

Humboldt Economic Index

May 2010

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Redwood Region
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Index Gets New Web Address

The Humboldt Economic Index has a new Web URL. Please update your bookmarks:

www.humboldt.edu/econindex

This month, despite volatility within the Index sectors, the composite declined only slightly, bringing the overall Composite to 100.6. A steep positive composite trend has developed over that past few months, although some sectors remain worrisome, namely employment and manufacturing.

Home Sales declined somewhat, while the median home price rose. Gas prices were unchanged, while energy use increased.

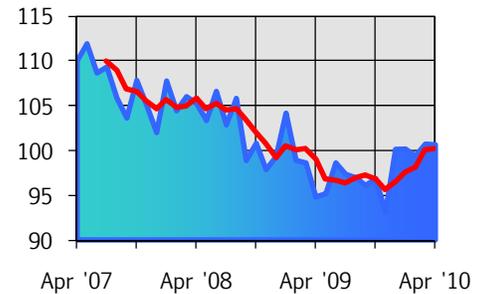
Retail declined some, but continues to be a bright spot as it maintains values near the long run average. Consumer Confidence rose again indicating that, nationally, consumers are more optimistic about job security and buying power.

Manufacturing continues to hover around the 30 range with little volatility, indicating a new equilibrium. Unfortunately, local manufacturing does not appear to be benefitting from the general improvement of manufacturing conditions in the rest of the country as indicated by PMI.

Employment declined slightly, while leading indicators signify continued high unemployment. National unemployment fell, though almost exclusively due to temporary Census hiring.

This month's Spotlight, *Marijuana Legalization*, attempts to interpret the potential

Composite Index



local economic ramifications of State legalization. Marijuana plays a major role in the region's economy.

Leading indicators are bleak, but in no way a guarantee of worsening conditions. Though, some sectors are beaten down, others show resilience. Furthermore, all current sectors show less volatility than previous years, indicating that, if nothing else, there is less likely to be major surprises ahead.

The Humboldt Economic Index is produced by the Economics Department at Humboldt State University. It 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.

Composite & Sectors

Index	Value*	Percent change from			
		Last Month	One Year ago**	Five Years ago**	Ten Years ago**
Composite	100.6	-0.1	6.2	-6.6	-9.5
Home Sales	86.0	-12.7	41.2	-35.1	-21.7
Retail Sales	144.3	-4.1	0.9	5.2	6.8
Hospitality	89.4	10.8	1.1	13.1	-2.6
Electricity	138.6	0.0	31.2	15.8	5.0
Employment	99.5	0.3	-0.2	-6.4	-5.1
Manufacturing	33.5	11.0	-3.1	-59.6	-68.3

* These values are adjusted to remove seasonal fluctuation. The base month is Jan. of 1994, with an Index value of 100.
 ** The percent change from the same month one, five and ten years ago.

The Index – Leading Indicators

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) number of claims for unemployment insurance, (2) building permits, and (3) help wanted advertising.

Leading Indicators			
	Unemployment Claims	Building Permits	Help Wanted Advertising
Change from prior month*	14.7%	95.2%	-42.4%
* All values are seasonally adjusted.			

Key Statistics

Median Home Price*	Monthly Rent**	Mortgage Rate†	Unemployment Rate‡
\$265,000	\$ 1,347	5.25%	10.9%

* The Humboldt Association of Realtors provides home price data. 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.

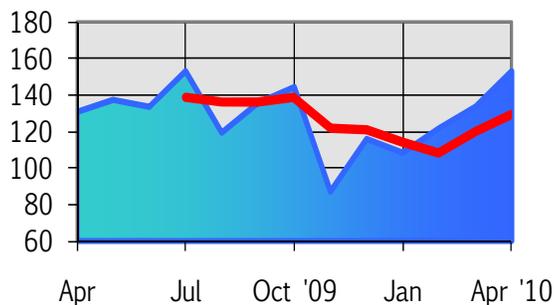
** Average rent on 2, 3 and 4 bedroom houses listed in the Times Standard.

† 30-year owner occupied conforming conventional fixed rate provided by Umpqua Bank.

‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

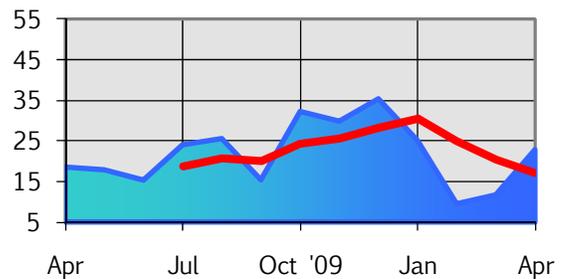
Unemployment Claims rose 12.8 percent to 153.5, matching the record high set July 2009. The long-run average is 87.0.

