cents cheaper than in June 2001, elsewhere the decrease has been far more dramatic. In San Francisco, where gas is often as expensive as in Eureka, prices are over 40 cents lower this year than last June ([www.times-standard.com](http://www.times-standard.com)).**

**What's behind the increase? So far, local retailers have been silent and government officials have yet to turn up the heat under them. One thing that has been clearly learned from the dysfunctional electricity market is that what looks like market manipulation and smells like market manipulation sometimes is market manipulation. Antitrust law provides remedies for market manipulation, but the evidentiary requirements are considerable. One can find the phone numbers and addresses of one's elected representatives in the blue pages at the front of the phonebook.**

### **Electricity Consumption**

**We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, beneficial increases in energy efficiency and conservation reduces the sector's *Index* value. Because we collect our data for this sector quarterly, the *Index* values are estimated, and are revised when the quarterly data are received.**

**Estimated May consumption decreased 1.3 percent from April's estimated level. Actual data will be available next month.**

**Duh!**

**An independent audit conducted by the General Accounting Office, Congress's non-partisan investigative agency, found that the Federal Energy Regulatory Commission is essentially incapable of ensuring "just and reasonable" electricity rates. The report documents that the regulatory body lacked both the expertise and the authority to fulfill its mandate during the California energy crisis last year. The current head of FERC, Patrick Wood III, agreed with the assessment, but claimed steps are being taken to remedy the situation. Wood's statement has some credence. Since taking command of the commission in June 2001, Wood placed price caps on wholesale electricity in western markets, effectively ending the crisis. He has also created an Office of Market Oversight and Investigation to detect potential abuse of market power by electricity generators, and it was by his order that internal Enron documents detailing that firm's blatant manipulation of the California market**

were released to the public. The GAO audit will likely reinforce the state's quest to have nearly \$9 billion in alleged overcharges refunded and over \$40 billion in long-term contracts renegotiated ([www.sfgate.com](http://www.sfgate.com)).

Meanwhile, the federal judge overseeing PG&E's bankruptcy recently ruled that separate lawsuits filed by the state attorney general and the city of San Francisco should be heard in Superior Court. The suits both claim that the utility's unregulated parent company, PG&E Corp., siphoned off more than \$4 billion dollars from 1997 to 2001, when PG&E filed for bankruptcy protection. The suits allege that in 1996, when PG&E Corp. was seeking Public Utility Commission approval of its formation, the firm promised to make PG&E's financial health its top priority. Both plaintiffs claim the \$4 billion in transfers broke this promise. The attorney general wants the money to be distributed among the utility's creditors. San Francisco seeks to have the money refunded to customers. The utility had wanted the suits to be heard in bankruptcy court, where it felt it had an advantage ([www.sfgate.com](http://www.sfgate.com)).

## Total County Employment

In their preliminary report for May, the Employment Development Department (EDD) reported that 56,900 people were employed in Humboldt County, up 500 jobs, or 0.9 percent from April's upwardly revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries increased 0.2 percent from a revised 43,200 in the month of April to a preliminary 43,300 for the month of May. This sector is up 1.9 percent over last year's figure. The preliminary figure for the retail subsector shows 11,200 jobs, an increase of 1.8 percent from April's upwardly revised figure. This number is 5.7 percent higher than it was in May 2001.
- Total county manufacturing employment came in at 5,200. This is up 4.0 percent from April's upwardly revised figure. Total manufacturing employment is down 1.9 percent from May 2001.

