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The Index of Economic Activity for Humboldt County

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HSU Economics Department

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

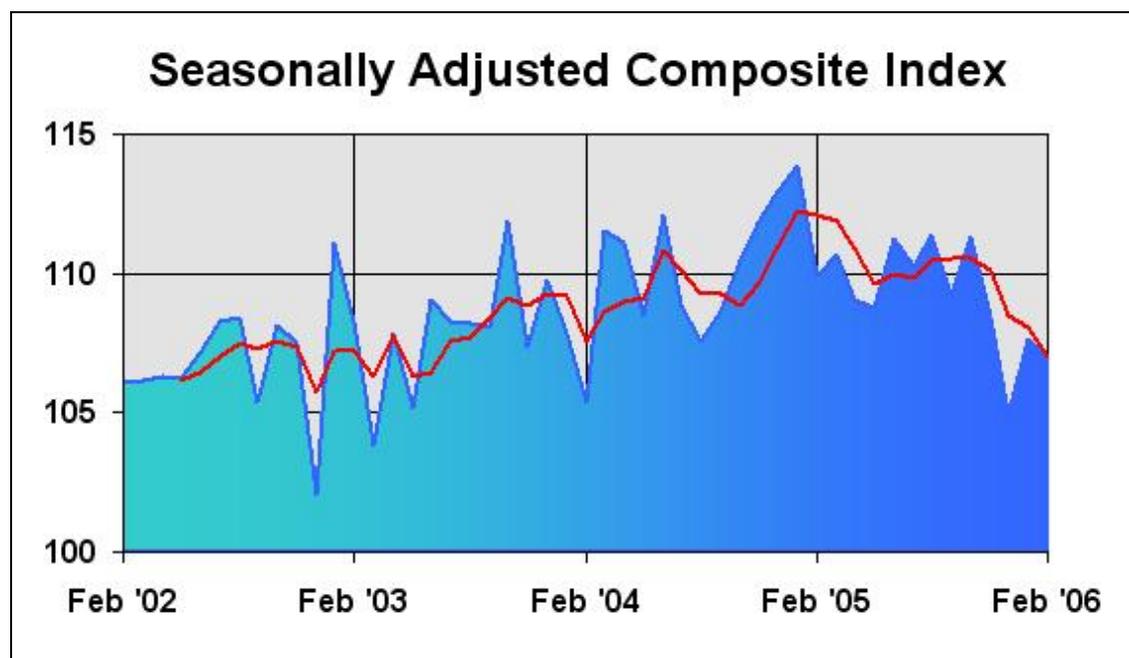
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March 2006



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 February, the Index declined, losing 0.6 percent to a composite Index value 107.0 (100 = January 1994). The Index was pulled down by sharp declines in the home sales and hospitality sectors. Employment, manufacturing and retail sales sectors each helped mitigate these sharp declines. The Home Sales Index in fell sharply this month by 21.2 percent, ranking as the weakest sector. It now stands at 93.9. Hospitality also posted disappointing results, falling 12.9 percent to an Index value of 79.8. The Employment Index ranked as the biggest winner in February, adding 4.6 percent and coming to stand at 105.7. The county unemployment rate fell this month while the labor force grew and around 400 jobs were created in the county as well. The Manufacturing and Retail Sales Indices added 4 percent and 3.3 percent respectively.

