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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

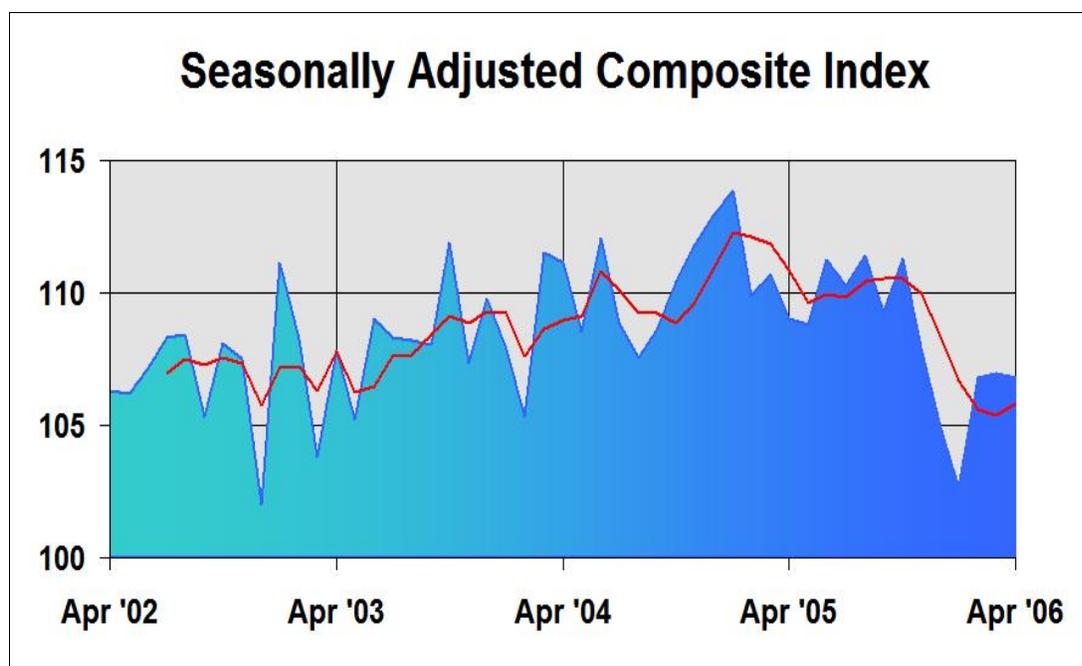
Professor Erick Eschker, Director
Garrett Perks, Assistant Editor
Haley French, Assistant Analyst

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May 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.

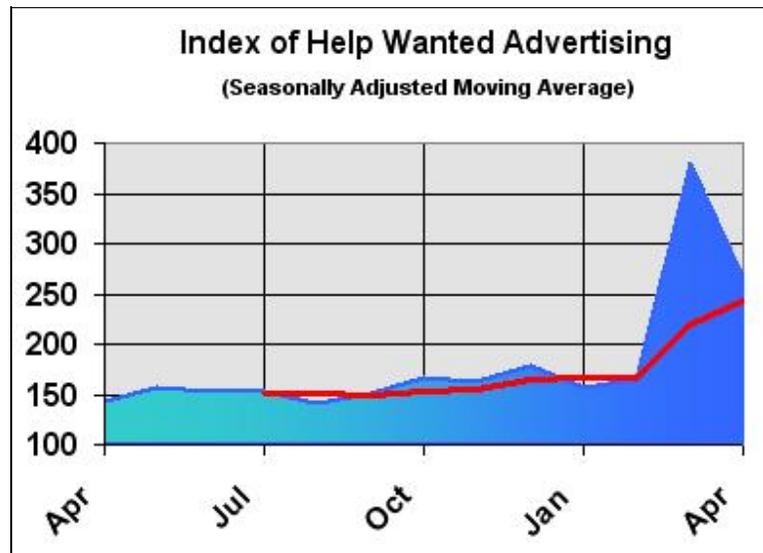
In April the Index declined slightly, losing 0.2 percent to a Composite Index value 106.8 (100 = January 1994). The Index was pulled down most notably by a decline in the Home Sales sector. The Hospitality sector put the greatest upward pressure on the Index, while Retail Sales, County Employment and Manufacturing also posted declines. The most significant story of the month is in the Real Estate Index where there was a dramatic decline which was largely responsible for the drop in the composite Index. In addition to the decline in this Index, other factors suggest weakening of the local real estate market as well as in state and national home sales. Although the Indicator was up this month, the trend in our building permits leading indicator continues to be downward. This and several other factors discussed in the sections below suggest real estate softening.

