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## The Index of Economic Activity for Humboldt County

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# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

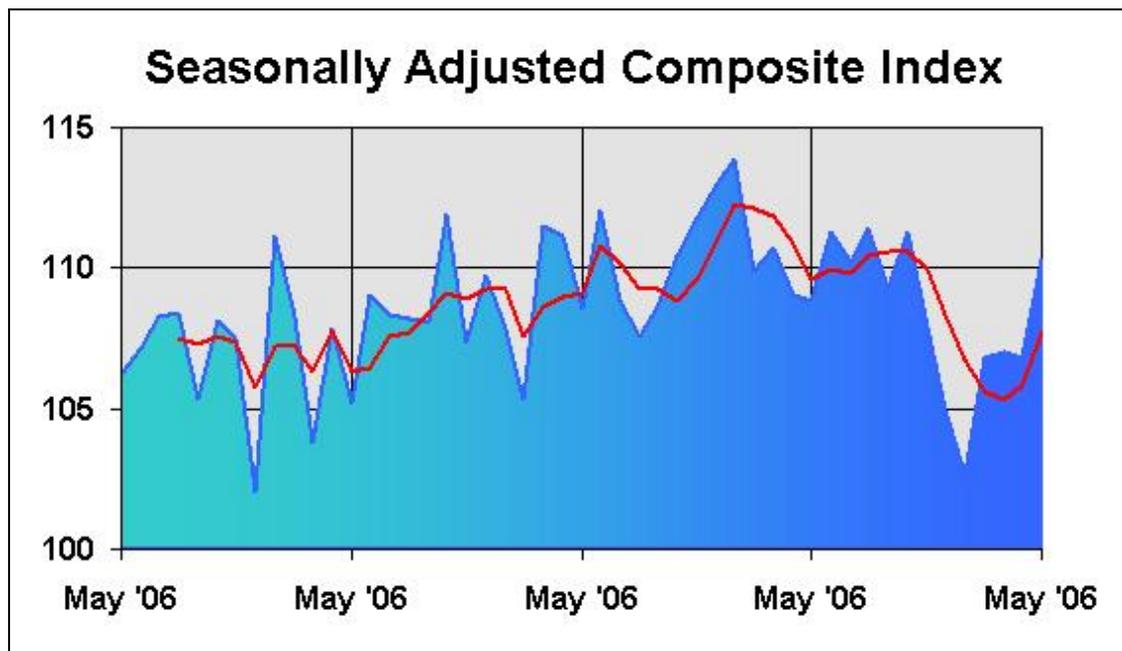
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## June 2006



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

## 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.

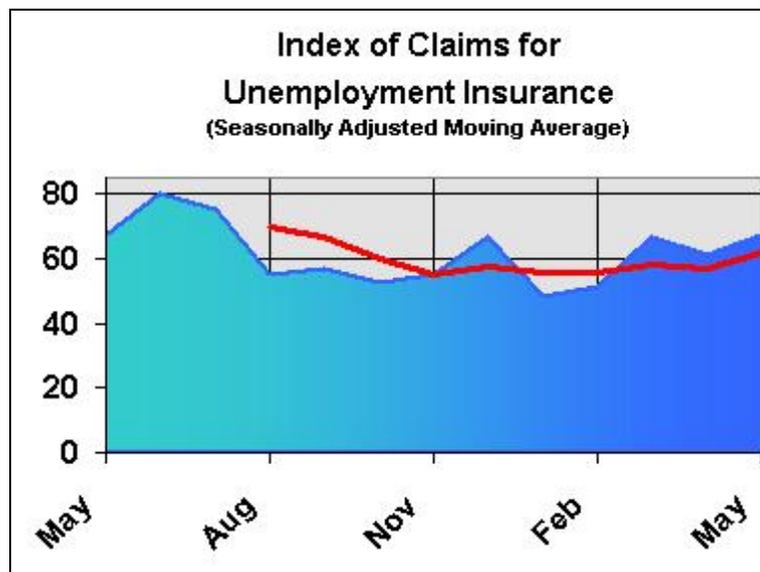
In May the Index posted a strong performance, gaining 3.3 percent over last month to a composite Index value 110.3 (100 = January 1994). The Index was lifted by surges in the Manufacturing Index and in the Retail Sales Index. There were also continued declines in the Home Sales Index. Hospitality was tame, gaining slightly. The Employment Index was also tame, declining 0.1 percent. Our new seasonally adjusted Humboldt County unemployment rate was unchanged in the month of May. Rising interest rates, among other factors continue to be a drag on real estate markets in Humboldt County, but also throughout the nation as state, national as well as local markets all show signs of softening. The real, or inflation-adjusted median existing home sales price in the County declined over the past year, the first twelve month period in which this has happened since 2000.