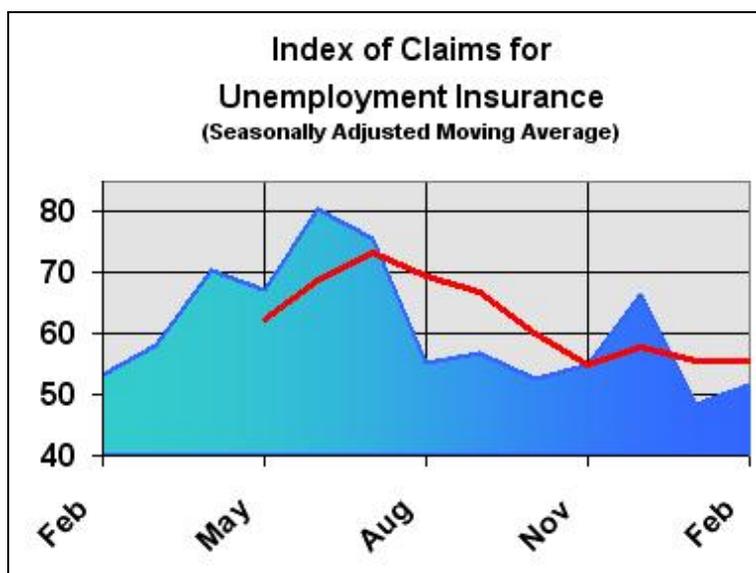
Composite & Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2005	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001
COMPOSITE	107.0	-0.6	-2.6	1.6	-1.1	0.9	-2.0
<i>Sector</i>							
Home Sales	93.9	-21.2	-13.5	-19.0	-36.0	-23.8	-28.1
Retail Sales	140.0	3.3	0.8	7.9	-0.4	4.7	1.0
Hospitality	79.8	-12.9	-11.0	-9.8	-0.8	-10.6	-16.9
Electricity Consumption	148.4	0.0	18.3	24.8	26.6	34.3	32.7
Total County Employment	105.7	4.6	-1.0	1.2	0.6	3.2	2.3
Manufacturing	68.2	4.0	-26.4	-12.2	-14.4	-23.1	-25.8

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Leading Indicators

The Index tracks four leading indicators to get a sense of the direction that the

county economy may take 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 demonstrate the overall trend in the data with less monthly volatility.



Graphic description: The seasonally adjusted Index of claims for unemployment insurance 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.

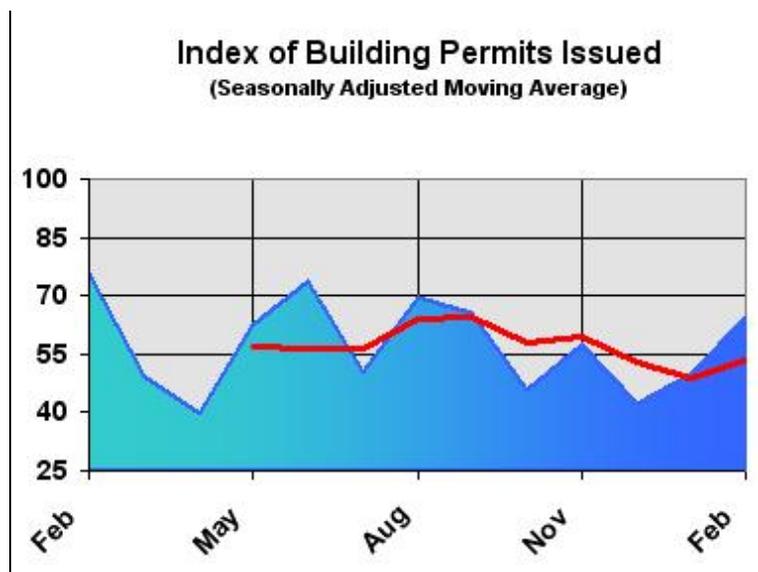
The Index of claims for unemployment insurance is a negative leading indicator of economic activity. An upward trend in this indicator may indicate lower economic activity in coming months. This leading indicator rose by 6.4 percent this month. A rise in this indicator suggests the possibility of decreased economic activity in the county in coming months. The Index of claims for unemployment insurance now stands at 51.62.



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 January, the Index increased 5.2 percent to an Index value of 165.5.

National help wanted as reported by the Conference Board rose one point to an Index value of 39. This is two points lower than the same month a year ago. Ken Goldstein, labor economist at The Conference Board notes that “Business is increasingly concerned about the impact of new hiring, in terms of wages, as well as health and pension benefits in relation to corporate pricing power. The good news on the inflation front is actually a negative for business. It elevates the concern about rising costs, not offset by rising prices. That keeps hiring plans on the slow burner, as reflected in print advertising volume as well as in the other forward indicators of labor market activity.” (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 February, the Index of building permits rose by 28.8 percent, bringing the Index to a level of 64.4. This is a large change, but much larger changes have been seen in previous months. This indicator is usually quite volatile and its current value is historically unremarkable. The trend, as indicated by the four month moving average, seems to be fairly level.