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	106.8	-0.2	-2.0	-3.9	-1.0	0.5	-0.6
<i>Sector</i>							
Home Sales	112.2	-12.4	-15.3	-16.1	-26.0	-15.3	-3.1
Retail Sales	129.2	-5.6	-5.8	-8.1	3.1	-3.6	4.0
Hospitality	94.5	16.2	10.3	-11.7	2.0	0.9	-7.2
Electricity Consumption	141.3	3.4	18.1	19.6	17.8	36.0	14.7
Total County Employment	105.7	-0.4	-1.4	2.6	2.0	0.8	2.6
Manufacturing	59.2	-2.4	-28.7	-31.0	-26.4	-31.3	-32.1

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Leading Indicators

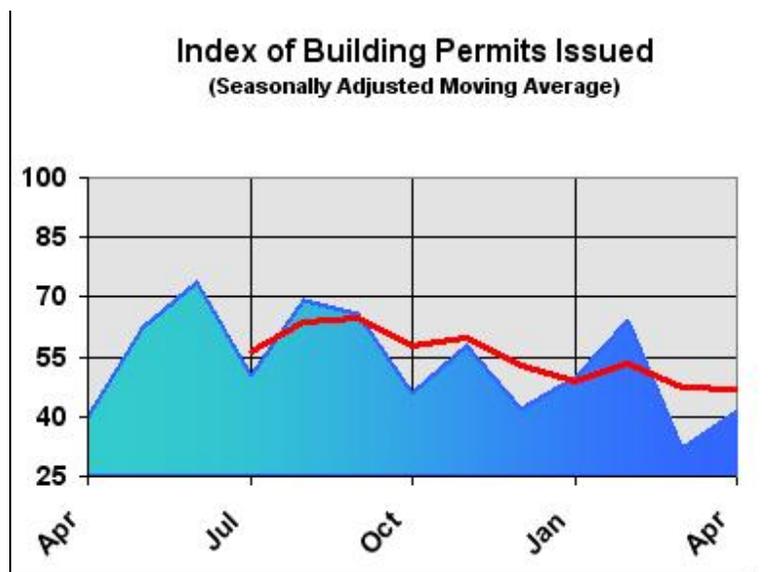
The Index tracks three leading indicators to get a sense of the direction that the county economy may take in the near future. The three leading indicators are (1) help wanted advertising, (2) building permits, and (3) manufacturing orders. The graphs in this section use a four-month moving average of 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 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 April, the Index plummeted 29.7 percent to an Index value of 266.9. Nonetheless, this value is absolutely beyond comparison in the history of the Index with the single exception of last month. This Index is 86 percent up on the year.

National help wanted advertising as reported by the Conference Board in their Index of Help Wanted Advertising declined this month to a value of 35. This is two points lower than March and four points lower than the same month a year ago. Ken Goldstein, labor economist at The Conference Board noted this month that trends for employment in several indicators appeared to indicate the possibility of softening in months ahead, due in part to a softening of the economy as a whole. (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 April the Index of building permits rose 28.6 percent to a value of 41.3. Although this is a large improvement in this Index it is still at a rather low value, as the graph shows. Also, the long term trend appears to be downward. Unless these gains are carried further in the coming months, this is likely an indicator of a slowing in real estate in coming months.

Nationally, the Pending Home Sales Index as reported by the National Associations of Realtors (NAR) also contracted, dipping 3.7 percent to an Index value of 111.8 from a level of 116.1 in March. This is 11.7 percent down on the year. This indicates slower real estate markets are likely in the months ahead at the national level as well. (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 33.3 percent in April and now stands at 48.7. This dramatic decline comes as another in a string of significant declines, interrupted only by last month's gain. The Index now stands at quite a low level which indicates potential weakness in the manufacturing sector of the local economy in the months ahead..

