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The Index of Economic Activity for Humboldt County

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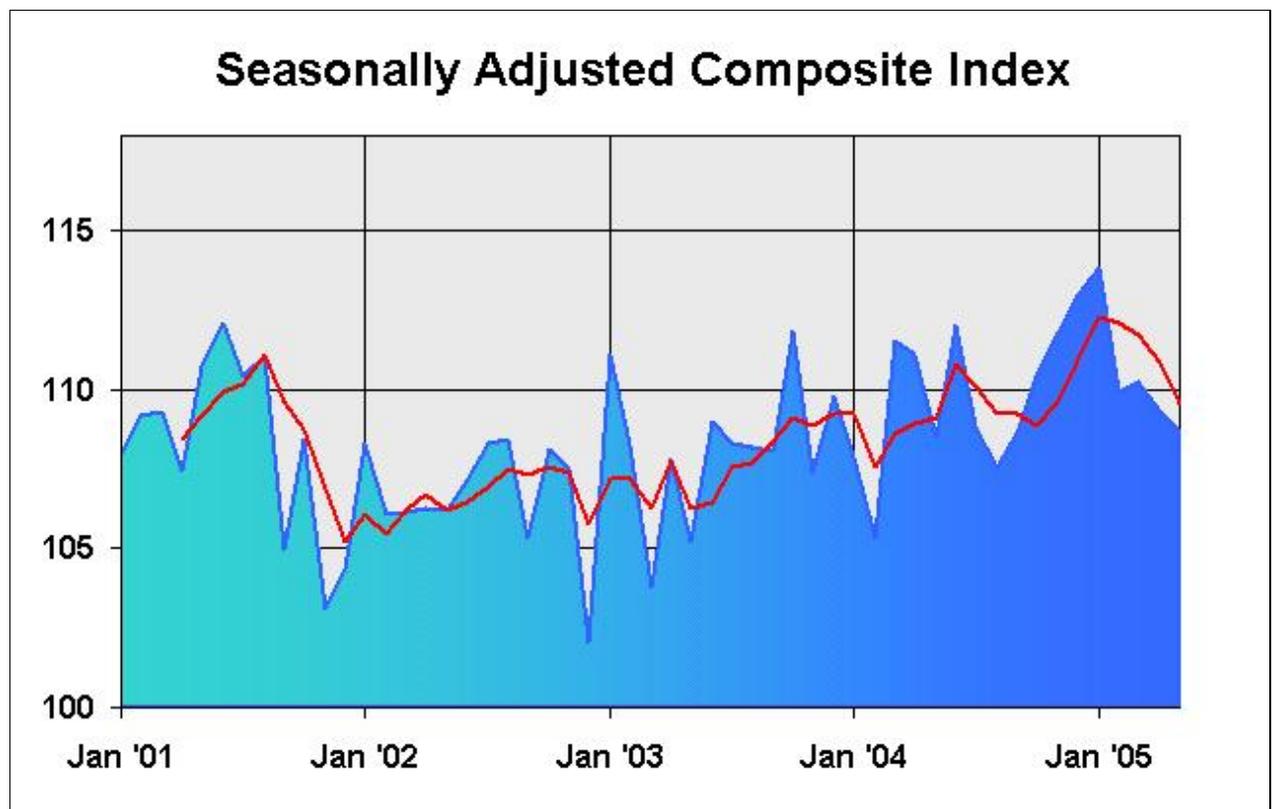
INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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June 2005



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.