<b>Composite &amp; Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i></b>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2005	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001
<b>COMPOSITE</b>	<b>110.3</b>	<b>3.3</b>	<b>1.4</b>	<b>1.6</b>	<b>4.8</b>	<b>3.8</b>	<b>-0.4</b>
<i>Sector</i>							
Home Sales	101.6	-9.5	-25.0	-13.2	-22.2	-22.2	-19.2
Retail Sales	146.1	13.2	6.7	-0.5	11.5	4.2	5.5
Hospitality	97.3	2.9	12.7	-0.8	8.2	7.9	-3.6
Electricity Consumption	141.8	0.3	19.8	28.4	22.2	41.2	18.5
Total County Employment	105.6	-0.1	-1.4	2.6	3.2	3.4	1.9
Manufacturing	69.9	18.0	-13.4	-17.4	-6.4	-20.1	-25.4

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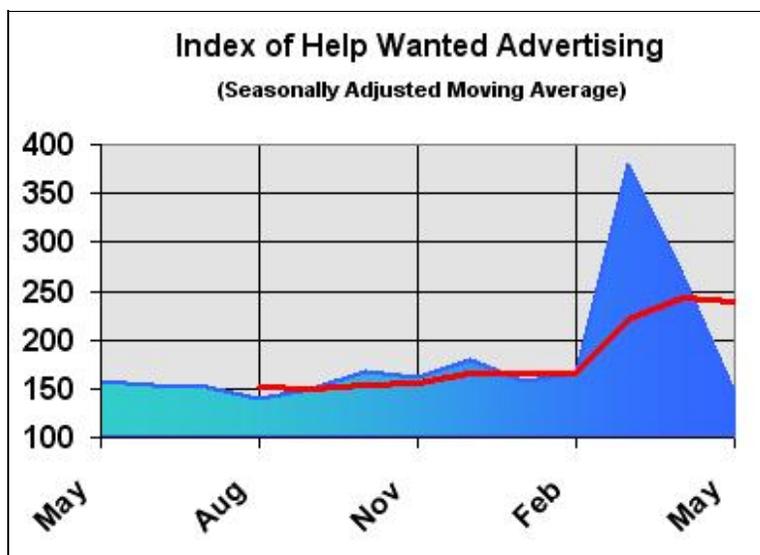
## Leading Indicators

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.

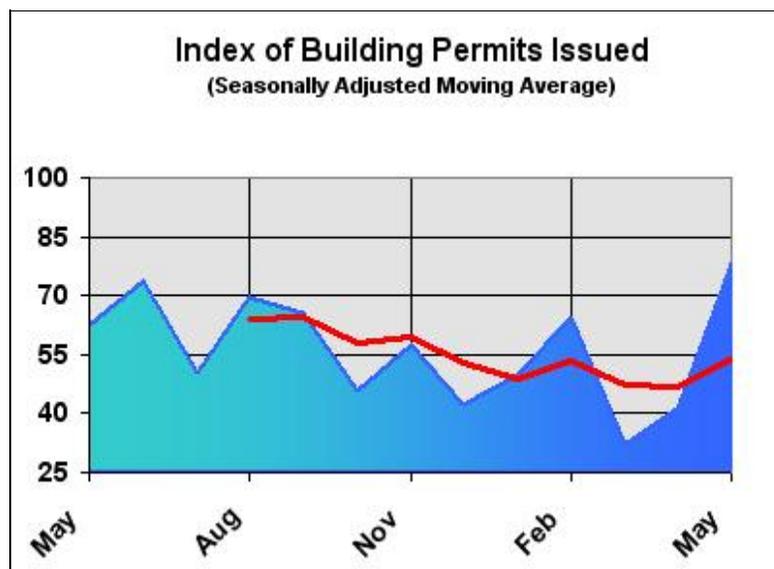
The index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator increased by 10.9 percent in May, which may indicate an increase in unemployment in the coming months. Currently, unemployment in the county is historically low.



Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of help wanted advertising is an indicator of labor market conditions and job creation. It may suggest future trends in the Humboldt County labor market. This Index is based on help wanted advertisements posted in the *Eureka Times Standard*. In May, the Index declined 45 percent to an Index value of 146.7. This is not an unusual value for this Index historically, and is down slightly from the same period last year. The Index value in March and April of this year was overstated due to data collection inconsistencies, so this month's large drop should not be given much importance.

National help wanted advertising continued its decline in May according to the Conference Board. Their Index of help wanted advertising fell to 33, down two points from last month. This is several points off from the same month a year ago, when it stood at 38. The Conference Board points out that in the last three months all nine U.S. regions reported losses. Ken Goldstein, labor economist at The Conference Board explained that, "Businesses remain cautious about hiring when near-term economic prospects appear soft. They remain fundamentally worried about the expense of new hiring (in terms of wages, as well as health and pension benefits)." ([conference-board.org](http://conference-board.org))



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of building permits issued gives insight into future home sales and construction. In May the Index of building permits rose sharply, adding ninety percent to its prior level. It now stands at 78.4 which is the highest value for this Index since January of 2005 when it was 79.2. This is a positive indicator for building and construction, taken together with the slowdown in real estate it may indicate that the timing of this construction is not ideal.



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index of manufacturing orders shows expectations for future manufacturing sales. This leading indicator rose 5.1 percent in May and now stands at 51.2. This is an improvement, but still stands almost thirty percent below the value of one year ago, and less than half its value held in November. If current levels are sustained, it will indicate county manufacturing output in coming months that is well below historical norms.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$319,000	Unemployment Claims	10.9
30 Yr. Mortgage Rate	--	Help Wanted	-45.0
Unemployment Rate**	5.1%	Building Permit	90.0
		Manufacturing Orders	5.2
<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>** Seasonally adjusted from preliminary EDD data. See the <a href="#">EDD Website</a> for updates.</p>			

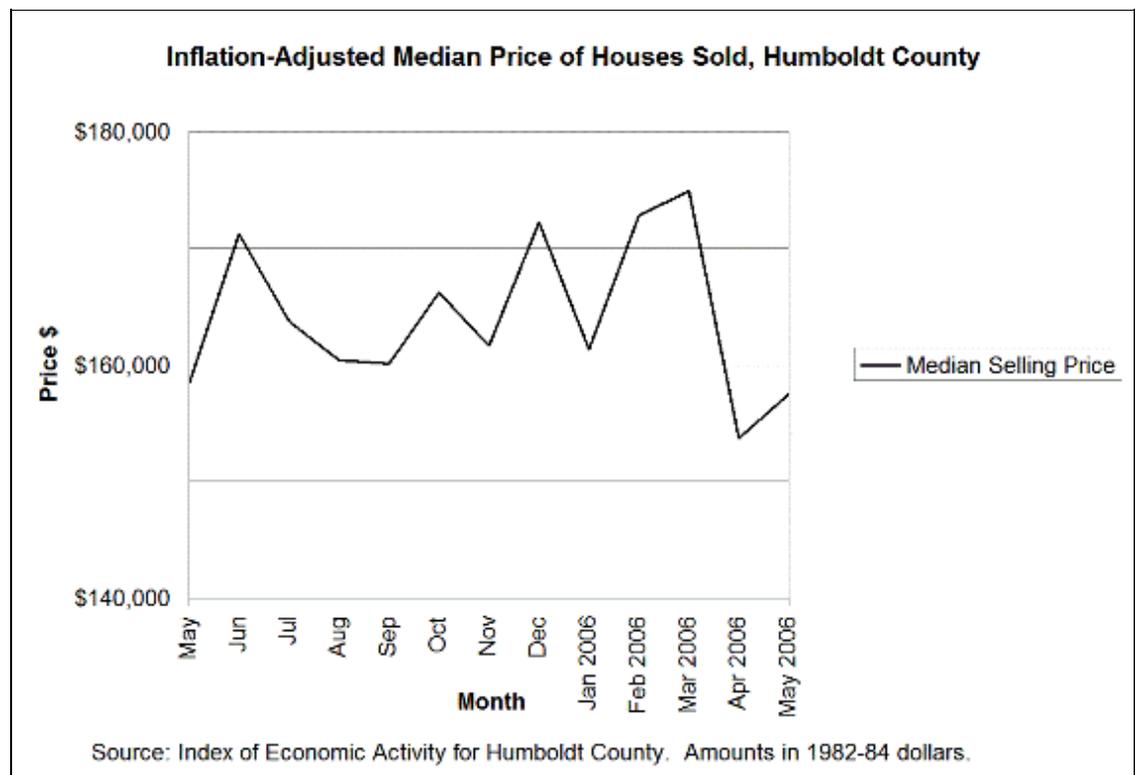
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## Individual Sectors