Index of Claims for Unemployment Insurance



Building permits doubled, from last month's depressed value, to 22. Still a low value compared to the long-run average of 50.

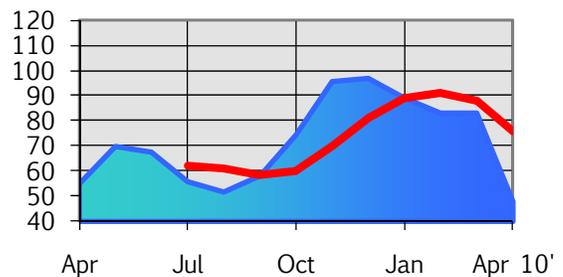
Index of Building Permits Issued



Help Wanted Advertising plummeted from 83 to 47.9, the lowest value the index has recorded. Although low, it is possible that this may be an anomaly.

All three leading indicators signify that the county is still in the worst of the recession.

Index of Help Wanted Advertising



Graphs Explanation: The blue area represents the seasonally adjusted Index of Unemployment Claims above. The red line shows the four-month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Index – 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.

Seasonally adjusted home sales declined 12.7 percent, bringing the index to 86.0. The median home price increased again, rising to 265,000, though still below the five year average of 297,000. The mortgage rate is unchanged at 5.25 percent.

April, save for a probable extension, was the last month for buyers to cash in on the First-Time Home Buyers Tax Credit. It is likely that prices will decline as a result of expiration of the program, although it is difficult to determine by how much. Moreover, future Home Sales values may reflect this month's negative employment leading indicators, as high unemployment puts downward pressure on sales.

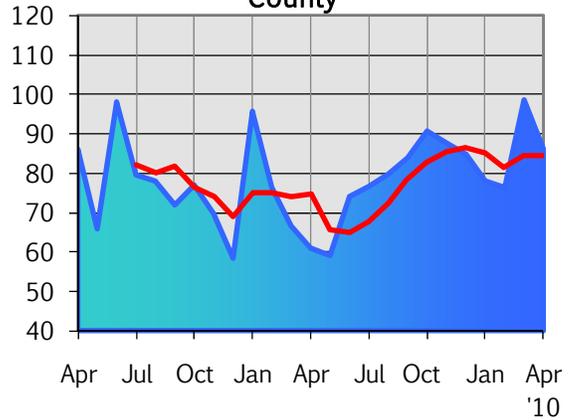
Nationally, the Case-Shiller Composite-20 was unchanged. San Francisco prices rose slightly, while Los Angeles prices declined approximately one percent.

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. Also, visit the [Humboldt Real Estate Economics Page](#).

The graph below shows monthly foreclosures in Humboldt County and National Recession from 1979 to the present. (Recessions are the grey bars. This graph was created by economic major Michael Byers). It assumes that the most recent recession ended in summer of 2009. Usually, foreclosures start to fall after the recession is over, but during the most recent downturn, foreclosures continue to rise. There

are not many data points to consider, but it appears that the relationship between foreclosures and recessions is different this time, with foreclosures rising before, during, and after the recession.

Home Sales Index, Humboldt County



Monthly Foreclosures, Humboldt County
National Recessions



Source: Humboldt Economic Index and Humboldt County Recorder

The Index – Individual Sectors

Total County Employment

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

Employment increased slightly to 99.5. The seasonally adjusted unemployment rate increased slightly to 10.9, though without seasonally adjusting the data, the unemployment rate declined from 12.6 to 11.7 percent. Approximately 500 workers were hired in April. Agriculture and services added jobs, while government employment contracted mildly, according to the California Employment Development Department.

Continued double-digit unemployment, along with April's record employment leading indicators, signify that the county has yet a long road to recovery ahead.

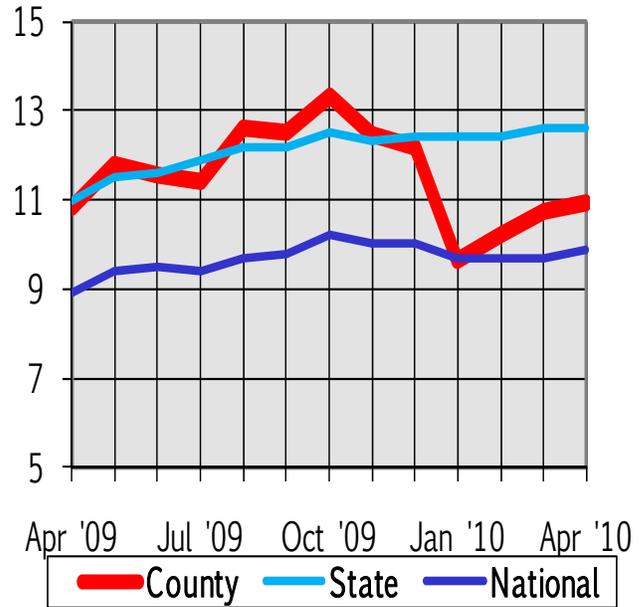
National Unemployment declined slightly to 9.7 percent, driven almost entirely by temporary census hiring. The Federal Government added 411,000 temporary census employees to its payroll in May, while the private sector hired only 41,000.