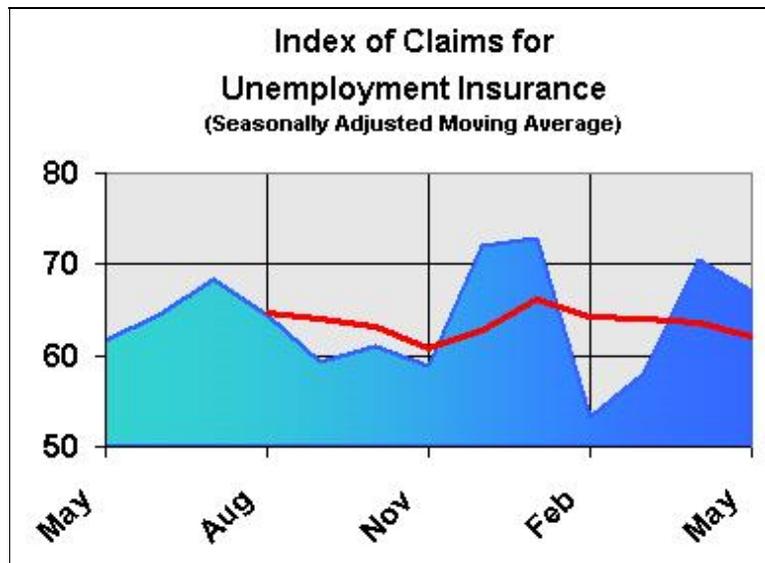
May saw further decline in Humboldt County's economy, continuing last month's downwards trend. The composite Index dropped 0.6 percent and currently stands at 108.7 (100 = January 1994). The Index was pulled down primarily by a marked decline in retail sales and a drop in manufacturing, while continued growth in home sales kept the composite from dropping too far. Seasonally adjusted home sales in Humboldt County increased 4.9 percent to an Index value of 137.6, a 17.6 percent increase from the same point last year. Conversely, the retail sector suffered a 4.4 percent decline, dropping to an Index value of 131.7. The retail sector is usually a strong aspect of the Humboldt economy, but this month's value represents a 10.3 percent decrease from May of 2004. Manufacturing also saw a decline, dropping 2.9 percent to an Index value of 80.6. Employment continued to show almost no change in May, increasing only 0.1 percent to an Index value of 107.2. Hospitality also showed only a slight increase, rising 0.6 percent to 86.3 in May. The hospitality sector experiences a lot of month to month variability, and a change of this magnitude does not represent a significant trend for Humboldt County. Finally, figures for electricity consumption for the month of May were estimated at 122.1.

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 2004	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000
COMPOSITE	108.7	-0.6	0.2	3.3	2.3	-1.9	-3.7
<i>Sector</i>							
Home Sales	137.6	4.9	17.6	5.4	5.4	9.4	3.8
Retail Sales	131.7	-4.4	-10.3	0.5	-6.1	-5.0	1.6
Hospitality	86.3	0.6	-12.1	-4.0	-4.3	-14.5	-13.2
Electricity Consumption	122.0	0.0	10.5	5.2	21.5	2.0	-7.8
Total County Employment	107.2	0.1	4.2	4.8	5.0	3.5	2.1
Manufacturing	80.6	-2.9	-4.7	8.1	-7.8	-13.9	-21.3

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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 four leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) manufacturing orders. 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.



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 leading indicator decreased by 4.8 percent in May. This suggests an increase in unemployment in the future. The Index of claims for unemployment insurance now stands at 67.07. This is 8.9 percent higher than the unemployment insurance leading indicator value for May of 2004. The four month moving average indicates that overall unemployment activity is fairly static.

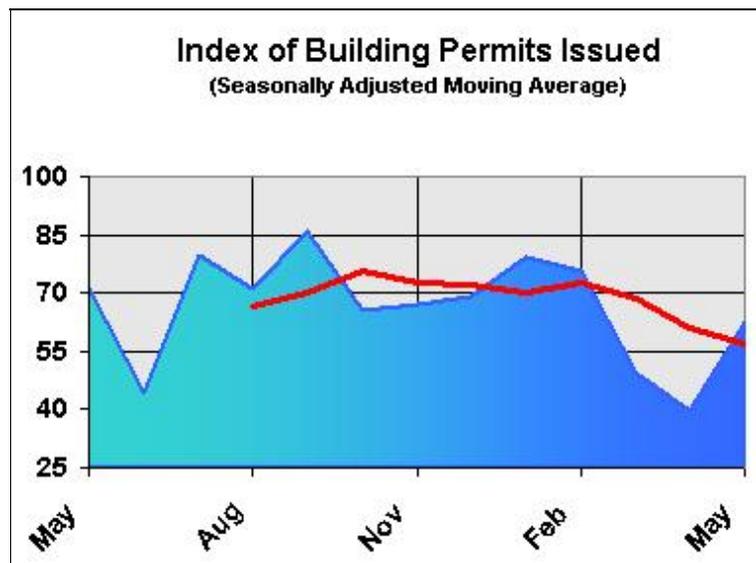


Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The Index of help wanted advertising is an indicator of labor market conditions and job creation. This Index is based on help wanted advertisements posted in the *Times-Standard*. In May the number of help wanted advertisements increased by 9.9 percent to an Index value of 156.7. This represents a

