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## The Index of Economic Activity for Humboldt County

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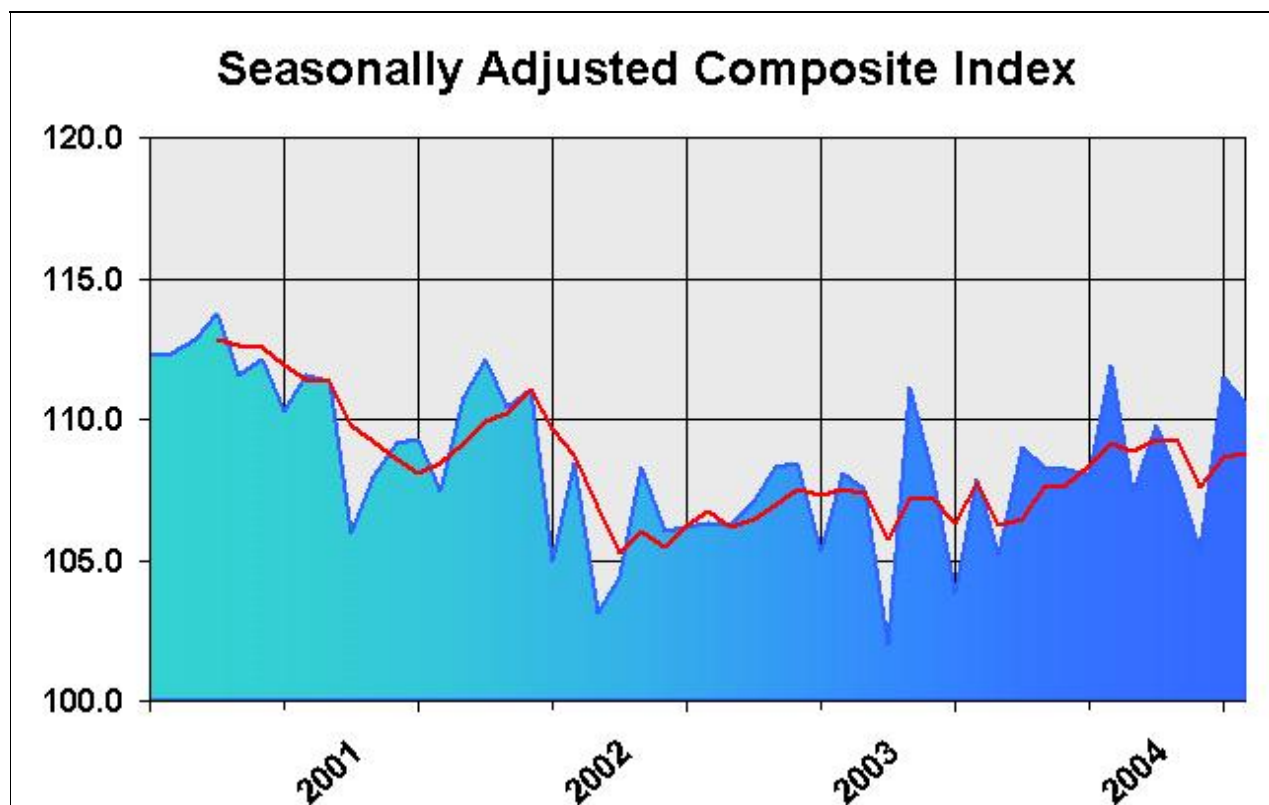
HSU Economics Department

# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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This month's report is sponsored by  
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**May 2004**



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

## Composite Index and Overall Performance

The *Index of Economic Activity for Humboldt County* measures changes in the local economy using data from local businesses and organizations. The data are compiled into a seasonally adjusted *Index* that shows changes relative to the base month (January 1994). The composite *Index* is a weighted combination of six individual sectors of the local economy. The current *Index* is based on the most recently available data, which is generally data from the previous month.

