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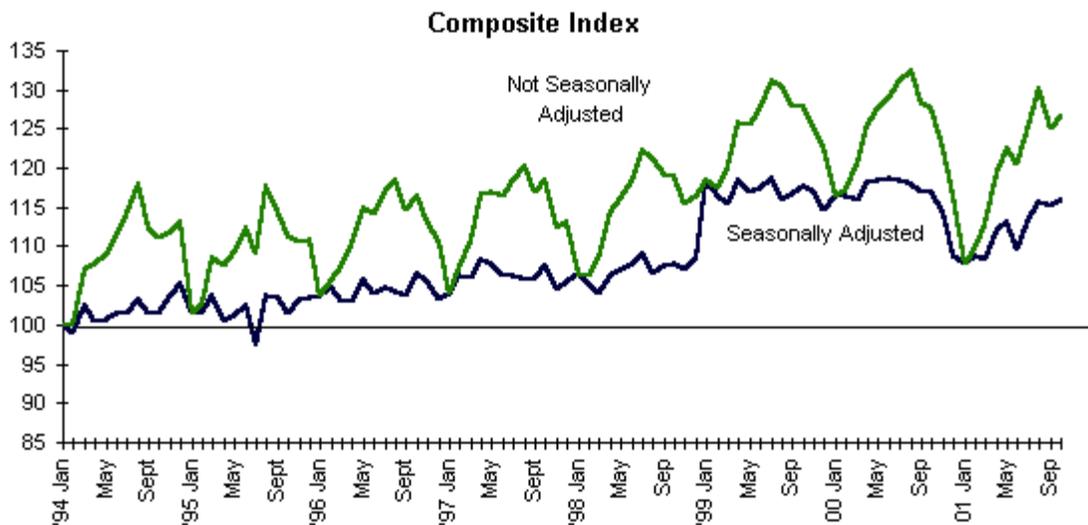
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**Professor Steven Hackett, Executive Director  
John Manning, Managing Director  
Don Son, Assistant**

**November 2001**



Key Statistics		Leading Indicators	
<b>Humboldt County</b>		<i>Seasonally Adjusted</i>	<b>% Change From Previous Month</b>
Median Home Price*	\$144,900	Help Wanted Advertising	-19.8
30 Yr. Mortgage Rate (11/26)	7.0%	Building Permits	-22.6
Prime Rate (11/26)	5.0%	Unemployment Claims	+37.5

Unemployment Rate**	4.7%	Manufacturing Orders	+5.6
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\* 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
Home Sales	134.1	+61.7	+12.6	+38.9	+56.3	+15.7	+37.4
Retail Sales	153.3	+10.0	+9.8	+6.2	+4.4	+16.8	+43.7
Hospitality	112.8	+12.9	-4.6	+6.3	2.0	-0.5	+4.5
Electricity Consumption	130.6	-5.8	+0.7	-0.7	+26.9	+25.2	+15.8
Total County Employment	100.9	-1.1	-3.5	-3.4	-2.5	-1.2	-0.1
Lumber Manufacturing	116.9	+28.6	-5.6	-13.8	-21.1	-20.1	-8.8

## Discussion

### Composite Index and Overall Performance

The *Index of Economic Activity's* seasonally adjusted composite value rose 0.6 percent to 116.0 percent from the September report's downwardly revised 115.3. The current figure is down slightly in same month comparisons for the past two years, but is up strongly when compared with the same months of 1996-1998. The events of September 11th appear to have had little lasting effect on the local economy. The slight drop in September's *Index* value is not unusual for this time of year.

The graybeards at the National Bureau of Economic Research announced recently that the longest economic expansion in U.S. history officially came to an end in March 2001 ([www.dismal.com](http://www.dismal.com)). Furthermore, the third quarter annualized GDP growth rate has been revised sharply downwards from -0.3 percent to -1.1 percent. While we are definitely not immune to the deteriorating national conditions, Humboldt County appears to be doing relatively well. A look at the graph above illustrates that we experienced a steep downturn last winter that roughly corresponds with the NBER assessment. Since then, however, most of the lost ground has been regained and recent activity is not too much lower than it was during the peak years of 1999 and 2000.

