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The Index of Economic Activity for Humboldt County

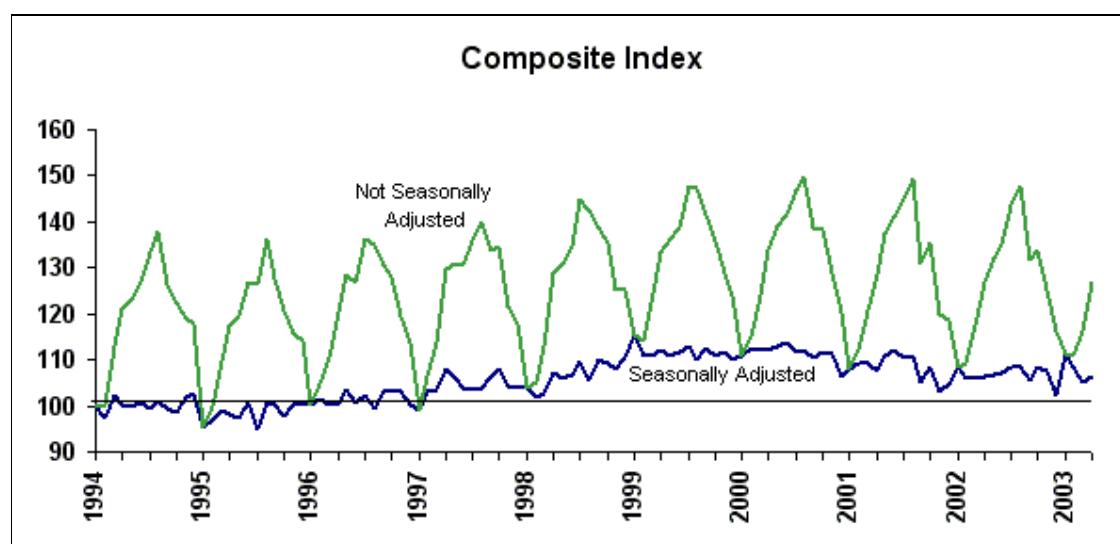
[Current Issue](#)

May 2003

Professor Steven Hackett, Executive Director
 John Manning, Managing Director

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The seasonally adjusted composite index value for April is a preliminary 106.3.
 This is 1.1 percent higher than March's downwardly revised 105.2.
 In April 2002, the composite index value was also 106.3

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Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$190,000	Help Wanted Advertising	+5.3
30 Yr. Mortgage Rate (as of 5/23)	5.375%	Building Permits	-2.4
Average Hotel Occupancy Rate	51.7%	Unemployment Claims	+26.8
Unemployment Rate**	7.1%	Manufacturing Orders	+1.3

* 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	151.6	+21.7	+14.4	+30.9	+38.0	+62.8	+38.0
Retail Sales	126.4	-2.1	-5.7	+1.7	-6.4	-6.8	+5.1
Hospitality	92.7	+5.9	-1.0	-9.0	-6.9	-6.8	-11.8
Electricity Consumption	112.4	-4.7	+8.2	-8.8	-14.8	-14.4	--
Total County Employment	103.6	-1.0	+1.1	+0.5	-1.2	-1.6	+0.9
Lumber Manufacturing	73.9	-0.2	-14.0	-15.1	-29.9	-33.7	-34.3

Humboldt County Employment Estimate				
*****	M/M Change*	Correlation**	Ave. Deviation***	Accuracy****
May 2003	+600	88.3%	418	81.8%
* Estimated number of jobs gained/lost in May relative to April'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 April 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 April 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

Only two of the *Index*'s six seasonally adjusted sectors registered positive growth relative to March's revised numbers, but the increases were enough to nudge the overall composite index upwards. Of these, **home sales** regained all of the ground it lost in March and then some. It's current index level is the second highest on record, which is even more remarkable given that rainy weather tends to reduce activity in this sector. The **hospitality** sector grew for a second straight month, though the current number is still lower than the same month in each of the last five years. **Retail sales**, one of the *Index*'s most consistently strong sectors, has registered reduced month-over-month activity for four consecutive months. **Lumber-based manufacturing** came in slightly lower than the previous month's downwardly revised figure. This sector appears to have been affected more than any other by April's rain. The **employment** sector fell for a second straight month as weakness lingers in the local labor market.

The seasonally adjusted leading indicators are mixed once again this month. The encouraging news is that labor market conditions may be turning around after two or three months of poor performance. While **New claims for unemployment insurance** in April rose by a huge margin from March's number, **help-wanted advertising** for May registered a healthy increase as more seasonal employment opportunities become available. On a four-month moving average basis, however, the seasonally adjusted employment leading indicators are still trending negatively, and compare unfavorably with same month activity in each of the

previous five years (help wanted ads are down by double digit percentages in each of these comparisons). **Manufacturing orders** improved slightly, though the four-month trend is downwards. **Building permits** fell, but the downward trend here appears to be leveling off somewhat.