The Humboldt County economy remained steady in April. Though the composite *Index* dropped

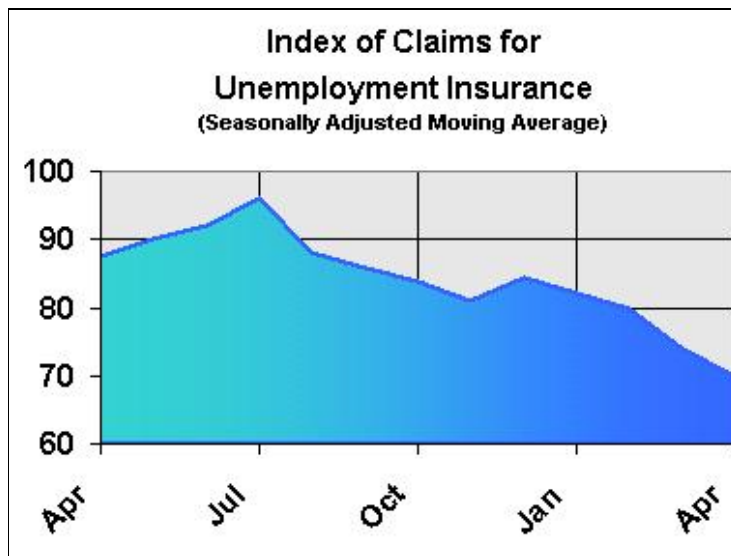
slightly to 110.6, it held on to most of the gains from last month's growth spurt. The tourist season kicked off with a bang this year. The hospitality sector jumped 22.5 percent to its highest level in three and a half years. The measure which now stands at 107.1, has only reached above the 100 level three times since September 2001. Manufacturing also posted gains this month, increasing slightly to 85.9. The housing sector had modest sales this month. The home sales index which now stands at 133.7 is down 11.3 percent from last month's level. The retail sector reached its highest level ever for the month of April, but is 4.4 percent below the March figure. The electricity consumption index fell 7.9 percent to stand at 113.6. Total County employment dropped 1.0 percent to 103.4. Total employment decreased, but so did the size of the labor force. This led to a significant decrease in the unemployment rate.

<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 2003	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999
<b>COMPOSITE</b>	110.6	-0.8	2.5	4.0	2.9	-1.6	-1.3
<i>Sector</i>							
Home Sales	133.7	-11.3	-11.8	0.9	15.5	21.7	43.6
Retail Sales	140.5	-4.4	12.2	4.8	13.1	4.0	3.7
Hospitality	107.1	22.5	15.6	14.4	5.2	7.6	7.7
Electricity Consumption	113.6	-7.9	-5.3	9.3	-7.8	-13.9	--
Total County Employment	103.4	-1.0	-0.5	0.5	0.0	-1.8	-2.1
Manufacturing	85.9	0.3	6.8	-0.3	-1.5	-18.7	-23.2

## Leading Indicators

The Index tracks three leading indicators to get a sense of the direction of change in the county economy in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) manufacturing orders, and (3) building permits. 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.

Employment Leading Indicators:



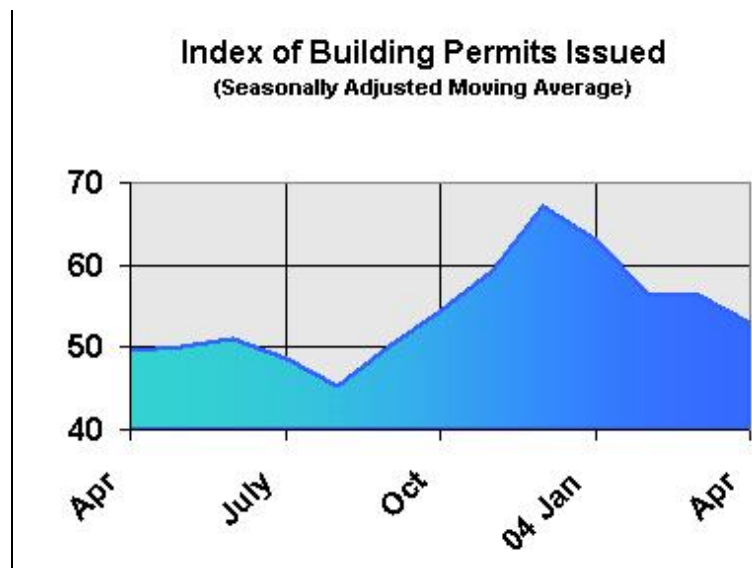
The index of claims for unemployment insurance is an indicator of negative economic activity. In April the number of new claims for unemployment insurance rose, however the four month moving average continued to trend downward.