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$309,750	Unemployment Claims	--
30 Yr. Mortgage Rate	--	Help Wanted	-29.7
Unemployment Rate**	5.5%	Building Permit	28.6
		Manufacturing Orders	-33.3
<p>* Home price data are provided by the Humboldt Association of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does not verify such information provided and disclaims any responsibility for its accuracy. Each Participant agrees to hold the Service harmless against any liability arising from any inaccuracy or inadequacy of the information.</p>			
<p>** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.</p>			

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Individual Sectors

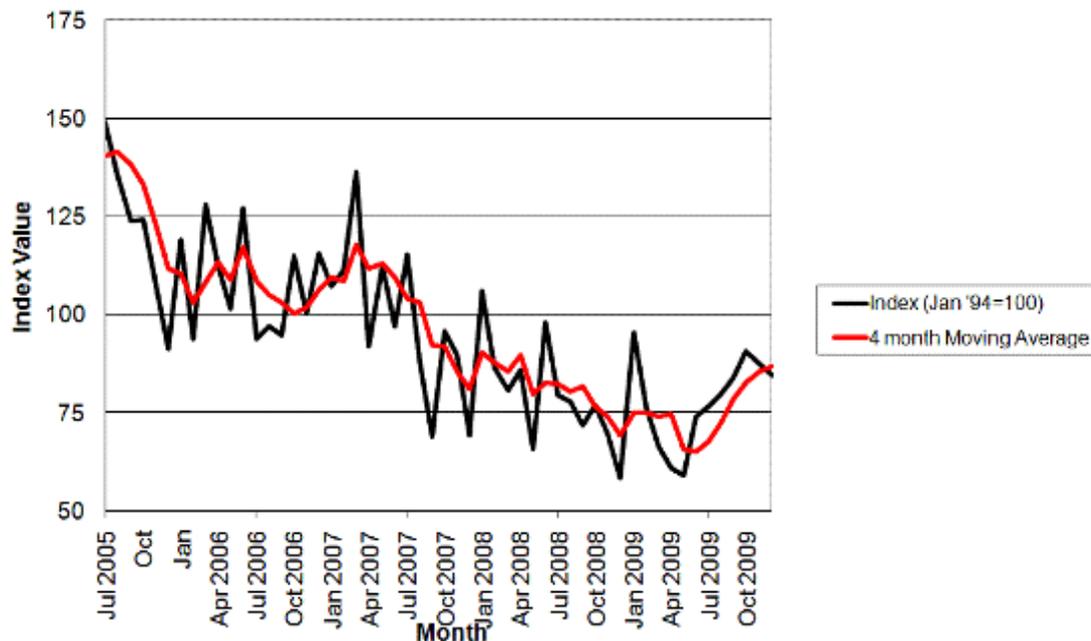
Home Sales

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

The housing sector weakened considerably in the areas of sales, prices, and inventory. April saw the Home Sales Index drop a hefty 12.4 percent to an Index value of 112.2. This Index has been extremely volatile in recent months flapping

wildly each month from 10 to as much as 30 percent, but sales have trended downward since last summer's peak and are now lower by double digits than they have been for several years. Also, local data as well as national trends, especially interest rates, indicate that a softening of the local housing market is underway and likely to continue.

Seasonally Adjusted Home Sale Index, Humboldt County



Source: Humboldt Economic Index

The median price of a home sold in the County in April plummeted by more than forty thousand dollars from last month's record price to \$309,750. This is the lowest price since May, 2005, and the price is now only slightly up on the year, having lost ground in April alone that took eleven months to gain. The median selling price is not adjusted for inflation and does not affect the Index. Additionally, the inventory of houses for sale in Eureka and Arcata climbed an astonishing 20% from April to May. This, coupled with the 13% drop over the month, will exert downward pressure on prices.