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.

Hospitality increased 9.7 percent to a seasonally adjusted 89.4. The increase is driven by an across the board increase in occupancy rates.

Unemployment Percentage Rates

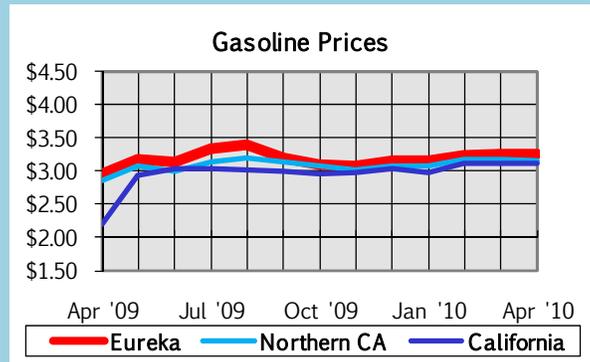


Gasoline Prices

Real Gasoline Prices for Eureka remain a \$2.77. Eureka nominal gas prices remain at \$3.25, while statewide prices rose \$0.01 to \$3.12 and San Francisco prices declined \$0.03 to \$3.15.

Gas Prices		
Prices as of 5/30/2010	Average price*	Change from previous month
Eureka	\$3.25	\$0.00
Northern California	\$3.15	-\$0.03
California	\$3.12	\$0.01

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



The Index – Individual Sectors

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.

Retail sales were mixed in April, declining slightly on average. The seasonally adjusted index stands at 144.3. Though down from last month, the index appears to be the most resilient sectors of Humboldt's economy, and fortunately one of the most important. The average value for the last five years is 149.0, despite the recession, the index maintains long-run growth.

Nationally, [Consumer Confidence](#) rose to 63.3 up from 57.7 in April, as reported by the Conference Board.

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 frequently estimated, and are revised when the quarterly data are received.

Electricity Consumption remained steady at 138.6.

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.

Lumber Based Manufacturing expanded 10.9 percent to 33. In the past year the index has experienced relatively little volatility indicating stabilization from the steep decline beginning in 2005.

Nationally, PMI remains well within the positive range at 59.7, down only slightly from 60.4, as reported by the Institute of Supply Management.

Spotlight: Marijuana Legalization

According to [The Los Angeles Times](#) in conjunction with a USC study, Californians are weakly in favor of the legalization of marijuana for recreational use. With legalization looking more probable, some locals see November's ballot, Marijuana Control, Regulation and Education Act, as a potential threat to the economy.

There is a lot of uncertainty regarding the economic outcomes if marijuana is legalized. Fear of legalization is based on the following logic: Humboldt's relatively lax governmental policies on cannabis, and low population density, by sheltering growers, have reduced "costs" of production in the County. These costs include threat of crop seizure, incarceration, and costs of concealing production, among others. By leveling the playing field with legalization, growers will be competing with the rest of the state. Further, the state and municipalities will have their share in taxation. Consequently, prices and profits will decline, reducing the amount of income circulating the county.

The logic is sound, but the bill does not necessarily level the playing field. Rather, it leaves regulation of cannabis to the discretion of local government. It follows that drug-averse communities can, and will, continue prohibition, or at least continue to limit production. This may leave growers in communities like ours with continued advantages. Specifically, Humboldt County, due to its historic tolerance, may be one of the few areas willing to allow large scale production, which may enjoy economies of scale and reduced costs. One can speculate that Humboldt County will become a center of large scale production in California, which will mean a cost advantage that keeps production in this County.

Furthermore, pot legalization may not be the budget patch legislators hope for, as there will be incentive for small-scale growers to continue selling under the table, avoiding taxation, but more importantly, reporting it as income to the Federal Government.

Legalization may harm the economy, but probably not to the degree some anticipate. Moreover, large national companies may not want to risk a court battle with the Federal Government, will may not participate in the market. Also, prospects for domestic growers have been better than ever given the growing domestic demand as a result of Homeland Security restricting international supply. A restricted international supply will remain regardless of state legalization. With two colleges, old growth forests, a thriving art culture and a stunning coastline, the county has a lot more to offer than marijuana.

Explanatory Note: We have been tracking economic activity since January 1994. The Composite Index at the beginning of this report is a weighted average of each of the six sectors described 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 the most recent data available, which is usually from the previous month. For example, the "August 2006" report reflects mostly data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

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Cited References:

California Association of Realtors - Case-Shiller Home Price Indices
Consumer Confidence - The Institute of Supply Management - The Los Angeles Times
National Association of Realtors

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