16.5 percent increase from the same period last year. The four month moving average for this indicator also stands at 156.7, revealing a generally upward trend. Increases in the help wanted advertising Index imply future growth in county employment.

Nationally, the Conference Board's help wanted advertising Index dropped two points in May, and now stands at 37. This continues the gradual downward trend we began to see in February. May's current Index value represents a decrease from May of 2004, when the conference board reported a help wanted advertising Index value of 39. Says Conference Board Economist Ken Goldstein: "Hiring intentions have turned cautious as business executives face the prospect of slower overall economic activity in the second half of 2005. While the Coincident Economic Index, which focuses on current economic conditions, continued to edge higher, the Leading Economic Index fell for the fourth time in the last five months. The biggest obstacle to more hiring is the increase in labor costs relative to the rate of price increases." (conference-board.org)



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 "smooths" month to month volatility.

The Index of building permits issued gives insight to future home sales and construction. In May the Index of building permits rose sharply, more than doubling to an Index value of 62.3. This is still 12.5 percent lower than the same period last year. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above, the moving average has only begun to reflect May's surge, leveling out to a value of 56.9.



Graphic description: The seasonally adjusted Index of Manufacturing Orders 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 manufacturing orders shows expectations for future manufacturing sales. This leading indicator showed no discernable change in May. The current value stands at 66.2, a 70.5 percent increase from May of 2004. Because manufacturing orders are subject to dramatic shifts, the four month moving average helps to illustrate the larger trend. The average of the last four months of manufacturing orders now stands at 66.6, down only slightly from last month.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$308,000	Unemployment Claims	-4.8
30 Yr. Mortgage Rate as of 6/28	5.625%	Help Wanted	9.9
Unemployment Rate**	5.2%	Building Permit	56.4
		Manufacturing Orders	0.0
<p>* 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.</p> <p>** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.</p>			

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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 in Humboldt County continued to increase in May, growing to a seasonally adjusted Index value of 137.6. This represents a 4.9 percent increase from April's value, and a 17.6 percent increase from the same period last year. The home sales Index value increased in response to a sharp increase in the raw number of homes sold. The median selling price for a home in Humboldt County also continued to increase, rising to a new record at \$308,000. The median selling price does not affect the Index.

Statewide home prices are also on the rise, increasing to \$522,590 in May. This represents a 12.8 percent increase in the median home price for the same period last year, and a 2.5 percent increase over April's revised median selling price. The state sales Index, however, decreased 2.1 percent when compared with the same period last year. Industry leaders are still predicting continued strength in the California housing market, in part dependant on California growing as a state. "The California housing market passed an important threshold in April, when the median price rose above \$500,000 for the first time," said C.A.R. President Jim Hamilton. "This trend continued in May, with the median price approaching \$525,000. At these prices, eroding affordability and concerns about rising interest rates are constraining sales." (car.org)

Existing home sales, a measure of the housing market produced by the National Association of Realtors (NAR), also reported continued growth in May. The seasonally adjusted number of single family homes sold increased to 7.1 million this month. This represents a 0.7 percent increase from April and a 3.5 percent increase from May of 2004. David Lereah, NAR's chief economist, said low interest rates, population factors and job growth are driving home sales. "Most of the stars continue to be correctly aligned for the housing market," he said. "An ongoing problem is the tight supply of homes available for sale, which is pushing gains in home prices. We need about a six-month supply of homes on the market to have a rough equilibrium between home buyers and sellers. For the foreseeable future, the demand for homes will continue to outstrip supply, but we expect the inventory situation to improve in 2006 and take some of the pressure off of home prices." The national median selling price of a home reached \$207,000 in May, 12.5 percent higher than in May of 2004. (realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of July 7th remained constant at 5.62 percent with an average 0.6 points. The 30-year fixed mortgage rate averaged 6.01 percent the same time last year. Although mortgage rates ticked up this week, the 30-year mortgage rate – apart from a brief two-week stint in March – has stayed below six percent all year. As a result the housing industry is likely headed for another record-breaking year," said Frank Nothaft, Freddie Mac vice president and chief economist. "For example, the Mortgage Bankers Association survey for last week showed that applications for home purchases were just shy of the all-time record set in May." (freddiemac.com)

