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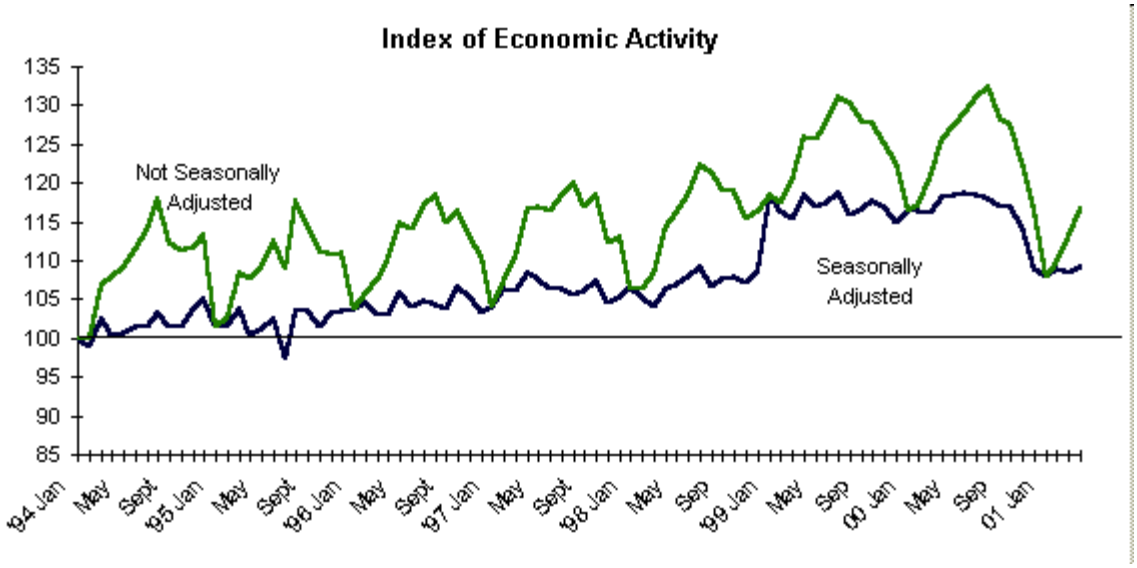
## May 2001




| Key Statistics | | Leading Indicators | |
|---|---|---|---|
| **Humboldt County** | | ***Seasonally Adjusted*** | **% Change From Previous Month** |
| Median Home Price* | $146,000 | Help Wanted Advertising | 5.7% |
| 30 Yr. Mortgage Rate (5/21) | 7.25% | Building Permits | 0.8% |
| Prime Rate (5/21) | 7.0% | Unemployment Claims | -4.1% |
| | | | |

| | | | |
|---|---|---|---|
| Unemployment Rate** | 6.3% | Manufacturing Orders | -2.9% |

* Home price data are provided by the Humboldt County Board 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. See the EDD Website for updates.

| **Sectoral Performance, *Index of Economic Activity for Humboldt County*** | | | | | | | |
|---|---|---|---|---|---|---|---|
| * * * | | **Percent Change From:** | | | | | |
| **Sector** | **Sectoral Index Value (1994=100)** | **Previous Month** | **Same Month 2000** | **Same Month 1999** | **Same Month 1998** | **Same Month 1997** | **Same Month 1996** |
| Retail Sales | 135.3 | -9.1 | -8.5 | -8.8 | +0.6 | +3.8 | +47.7 |
| Hotel/Motel Occupancy Rates | 112.4 | +7.5 | +11.1 | +10.1 | +4.5 | +2.6 | +6.1 |
| Lumber Manufacturing | 91.02 | -1.8 | -16.2 | -20.2 | -20.0 | -27.0 | -14.7 |
| Total County Employment | 103.2 | -1.0 | -1.8 | -2.1 | +0.3 | 0 | +1.1 |
| Electricity Consumption | 115.7 | +4.5 | -12.8 | -12.7 | +11.9 | +9.1 | +9.9 |
| Home Sales | 114.66 | +2.4 | +5.4 | +24.4 | +5.4 | +9.0 | +24.4 |

# Discussion

## Composite Index and Overall Performance

**The seasonally-adjusted *Index of Economic Activity for Humboldt County* is up slightly from last month. While the seasonally adjusted *Index* value increased a scant 0.8 percent over the April report, it remains 7.7 percent below the same month in 2000 and 7.8 percent below the same month in 1999. Home sales and hotel/motel occupancy rates showed the strongest growth during April, while retail sales showed the sharpest decline. While the leading indicators are mildly positive, the do not suggest that any sharp changes are in store for the next few months. As reported last month, the volatility of energy prices and availability makes it difficult to predict future economic performance with any certainty.**

## Electricity Consumption

**We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Energy has been one of the most stable of the sectors that we track, usually varying by no more than a few percentage points from month to month. This has changed dramatically in recent months as California continues to experience the fallout from the restructure electricity market.**

**Since we collect our data for this sector on a quarterly basis, the figures reported in the table above were derived from averaging the performance of recent months. As a result, they may not accurately reflect actual performance. Information from March, the last month with available hard data, shows that electricity consumption continues to fall. This trend, which began last winter, will likely continue as consumers start seeing**