The *Humboldt County Employment Estimate*, which is not seasonally adjusted, suggests the local economy will add jobs in May, but this is what one would expect in an economy as seasonally sensitive as ours.

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.

It appears that the record rainfall during April did little to dampen activity in the local housing sector. More homes were sold in the month than in any other April in the nine years of the *Index*'s history, and the sector registered its second highest seasonally adjusted index level ever. With the continued reduction in interest rates, homes sales may well set additional records throughout the summer.

April's median home price remained unchanged from March's figure. This sometimes-volatile measure is 22.6 percent higher than it was in April 2002. The current statewide median sale price for existing homes rose once again in April, climbing 3.2 percent to \$363,930 from March's downwardly revised number. The current figure is 14.8 percent higher than in April 2002, when it was \$317,120. 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 (www.car.org). April's national median price for existing homes is up 0.2 percent from March's level to \$163,400, and is 6.8 percent higher than it was in April 2002 (www.realtor.org). The similar figure for new homes fell 0.2 percent from March's upwardly revised \$185,400 to \$1885,100. This measure is down 1.1 percent when compared to April 2002 (www.census.gov).

Analysis of recently released national income data for 2001 reveals that housing is unaffordable for many working families across the country. A new study from the National Housing Conference, a non-partisan advocate for safe and affordable housing based in Washington D.C., finds that the typical wages of key service occupations are insufficient to afford median priced housing. The problem is particularly acute in the nation's 60 largest metropolitan areas where janitorial and retail workers are unable to rent a one-bedroom apartment based on the accepted standard of devoting 30 percent of income to housing. In several of the higher priced markets one-bedroom apartments cost more than 30 percent of two such salaries. Unaffordable housing is also a problem for better-paid occupations such as elementary-school teacher and police officer. According to the NHC report, police officers in 28 of the 60 markets studied do not make enough to qualify for a mortgage on a median priced home. Using the same criteria, teachers are priced out of the market in 32 of the 60 areas. The NHC claims this issue has serious economic and social implications for affected communities. For example, housing affordability for the labor pool is one of the top three considerations businesses face when deciding where to locate new facilities. Additionally, households that spend more than one-third of their income on housing obviously have that much less to spend on other necessities like food, utilities, health care, child care and education, and these workers often have less time to devote to family activities because of working more hours to lessen the shortfall (www.nhc.org).

How Does Humboldt County Compare?

We looked at several occupations including some within industries local leaders have targeted as being the best bets for sustainable economic development. We then computed the percentage of gross monthly wages an experienced, full-time worker in these occupations would have to pay to buy or rent a median priced home. The results appear in the table below (the data used are from 2002):

Key Service Workers						
Occupation	Median Hourly Wage (1)	Monthly Gross Income (2)	Mean Monthly Mortgage Payment (3)	Percentage of Income (4)	Mean Monthly Rent (5)	Percentage of Income (6)
Child Care Worker	\$8.21	\$1,313.60	\$1,076.80	82.0	\$916.25	69.8
Restaurant Cook	8.69	1,390.40	1,076.80	77.4	916.25	65.9
Elementary-school Teacher	23.25 (7)	3,720.00	1,076.80	28.9	916.25	24.6
Firefighter	12.67	2,027.20	1,076.80	53.1	916.25	45.2

Janitor	9.37	1,499.20	1,076.80	71.8	916.25	61.1
Licensed Vocational Nurse	16.56	2,649.60	1,076.80	40.6	916.25	34.6
Police Officer	19.71	3,153.60	1,076.80	34.1	916.25	29.1
Retail Salesperson	8.69	1,390.40	1,076.80	77.4	916.25	65.9
Truck Driver	13.20	2,112.00	1,076.80	51.0	916.25	43.4

Workers Within Industries Targeted For Growth (8)

Occupation	Median Hourly Wage (1)	Monthly Gross Income (2)	Mean Monthly Mortgage Payment (3)	Percentage of Income (4)	Mean Monthly Rent (5)	Percentage of Income (6)
Computer Operator	\$14.74	\$2,358.40	\$1,076.80	45.7	\$916.25	38.9
Data Entry and Word Processor	11.83	1,892.80	1,076.80	56.9	916.25	48.4
Farm and Ranch Worker	10.33	1,652.80	1,076.80	65.2	916.25	55.4
Food Batchmaker	9.57	1,531.20	1,076.80	70.3	916.25	60.0
Forest & Conservation Technician	15.35	2,456.00	1,076.80	43.8	916.25	37.3
Forest & Conservation Worker	8.68	1,388.80	1,076.80	77.5	916.25	66.0
Hotel Desk Clerk	8.31	1,329.60	1,076.80	81.0	916.25	68.9
Millworker	15.70	2,512.00	1,076.80	42.9	916.25	36.5
Nursery Worker	8.27	1,323.20	1,076.80	81.4	916.25	69.2

(1) Source: [Employment Development Department, Labor Market Information Division](#). Based on data for Humboldt, Del Norte, Mendocino, and Lake Counties.

(2) Median hourly wage multiplied by 160 hours.