Recent house buyers have seen the value of their purchase decline. According to First American Real Estate Solutions, 29% of people who took out a mortgage in 2005 owe an amount equal to or more than what the house is worth. In other words, 3 out of 10 people who bought last year have zero or negative equity in their homes.

California's median selling price, as reported by the California Association of Realtors, remained essentially unchanged in April, at \$562,380. This level is 10.2 percent higher than the median home selling price for the same period last year. The number of homes sold in the state however, fell by a dizzying 21.4 percent when compared with April of 2005. The CAR Unsold Inventory Index indicates the number of months required at current prices to deplete the current inventory of

homes for sale. The Index is up to 5.6 months from 2.4 months a year ago. This indicates a likelihood of lowering prices and longer selling time for homes currently on the market. (car.org) At the national level, the National Association of Realtors reports that existing home sales are down 2 percent from March to April, and 5.7 percent on the year. The median selling price was \$223,000. This price is up 4.2 percent from \$214,000 on the year and up 2.3 percent from \$218,000 in March. The national inventory of homes for sale is now up to six months from 4.1 months a year ago, and up from a long-run average of 4.5 months.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of June 1st was up to 6.67 percent with an average 0.4 points. This is the highest rate for the 30 year ARM since June of 2002, when it was at 6.71 percent. The 30-year fixed mortgage rate averaged 5.20 percent during the same period last year. Frank Nothaft, Freddie Mac vice president and chief economist predicted that "Higher mortgage rates will coincide with a cooling housing market. Although our forecast is for slightly higher rates, the rise will be gradual and orderly over the year." (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.

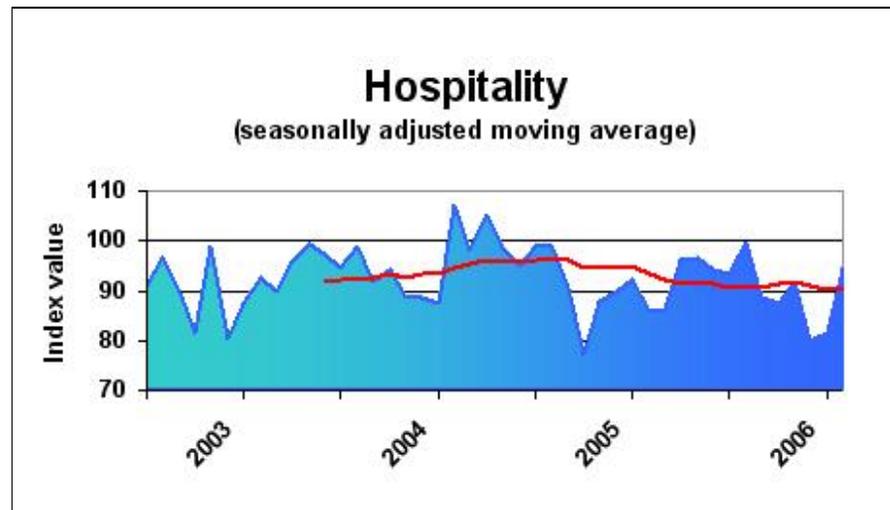
The retail sales sector shrank in April, falling 5.6 percent to a seasonally adjusted Index value of 129.2. This is a 5.8 percent decrease from the same period last year. This continues what has been a weak year for the Retail Index which is at its lowest level since March of 2003, which rang in at 129.0. The Index was the second largest loser in this month's Index report right behind Home Sales, and contributed significantly to the month's loss in the Composite Index.

The Federal Reserve Board's Beige Book reported on April 26 that at the national level, activity in all twelve of its districts was expanding. Our Federal Reserve District of San Francisco reported growth as "solid," while other districts used language from "solid" to "modest and "moderate." Consumer spending was generally higher than month-ago levels in most districts. Year over year comparisons for April were complicated by Easter's shift from March in 2005 to April this year. (federalreserve.gov)

National consumer confidence as measured by the Conference Board gave up the gains it posted in April, receding to 103.2 from April's level of 109.8. It is interesting to note that consumer confidence is down even as consumer spending is up. The relationship may be at least partially explained by high energy costs driving both measures. (conferenceboard.org)

Hospitality

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



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

The hospitality sector increased a brisk 16.2 percent in April to an Index value of 94.5. This value is a dramatic improvement, and may bode well for the summer travel season. This indicator is this month's biggest gainer and helped ameliorate the losses in the Home Sales Index, thus warding off a larger drop in the Composite Index. Nonetheless, the current value is still not historically high. The baseline value of 100 is where the Index began in January of 1994, which means that overall the Index has slightly declined over its entire length. As the graph shows, the long run trend largely fluctuates between around 80 and 110.