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.

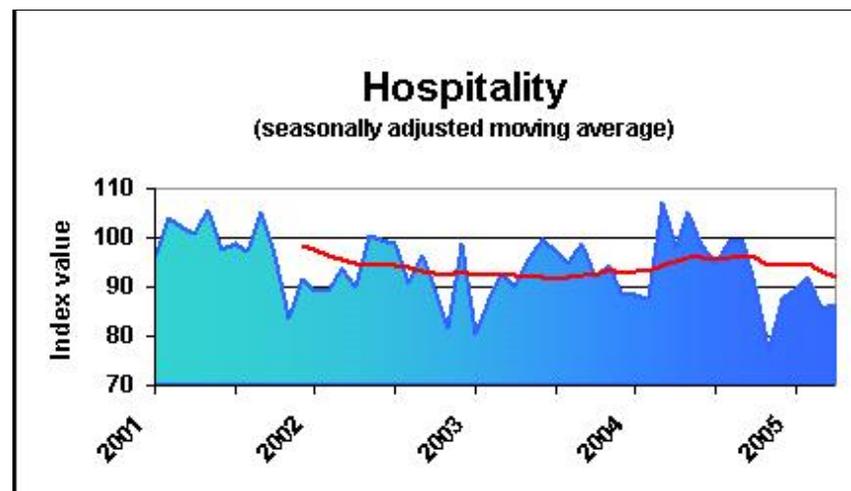
The retail sales sector contracted in May, dropping 4.4 percent to a seasonally adjusted Index value of 131.7. This is a 10.3 percent decrease from the same period last year. Retail sales have been consistently low this year, after reaching a high point in January, when it reached 149.0. The four-month moving average, which reflects the recent trend of the sector, also dropped slightly and now stands at 136.3.

National retail sales, as reported by U.S. Census Bureau, also decreased slightly in May. Seasonally adjusted sales were \$343.6 billion, down 0.5 percent ($\pm 0.7\%$) from the previous month but up 6.4 percent ($\pm 0.8\%$) from April 2004. Total sales for the March through May 2005 period were up 7.1 percent ($\pm 0.5\%$) from the same period a year ago. (census.gov)

Consumer confidence, as reported by The Conference Board, increased in June. The consumer confidence Index now stands at 105.8 (1985=100), up from 103.1 in May. Says Lynn Franco, Director of The Conference Board's Consumer Research Center: "This month's gain in Consumer Confidence has propelled the Index to a three-year high. The improvement in consumers' mood suggests that business activity and labor market activity will continue to pick up over the next several months. And, with consumers in better spirits, and job concerns remaining relatively steady, there is little reason to expect a dramatic shift in consumers' spending." (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.



Graphic description: The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the twelve-month moving average of the hospitality index which smoothes month-to-month volatility to show the long run trend.

The hospitality sector ticked upward in May, increasing 0.6 percent from April to an Index value of 86.3. This is a 12.1 percent decrease from May of 2004 and a 4.0 percent decrease from May of 2003. The four-month moving average slowed its decent this month, settling at a value of 88.5. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. The twelve-month moving average, indicated by the red trend line, shows that while the hospitality sector fluctuates from month to month beyond seasonal variability, the overall trend is one of consistency. The twelve-month moving average has not dropped below 90.0 or reached above 100.0 in four years.