(3) The mean of the monthly mortgage payments on the median priced home (30 year fixed mortgage, no points, nothing down using interest rates as reported by Humboldt Bank) for the 12 months of 2002.

(4) The percentage of gross monthly income required to pay the mean monthly mortgage payment.

(5) The mean of the median monthly rents (based on a survey of Eureka *Times-Standard* classified advertisements) for the 12 months of 2002.

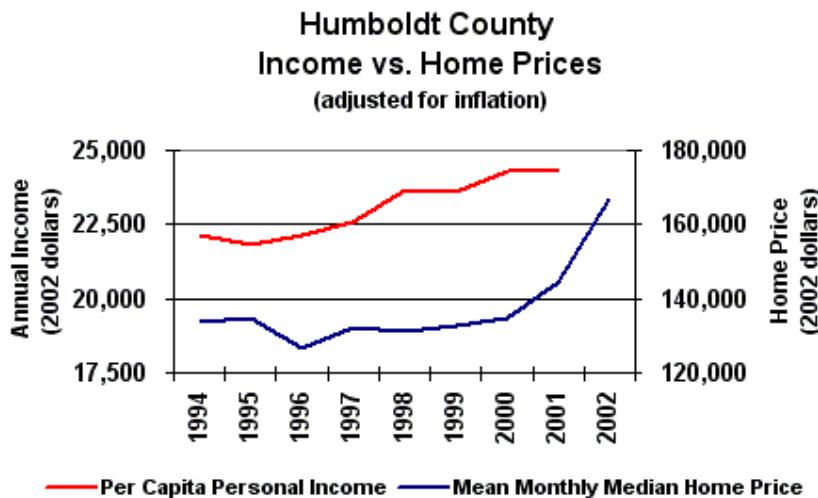
(6) The percentage of gross monthly income required to pay the mean monthly rent.

(7) Estimated, based on the median annual salary of \$46,490 and a 2,000 hour work year.

(8) Based in part on the [Prosperity Network's](#) economic growth strategy for Humboldt County. The

Industries represented here include Information & Technology, Dairy & Specialty Agriculture, Food Manufacturing, Natural Resource Restoration, Tourism, and Lumber & Wood Manufacturing.

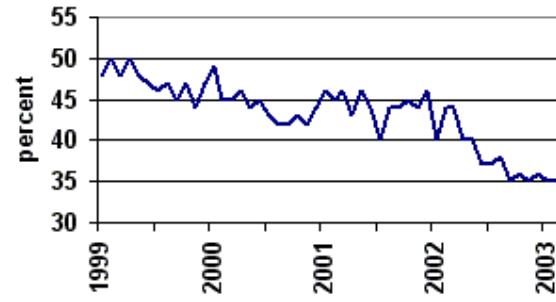
When looking at this analysis, one should keep in mind that half of all homes available for sale cost less than the median price. Therefore, there are opportunities for lower-wage workers to find more-affordable housing. However, the current trends in housing prices and income present some troubling realities that need to be addressed sooner or later. A look at the graph below illustrates that from 2000, when price appreciation really began to accelerate locally, through the present, the median home price has increased 49.2 percent *after* accounting for inflation. At the same time, real personal per capita income growth for Humboldt County from 2000 to 2001, the most recent data available, was *negative* 0.2 percent. The county-wide per capita personal income level for 2001 (in inflation adjusted dollars) was around \$24,275. This falls somewhere between the typical income levels for firefighters and truck drivers.



As we [reported last month](#), preliminary national data for 2002 suggests that incomes have continued to fall over the last year after adjusting for inflation. While the current rate of home price appreciation cannot continue indefinitely, there is no reason to believe that it will substantially slow anytime soon. Thus housing affordability will likely continue to deteriorate into the foreseeable future. As noted above, this issue has potentially profound implications on the quality of life for a large percentage of working families.

The Humboldt Association of Realtors' Housing Affordability Index further illustrates the recent slide in local housing affordability. The most recent release, which represents the percentage of Humboldt County households that could afford to purchase a median priced home in March, came in at 33 percent. This is a decline of 2 percentage points from February's level and it's 11 percentage points lower than in March 2002.

Humboldt County Housing Affordability Index



The next graph shows the five-year trend:

The California Association of Realtors' statewide Housing Affordability Index also fell 2 percentage points to 28 percent in March. This is down from 29 percent in March 2002. At 32 percent, the March level for Northern California, not including the Bay Area, Sacramento or the Wine Country, is 3 percentage points lower than February's downwardly revised 35 percent. The most current figure for the United States as a whole is 59 percent (www.car.org). One should note that because these indices are calculated using income growth statistics from 1990 to 2000, actual current affordability is almost certainly lower than the above figures imply.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of May 22 was 5.34 percent with an average 0.7 points. Last year at this time, the average rate was 6.81 percent with an average 0.7 points (www.freddiemac.com).

Retail Sales

Seasonally adjusted April sales at participating retailers dropped for a fourth consecutive month when compared to the previous month's level. April's decline was only one-fourth as large as that in March, however.