Gasoline Prices

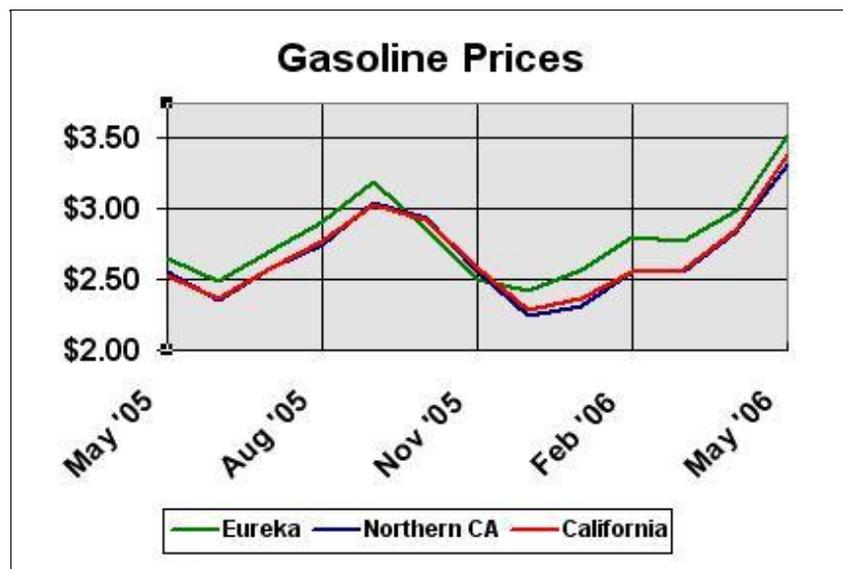
The American Automobile Association reports that county gas prices have risen 53 cents as of April 11, to \$3.52, accelerating the increase of the previous month. Eureka once again stands as the most expensive community in the state for gasoline purchasers, two cents above Yreka and South Lake Tahoe, both of which average \$3.50. Prices also rose, although slightly less dramatically for Northern California and the state as a whole. The average price per gallon of gas in California rose 52 cents to \$3.38 and the Northern California price added 48 cents

to \$3.38. Prices were driven higher by concerns about political tensions with and within several oil producing nations, as well as by growing international demand and a strong looming Atlantic hurricane season. Comfortingly, the spokesperson for AAA of Northern California, Sean Comey opined that, "The punishing cycle of price increases we've suffered through recently appears to be coming to an end." Although, he doesn't expect prices to return anytime soon to levels most consumers would consider comfortable. (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 04/11/06)		Change From Prev. Month (cents/gal.)
Eureka	\$3.52	53¢
Northern Ca	\$3.32	48¢
California	\$3.38	52¢