**potentially significant increases on their June power bills. According to an article in the Times-Standard, the California Public Utilities Commission recently approved the largest rate hike in state history. The average increase for residential customers is reported to be 19 percent. Those who are among the heaviest users of electricty will see rates jump as high as 80 percent. Industrial users face an increase of about 50 percent. The higher rates are retroactive to March 27, 2001.**

**The effects of this increase on the economy will be felt well into the near future. The Times-Standard reported that while Governor Gray Davis blamed the slackening economy rather than the energy crisis, he recently announced the abandonment of almost $3.2 billion in new programs, tax cuts, and spending increases he proposed last January. The state is currently spending up to $70 million per day buying power on behalf of financially distressed utilities.**

**In addition to rising energy costs, businesses have been adversely affected by periodic rolling blackouts. Shifting production schedules to off-peak hours and passing additional costs onto customers in the form of energy surcharges are two increasingly common tactics businesses are employing in order to cope with the situation.**

**As reported last month, the data indicate that county residents and businesses are doing a good job at conserving electricity, which will become increasingly important as we enter the peak demand months this summer.**

## Retail Sales

**The retail sales sector showed the sharpest decline relative to the April report. Moreover, retail sales are down relative to that of May reports in both 1999 and 2000.**

**At the same time, national retail sales were up 0.8 percent during April, twice the increase economists had expected. According to analysts at the Dismal Scientist (www.dismal.com), consumers appear to be spending despite lower confidence levels, lower job security, and rising energy prices.**

**Economists at the Center for Economic Policy and Research (www.cepr.net) dispute this interpretation, claiming that the current increase, when compared to the downward revised figures for February and March, is only 0.2 percent. According to this argument, when inflation is considered, retail sales, in real terms, have actually been falling since January 2001.**

## Total County Employment

**In their preliminary report for March, the Employment Development Department (EDD) reported that 56,100 people were employed in Humboldt county, down 200, or 0.4 percent from March's revised figure. April's employment figures are up 0.4 percent over the previous year.**

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

- **Total county employment in the various services industries increased from a revised 42,400 during the month of March to a preliminary 42,700 for the month of April, or 0.7 percent. This sector is up 2.6 percent over the previous year's figures. The retail subsector of services is up approximately 100 jobs to 10,700 from last month.**
- **Total county employment in manufacturing declined 3.3 percent in April. The 5,800 current jobs is down 200, from March's revised figure. The level of employment in this subsector is unchanged over April 2000. Employment data for this month is preliminary, and we will provide revised figures as they become available. It should also be noted that these data do not yet include any changes that may result from the recent closing of Pacific Lumber's Mill B.**

**According to analysts at the Dismal Scientist, layoffs continue to occur across the U.S., with some 223,000 jobs lost last month, the largest single-month reduction since February 1991. Employment growth is currently at a**

**scant 0.5 percent. This is the ninth straight month of either declining or level performance in year-over-year comparisons. Manufacturing and business service industries each lost more than 100,000 jobs in April. As reported last month, the downward trend in manufacturing employment is expected to continue into the near future.**

**The county unemployment rate decreased from a revised 6.8 percent for the month of March to a preliminary 6.3 percent for the month of April. The unemployment rate in the state decreased 0.2 percent from a revised 4.9 percent for March to a preliminary 4.7 percent. This marks the third consecutive month of falling unemployment rates in California, indicating that the state economy is still sufficiently strong that people who are laid off are usually able to find other work. One source of state economic growth is growing export sales to rebounding Asian economies. Nonetheless, the California unemployment rate is still higher than the national average, which rose to 4.5 percent in April. While the national figure remains relatively low, it is now at its highest point since 1998. And, the 0.2 percent increase from last month is the largest one month climb since the last recession (www.dismal.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 75 percent of total county manufacturing income.**

**The manufacturing sector declined across all comparisons for the third consecutive month. This may change as the logging season gears up.**

**As mentioned above, nation-wide manufacturing continues to be particularly hard hit by the slowing economy, with an estimated 104,000 jobs lost in April (www.dismal.com). There is cause for some optimism, though. According to a Dismal Scientist report, one of the timeliest indicators of this sector's health, the National Association of Purchasing Managers diffusion index (NAPM), showed a third consecutive month of improvement in month-to-month comparisons. This index takes a number of important indicators into account including new orders, production, employment, and inventories. The good news includes an inventory to shipment ratio that has been declining since January, and industrial production numbers that are showing nascent signs of growth. Employment figures remain disheartening, but since employment tends to be a lagging indicator, these numbers likely reflect past conditions rather than what can be expected. New orders remain a weak link in the manufacturing chain. As long as people are reluctant to buy, significant improvement in this sector is unlikely, and any recovery will be a slow one.**

## Home Sales

**After a brief decline last month, the Home Sales sector of this month's *Index* is on the rise again. April's figure is up across all comparisons. Ninety-seven units were sold this month.**