Nationally, the Pending Home Sales Index as reported by the National Associations of Realtors (NAR) leveled off in February posting a slight contraction of 0.8 percent to an Index value of 117.7 from a level of 118.6 in January. This is 5.2 percent down on the year. (realtor.org)



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 fell sharply by 31.7 percent in February and now stands at 42.7. This dramatic decline has fully reversed the unusual growth seen in earlier months, and the Index now stands at its lowest level since May 2004.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$343,450	Unemployment Claims	6.4
30 Yr. Mortgage Rate	6.125	Help Wanted	5.2
Unemployment Rate**	6.0%	Building Permit	28.8
		Manufacturing Orders	-31.7
* 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.			

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Individual Sectors

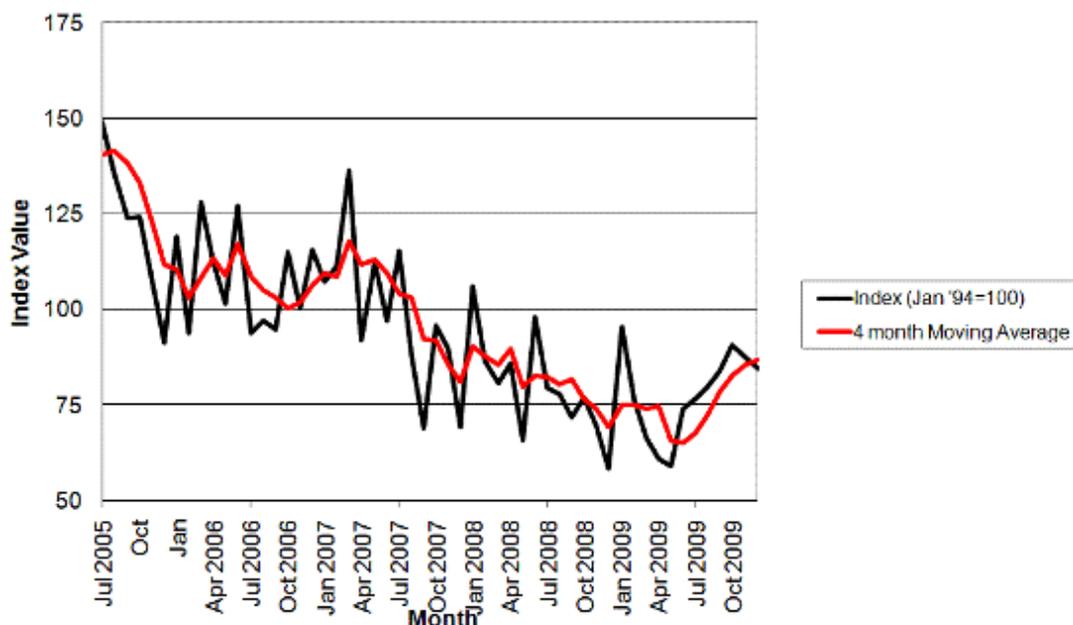
Home Sales

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.

After last month's increase, February saw another large decline in the real estate Index. The Index declined 21.2 percent, the largest single-month decline since September of 2002. Aside from the month of 9/11, February and December's homes sales sector Index are the lowest since April of 1999. In all, the Index has shed nearly a third of its value since August, in spite of the sharp gains in January.

The median price of a home sold in February rose to an all time high of \$343,450, up from last month's median selling price of \$319,900, and this in spite of the recent sharp decline in the Home sales Index. The median selling price is not adjusted for inflation and does not affect the Index.

Seasonally Adjusted Home Sale Index, Humboldt County



Source: Humboldt Economic Index

For an in depth look at how interest rates have affected monthly mortgage payments in Humboldt County, see the [Bigger Picture](#).