The *Index* values of the home sales, retail and hospitality sectors all showed great improvement this month. Lumber manufacturing activity also experienced a big month-to-month jump, but it continues to compare poorly with same month activity in years past. The number of people employed locally has been growing for four months now, but due to seasonal adjustment, the employment sector registered a slight decline. Also, because the labor force is growing faster than employment, the unemployment rate rose to 4.7 percent in October. This is low by historical standards, though, and it continues to compare very favorably with the state and national unemployment rates. Of more concern is the fact that this sector is down in all of the year-over-

year comparisons going back to 1995. Total county employment is now roughly at its 1994 level. Finally, the preliminary data on electricity consumption indicate less power was used in October than in September. If this behavior continues, high winds and falling trees will be the only cause of blackouts this winter.

The Leading Indicators are mixed once again this month, but are leaning more heavily to the negative side than was the case last month. The number of building permits issued in October fell sharply from September's extraordinarily high figure, but the current level is much higher than in years past. It appears that low interest rates are continuing to fuel the housing sector of the economy. Manufacturing orders are up modestly, which is welcome news for the struggling timber industry. However, this measure is down by double-digit percentages when compared to recent same month performances. The number of new unemployment insurance claims soared in October after two straight months of healthy decreases. This indicator is now at its highest level since April 1999. At the same time, help wanted advertising dropped nearly 20 percent from the previous month. These last two indicators don't bode well for a labor market that has been performing strongly in recent months.

## Home Sales

September's staggering fall in the home sales sector appears to have been a one month anomaly probably caused by the 9/11 disruption. The 61.7 percent monthly increase in October puts this sector back into its pre-September territory. The measure is also up by double-digit percentages in all of the year-over-year comparisons going back to October 1996. The current median home price of \$144,900 is 0.3 percent lower than September's figure and 5.2 percent higher than it was in October 2000.

Nationally, the number of existing home sold in October rose 5.5 percent from the previous month. This puts current activity on an annualized pace of 5.17 million units, which is slightly lower than the rate that has held for most of the year. The median price for existing homes dropped for the third consecutive month and now stands at \$145,780 ([www.dismal.com](http://www.dismal.com)). Information on new home sales was not available this month.

One factor that will likely contribute to steady or rising home prices in California is a decline in the number of housing starts. This figure fell 1.3 percent nationally in October as builders seem to be more cautious of weak consumer confidence and rising unemployment. Most of the dropoff occurred in the western region of the country, which experienced a 16.7 percent decrease in starts of new homes ([www.nytimes.com](http://www.nytimes.com)). According to the chief economist at the California Association of Realtors, the state's ongoing housing shortage and low mortgage rates will keep demand for housing strong. As a result, the rate of home price appreciation will stay well ahead the rate of inflation ([www.sfgate.com](http://www.sfgate.com)).

## Retail Sales

The *Index* value for the local retail sector rose by an impressive 10.0 percent in October from the prior month. It also compares very favorable in all of the year-over-year comparisons. Preliminary accounts indicate that the holiday shopping season is off to a strong start. Specifically, according to an article in the Times-Standard by Jennifer Morey, the count of vehicles entering the parking lot at the Bayshore Mall were 8 percent higher on the Friday after Thanksgiving than they were last year. Anecdotal evidence also suggests that revenue for retailers at the mall have increased by "good" to "phenominal" amounts.