The Commerce Department reports that national April retail sales were 0.1 percent lower than in March. The decrease was led by falling activity at gasoline stations (down 5.9 percent), clothing and clothing accessories store (down 3.2 percent) and department stores (down 1.4 percent). Sub-sectors gaining ground since March include auto and other motor vehicle dealers (up 2.9 percent), sporting goods, hobby, book and music stores (up 1.2 percent) and miscellaneous store retailers (up 1.0 percent) (www.census.gov).

The Conference Board's Consumer Confidence Index rose for a second straight month in May, though by a much smaller margin than April's nearly 20-point leap. The Conference Board's head of consumer research said "The post-war euphoria experienced last month has quickly given way and consumers' focus has returned to matters on the home front. Labor market conditions continue to be of concern, but consumers anticipate a turnaround in the coming months." The measure, which now stands at 83.8, is up from April's 81.0 but remains considerably lower than it was for most of 2002 (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 substantially in April from the previous month's level as some of the region's resorts reopened from their annual winter closures. This resulted in a healthy increase in the seasonally adjusted index number, but the number is down slightly from same month activity in each of the past few years.

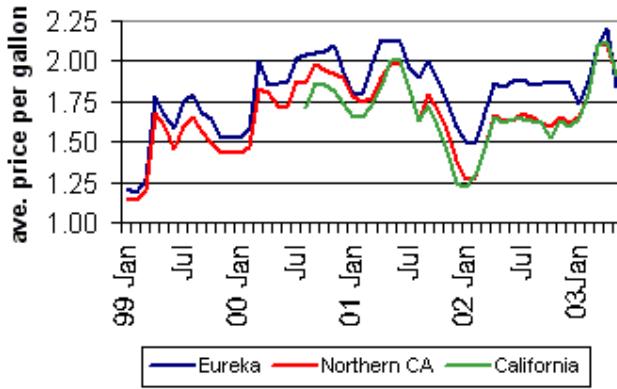
Promoters of the local tourism industry are predicting a banner year based on a record number of inquiries made to the Humboldt County Convention and Visitors Bureau during April. The number of unique visitors to the Bureau's web site also set a record. Don Leonard, the Bureau's executive director, says a concentrated media campaign marketing the North Coast to residents of Northern California appears to be paying off (www.times-standard.com).

The planned docking in Eureka of a cruise ship filled with European tourists in early May was cancelled when the necessary liability insurance failed to be secured. There was some confusion between the dock owner, the stevedore company and the city over who was responsible for taking out the policy. The economic impact of the snafu is uncertain, but area merchants, restaurants and tour organizers were almost certainly affected. Efforts are being taken to improve coordination between the concerned parties before August when another ship is scheduled to arrive (www.times-standard.com).

Gasoline Prices:

Average Price* (as of 5/13)		Change From Prev. Month (cents/gal.)
Eureka	\$1.84	-36
Northern CA	\$1.91	-19
California	\$1.91	-21

* 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).



After more than a year in planning, Costco opened a gas station at its Eureka store in early May. As the above table shows, Costco's \$1.75 per gallon price for regular gasoline seems to be having an impact on the local gasoline market. Before the station opened, self-service regular unleaded was selling for around \$2.00 per gallon. Afterwards, prices at most mid-county stations had dropped to the current level within a couple of days (www.times-standard.com). Establishing definite threads of cause and effect in an economic market is a difficult endeavor and beyond the resources of the *Index*. Nevertheless, the 20-cent per gallon drop experienced elsewhere in California since mid-April can be explained by increased supply now that refineries have completed the changeover to their seasonal reformulations and by the falling price of crude oil. One plausible explanation for the additional 15-cent decrease seen locally could be that the competition provided by Costco is reducing the higher than industry average margins Humboldt County fuel distributors may have been enjoying over the past several years. Since Costco faces the same transportation constraints as its competitors, it will be interesting to observe market price activity over the next several months. If the difference between local prices and those in other parts of the region remain lower, the allegation that gasoline distributors have been exerting market power in order to realize higher than expected profits becomes much more plausible.

According to the Environmental Protection Agency, the average fuel economy for 2002 model year cars and light trucks produced in the United States is at a 22-year low. The 20.4 miles to the gallon average is the lowest level since 1980's 19.2 miles per gallon. The peak fuel efficiency was attained in 1988 at 22.1 miles per gallon. Vehicles that are heavier, faster and more powerful on average are the cause of the decline. The automobile industry's chief lobbying group claims that there are 30 different domestically produced cars that get more than 30 miles to the gallon, but the 10 most fuel-efficient of these account for less than 2 percent of total sales by volume (www.nytimes.com). Sales over the past several years indicate that customers want bigger, faster cars, and that they feel they can afford the cost of the additional fuel these vehicles consume. This is one indication that the real price of gasoline is lower than most people generally think. Unfortunately, the real price of gasoline does not accurately reflect the real costs of gasoline consumption. If the actual costs of the environmental degradation associated with automobile use, the heavily subsidized transportation infrastructure and the military might used to secure crude oil supplies were included in the price of gasoline, its price would be considerably higher.