### Manufacturing Leading Indicator:



The manufacturing orders leading indicator gives insight to future trends in the local manufacturing industry. In April advanced manufacturing orders declined, pulling the four month moving average down. The drop could indicate poor expectations regarding future sales.

### Home Sales Economic Indicator:



The index of building permits issued gives insight to future home sales and construction. The number of building permits (seasonally adjusted) issued in April declined. The four month moving average of the Building Permits Index is also down from its peak in December of last year.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$240,200	Help Wanted Advertising	-
30 Yr. Mortgage Rate as of 4/30	6.25%	Building Permits	-8.8%
Unemployment Rate**	6.4%	Unemployment Claims	11.6%
* 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 <a href="#">EDD Website</a> for updates.			

## Individual Sectors

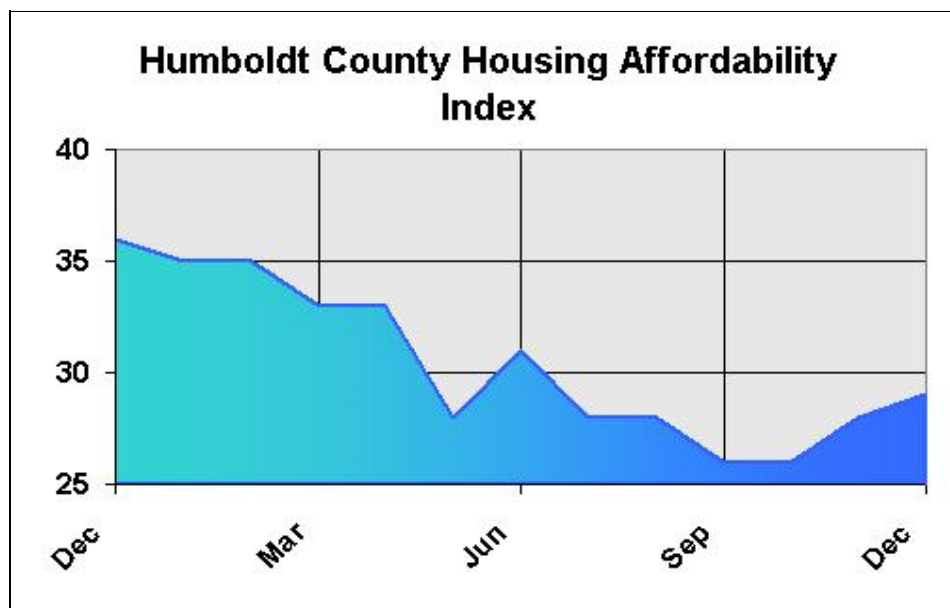
### Home Sales

The index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Home sales dropped in April, erasing about half of last month's record breaking increase. After dropping 11.3 percent the home sales index stands at 133.7. The drop in sales might have been influenced by the record breaking prices in the housing market this month. Local home prices set a new record high for the second consecutive month with the median home price reaching \$240,000.