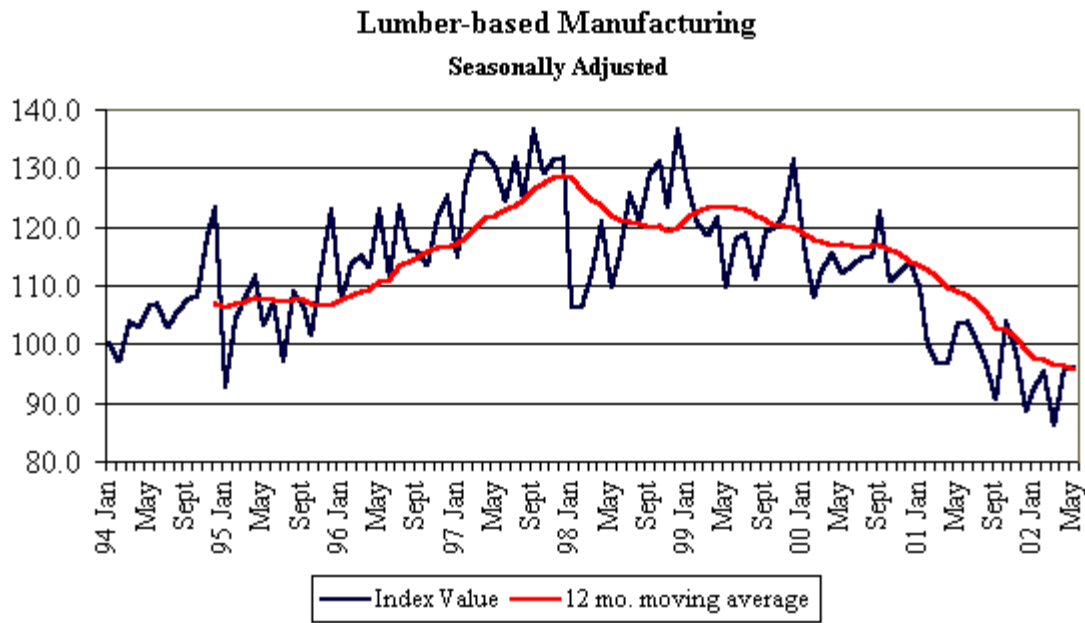
As might be expected, most of the expansion came in job classifications that typically add positions at this time of year. Farm Production, Construction & Mining, Logging, Eating & Drinking, and Hotels & Other Lodging each added around 100 jobs. The Food & Kindred Products and Other Retail classifications also added 100 workers each, while Wholesale Trade and Health Services each eliminated 100 positions. When the effects of seasonality are accounted for, estimated total employment fell by nearly 200 jobs, which explains the 0.3 percent decrease in the seasonally adjusted *Index* value for this sector.

The unemployment rate for Humboldt County declined for the second straight month in May according to the preliminary EDD report. The current 5.5 percent is 1.1 percentage points lower than April's revised 6.6 percent. The drop occurred as a result of the added jobs and a shrinking labor force. There were roughly 200 fewer workers seeking positions in May than there were in April. Meanwhile, the national rate fell two-tenths of a point to 5.8 percent and the state rate fell five-tenths of a percentage point from April's upwardly revised figure to 5.9 percent. According to preliminary data, the decline in state rate resulted from a contracting labor force rather than job creation, indicating continuing labor market weakness. While the nationwide situation appears to be a bit brighter, the national labor market has probably not yet bottomed out. The Labor Department reports that long-term unemployment, people who have been out of work for 27 weeks or longer, has more than doubled since May 2001, and currently comprises roughly 20 percent of total unemployment. Labor Secretary Elaine Chao says "[i]t's going to take a few more months of confidence for businesses...to hire permanent workers." Most economists agree. Consensus has the unemployment rate climbing as high as 6.5 percent before long-term improvement sets in ([www.sfgate.com](http://www.sfgate.com)).

## 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.

The preliminary *Index* value for this sector is up slightly from prior month's level. While the second straight month of improvement will be welcome news to some, a look at the graph below illustrates that Humboldt County's lumber production industry has lost a lot of ground over the past several years.



The national manufacturing picture continues to brighten. According to the Commerce Deptment, industrial production rose 0.2 percent, the fifth consecutive month of improvement for this measure ([www.sfgate.com](http://www.sfgate.com)). The Institute of Supply Management's Index of business activity climbed for the fourth straight month and outpaced expectations. It currently stands at 55.7 (a level higher than 50 indicates expansion)([www.nytimes.com](http://www.nytimes.com)).