Gasoline Prices

In June drivers welcomed another drop in the retail price of gas across the state and the nation. In Eureka the average gas price lost 16 cents, while the national average decreased just 3 cents per

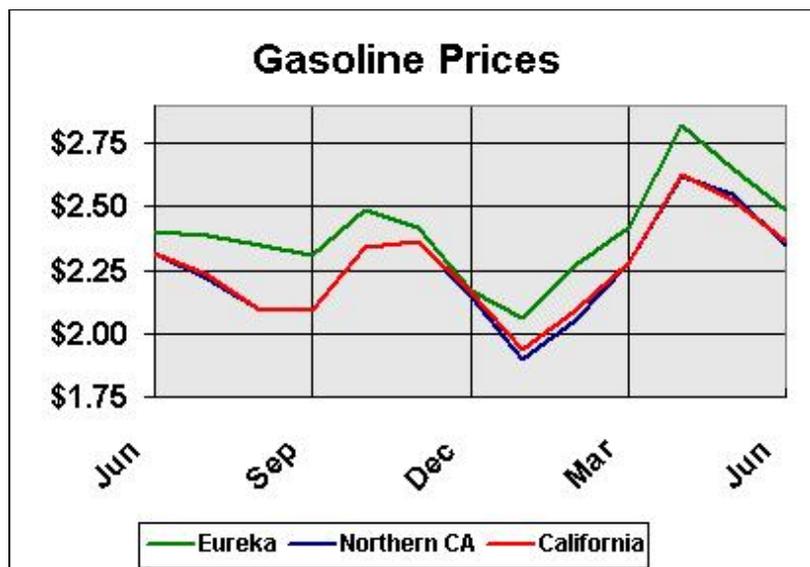
gallon of regular gasoline. State-wide, California saw gas prices decrease 17 cents, while Northern California enjoyed a 20 cent decline. The drop in the retail price of gasoline is attributed to a sharp drop in the price of crude oil. According to the California State Automotive Association, a one dollar change in the price of a barrel of crude oil usually translates to a 2.5 cent change in the retail price of a gallon of regular gasoline. Currently, Yreka has the highest average gas price in the state at \$2.55 for a gallon of regular unleaded gasoline. The least expensive gasoline is found in Corpus Christi, Texas and Greenville, South Carolina where the average price for both cities is \$1.97 per gallon. "The price has come down, but it's important to keep this in perspective," said Sean Comey, spokesman for AAA of Northern California. "It only seems like a bargain when you compare it to the record high. The price of gas is still at least 40 cents higher in most places than it was in January." (csaa.com)

On July 7 the price for a barrel of crude oil topped its previous record set on June 2 with the new high of \$61.28 on the New York Mercantile Exchange. While this represents a marked increase over oil prices last year, it is still below the inflation-adjusted price of \$90 per barrel the United States paid in 1980. Many inside the oil industry blame this most recent increase on concerns over uneven production due to recent power outages at refineries in the Gulf of Mexico. If Tropical Storm Dennis moves west, gas prices could increase further as the precarious balance between supply and demand in the retail gasoline market is upset by a sudden drop in refining. (San Francisco Chronicle)

For a local perspective, visit our [Special Projects page](#) for Dr. Eschker's Study of the Eureka Gasoline Market and an examination of why Humboldt County gas prices tend to be higher than the rest of California's.

Average Price* (as of 6/14)		Change From Prev. Month (cents/gal.)
Eureka	\$2.49	-16¢
Northern Ca	\$2.35	-20¢
California	\$2.36	-17¢

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 value of the electricity Index is 122.0 in May, unchanged from last 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.