Statewide home prices resumed an upward trend in April. The median price of an existing home rose 5.8 percent from the previous month to stand at \$453,590. "While demand for homes shows no signs of abating, California is simply not adding sufficient housing stock to the supply of homes for sale to meet this need," said Leslie Appleton-Young, C.A.R.'s vice president and chief economist. "This is a serious issue that California REALTORS® are addressing through a number of initiatives in Sacramento and on the housing affordability front." ([www.car.org](http://www.car.org))

Nationwide home prices have also increased. The median price of an existing home in April was \$176,000, up 7.3 percent from April 2003. David Lereah, NAR's chief economist, said a strong month was expected. "Given the favorable economic backdrop and strong sales momentum, a big number was expected for April home sales and it's likely we'll see another big month in May," he said. "Part of what we're seeing now is 'fence-jumping' from people wanting to buy a home before interest rates move higher. Even with an additional rise in recent weeks, the good news is that mortgage interest rates now appear to be leveling-out in the 6.3 percent range." ([www.realtor.org](http://www.realtor.org))



Graphic Description: The Humboldt County Housing Affordability Index is compiled by the Humboldt Association of Realtors, and shows the percentage of households that can afford a median priced home in Humboldt County. Data for 2004 is not yet available.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of April 29th, was 6.28 percent with an average 0.7 points. "Financial markets are in limbo at the moment, waiting primarily on tomorrow's jobs report for an indication that the growth in the economy is sustainable," said Frank Nothaft, Freddie Mac vice president and chief economist. "We had two months of really strong job increases and a third month would reassure markets and be a stabilizing factor. With long-term mortgage rates higher than last year, those still looking to refinance for lower rates may want to take a look at ARMs and hybrid products as they continue to offer terms that are low and attractive. Currently, for new mortgages, all ARM products make up about one-third of the market." ([www.freddiemac.com](http://www.freddiemac.com))

## Retail Sales

The index value of 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 sector had its best April on record. Though the retail sales index fell 4.4 percent, it held on to enough of last months gains to make it the highest value ever in the month of April.

Nationwide retail sales, as reported by The Commerce Department, dropped slightly in April. Seasonally adjusted sales were \$331.8 billion, a decrease of 0.5 percent ( $\pm 1.0\%$ ) from the previous month but up 8.0 percent ( $\pm 1.0\%$ ) from April 2003. The increase was again led by building material and garden equipment suppliers which increased 20.4 ( $\pm 2.3\%$ ) percent from April 2003. Electronics and appliance stores increased 12.4 percent ( $\pm 3.0\%$ ) percent from April of 2003. (census.gov)

The latest release from the Conference Board shows that consumer confidence is remaining steady. The Consumer Confidence Index, which now stands at 93.2, is up slightly from the previous month's revised number. (www.conference-board.org)

## Hospitality

The index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.

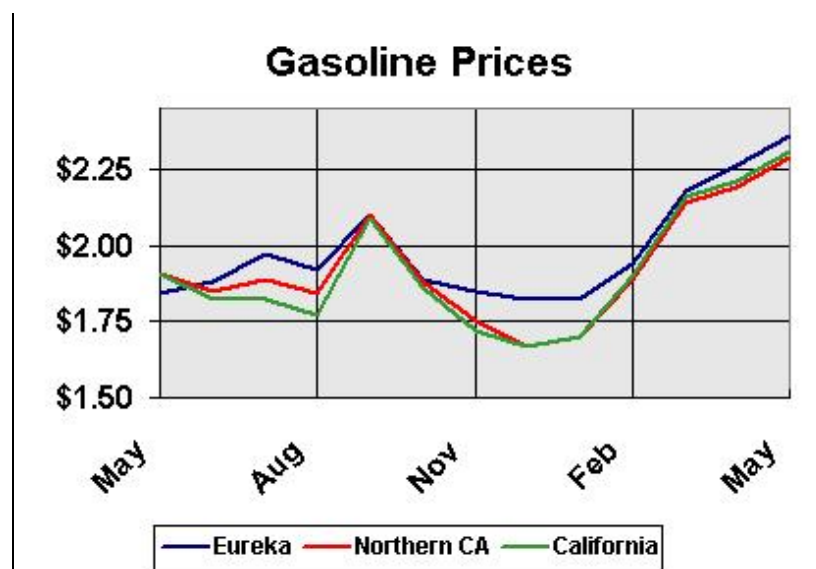
In April, the hospitality sector reached its highest level in three and a half years. The hospitality index jumped 22.5 percent to stand at 107.1. This is the highest the index has been since October 2000. A value of 107.1 represents a 7.1 percent increase in the hospitality sector since the base month January 1994.