At the state level, the median selling price of a home as reported by the California Association of Realtors, fell 2.9 percent to \$535,470 from January's level of \$551,300. This month's price is lower than January's and is 13.7 percent higher than the price a year ago. The number of sales in February is down 15.5 percent on the year. (www.car.org) According to the Commerce Department, new home sales plummeted nationally in February by 10.5 percent from their January levels.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of March 30th ticked upward to 6.35 percent with an average 0.5 points. The 30-year fixed mortgage rate averaged 6.04 percent during the same period last year. Frank Nothaft, Freddie Mac vice president and chief economist explained, "The Fed raised rates this week, as was expected, but the market was a little surprised at the Committee's comments, which implied more tightening in the future. That raised the expectation that inflation may be more of a threat than was previously thought, and that kind of thinking promotes upward pressure on mortgage rates like we saw across the board this week." (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

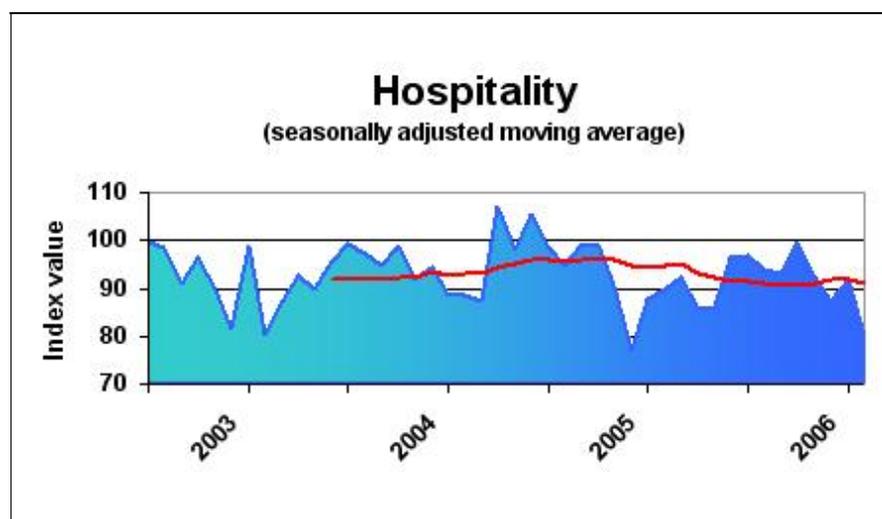
The Index value for the retail sales sector is based on the seasonally adjusted dollar value of sales each month from a cross section of local retail businesses.

The retail sales sector grew in February, adding 3.3 percent to an Index value of 140.0. This is a 0.8 percent increase from the same period last year. This was one of three sectors which rose in this month, providing a counterweight to the two sharply falling sectors. Historically, this has been one of the county's strongest sectors, in terms of growth during the years we have been tracking county data. Only the energy consumption sector has outperformed it.

National consumer confidence as measured by the Conference Board rebounded in February, adding 4.5 points to 107.2. A level of 100 is equivalent to the base year of 1985's level. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "This month's gain in Consumer Confidence has pushed the Index to a near four-year high (May 2002, 110.3)." Franco adds, "The improvement in consumers' assessment of present-day conditions is yet another sign that the economy gained steam in early 2006." (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.

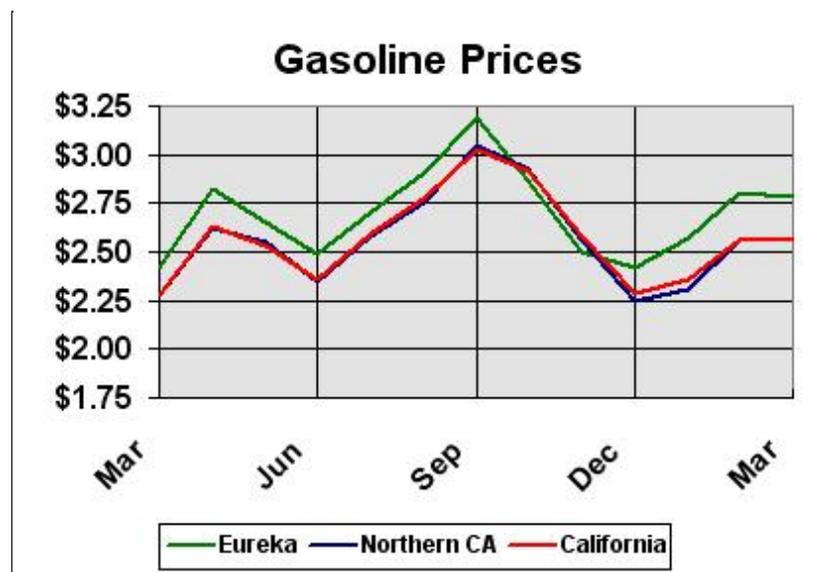
In February, the hospitality sector lost 12.9 percent to an Index value of 79.8. This was one of the two sectors to lose ground in this month. Both these falling sectors fell sharply, hospitality experienced the smaller drop. Nonetheless, this sector's decline in February was the largest since December of 2004, and the Index value this month is the lowest value since that month as well.