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 April consumption of electricity fell 4.7 percent from March's actual level.

The Bay Area Economic Forum, a business-oriented group of executives, politicians and academics, recently released a study saying that electricity shortages such as those occurring during the California energy crisis could return within the next few years if the state fails to adopt a cohesive energy policy and invest in its electricity and natural gas infrastructure. The group claims the policy uncertainty that still exists discourages energy companies from building new power plants in the state. It suggests, at the very least, establishing a varying rate schedule for electricity consumption based on the time of day of use so that peak demand will be limited somewhat by price. Californians are among the lowest-per capita energy consumers in the nation, but pay among the highest prices. Retail rates are 42 percent higher than the national average, while business rates are 71 percent higher (www.sfgate.com).

As if to punctuate the Bay Area Economic Forum's concern, the state agency responsible for operating the electricity grid declared a Stage One power emergency in the last week of May due to hotter than expected temperatures in the Central Valley and the resulting increase in demand for power. According to the California Independent System Operator, power reserves dipped below the 7 percent level triggering the alert. ISO officials stressed that conditions were a long way from those that resulted in rolling blackouts two years ago. They expressed concern, however, because this event occurred earlier in the year than expected. Only two

Stage One emergencies were declared last year (www.sfgate.com).

Pacific Gas and Electric Company and the California Public Utilities Commission are still wrangling over how much regulatory power the government agency will retain once the utility emerges from bankruptcy. Lawyers for the two sides presented arguments before the Ninth U.S. Circuit Court of Appeals in May. At issue is PG&E's reorganization plan which conflicts with several state laws. PG&E claims that any state law that interferes with its plan is superceded by federal bankruptcy law. The PUC argues that the bankruptcy laws were not intended to allow utilities to avoid all state regulation. It is concerned that if PG&E prevails, environmental regulations that apply to the 180,000 acres surrounding the firm's hydroelectric plants would be weakened, and that looser federal energy regulations would ultimately result in consumers paying even higher rates for electricity. A Justice Department attorney filed a brief siding with the PUC saying that PG&E's argument, if accepted by the court, would exempt the company from a number of federal energy regulations including one that restricts the transfer of nuclear power plants. The case is being heard in the appeals court because a U.S. District Court judge ruled last August that the utility's bankruptcy plan was exempt from state laws (www.sfgate.com).

Total County Employment

In their preliminary report for April, the EDD reported that 56,400 people were employed in Humboldt County. This is a 0.4 percent decrease over March's figure, indicating a net loss of 200 jobs over the previous month's downwardly revised number.

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

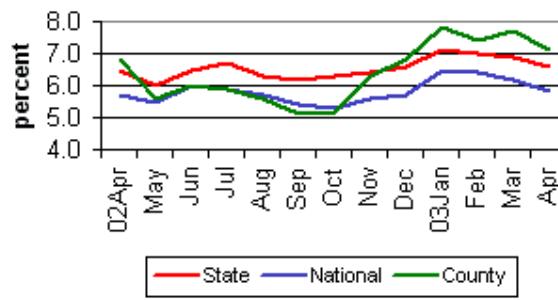
- Total county employment in the various service industries increased 0.2 percent from 43,200 in the month of March to a preliminary 43,300 for the month of April. This sector is up 1.9 percent over last year's figure. Jobs were added in the *Professional and Business Services* and *Local Government* classifications. There were not enough service jobs lost in April to be reported (the EDD rounds its numbers off to the nearest 100 jobs). The preliminary figure for the retail sub-sector remained unchanged at 7,300 jobs. This number is unchanged from April 2002 as well.
- Total county manufacturing employment came in at a preliminary 3,400. This is 2.9 percent lower than March's 3,500. The approximately 100 job loss was reported under the *Nondurable Goods* heading. Total manufacturing employment is down 17.1 percent from April 2002.

April's unemployment rate for Humboldt County dropped six-tenths of a percentage point from March's upwardly revised 7.7 percent to a preliminary 7.1 percent. Meanwhile, the national rate (not seasonally adjusted) fell four-tenths of a percentage point to 5.8 percent and the state rate dropped three-tenths of a percentage point to 6.6 percent from March's upwardly revised figure.

Unemployment Rates

Apr '02 - Apr '03

(not seasonally adjusted)



Another 48,000 jobs were lost nationally in April. As a result, the national seasonally adjusted unemployment rate rose two percentage points to 6.0 percent, matching an eight-year high. The decline brings the total number of jobs lost over the last three months to 525,000. Since 1960, every loss of this magnitude has been taken place within a recession (www.nytimes.com).

Using the classic textbook definition of a recession--two consecutive quarters of negative gross domestic product growth--the U.S. economy is not currently in a recession. However, the National Bureau of Economic Research, the body responsible for setting the official dates marking the expansion and contraction of the business cycle, has yet to declare an end to the recession that began in March 2001. They use a broader definition that takes into account additional factors such as trade, income growth and employment conditions (www.nber.org). As noted last month, the current job market is the worst in 20 years.