## Gasoline Prices

Consumers are feeling the pain of the summer season gasoline price increase. On average prices throughout California rose 10 cents per gallon in the last month. "We're concerned about the impact on people who are struggling to pay their bills," said Sean Comey, spokesman for AAA of Northern California, which tracks gas prices as a service to consumers. "These high prices can make it very difficult for some families to balance their budgets," said Comey. "Many drivers can't significantly reduce the amount of fuel they use. It's not like they're out joyriding in a Winnebago. They need their cars to go to work, to take their kids to school and to go shopping. When prices go up, a lot of people don't have any realistic alternatives. They have to pay." (www.csaa.com)

Average Price* (as of 5/18)		Change From Prev. Month (cents/gal.)
Eureka	\$2.36	10¢
Northern CA	\$2.29	10¢
California	\$2.31	10¢

Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association's monthly gas survey (www.csaa.com).



## Electricity Consumption

The index value of this sector is based on seasonally adjusted kilowatts-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation reduce the sector's index value. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

The estimated electricity consumption index for April is 113.6, down 7.9 percent from the previous month.

## Total County Employment

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

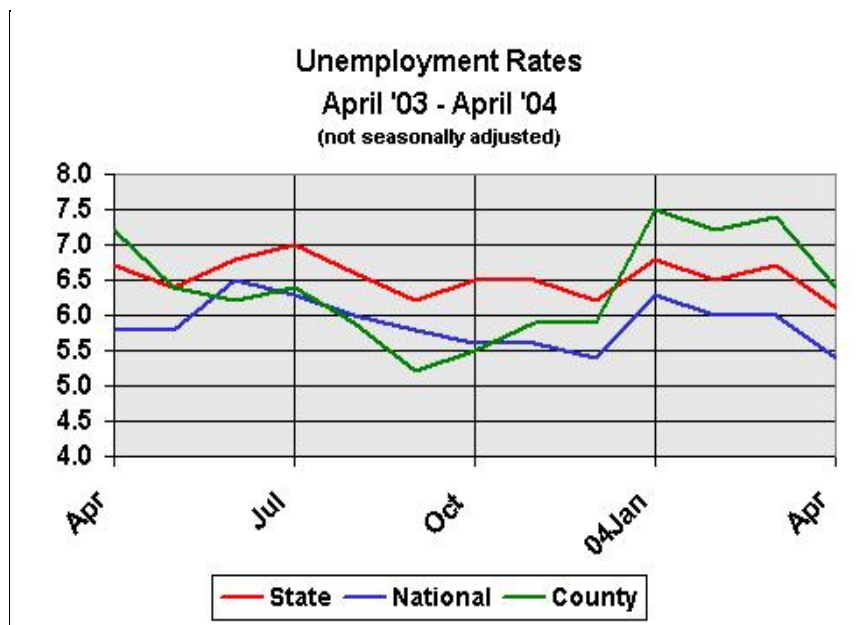
In the preliminary report for April, the EDD reported that 56,100 people were employed in Humboldt County. This is down from March's revised figure, indicating a net loss of 200 jobs. The total civilian labor force decreased by 800 people to 59,900. The seasonally adjusted total county employment index fell in April by 1.0 percent, and now stands at 103.4.

Sectoral changes in Humboldt County employment:

- The service sector made slight gains in employment this month. Wholesales trade, professional and business services, and arts and entertainment each gained 100 jobs.
- Local government lost 200 jobs.
- Employment in the manufacturing sector was stable.
- The agricultural sector lost 100 jobs.

April's unemployment rate dropped significantly, and seems to be coming back in line with the statewide rate. A decrease in the size of the labor force mitigated the effects of the decline in total employment.