Gasoline Prices

The American Automobile Association reports that county gas prices have fallen 2 cents as of March 14, to \$2.78. this high level is close to prices seen last summer. Since that time gas prices have been lower, hovering around \$2.50 for much of the Winter. Eureka now stands as the most expensive community in the state for gasoline purchasers, second to Tahoe at \$2.77. Northern California and the state as a whole experienced fairly stable prices with Northern California remaining unchanged at \$2.56, and California prices as a whole adding a cent to \$2.57. (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 03/14/06)		Change From Prev. Month (cents/gal.)
Eureka	\$2.78	-2¢
Northern Ca	\$2.56	0¢
California	\$2.57	1¢
Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association's monthly gas survey (www.csaa.com).		



Electricity Consumption

The Index value of this sector is based on seasonally adjusted 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.

Data for the quarter ending in December indicate very high energy consumption. The revised Index values for October, November and December are 141.8, 139.6 and 148.4 respectively. These months represent the first second and third highest values on record for this index. Interestingly, the highest month on record prior to this quarter is September of 2001, the month of 9-11. PG&E has been warning consumers about future increases in energy costs. It will be interesting to note whether these levels of consumption are sustained as energy prices rise in coming months.

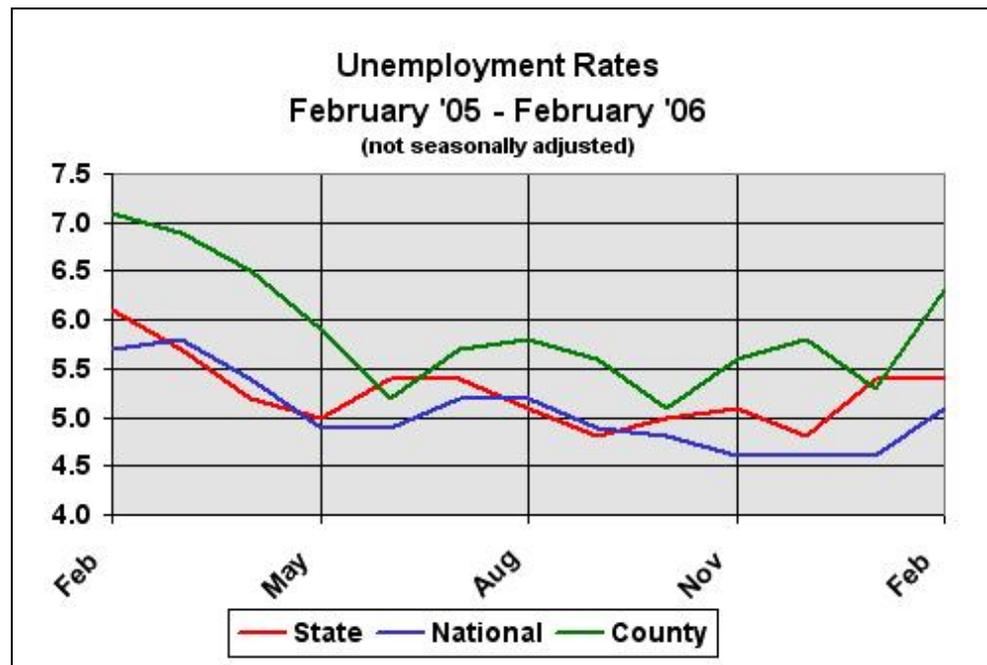
Total County Employment

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

Preliminary employment data for February indicate 60,400 people in the Humboldt

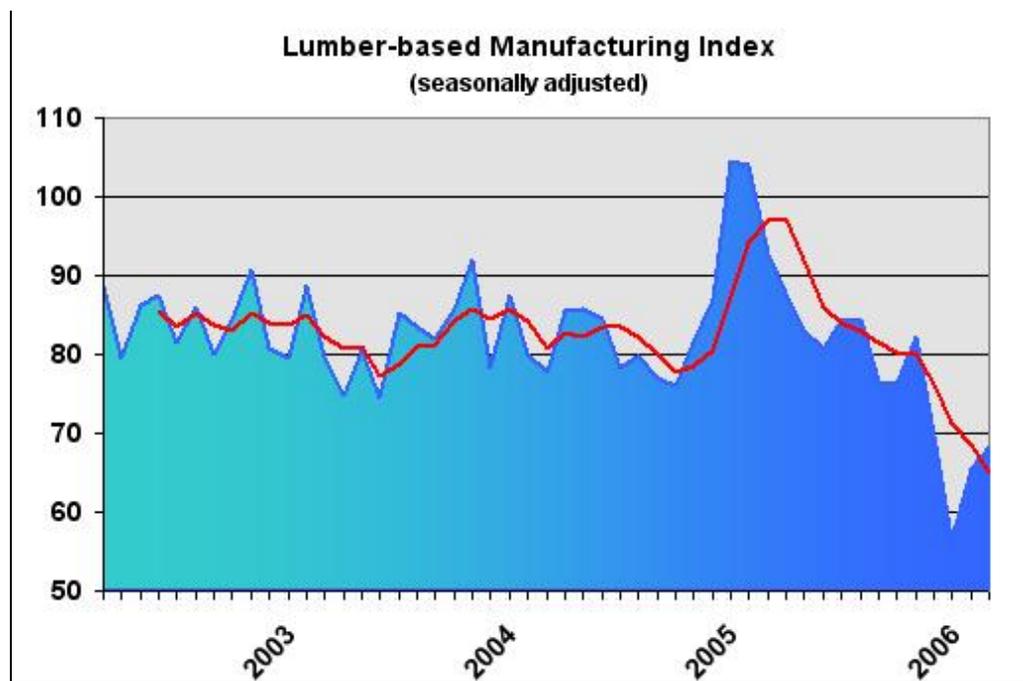
