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The Index of Economic Activity for Humboldt County

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INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

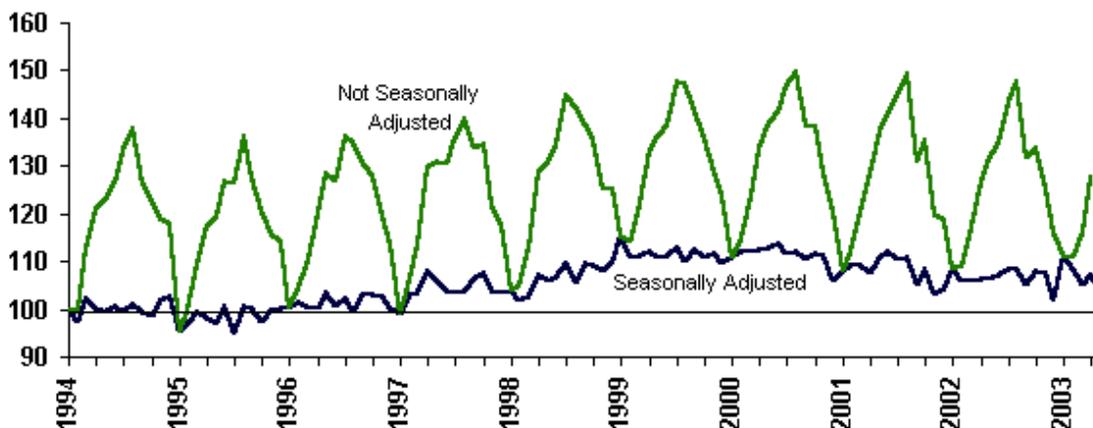
Professor Steven Hackett, Executive Director
John Manning, Managing Director

Note to readers: After co-founding the Index of Economic Activity in 1996 with Tim Yeager and directing monthly operations over the intervening years, I am handing over the Index to my colleague Dr. Erick Eschker. I will be focusing my energies on my teaching and on my continuing research in the area of environmental and natural resources economics. Likewise my assistant John Manning is moving on to graduate study at UC-Santa Barbara. Please join me in welcoming Dr. Eschker and his assistant Ceema to this project. -Dr. Steven Hackett

June 2003

This month's report is sponsored by Northcoast SBDC

Composite Index



The seasonally adjusted composite index value for May is a preliminary 104.2. This is 2.7 percent lower than April's upwardly revised 107.1. In May 2002, the composite index value was also 106.2

Key Statistics

Leading Indicators

Humboldt County *Seasonally Adjusted*

% Change From Previous Month

Median Home Price*

\$213,500

Help Wanted Advertising

+23.4

30 Yr. Mortgage Rate as of June 30th, 2003

5.625%

Building Permits

-29.6

Average Hotel Occupancy Rate

54.9%

Unemployment Claims

-7.8

Unemployment Rate**

6.2%

Manufacturing Orders

+1.5

* 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.

Sectoral Performance, Index of Economic Activity for Humboldt County							
* * *		Percent Change From:					
Sector	Seasonally Adjusted Sectoral Index Value (1994= 100)	Previous Month	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
Home Sales	130.6	-13.9	0.0	+3.8	-1.5	+22.7	+28.6
Retail Sales	128.9	2.0	-8.1	-7.0	-0.5	-0.5	+4.8
Hospitality	90.6	-2.3	+0.5	-10.3	-8.8	-9.5	-9.2
Electricity Consumption	110.2	-2.0	+9.7	-7.9	-16.8	-15.7	--
Total County Employment	102.2	-1.4	-1.1	-1.4	-2.8	-2.8	-0.9
Lumber Manufacturing	74.6	-7.2	-14.7	-20.3	-27.2	-26.4	-27.4

Humboldt County Employment Estimate

M/M Change*
Correlation**
Ave. Deviation***
Accuracy****
June 2003
+200
88.1%
423
81.0%