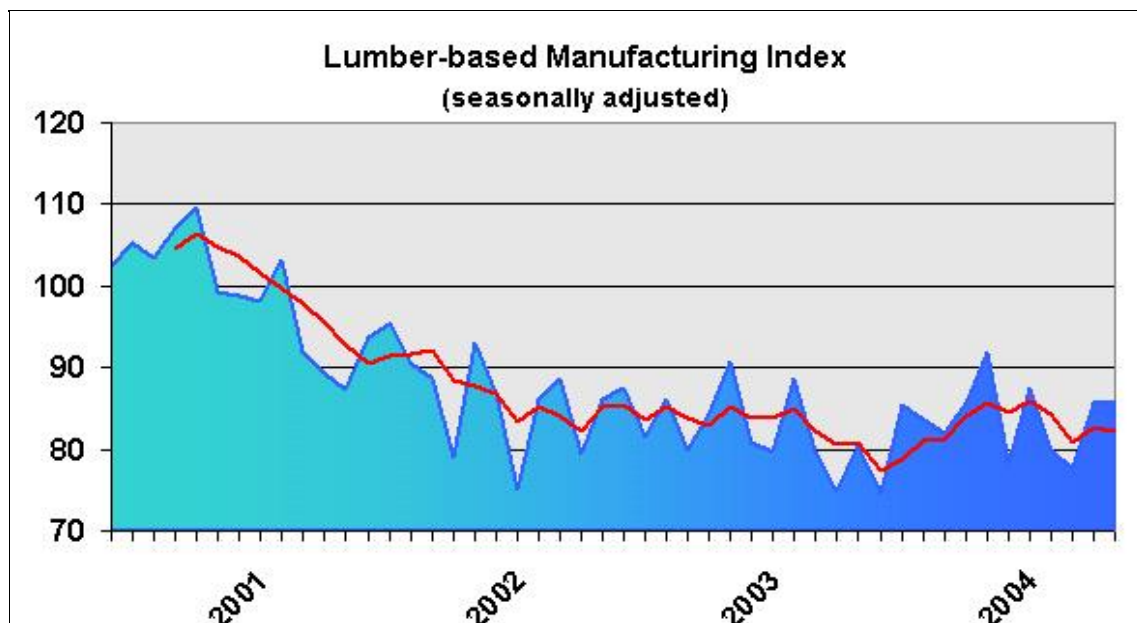




## Lumber Manufacturing

The index value of this sector is based on a combination of payroll employment and board feet of lumber production at major county lumber companies and is adjusted to account for normal seasonal variations. Lumber-based manufacturing generates about 60 percent of total county manufacturing employment.

In April the lumber-manufacturing sector held on to gains from the previous month. The lumber-manufacturing index now stands at 85.9, up 0.3 percent.



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

Economic activity in the manufacturing sector, as measured by the Institute of Supply Management,



registered the 12th consecutive month of growth in May. The ISM Index level rose 0.4 percentage points from April's revised number, to register 62.8 percent. A number higher than 50 percent indicates growth. "It appears that second-quarter growth will be very solid, and the momentum should carry over into the second half of the year. 2004 is shaping up as one of the better years for manufacturing. Many respondents indicate that order backlogs are growing for the first time in several years," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. ([www.ism.ws.cfm](http://www.ism.ws.cfm))

## The Bigger Picture

### National Economic News

According to the Bureau of Economic Analysis, real gross domestic product (GDP) increased at a 4.4 percent annual rate during the first quarter. This economic growth was led by personal consumption expenditures, equipment and software, private inventory investment, federal government spending, and exports. ([bea.gov](http://bea.gov))

### State Economic News

Governor Schwarzenegger has a new starring role which he hopes will bring tourists to California. The governor and his wife Maria Shriver are being featured in television ads created by the state Travel and Tourism Commission. Schwarzenegger is sure to catch people's attention as he urges them to visit the state. (North County Times)

**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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