The president signed legislation extending access to unemployment benefits to those people who have used up their state benefits. The extension, which runs through December 31, allows for an additional 13 weeks of benefits (26 weeks in a handful of states experiencing higher than average levels of unemployment). While the unemployment rate is not nearly as high as it has been in previous recessions, analysis by the National Employment Law Project, a liberal advocate for the unemployed based in New York City (www.nelp.org), shows

the following:

- The current average length of unemployment is 19.6 weeks, the longest duration since January 1984.
- The percentage of unemployed people currently out of work 6 months or longer--21.4 percent--matches the similar percentage during the recession of the early 1990s.
- During the previous recession, extended unemployment benefits were available over a 29 month period. With the current extension included, extended benefits will have been available for 22 months.
- As of February 2003, a record 43 percent of unemployed workers were still jobless when their benefits ran out.

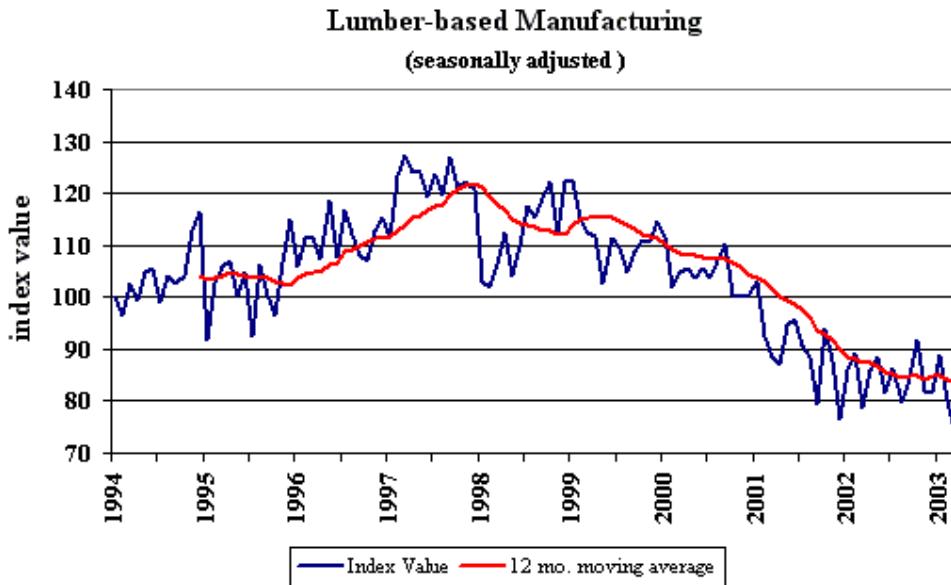
Because people typically spend their unemployment benefits relatively quickly, most economists agree that extending benefits is one of the most effective ways to provide stimulus to an ailing economy.

According to Labor Department statistics, an additional 4.7 million people who wanted full-time work in April but could only find part-time work represent the highest level of under-employed people in nearly 10 years. This number has risen more than 50 percent since 2000 (www.nytimes.com).

Lumber Manufacturing

We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about 60 percent of total county manufacturing employment.

The preliminary April *Index* value for this sector fell 0.2 percent from the prior month's level. The drop is more substantial than it appears given that March's level was revised downwards from 92.6 to 74.1. The revision leaves the March and April numbers at this sector's lowest level since the *Index* began in 1994.



A local industry source says "shipments were down in March and April due to mill downtime caused by log availability. The rainy spring has caused redwood volume to slow somewhat but has not impacted pricing. Douglas fir is still a tough business as the softwood market is over-supplied."

The temporary lack of logs due to the wettest April on record affected the local pulp industry, as well. Samoa Pacific Cellulose shut down its operation for four shifts because the lumber mills that supply its wood chips had none to sell (www.times-standard.com).

Around 250 people have applied for the 50 to 70 positions that will be available once Eel River Acquisition Corp. begins operations later this summer. The Nevada-based firm recently purchased Eel River Sawmills Mill A near Fortuna, and logs are schedule to begin arriving in mid-June. The acquisition corporation is also attempting to buy Eel River Sawmills' other three mills, its Fairhaven power plant and its timberlands. The proposed sale is contingent on the approval of the latter company's stockholders. Some 375 workers lost their jobs when the mills were shut down in late 2001 and early 2002 (www.times-standard.com).

Production at the nation's factories, mines and utilities fell 0.5 percent in April. This is the same magnitude of decrease that occurred in March. Slightly increased activity at mines and utilities was offset by a larger decline in manufacturing. The measure is 0.4 percent lower than in April 2002. Capacity utilization for total industry, the percentage of the nation's total industrial capability currently being used, decreased in April to 74.4 percent. This 0.5 percentage point below the rate from the previous month, and it's nearly 7 percentage points below the 1972-2002 average. (www.federalreserve.gov).

National manufacturing output in April, as measured by the Institute of Supply Management, contracted for a

second consecutive month. The current ISM Index level of 45.4 dropped from March's 46.2 (a number higher than 50 indicates growth) (www.ism.ws).