### 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.

The big news this month is that the inflation-adjusted price of houses in Humboldt County fell over the last year. For the second month in a row, year-on-year appreciation of houses in Humboldt County was in the single digits. The May 05-May 06 increase was only 3.6%, the lowest increase since July 2000. More importantly, inflation was 4.2% May 2005 to May 2006, meaning that the real prices of houses fell in Humboldt County by about 0.6%. The figure below shows the inflation-adjusted median house price in Humboldt County.



This is what we are starting to see in other parts of the state. The last time inflation-adjusted house prices fell in the county year-on-year was in 2000. Still, the drop in real prices is very small, and as a result did little to encourage sales. Seasonally adjusted sales fell by a whopping 25% from May 2005 to May 2006. The decline in sales and the rapidly growing unsold inventories will put intense downward pressure on prices, and sales will likely remain stagnant until real prices come down.

California's median existing home sales price, as reported by the California Association of Realtors, increased to \$564,430 from \$561,750 in April. This is a 0.5 percent increase, and brings the increase for the past twelve months to 8 percent. This is a much slower pace than the continual double-digit annual gains that have been witnessed in prior months. The number of existing homes sold in the state

this month fell again sharply, losing 21.1 percent from May of 2005. ([car.org](#))

According to the National Association of Realtors, at the National level existing home sales eased 1.2 percent from last month, and are down 6.6 percent on the year. The median existing home price is up 3.6 percent over last month at \$230,000. This is a 6.0 percent increase over May of 2005. Housing inventories also continued to rise, and now stand 5.5 percent over April at a 6.5 month supply.

The country's largest mortgage company, Freddie Mac, reports that the nationwide average for a 30-year fixed rate mortgage as of June 29th continued to climb to 6.78 percent with an average 0.5 points. In the prior month, the rate was 6.67 percent with an average of 0.4 points. A year ago the 30-year fixed mortgage rate averaged 5.53 percent. The current rate is the highest it has been since May of 2002. Frank Nothaft, Freddie Mac vice president and chief economist explained, "Financial markets continue to expect more rate hikes by the Fed over the next six months, which has added upward pressure on mortgage rates," ([freddiemac.com](#))

For a local perspective on the possibility of a housing bubble, visit our [Special Projects page](#) for a study of the Humboldt County housing market.

## 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 surged in May, gaining 13.2 percent to a seasonally adjusted Index value of 146.1. This is the strongest performance for this sector in several months and leaves the Index a healthy 6.7 percent over the same period last year. This sector has long been a strong performer, and continues to be a driving factor in the Composite Index. It is up 46 percent since it began in January of 1994, making it historically the strongest component in the Composite Index.