Nationally, retail sales rebounded strongly from the large decline that followed the September 11th tragedy. October's figure is up 7.1 percent, the largest one month increase since the Commerce Department began reporting sales in 1992. The number is also 7.5 percent higher than in October 2000. A record 26.4 percent increase in auto sales accounts for most of the improvement ([www.dismal.com](http://www.dismal.com)). While this performance is encouraging, analysts warn against reading too much into it. They claim that steep discounting is the primary reason for the dramatic turn around. If prices return to a more normal level, sales may fall once again. If prices remain low, firms will be forced to cut costs further, leading to more layoffs ([www.nytimes.com](http://www.nytimes.com)).

While falling prices are cause for concern (the last period of sustained price decline in the U.S. was during the

Great Depression), most economists agree that the relative lack of inflation we have been experiencing will not result in the full-blown deflation seen in Japan. The economy there has slowed to a virtual standstill partly because people put off spending in the expectation that items will be cheaper in the future. In the U.S., falling prices for energy, raw materials used in manufacturing and commercial real estate, as well as the deep discounts offered in the travel, hospitality and retail sectors have led to the lowest level of expected inflation for the coming year since the 1950's. Nonetheless, prices for many services and homes, among other things, continue to rise and over the next five years consumers expect prices to increase by around 2.8 percent per year.

## Hospitality

We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The hospitality sector rose 12.9 in the month-to-month comparison in October. Part of this increase is due to a large downward revision in the September figure, however.

As reported last month, the hospitality industry was one of those most affected by events of September 11th. Particularly hard hit are hotels in major metropolitan areas that rely on business travelers. The latest available data show that occupancy rates in San Francisco averaged 59.4 percent in September, down from 88.5 percent a year ago. This is especially bad news for a city where travel and tourism is a \$20 million per day business. September and October are two of San Francisco's busiest months. Occupancy rates for Northern California as a whole were not any better. The September figure of 57.5 percent is down from 82.8 percent for the same month in 2000. Hotels and motels in outlying, tourist-oriented areas are generally faring better, with occupancy rates regularly topping 60 percent. According to industry analysts, the negative trend will likely prevail well into 2002. A recent forecast predicts hospitality profits will be 8.9 percent lower this year than last and will decline a further 9.1 percent next year. In an attempt to lure the relatively few travelers still seeking lodging in urban areas, hotels are slashing their rates. It's not unusual to see nightly rates as low as 50 percent of their normal level. While this is good news for travelers, it puts additional cost cutting pressure on an already stressed industry ([www.sfgate.com](http://www.sfgate.com)).

## The Good News

Gasoline prices continue to fall. According to the latest survey by the California State Automobile Association (released 11/13), the price of a gallon of self-serve unleaded regular gas in Eureka fell 14 cents from the previous month to \$1.75. The Bay Area price for the same gallon of gasoline fell 13 cents to \$1.66, while the state and national prices both dropped 16 cents to \$1.44 and \$1.16, respectively. As noted in last month's report, lower demand due to fewer total miles traveled both in the air and on the road is primarily responsible for the falling prices.

## Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Because we collect our data for this sector quarterly, the figure in this month's report is estimated and will be revised in the January edition of the *Index*.

The preliminary numbers indicate that electricity consumption fell in October from the previous month.

According to an article in the Times-Standard, the natural gas bill for a typical Humboldt County home this November should be 35 percent lower than it was last year. For an average three bedroom, two bath house this means an estimated savings of about \$23. The reasons for the price drop include warmer weather and increased supplies.

While PG&E languishes in bankruptcy proceedings, its parent company, PG&E corp., reported \$771 million in third quarter profits. This represents a 243 percent increase from the net \$225 million made during the same period last year. Most of the money, \$687 million, was made by the beleaguered utility due to falling power costs and record rate increases. Consumer advocates are pushing for rate refunds and the PUC, which has jurisdiction over the regulated utility, has announced that PG&E Corp. may not be allowed to keep the entire

windfall ([www.sfgate.com](http://www.sfgate.com)).

Sometimes, it's really hard not to gloat.