Contraction in nationwide manufacturing employment accelerated in April to more than twice the average loss for the previous 12 months as around 95,000 people lost their jobs. Overall employment in this sector has shrunk for a staggering 33 consecutive months (www.bls.gov).

Leading Indicators

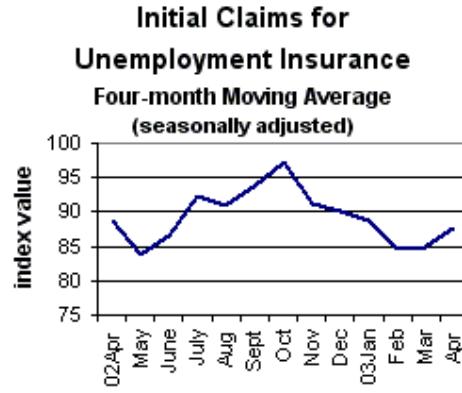
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the Eureka *Times-Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing 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.



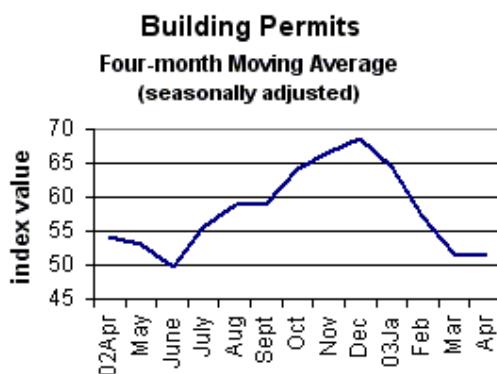
Manufacturing Economic Indicator:

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



Home Sales Economic Indicator:

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



The Bigger Picture

President Bush recently signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003. There was a mountain of disagreement throughout the legislative process over the potential costs and benefits of this tax package. Proponents of the bill claim the cuts will provide economic stimulus and promote employment growth. Critics maintain the bill is more about realigning tax policy to distribute wealth upwards than it is about stimulating a sluggish economy, and that the resulting budget deficits will impede future growth. Regardless of the law's ultimate fiscal effect, one of the most compelling arguments offered by the president's supporters' is that since high-income taxpayers pay a much higher percentage of all income taxes collected, they should receive a higher percentage of any tax cut. It's only fair. Recent analysis by the Tax Policy Center, a liberal policy research and education collaboration between the Brookings Institution and the Urban Institute, exposes the disingenuousness of this argument. Since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001, the top 1 percent of all income earners--those with income of more than \$373,000 per year--pay 24.9 percent of all individual income taxes paid. Under a equitable plan, these taxpayers would receive around 25 percent of the total tax cut. Under the new law, however, they will receive 29.1 percent of the total tax savings for 2003. Things are a bit more fair in 2004 when the wealthiest taxpayers will receive just 29.0 percent of the total savings. Then there's an election. In 2005, the top 1 percent of income earners will receive 64.0 percent of the total tax cuts available that year. By way of comparison, the middle 20 percent of all income earners--those who make \$27,000 - \$44,000 per year--pay 9.2 percent of all individual income taxes, but will receive only 6.1 percent of the cuts in 2003. For 2004, things are once again a little more equitable: These taxpayers will get 6.8 percent of the total savings that year. After the election, the middle 20 percent of taxpayers will receive a meager 1.4 percent of the tax cuts available in 2005 (www.taxpolicycenter.org).

To be certain that the above analysis is not overly-influenced by a liberal bias, we also looked at a similar analysis performed by Deloitte & Touche, one of the country's largest accounting and business services firms. Here, a single person with no children making \$530,000 per year typically paid nearly 28 times more in federal taxes under the old law than a similar person earning \$41,000. Under the new law, that higher-income person's tax savings will be nearly 61 times greater than the lower-income person in 2003 and over 79 times more in 2005. Things are considerably more equitable for married people with dependent children. To make the bill more politically palatable, a provision raising the child tax credit from \$600 per child to \$1,000 was included during the legislative process (checks for the \$400 difference will be sent directly to eligible taxpayers). For married couples with two children at the same income levels used above, the higher-income family will receive just 11 times more than their lower-income counterpart in 2003. However, following the 2004 election, this multiple increases to 39.5 times as much in tax savings when the child credit provision expires and the typical \$41,000 per year family's tax cut shrinks from around \$1,200 to \$300 (www.nytimes.com). It should be remembered that the majority of this law's total benefits are paid out after

2004.

If you favor fairness, it gets worse. In order to keep the short-term accounting cost of the bill under \$350 billion (estimates of the legislation's total cost over its entire lifespan are as high as \$800 billion), families earning between \$10,500 and \$26,625 per year are not eligible for the child tax credit rebate. According to Citizens for Tax Justice, a non-partisan research group focusing on the impacts of federal, state and local tax policies, an estimated 16 million children will be affected. The president's spokesperson said that these people are ineligible because their federal tax liability is already zero (www.nytimes.com). While this may be true in some cases, the claim does not stand up to scrutiny. The average person in the \$15,000 to \$27,000 income range has an pre-tax income of \$20,600 and a federal income tax liability of \$3,255 (www.taxpolicycenter.org). This person could receive \$400 checks for at least one or two children before their liability is exhausted.