* Estimated number of jobs gained/lost in June relative to May's EDD preliminary estimate (rounded to the nearest 100). ** Correlation of model's estimates to the actual monthly levels of total county employment over the period January 1995 to May 2003. *** Mean of the absolute values of the monthly deviation of model's estimates from the actual monthly levels of total county employment over the period January 1995 to May 2003. **** Accuracy of model in correctly predicting an increase or decrease in the level of total county employment from the previous month. Accuracy does not apply to the magnitude of any change. The model is a regression-based estimator of employment in the current month, using lagged employment, help-wanted advertising and unemployment insurance claims data. All data are not seasonally adjusted. Click [here](#) for a detailed explanation.

Discussion

Composite Index and Overall Performance

Five of the Index's six seasonally adjusted sectors registered negative growth relative to April's revised numbers, moving the overall composite index downward to a preliminary 104.2. Of these, home sales lost the most ground, yet remains at the same activity level as last year. The hospitality sector nudged downward, though the current number is slightly higher than last year. Retail sales, one of the Index's most consistently strong sectors and the only sector to show positive growth this month, registered a slight increase in month-over-month activity for the first time in four months. Lumber-based manufacturing dropped ground than the previous month's upwardly revised figure. The employment sector fell slightly for a third straight month, yet the increase in employment opportunities this month may be enough to turn the local labor market around.

The seasonally adjusted leading indicators are mostly positive this month, with three of the four indicators looking optimistic. New claims for unemployment insurance in May fell by 7.2 percent from April's number. On a four-month moving average basis, however, the seasonally adjusted employment leading indicators are still trending negatively. Help-wanted advertising for June increased substantially as more seasonal employment opportunities become available, enough to turn the four month moving average around from its decline of the past year. The Humboldt County Employment Estimate corroborates positive indications in the local labor market. It suggests 200 jobs were added during the month of June. Manufacturing orders improved slightly, by 1.5 percent, enough to nudge the four-month moving average up for the first time since last December. Building permits fell slightly this month, as well as the downward four-month moving average trend. Once again, building permits tend to be volatile and it cannot be clearly determined the direction this leading indicator will take.

After a little more than two years of debate between the California Department of Transportation and SBC, formerly Pacific Bell, the two parties have come to an agreement to complete the last 21 miles of fiber-optic cable between Eureka and Ukiah. According to the Times Standard, the dispute began in 2001 when CalTrans insisted Pacific Bell to pay a fee of several million dollars for access permits along three sections of U.S. Highway 101. The agreement will allow SBC to put \$1.4 million into an escrow account while its state lawsuit challenging CalTrans' right of way fees is decided. In return, CalTrans will allow SBC to install the fiber on the remaining sector of the highway. J. Warren Hockaday, executive director of the Eureka Chamber of Commerce, said immediate gains will be felt by some businesses sooner than it will for others. But overall, completing the line will give businesses an important tool, one that other companies in California and across the nation already have, and will result in lower costs (times-standard.com).

Home Sales

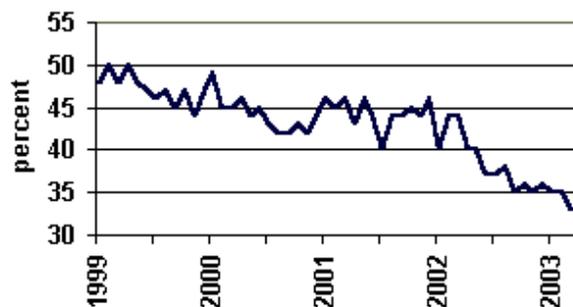
The *Index* value of this sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Home sales fell more than 20 points from April's index level, which is a decrease of 13.9 percent. The same number of homes was sold in May this year as were sold in the same month last year.