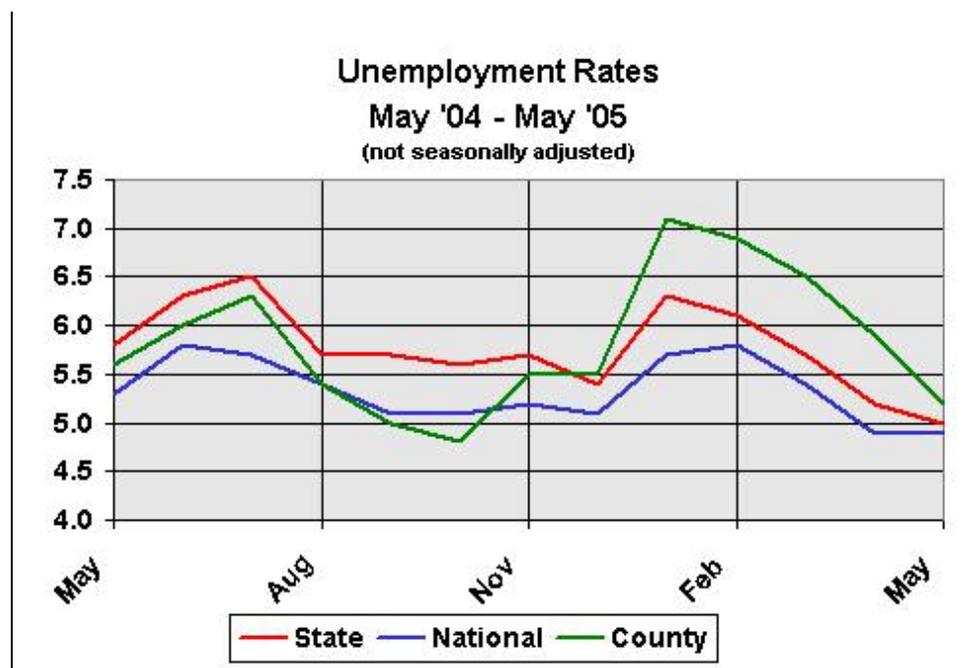
May's preliminary employment and labor force reported 58,400 people employed in Humboldt County. This is a net gain of 500 jobs from April's revised number. The total civilian labor force also increased by 100 people to 61,600. After adjusting for seasonal variation, the employment sector's Index value increased just 0.1 percent to 107.2. This is a 4.2 percent increase from the same period last year.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 300 jobs in May.
 - Wholesale Trade lost 100 jobs.
 - Real Estate, Rental, and Leasing Services gained 100 jobs.
 - Professional and Business Services lost 100 jobs.
 - Education and Health Services gained 100 jobs.
 - Leisure and Hospitality gained 100 jobs.
 - Federal Government gained 100 jobs.
 - State Government gained 100 jobs.

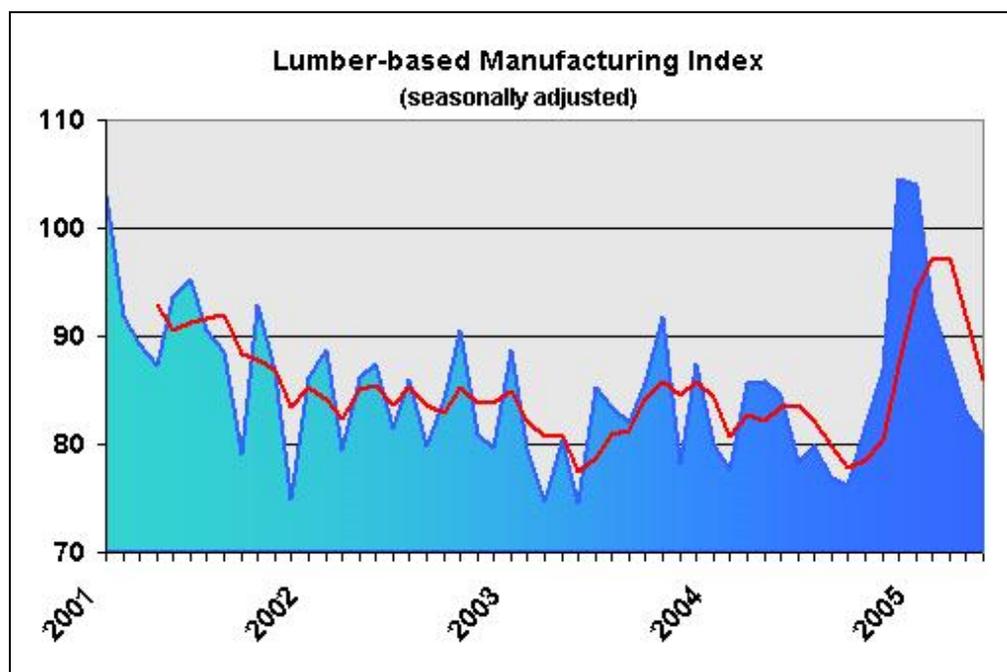
- Net employment in the manufacturing sector posted a net gain of 100 jobs in May.
 - Wood Product Manufacturing gained 100 jobs.