County labor force, of whom 56,700 are employed. This means that around 400 individuals joined the labor force in the month and 400 jobs were also added in the county. There was a small decrease, 2.7 percent, in the number of unemployed persons in Humboldt County in February, and a decline in the unemployment rate from 6.2 percent to 6.0 percent. The employment sector's Index value in the month of February rose 4.6 percent to a value of 105.7. This is the largest single-month gain in several years, but the Index value is not extremely high historically. February's gains have however recouped the losses of the last several months..

The non-seasonally adjusted state and national unemployment rates were fairly stable in February. California's unemployment rate rose 0.1 percent to 5.4 percent, while the national unemployment rate remained unchanged at 5.1 percent. (www.calmis.ca.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.

Lumber based manufacturing for the month of February rose slightly, putting on 4 percent to a new Index value of 68.2. Together with last month's increase, this brings the Index up more than 20 percent from its December low of 56.5. In spite of this increase, the Index still remains in historically low territory, and well below its local peak of 104.5 in December of 2004.

At the national level, the Institute for Supply Management reports that American manufacturing continues to be quite strong. Norbert J. Ore, C.P.M., chair of the Institute for Supply Management, notes that "The manufacturing sector, led by continued strength in new orders and production, continued to grow in March. The first quarter is now complete, and the ISM data indicates that it was a good quarter for U.S. manufacturing. Prices are still a major concern, particularly in the energy and metals markets. In general, manufacturing continues to experience a significant level of growth." (www.ism.ws)