May's median home price took a substantial leap from April's figure, rising 12.4 percent to \$213,500. This figure is the highest recorded in the history of the Index. This sometimes-volatile measure is 33.4 percent, or more than \$40,000 higher than it was in May 2002. The current statewide median sale price for existing homes rose once again in May, climbing 15.6 percent to \$369,290 from April's upwardly revised number. The current figure is 15.5 percent higher than in May 2002, when it was \$319,590. According to the California Association of Realtors, the median home price has increased by double-digit percentages for 17 consecutive months when compared to same month activity in the previous year, and is once again at a new record level. Toby Bradley, the association's president, attributes the increase in median prices of home sales to "Low mortgage rates coupled with continued strong demand for California real estate,". With the continued reduction in interest rates, C.A.R. expects 2003 to be the second best year for residential real estate (www.car.org). May's national median price for existing homes is up 2.2 percent from April's level to \$167,000, and is 8.0 percent higher than it was in May 2002 (www.realtor.org). The similar figure for new homes rose 5.2 percent from April's upwardly revised \$185,500 to \$195,200. This measure is up 7.8 percent when compared to May 2002 (www.census.gov).

The most recent release of the Humboldt Association of Realtors' Housing Affordability Index, which represents the percentage of Humboldt County households that could afford to purchase a median priced home in April, remained unchanged from the previous month's 33 percent. This is a decline of 7 percentage points lower than in April 2002. The next graph shows the five-year trend:

Humboldt County Housing Affordability Index



The California Association of Realtors' statewide Housing Affordability Index has not yet been released for the month of June 2003, but will continue to be reported on in future issues.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of June 26 was 5.24 percent with an average 0.6 points. Last year at this time, the average rate was 6.55 percent with an average 0.5 points (www.freddiemac.com).

Retail Sales

Seasonally adjusted May sales at participating retailers rose 2 percent from April's level, following four months of month-over-month decline. However, activity is down when compared to same month activity in each of the last four years.

The Commerce Department reports that national May retail sales fell 0.1 percent from the previous month's level for a second consecutive month. The decrease was led by falling activity at gasoline stations (down 4.3 percent). Sub-sectors gaining ground since April include electronic and appliance stores (up 2.9 percent), miscellaneous store retailers (up 1.8 percent), and food services and drinking places (up 1.4 percent) (www.census.gov).

The Conference Board's Consumer Confidence Index essentially remained steady in June. The measure, which now stands at 83.5, fell a scant one tenth of a point from the previous month. "While consumers' assessment of current conditions has lost ground since April, expectations for the next six months are up," says Lynn Franco, Director of The Conference Board's Consumer ResearchCenter. "In fact, consumers have grown increasingly optimistic over the last three months. The recent turnaround in the stock market and an easing in unemployment claims should keep consumer expectations at current levels and may signal more favorable economic times ahead." (www.conference-board.org).

Hospitality

We use average occupancy at a cross section of local hotels, motels and inns as our indicator of economic activity in the hospitality sector.

Average occupancy at the participating hotels, motels and inns rose slightly in May from the previous month's level, as summer tourism gets under way. However, due to seasonal adjustment, the index number for the sector declined to 90.6, but the number is up slightly from same month of activity of last year.

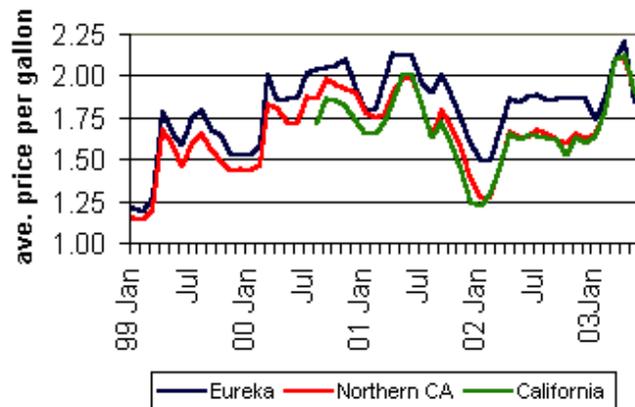
According to a report in the San Francisco Chronicle, many Bay Area hotels are looking towards their local market in order to increase occupancy rates. Even offering special exclusive deals to guests including partnering with local restaurants to offer discounts, tickets to local sports events and improving websites to lower commissions instead of using services such as Expedia.com or Hotels.com. John Hutar , president of the Hotel Council of San Francisco said, "The Internet is a wonderful tool to build market traction, and it is playing havoc with rates." (www.sfgate.com).