The revised county unemployment rate maintained the downward trend that began in January, dropping to 5.2 percent in May. While the unemployment rate for California also fell this month, the nation unemployment rate remained constant. Both the State and National remain below the county level at 5.0 percent and 4.9 percent respectively.



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.



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.

In May lumber based manufacturing continued its decline, dropping 2.9 percent to a seasonally adjusted Index value of 80.6. This represents a 4.7 percent contraction from May of 2004's figure. This decrease represents a slow in the continued downward trend we've seen since December of 2004. The four month moving average has also dropped to 86.1.

National economic activity in the manufacturing sector, as measured by the Institute of Supply Management, registered 53.8 percent on July 1st. A number over 50 indicates growth. This is the 25th consecutive month of growth, and a stronger growth trend than we saw last month. "The improved rate of growth in New Orders is quite encouraging, particularly when combined with a slower rate at which prices are escalating. These are the most positive signs that we have seen in several months, and they indicate that we may be through the 'soft patch' that many observers touted. High energy costs and the stronger dollar are still major concerns to purchasers." said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (ism.ws.cfm)

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The Bigger Picture

The Benefits and Harms of Chain Stores

By: Andrea Walters

In the independent film "The Corporation" the city of Arcata is applauded for its city ordinance limiting the number of 'chain' or formula restaurants allowed in town. In the lower Divisadero district of San Francisco, a similar ordinance has been proposed, which would require a special permit to operate a formula retail business. The legislation is intended to protect San Francisco's "vibrant small business sector while maintaining a strong sense of neighborhood community". If the ordinance is approved, it would require any incoming formula retailer to be specially permitted by the neighborhood's Planning Commission and residents. Other neighborhoods and cities across the nation have imposed various restrictions on formula businesses, mostly along the west coast. The city of Pacific Grove on the California coast forbids food establishments that specialize in quick service food or serve food primarily in disposable containers. (The San Francisco Chronicle; 7/7/2005)

According to Arcata city ordinance 1333, a formula restaurant is defined as "A retail establishment primarily devoted to the on-site preparation and offering of food and beverage for sale to the public for consumption either on or off the premises and which is required by contractual or other arrangement to offer any of the following: standardized menus, ingredients, food preparation, decor, uniforms, architecture, signs or similar standardized features and which causes it to be substantially identical to more than eleven (11) other restaurants regardless of ownership or location". While the definition and type of chain forbidden varies from city to city, all of the laws and ordinances aim to preserve the character of the area or preserve a historic neighborhood by protecting existing and future local businesses.

It stands to reason that ordinances like these are seen as an impediment by business leaders. Classical economics is based on idea that the 'invisible hand' of the market will best serve society and that self-interested people will supply the goods and services, demanded by other self-interested people, for a tidy profit. By this standard, regulations that impede or forbid certain types of businesses block the natural mechanisms of the market because they unfairly keep some suppliers from selling their wares. Further, consumers are subsequently robbed of the opportunity to patronize the blocked business. When traveling, many people seek the comfort of a familiar brand or company in an unfamiliar location; in this sense chain retailers and restaurants enhance an area and welcome outsiders.

Alternatively, chain firms can impede economic development, especially in more rural areas. Many formula businesses lower their overhead costs by maintaining only a handful of higher level employees at a main office, leaving little opportunity for upward mobility for their lower level employees. The efficiency of formula stores is often dependent on highly specialized employees in contrast to smaller businesses that necessarily build redundancy into their business workings, providing employees the opportunity to gain more varied skills. Finally, formula businesses can distort market forces on their own because of the delayed reaction of a distant corporate office to consumer demands.

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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

[American Automobile Association](#)

[California Association of Realtors](#)

[City of Arcata](#)

[The Conference Board](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

[The New Rules Project](#)

[The San Francisco Chronicle](#)

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

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