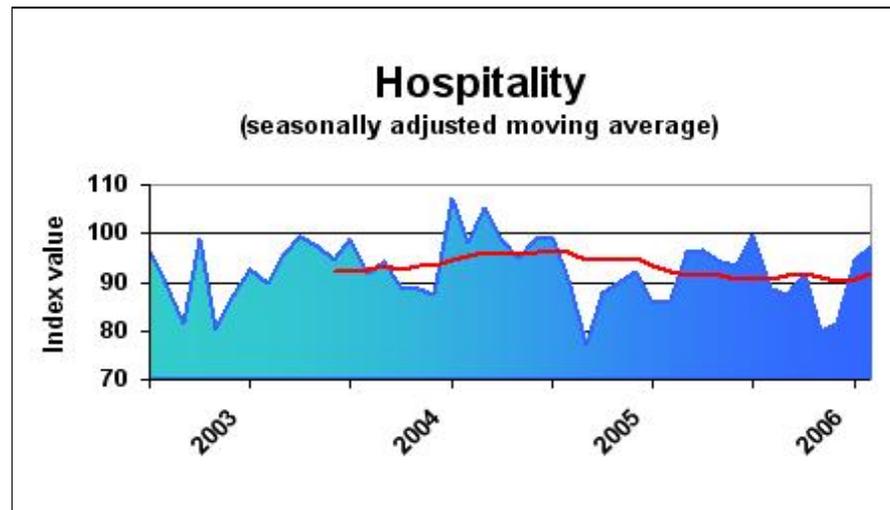
The Federal Reserve Board's Beige Book reported on June 14 that at the national level, activity in all twelve of its districts was expanding with some indication of deceleration. Our district was among four of the twelve where activity moderated. Consumer spending was generally higher than month-ago levels, but the rate of growth slowed. Activity in service-producing advanced in all districts that reported on it. While commercial grew, consumer lending slowed, especially in the area of home equity and mortgage loans. Energy continued to be a bustling sector, with growth limited chiefly by shortages of equipment and labor. ([federalreserve.gov](#))

National consumer confidence as measured by the Conference Board increased in June, regaining a single point after last month's drop to rest at 105.7 from 104.7 in May. A level of 100 is equivalent to the base year of 1985's level. Lynn Franco, Director of The Conference Board Consumer Research Center commented that, "Despite the up-tick, consumers remain concerned about the short-term outlook. Furthermore, the Present Situation Index lost ground for the second consecutive

month, a signal that the economy is shifting into lower gear heading into the second half of this year." The Present Situation Index is a measure compiled by the Conference Board which tracks consumer's subjective assessment of current economic conditions. ([conferenceboard.org](http://conferenceboard.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 four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The hospitality sector increased 2.9 percent in May to an Index value of 97.3. This represents a 12.7 percent increase from the same month last year. Together with last month's more sizable gain, this brings the Index into what is a historically normal range, although still not a high number. At many times in the past this Index has ranged above 100, where it began in January of 1994.

## Gasoline Prices

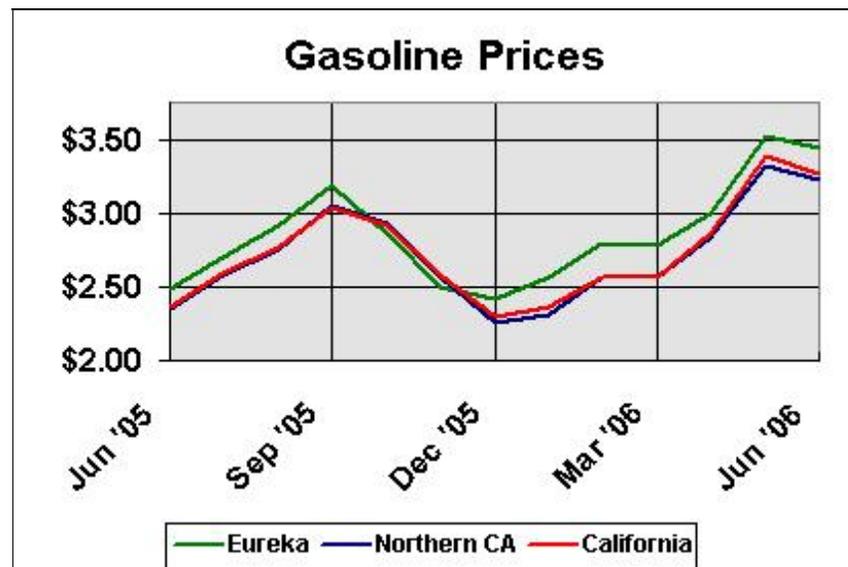
The American Automobile Association reports that county gas prices have fallen 8 cents as of June 13, to \$3.44, down from the record high of \$3.52 set in the previous month. Eureka continues to be the most expensive community in the AAA gas price survey for the state. Santa Barbara and South Lake Tahoe were tied for second at \$3.40 per gallon.