Gasoline Prices:

Average Price*
(as of 6/17)
Change From Prev. Month
(cents/gal.)
Eureka

\$1.88
+4
Northern CA
\$1.85
-6
California
\$1.82
-9

* 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).



Since the above figures were quoted, prices have increased in the central Humboldt County area by as much as ten or eleven cents.

Electricity Consumption

We use kilowatts-hours 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 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.

Estimated June consumption of electricity fell 2.0 percent from May's estimated level.

According to The New York Times, the United States is facing one of the most severe shortages of natural gas in the last quarter-century. Since 1998 most new electric plants have been designed to burn natural gas, thus increasing demand for this commodity. Over the last year drilling has increased by only 25 percent, however, so supply has not kept up with higher demand. Consequently executives and analysts talk of elevated natural gas prices for years to come. Robert Allison, chief executive of Anadarko Petroleum (a supplier), says "We're already facing the prospect of higher utility bills for consumers and higher energy costs for many businesses," (www.nytimes.com).

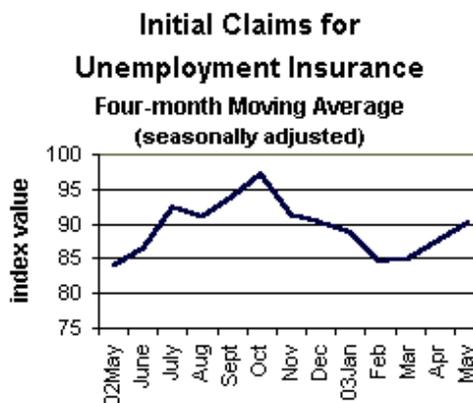
Total County Employment

In their preliminary report for May, the EDD reported that 56,300 people were employed in Humboldt County. This is a 0.2 percent decrease over April's figure, indicating a net loss of 100 jobs. As a result, the seasonally adjusted index number fell 1.4 percent.

Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries remained unchanged in May at 43,200. This sector is up 0.7 percent over last year's figure. Approximately 100 jobs each were added in the *Educational and Health Services* and *Food Services and Drinking Places* classifications, and about 100 jobs each were lost in the *Wholesale Trade and Food and Beverage Stores*. The preliminary figure for the retail sub-sector is down 100 jobs to 7,200. This number is also down 200 jobs from May 2002.
- Total county manufacturing employment came in at a preliminary 3,400. This is unchanged from April's figure. Total manufacturing employment is down 19 percent or 800 jobs from May 2002.

May's unemployment rate for Humboldt County dropped a full 1 percentage point from April's upwardly revised 7.2 percent to a preliminary 6.2 percent. Meanwhile, the national rate (not seasonally adjusted) remained at 5.8 percent and the state rate dropped four-tenths of a percentage point to 6.3 percent from April's upwardly revised figure.



According to the EDD, Humboldt County has the lowest unemployment rate of California's seven northernmost counties. Some of our neighboring counties, such as Trinity and Siskiyou, are suffering unemployment rates as high as 9.2 percent.

Another 17,000 jobs were lost nationally in May. As a result, the national seasonally adjusted unemployment rate rose one tenth of a percentage point to 6.1 percent, reaching a nine-year high (www.sfgate.com).