Leading Indicators

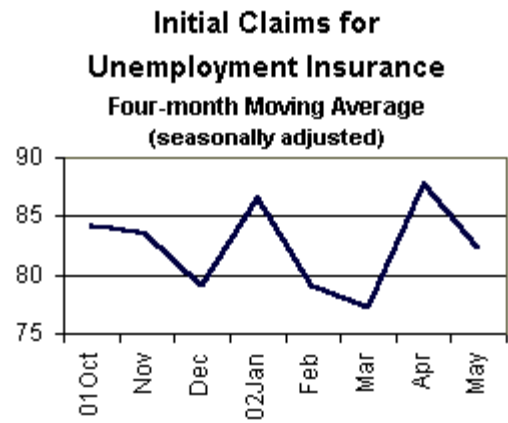
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Times Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued. Our graphs in this section use a four-month moving average in order to "smooth" ordinary month-to-month volatility. In this way, any underlying trends present in the series become more apparent.

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings.



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.



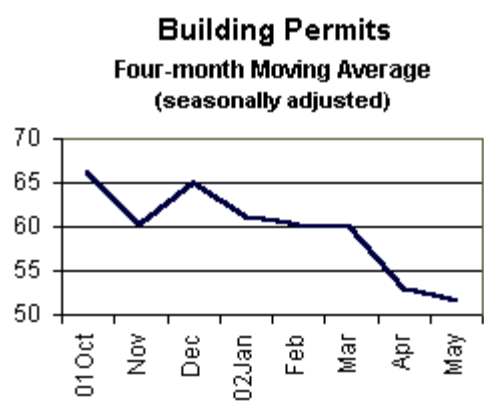
**Manufacturing Economic Indicator:**

Manufacturing orders, are a leading indicator of activity and employment in the County.



**Home Sales Economic Indicator:**

Building permits are an indicator of both construction activity and the availability of new housing stock.



**The Bigger Picture**



The most recent revision of Gross Domestic Product growth for the first quarter of 2002 shows that the economic activity surged by 6.1 percent during the first three months of the year. This is the largest one-quarter jump since the fourth quarter of 1999, when the economy grew by 8.3 percent. The previous estimate had been 5.6 percent. Increased estimates of spending by consumers and businesses are behind the upward revision. First quarter consumer spending grew 3.3 percent, down from the previous 3.2 percent. Business spending for the period dropped 6.2 percent, much less than the 8.2 percent previously estimated. A downward revision in the U.S. trade deficit also contributed to the improvement. The latest estimates for the second quarter have the GDP growth rate slowing to 2.5 percent or lower ([www.nytimes.com](http://www.nytimes.com)).

A lack of enthusiasm over the strength of the recovery is apparent in the latest release of the Federal Reserve's Beige Book, covering economic activity in late April and May. The report concludes that there has been "modest but uneven growth, with some major sections [manufacturing and services] showing signs of improvement while others [retail and employment] softened or remained weak" ([www.sfgate.com](http://www.sfgate.com)).

The Fed is not alone in its concern over where the economy will be going in the near future. An article in the New York Times cites "a startling stream of accounting scandals" as one of the primary causes behind decreasing consumer confidence. A recent Conference Board survey claims 28.5 percent of consumers expect the stock market to continue to fall over the next year. This measure of pessimism is significantly higher than it was last month, when 22.6 percent anticipated a continuing drop in the market ([www.sfgate.com](http://www.sfgate.com)).

As a result of the continued uncertainty, the Fed's Open Market Committee once again voted unanimously on June 26 to leave interest rates unchanged. The federal funds target rate remains at a forty year low of 1.75 percent ([nytimes.com](http://nytimes.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 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 "June 2002" report reflects data from May 2002. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Eureka Times-Standard website](#)

[The San Francisco Chronicle website](#)

[The New York Times website](#)

[California Association of Realtors website](#)

[National Association of Realtors website](#)

[The Conference Board website](#)

[U.S. Bureau of the Census's Economic Briefing Room webpage](#)

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