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

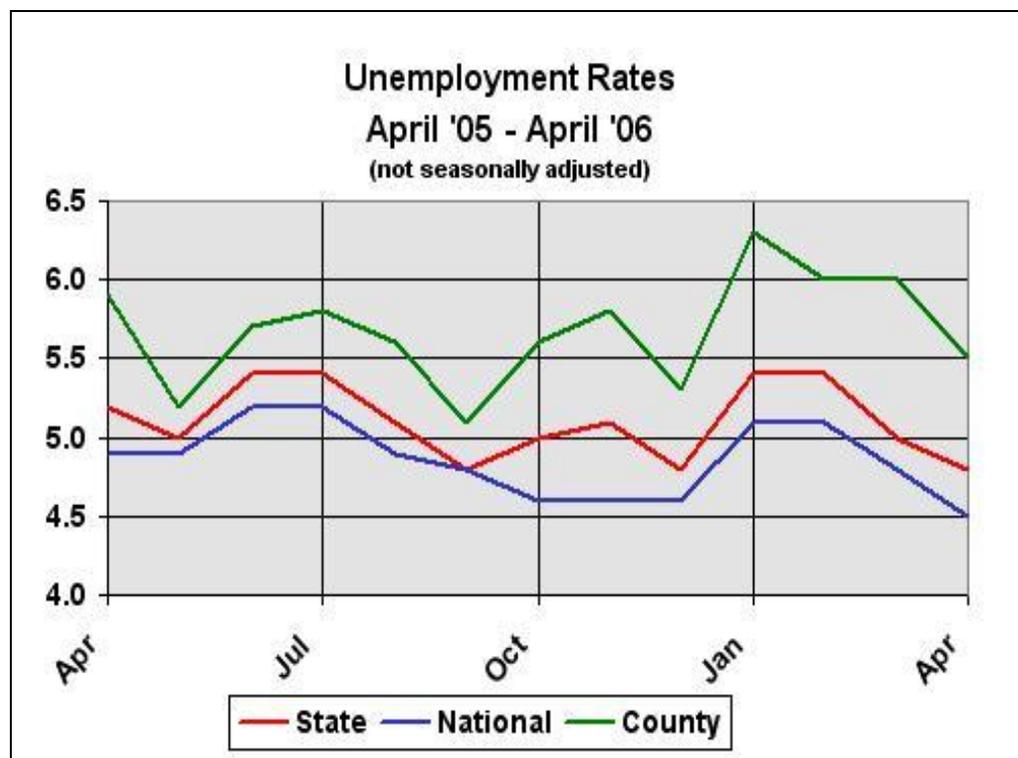
electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation reduce the sector's index value, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

The first quarter data were reported after our previous Index edition was published. The Index values for January, February, and March were 107, 140, and 137, respectively. The April Index value is estimated to be 141.32. It appears that increasing energy costs have done little to damp consumption. This quarter saw percentage increases in the double digits over the first quarter of all prior years.

Total County Employment

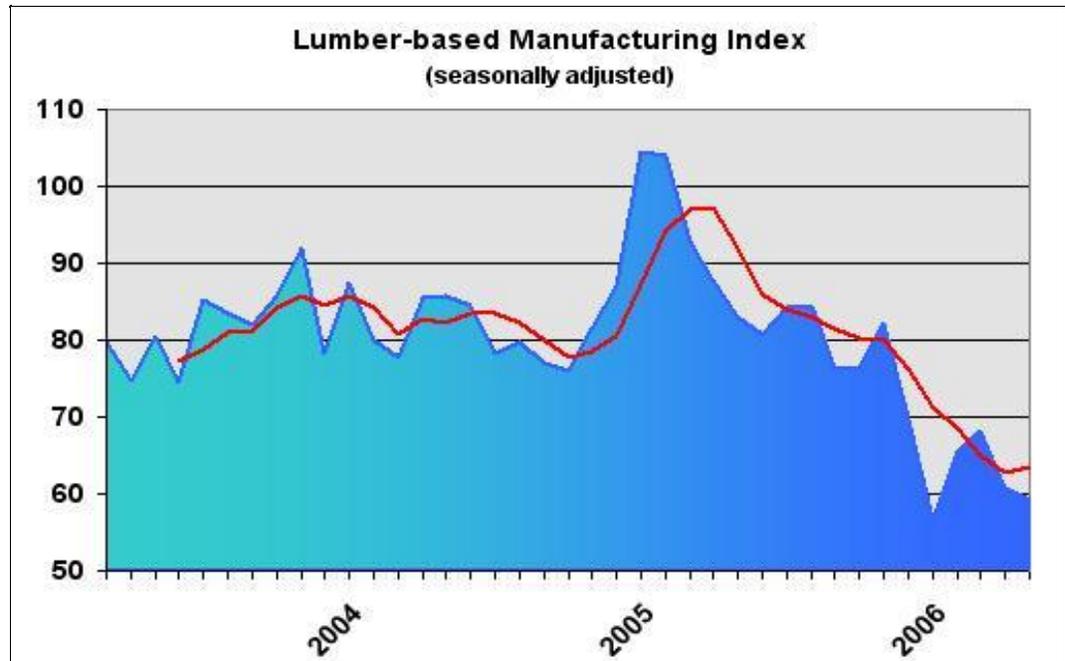
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Preliminary employment and labor force data for April indicate 60,400 people in the Humboldt County labor force, of whom 57,100 are employed. This means that 300 individuals left the labor force in the month, while there was no change in the total number of jobs in the county. The effect of these changes was a decline in the unemployment rate from 6.0 percent to 5.5 percent. This level is not unusual. The Index has fluctuated near this level for several months.