According to the San Francisco Chronicle, California has the fourth-highest unemployment rate in the nation, yet residents its don't qualify for a second round of extended benefits that would help people who have exhausted their unemployment benefits. Although only six states currently qualify for the second round of extended benefits, three of the states have unemployment rates substantially lower than California's. However, the unemployment growth rate in each of these three states is slightly higher than the growth rate in California. Thus they qualify for the second round of extended benefits, while California does not. According to Loree Levy, a spokeswoman for the California EDD, when asked about whether California might trigger on to the extended benefit plan, she said, "We're very, very close. We're hovering around it, but right now there seems to be a steady pattern. We're not really surging."

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 60 percent of total county manufacturing employment.

The preliminary May Index value for this sector fell 5.8 percent from April's upwardly revised 80.4. The current number is this sector's lowest level on record.



According to a local industry source, log availability played a larger role in the decrease than market conditions.

Contraction in nationwide manufacturing employment continued in May as around 53,000 people lost their jobs. Overall employment in this sector has shrunk for a staggering 34 consecutive months (www.bls.gov).

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 *Eureka 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 of seasonally adjusted *Index* values 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.

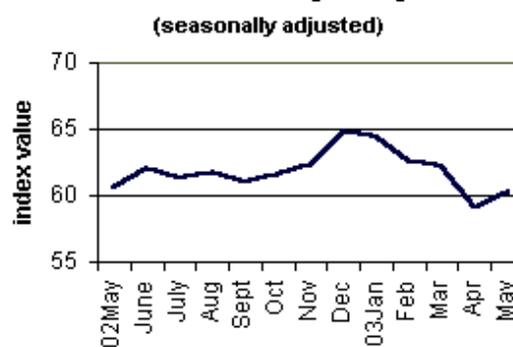
Initial Claims for Unemployment Insurance



Manufacturing Economic Indicator:

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

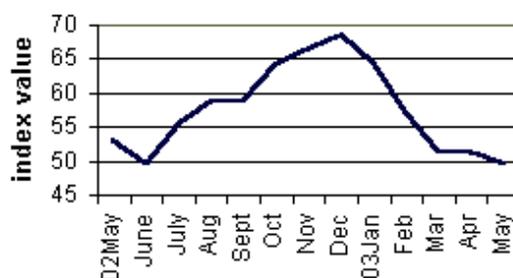
Manufacturing Orders



Home Sales Economic Indicator:

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

Building Permits



The Bigger Picture

According to the Commerce Department, the economy grew slower than expected at an annual rate of only 1.4 percent. The final reading of the gross domestic product (GDP), was lower than the expected 1.9 percent growth rate for the January to March quarter. Some economist attribute the slow growth rate to business withholding investment in inventories because of concerns with uncertainties related to the war in Iraq, which may have lead to companies putting off major business moves. The second quarter GDP expectations range from 1 percent to 2 percent and will be released on July 31 (www.nytimes.com).

The most recent release of the Federal Reserve Board's Beige Book, which reports on economic activity for late April and May, the national economy exhibited signs of modest but uneven

growth. Residential real estate activity continued to be strong, and activity in the services and manufacturing sectors improved. On the other hand, retail sales generally were flat, and labor markets showed weakness across most of the Fed's 12 districts. Increased demand for temporary workers in several districts, however, is a sign of a potential turn around in labor market activity (www.federalreserve.gov).

As a result of this sluggishness, the Federal Reserve's Open Market Committee decided on Wednesday, June 25th, to lower the its target for the federal funds rate by a quarter of a point to stand now at 1 percent. This is the thirteenth time the interest rates have been cut since 2001, and is at its lowest point in 45 years. The committee believes that lowering interest rates once again, will improve economic conditions (www.sfgate.com, www.federalreserve.gov).

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 2003" report reflects data from May 2003. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.



Cited References

[The Eureka Times-Standard web site](#)

[The San Francisco Chronicle web site](#)

[The New York Times web site](#)

[California Association of Realtors web site](#)

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[Freddie Mac web site](#)

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[Institute of Supply Management web page](#)

[U.S. Bureau of the Census's home page](#)

[U.S. Bureau of Economic Analysis' web page](#)

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[U.S. Bureau of Labor Statistic's web page](#)

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