Prices also fell for Northern California. The average price per gallon of gas in Northern California fell 9 cents to \$3.23. Both Eureka and Northern California as a whole are down from their record highs set last month. This month's prices are the second highest recorded for both regions, and only the second months on record in which the average gas price was over three dollars. In the state as a whole, prices fell also, shedding 12¢ to a price of \$3.26 per gallon. In the entire state as well, last month was a record price and the first month on record in which the price per gallon exceeded three dollars. ([csaa.com](http://csaa.com))

For a local perspective on gasoline prices, visit our [Special Projects page](#) for our 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 06/13/06)		Change From Prev. Month (cents/gal.)
Eureka	\$3.44	-08¢
Northern Ca	\$3.23	-09¢
California	\$3.26	-12¢

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](http://www.csaa.com)).



## Electricity Consumption

The Index value of this sector is based on seasonally adjusted kilowatt-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, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

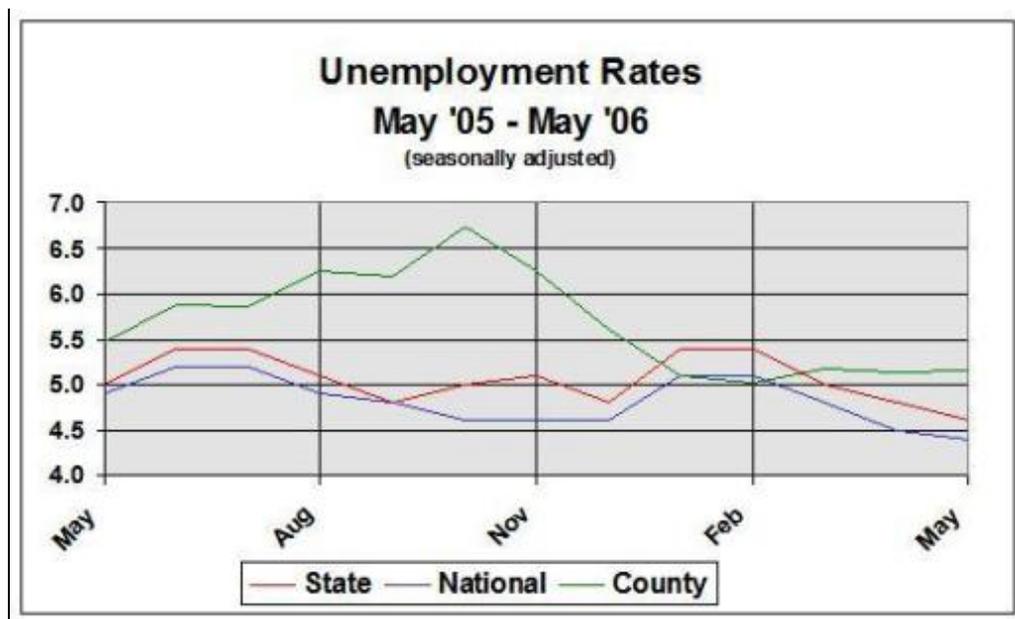
The Index value for March was 137. The May Index value is estimated to be 141.8. It appears that increasing energy costs have done little to damp consumption. The most recent quarter saw percentage increases in the double digits over the first quarter of all prior years.

### Total County Employment

The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department. This month we have made a change in the way we report data in this section. Beginning with this report, all unemployment rates will be seasonally adjusted, including those for the state and nation as well as those for Humboldt County. The graph now displays seasonally adjusted, rather than non-adjusted data. This means that all recurring seasonal variations have been mathematically removed from the data so that if a rate rises or falls from month to month it is not because that rate always rises or falls at this time of year, but rather because some actual change has occurred.