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The Bigger Picture

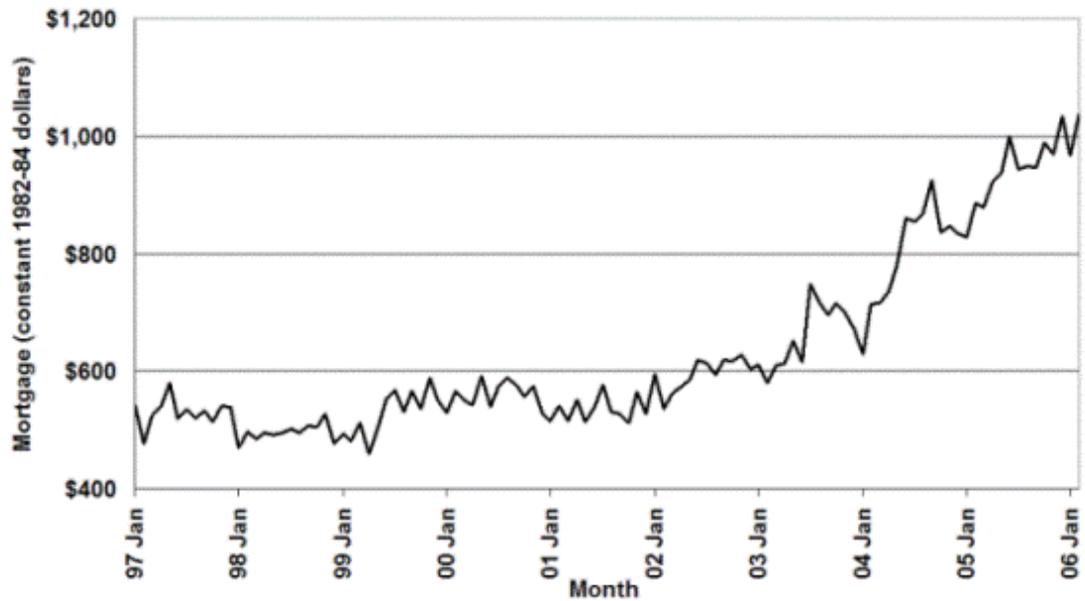
Housing Affordability Did Not Rise With Lower Interest Rates

By: Erick Eschker

Housing affordability has been driven to all time lows in Humboldt County. According to the Humboldt Association of Realtors, seven years ago the percent of area households that could afford the median priced home was about fifty percent. Today, it is 12 percent. That's right, 12 percent. But many people have told you that housing is more affordable than ever, since interest rates are at historic lows. They have told you that even though house prices have skyrocketed over the last five years, the lower mortgage interest rates have kept housing affordable. Don't believe them. It's true that, by itself, lower interest rates will mean a lower monthly mortgage payment. But housing price increases have more than made up the difference. In February of this year (the most recent data we have) the monthly mortgage on the median priced home at the 30-year, fixed rate loan with 20% downpayment was \$1,647. Just four years ago, the mortgage was \$763. That's a doubling in five years.

Today, however, far fewer buyers have a 20% down payment. In 2005, many Californians bought with no money down. In Humboldt County, that would lead to a monthly mortgage of \$2,059. I wonder how many people currently paying mortgages could afford that. Of course, the way to accurately compare dollars across time is to correct for inflation, but when we do this for mortgages, the story is the same. According to the following graph, over the five years from 1997 to 2002, the inflation adjusted monthly mortgage in Humboldt County was essentially flat at about \$400 (in 1982-84 dollars). From 2002 to today, the inflation adjusted mortgage has doubled.

Inflation-Adjusted Monthly Mortgage for Median Priced House at 30-year Fixed, no Points Interest Rate, Humboldt County



Source: Index of Economic Activity for Humboldt County

Why did monthly mortgages double in five years despite lower interest rates? The answer comes from looking at what happened to housing prices and the quantity sold. Lower interest rates will reduce the cost of housing, which will lead to an increase in sales and a drop in the price. However, from 2002 to 2005, housing prices rose and lots more were sold. The only explanation that can account for this is an increase in the demand for housing. According to the National Association of Realtors, sales of second homes increased by 16% in 2005 and were an astonishing 40% of all home sales. Additionally, lenders reduced down payment requirements and many more borrowers used interest only and income stated loans.

There is good news for future first time home buyers, however. Since historically low interest rates did not mean lower monthly mortgage payments, rising future interest rates may not mean rising monthly mortgage payments. All the "action" over the past few years has been with prices, not with interest rates. So if demand falls in the future (when everyone buying second homes realized that they are not earning a good rate of return), prices will fall, which will likely lower monthly mortgage payments regardless of rising interest rates. And there is lots of evidence that prices have begun to fall around the state. Housing inventories are rising to record levels as investors dump their properties. In Humboldt County, for sale listings have risen 20 percent in the last month. And regulators are scrutinizing exotic mortgages more and more. The effect of all of this, regardless of what happens to interest rates, will likely be lower house prices in the future, lower monthly mortgage payments, and more affordable housing. And this is a good thing for future home buyers.

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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](#)

[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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