Lumber Manufacturing

The index value of this sector is based on a combination of payroll employment and board feet of lumber production at major county lumber companies and is adjusted to account for normal seasonal variations. Lumber-based manufacturing generates about 55 percent of total county manufacturing employment.



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

In April, lumber based manufacturing fell slightly again, decreasing 2.4 percent to an Index value of 59.2. Together with prior months, this decline has brought the Index down dramatically from 104.5 in December 2004. The Index is once again gravitating toward its lowest level on record, which was reached in December 2005 at 56.5.

At the national level, the Institute for Supply Management reports that American manufacturing is still growing. In spite of the decline in our local lumber industry, the ISM reports that wood and wood products were one of the fastest growing industries in the nation last month. The Institute continues to report concerns about inflation as manufacturing orders increased, deliveries declined and already low inventories contracted. Materials prices were increasing and the increase was accelerating. If inflationary pressures continue, it may lead to further tightening of monetary policy by the Federal Reserve and higher interest rates in coming

months. April's report represented the 36th consecutive month of growth in the American manufacturing sector, a comforting note amidst our national furor over the outsourcing of manufacturing jobs. The report marked the 55th consecutive month of growth in the national economy as a whole. (www.napm.org)

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Local Spotlight

"The Snicker", Have You Heard it?

By: Garrett Perks

In a conversation featured on the cover of the [February 2nd](#) issue of the North Coast Journal, Patrick Cleary, a local businessman and prior Wall Street investment banker, mentioned a phenomenon he called "the snicker." The conversation touched on the issue of Humboldt County's underground economy and the reputation it has cultivated for us. Cleary mentioned that as far away as Iceland he had the experience of telling someone he was from Humboldt only to be treated to a knowing snicker. It seems many people who may not even be able to find Humboldt County on a map are still aware of its most famous export.

I'm sure most of us have experienced "the snicker" at times when traveling outside the county. We joke about it. Perhaps we chuckle too that our notoriety has spread as far as it has. What we may not have thought of is the degree to which our reputation is costing us.

A strong local economy depends upon our ability to attract bright and talented people to our University and to our community. How many parents who might otherwise send their children to HSU are reluctant because of Humboldt's reputation? Certainly many students are aware of the impact Humboldt's reputation might have on the value of their degree in the job market. Are there bright and serious students who are inclined to study elsewhere because of this? How much does our notoriety for marijuana cost our local economy in terms of talent, and how much does it cost the University in both the quality and quantity of students it is able to recruit?

While it is unlikely that more rigorous enforcement efforts will help, perhaps something can be done. Enforcement is not politically feasible, and if it were feasible success is dubious. Furthermore, a strengthened enforcement effort is likely to be counterproductive by drawing heightened attention to the County's primary cash crop and expanding our reputation abroad rather than mitigating it.

It might be possible for HSU at least to divest itself of much of the stigma it carries in a simpler way by changing its name. This would increase the value of a degree from the University immediately and also make recruitment of talented people an easier endeavor. Recently, Hayward State changed its name to CSU East Bay and Beaver College in Ohio changed its name to Arcadia University, in order to change their campus' image. Of course, a name change may not be effective.

This is in fact Cleary's thought. Everyone knows what Humboldt County is famous for. Is it necessary or beneficial to associate the University with that reputation? Perhaps a re-branding campaign under a different name could be a central element in a successful effort to attract bright and

talented people to our University and into our local economy.

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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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