So, will the tax cut stimulate the economy?

It appears as though the overwhelming consensus among economists is that any stimulus provided will be insignificant, at best. This criticism is not limited to academic economists. In testimony before the House Financial Services Committee earlier this month, Federal Reserve Chair Alan Greenspan said that the economy was poised to grow without further tax cuts, and that the resulting budget deficits, if not offset by comparable reductions in government spending, could damage the economy. Most business economists recognize that current conditions are the result of an over-investment in productive capacity during the 1990s. The excess capacity will be worked off over time as demand for consumer goods increase. However, the fact that most businesses are not investing much now when there is already an abundance of cheap money available for borrowing is evidence that firms don't believe demand will rise substantially anytime soon. While tax cuts are generally a good thing, one that places most of the benefits in relatively few hands will likely do little to stimulate consumer demand in the near term. Until this demand does grow at a sustainably higher rate, significant job growth is also unlikely. Given the additional fact that these cuts are going to be paid for with borrowed money, the *Financial Times*, a conservative British business publication characterized those responsible for this policy as the lunatics in charge of the asylum (www.nytimes.com).

How has the economy fared since the last tax cut?

When it was passed, supporters of Mr. Bush's 2001 tax package--the benefits of which were similarly skewed to upper income levels--assured everyone that its stimulating effect would become apparent 12 to 18 months into the future. That future is now here, but the economy continues to falter. More significantly, since its passage some 1.7 million jobs have been lost.

We reiterate, tax cuts can be extremely beneficial even when they result in budget deficits, but the devil is in the details.

The Commerce Department's latest reading of first quarter 2003 gross domestic product growth improved slightly to a still tepid 1.9 percent. The previous estimate had been 1.6 percent. Upward revisions in consumer spending and residential fixed investment were mostly responsible for gain. Private business inventory investment was revised downwards. This level of growth is considerably lower than the 3 percent or more that economists generally believe to be needed to sustain improving standards of living. Current forecasts put second quarter GDP growth at around 1.8 percent to 2.0 percent (www.bea.gov and www.sfgate.com).

The Federal Reserve's Federal Open Market Committee issued the following statement at its early May meeting after voting unanimously to keep its target interest rate at 1.25 percent: "Although the timing and extent of that improvement remain uncertain, the Committee perceives that over the next few quarters the upside and downside risks to the attainment of sustainable growth are roughly equal. In contrast, over the same period, the probability of an unwelcome substantial fall in inflation [deflation], though minor, exceeds that of a pickup in inflation from its already low level. The Committee believes that, taken together, the balance of risks to achieving its goals is weighted toward weakness over the foreseeable future" (www.federalreserve.gov).

The fact that the Fed even obliquely referred to deflation is noteworthy. The cause for concern has been a marked deceleration in inflation over the last several months. When the general price level actually falls for a sustained period of time, consumers begin to postpone their purchases with the expectation that the prices of goods and services will be cheaper in the future. When firms aren't selling their products, they cut back on production. Income growth stagnates and unemployment rises as a result. With deflation, borrowers, including most homeowners, make loan payments with money that now has more buying power. This tends to redistribute wealth upwards. Moreover, as incomes fall, loan payments typically do not, so default rates increase, people lose their homes and lending institutions can fail. The last time this country experienced full-blown deflation was during the Great Depression of the 1930s.

In theory, deflation is preventable with appropriate monetary policy. The Federal Reserve can print more money and distribute it to banks by buying large quantities of bonds. This leads to lower interest rates, which in turn leads to increased economic activity along with inflationary pressures. Indeed, in his recent appearance before congress, Mr. Greenspan testified that the central bank is prepared to do whatever is necessary to avoid falling prices. The danger lies in falling into what is known as a liquidity trap. It is possible for interest rates to fall all the way to zero without stimulating activity in any meaningful way. When this happens, there is no incentive to lend money, monetary policy loses its effectiveness and the deflationary cycle is perpetuated. This has occurred recently in Japan, which has been languishing in the economic doldrums for a decade (www.nytimes.com).

Recent comments by Treasurer Secretary John Snow indicate that the United States might be abandoning a decade long policy of supporting a strong dollar in international currency markets. One reason for doing so is

that a weaker dollar makes imported goods more expensive to domestic buyers and exported items less expensive to foreign consumers. Both of these factors would be a boon to domestic manufacturers. Since manufacturing employment has been contracting for almost three years now, this policy shift, if that's what it is, could be beneficial to the U.S. economy. But to be successful, there have to be available buyers in foreign markets. With Japan and Germany, the world's second and third largest economies, in recession (conditions in Germany are ripe for deflation, as well), and lingering antipathy towards all things American as a result of the Iraq conflict, growing international demand for U.S. goods is anything but certain (www.nytimes.com).

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