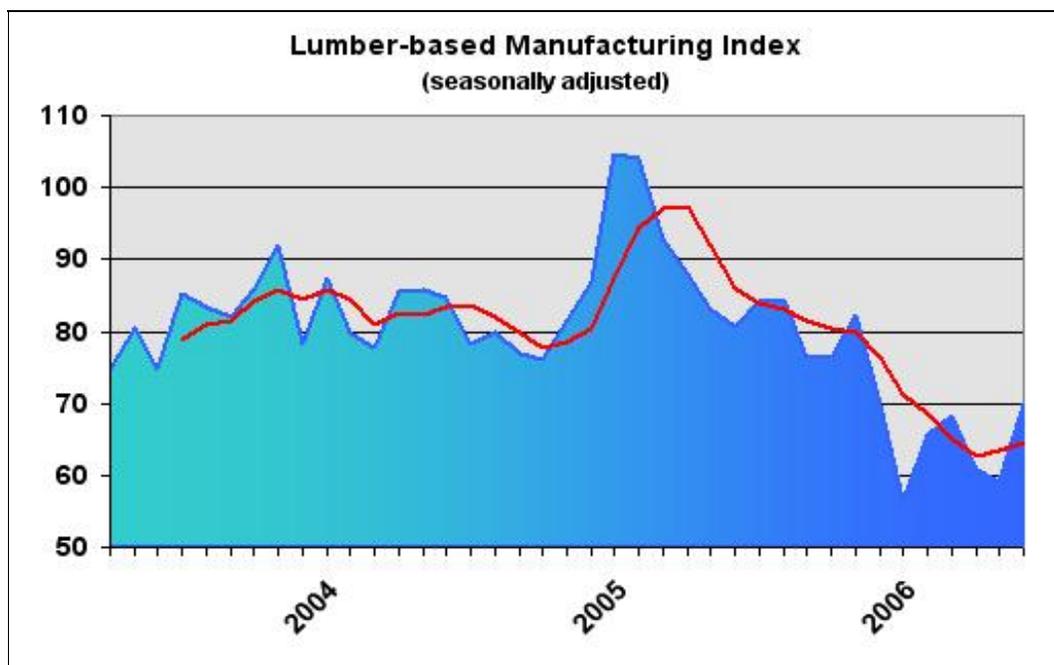
Preliminary employment and labor force data for May indicate 60,400 people in the Humboldt County labor force, of whom 57,500 are employed. This means that the labor force remained unchanged in the month. Additionally, the Humboldt economy created 400 jobs during the month. This addition was commensurate with the fluctuation that is common between April and May. The May seasonally adjusted County unemployment rate rose slightly from last month's level of 5.1 percent to a level of 5.2 percent in May. There are now 3,000 unemployed persons in the county who are actively seeking work. The employment sector's Index value dropped very slightly, losing 0.1 percent to a value of 105.6. This represents a loss of 1.4 percent from the same month last year.

The national unemployment rate fell in May from a seasonally adjusted 4.7 percent to 4.6 percent. This is a good number, and the best rate seen since the summer of 2001. California's unemployment rate rose slightly to a seasonally adjusted 5 percent, from 4.9 percent last month. ([stats.bls.gov](http://stats.bls.gov))



## 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 55 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 which attempts to demonstrate the overall trend in the data with less monthly volatility.

In May, lumber based manufacturing rose sharply, increasing 18.0 percent to an Index value of 69.9. This gain returns the Manufacturing Index to the level it was at near the end of last year. It is a significant improvement, but still remains well off from its peak of 104.5 achieved at the end of 2005. This month the Manufacturing Index is the best performing sector in our report, out pacing even the strong gains in retail sales to help drive the Composite Index swiftly ahead this month.

At the national level, the Institute for Supply Management reports that American manufacturing is still quite strong. The Institute observes that although prices continue to rise, the pace has slowed since last month. At the same time, new orders continued to increase and increased faster than in the previous month. On the downside, production grew at a slower pace than in the prior month and employment began to contract. Wood, Wood Products, and Paper were among the industries in which production grew. ([www.napm.org](http://www.napm.org))

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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.

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#### Cited References

[American Automobile Association](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[The Conference Board](#)

[Federal Reserve Board Beige Book](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

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