Enron, the country's largest energy trader with revenue of \$100.8 billion in 2000, is on the verge of bankruptcy. A large portion of the money was earned on trades made in California's deregulated wholesale electricity market last winter. Over the past several months, however, alleged irregularities in Enron's accounting practises have brought the Houston company to its knees. A failed buyout proposal from rival energy firm Dynegy leaves Enron with few choices other than filing for bankruptcy. Enron's stock has fallen from a high of \$90 a share in 2000 to its current value of 36 cents a share. While it's nice to see the big guys take a hit now and then--particularly one who many feel is at least partly responsible for the recent energy crisis-- the fallout from the collapse will be serious. Investors in Enron, including many banks and retirement funds, have lost a total of several billion dollars. The adverse effects of these losses will ripple through already troubled financial markets for some time to come ([www.sfgate.com](http://www.sfgate.com) and [www.nytimes.com](http://www.nytimes.com)).

Meanwhile, the Federal Energy Regulatory Commission provided an unexpected ray of hope for Californian electricity consumers when it recently imposed price controls on three of the country's largest power producers. According to FERC, these firms dominate their respective markets to the point where they can unfairly influence the availability of electricity needed to meet peak demand elsewhere. It is hoped that the action will limit the extreme price spikes experienced last winter and not induce shortages ([www.times-standard.com](http://www.times-standard.com)).

## Total County Employment

In their preliminary report for September, the Employment Development Department (EDD) reported that 57,100 people were employed in Humboldt county, up 400 jobs, or 0.7 percent from September's revised figure. The only non-government subsectors experiencing gains in October were "other retail trade" and "other services", which each added about 100 jobs. Despite the slight increase, the seasonally adjusted November *Index* figure for this sector is down 1.1 percent from the corresponding revised number in October's report. It is also down when compared to the same month's performance in the most recent years. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries increased 1.4 percent from a revised 42,200 in the month of September to a preliminary 42,800 for the month of October. This sector is also up 0.7 percent over last year's figure. The increase was led once again by job creation in the various government subsectors, which added a total of 700 positions. The preliminary figure for the retail subsector in October shows 11,000 jobs, which is unchanged for the second consecutive month. The "hotel and other lodging" subsector experienced its second straight double-digit decline with an 11.1 percent decrease in October. This represents a loss of about another 100 jobs.
- Total county manufacturing employment decreased by 3.4 percent last month's revised figure. The roughly 200 jobs lost were equally divided between the Other Nondurable Goods (this excludes food and kindred products) and the Sawmills subsectors. The number of people currently employed in this sector stands at approximately 5700. Total manufacturing employment is down 8.1 percent from October 2000.

Even though the total number of jobs rose slightly, the County's unemployment rate also rose to a preliminary 4.7 percent. This follows three consecutive months of improvement. This is due to an 0.8 percent increase in the labor force. There were some 500 more people working or actively seeking work in September than in August. The national jobless rate jumped a full half percentage point to 5.4 percent. California's rate rose 0.4 percent and now stands at 5.7 percent ([www.times-standard.com](http://www.times-standard.com)).

The national employment report for October is the first to reflect jobs lost as a result of September 11th. Its findings exceeded the worst expectations by a large margin. Some 415,000 positions were eliminated during the month. The cuts spanned many industries, but manufacturing and services were particularly hard hit. Manufacturing experienced its fifteenth consecutive monthly decline with 142,000 jobs lost. There are now more than one million fewer manufacturing jobs than there were at the beginning of the year. The service sector lost 111,000 positions, the largest one month drop in the history of this data series. Nearly half of the seven million

people now unemployed have been out of work for five weeks or less. This suggests the economic impact of September 11th has been severe. It is impossible, however, to quantify how many of the jobs lost were a direct result of the attacks since the employment situation has been deteriorating for some time. Those people still working also suffered setbacks in October. The average workweek and average weekly earnings both fell over the course of the month ([www.dismal.com](http://www.dismal.com)).