**This stands in contrast to national numbers. Sales of new and existing homes fell 9.5 percent and 4.2 percent, respectively. This is not as bad as it could be since the revised sales figures for March were the second highest on record. The Dismal Scientist cites sliding consumer confidence and continuing lay-offs as the dominant factors contributing to the decline. Nonetheless, this sector remains one of the few bright spots in the economy.**

**Our April quote shows the 30-year fixed mortgage rate (zero points) in Humboldt County rose one-quarter percent to 7.25 percent over the previous month.**

## Hotel/Motel Occupancy Rates

**We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The hospitality sector increased strongly over all comparisons in April. The month-over-month comparisons**

**are all positive, suggesting the start of a strong tourist season. This information is corroborated by reports from the travel industry. According to an article in the San Francisco Chronicle, 80 percent of the population is expected to take at least one trip this summer despite rising gasoline prices.**

## 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 *Times Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued.**

**Employment-Based Economic Indicators:**

**A count of help-wanted ads indicates the number of new job openings. The April figure was up 5.7 percent from the previous month, but in year-to-year comparisons it was down 3.9 percent and 2.9 percent from 2000 and 1999, respectively. Going a little farther back, the number of advertisements have increased significantly with the current figure improving 24.8 percent from 1998, 26.0 percent from 1997, and 13.8 percent from 1996.**

**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. Layoffs have been occuring in the region and across the country. Though job losses have been mainly limited to the manufacturing sector, the current data suggest the slowing economy is beginning to have significant impact on other industries as well. The good news locally is that new claims for unemployment insurance in Humboldt County dropped 4.1 percent from March's figure. In other comparisons, April's figure is up an anomalous 34.9 percent over last year, and is down 16.1 percent, 13.8 percent, 9.4 percent, and 12.2 percent from 1999, 1998, 1997, and 1996, respectively.**

**As noted above, potential job losses resulting from Pacific Lumber's most recent plant closing are not included in these numbers. We will continue to monitor claims for unemployment insurance over the next few months to see what effect recent manufacturing layoffs will have.**

**Manufacturing Economic Indicator:**

**Manufacturing orders, a leading indicator of activity and employment in the County, declined across all comparisons in April. Manufacturing orders were down 2.9 percent over the previous month. In the month-over-month comparison, orders were down only a slight 0.6 percent over 2000, but were down a whopping 30.7 percent over 1999, 34.3 percent over 1998, 43.1 percent over 1997, and down 40.2 over 1996. This information mirrors the national picture, where the relative lack of new orders remains a significant drag on the economy.**

**Home Sales Economic Indicator:**

**The Building permits indicator was generally positive in April. It increased 0.8 percent over the previous month, and increased 31.0 percent and 5.6 percent over 2000 and 1999, respectively. For the years 1998, 1997, and 1996, however, the figure decreased 15.6 percent, 19.2 percent, and 2.6 percent, respectively. National figures on building permits were not available.**

## The Bigger Picture

**According to the Federal Reserve's report on economic activity for March and early April, the economy continues its slowing trend. Retail sales and manufacturing were reported as being weak in nearly all of the Fed's twelve districts. This is particularly true of the San Francisco district, which covers much of the western United States. Sales figures fell short of projections and ran behind the numbers for the same time period in previous years. Declines in manufacturing continue to be led by weakness in new orders for computers and communication and Internet infrastructure. The one bright spot is that home sales and new construction**

**remained steady or rose on an almost nation-wide basis. This is not surprising, as the Fed cut its federal funds rate for the fifth time this year at its most recent meeting. This action has led to the low mortgage rates, which are propping up both the home sales sector and the economy overall.**

**The San Francisco Chronicle quoted Fed sources as saying that its chief concern continues to be preventing the sagging economy from falling into a recession. One factor that likely caught the Fed's attention was the Consumer Confidence Index falling to 109.2, its lowest level since 1996 (this index began in 1985 with a baseline figure of 100). The decline was even more pronounced in the Pacific region with the figure falling to 104.4. As a result, further cuts in interest rates remain a real possibility.**

**Meanwhile, the U.S. Index of Leading Economic Indicators rose a modest 0.1 percent in April. This is only the second increase in the past seven months. According to economists at the Dismal Scientist, the increase is primarily the result of recent monetary policy by the Federal Reserve. While interest rates, the mony supply, and stock prices have reacted positively, the effects of recent Fed actions have yet to be felt in other parts of the economy.**

**Explanatory Note:** For those of you who are new or less familiar with the *Index*, we have been tracking economic activity since January 1994. The composite indices plotted as blue and green lines in the diagram at the top of this page are weighted averages of each of the six sectors described in the table above. Each sectoral index, and the composite index, started at a value of 100 in 1994. Thus if the retail sectoral index value is currently 150, that means that (inflation-adjusted) retail sales among the firms that report data to us are 50 percent higher than in January 1994. We also *seasonally adjust* each sector, and the composite index, to correct for "normal" seasonal variation in the data, such as wet season vs. dry season, and so trends in the seasonally-adjusted composite index (the blue line in the diagram above) provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so the "April 2001" report reflects data from March 2001. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

**The Dismal Scientist webpage**

**The Center for Economic Policy and Research webpage**

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