If this news isn't bad enough, economists are claiming things will get worse before they get better. As reported last month, many analysts think the national unemployment rate will rise to 6 percent by the second quarter of 2002 ([www.dismal.com](http://www.dismal.com)). The outlook for Californians is more bleak. The latest estimate released by UCLA's Anderson Forecast predicts the state rate will peak at 7 percent. During the last recession, it rose as high as 9.7 percent ([www.sfgate.com](http://www.sfgate.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 two-thirds of total county manufacturing employment.

The seasonally adjusted *Index* figure jumped an impressive 28.6 percent this month. Unfortunately, because last month's number was a record low, this sector is still struggling. It is down by double-digit percentages in all of the year-over-year comparisons.

As reported last month, local lumber producers are facing the same structural problems affecting the entire domestic timber industry. The economic slowdown has finally reached the housing sector, where the declining number of housing starts (see Homes Sales above) is lowering demand for lumber. U.S. firms are also competing against Canadian companies that are able to market their products at a cheaper price. Roughly one-third of the U.S. The American producers have long maintained that their northern rivals have an unfair advantage due to large subsidies from the Canadian government. The Canadians counter that their comparative advantage is based on more easily accessible resources, lower production costs and fewer regulations. Not surprisingly, The U.S. Department of Commerce accepts the former argument and last August imposed a 19.3 percent tariff on softwood lumber imports. It enacted an additional duty averaging 12.7 percent, and as high as 19 percent, in late October at the urging of U.S. companies. The issue will likely end up before the World Trade Organization ([www.seattlep-i.com](http://www.seattlep-i.com)). One Canadian firm has already filed suit against the United States government under Chapter 11 of the North American Free Trade Agreement claiming the "arbitrary, discriminatory and capricious manner" in which the tariffs were levied cost it \$12.6 million in the third quarter ([www.nytimes.com](http://www.nytimes.com)).

### Local Fallout

Pacific Lumber announced that it is closing its last remaining mill in Scotia. The company's CEO claims the reason behind the closure is the short supply of logs due to restrictions stemming from the conservation plan that was part of the Headwaters deal. A spokesman for the State Resources Agency said the move is a business decision based on poor market conditions outlined above. He claims CDF has actually increased the approval rate of timber harvest plans from last year and that PL could cut its entire yealy quota, 178 million board feet, if it chose to. Environmentalists add that Maxxam, PL's parent company, insisted on the conservation plan during the Headwaters negotiations. They have long maintained that since Maxxam purchased the Scotia company in the mid 1980s, PL has harvested their timber holdings at an unsustainable rate and that the current situation was inevitable. Around 140 people will be laid off as a result of the move. Some of these workers will be reassigned to the Carlotta mill which will be reopened ([www.times-standard.com](http://www.times-standard.com)).

Workers at Eel River Sawmills got a brief reprieve when the company recently announced plans to keep its remaining employees on for an additional two to three weeks. It had been announce earlier that the jobs would end at the beginning of December. The move appears to be the result of a last ditch effort by an employee-led group of investors seeking to purchase the ailing firm. About 120 people are affected ([www.times-standard.com](http://www.times-standard.com)).

Nationally, manufacturing activity continues to be on life support. For the second straight month, industrial production fell by more than 1 percent from the previous month. This has not happened since 1981. The measure is also down 7.3 percent from October 2000. Additionally, the NAPM index plunged 15.3 percent from September and is now at its lowest level since 1991. Analysts at the Dismal Scientist claim that the negative effect on consumer confidence resulting from September 11th will adversely impact this sector for the next several months. They expect that as inventories continue to decrease, albeit slowly, things should begin to improve in mid 2002.

## 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. October's *Index* figure is down a huge 19.8 percent from the previous month. It is also off in most of the year-over-year comparisons. The measure fell 36.1 percent and 15.8 percent from the same month in 2000 and 1999, respectively. It is up 6.3 percent from October 1998, but down 9.0 percent and 16.2 percent from October of 1997 and 1996, respectively.

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. After two consecutive months of decline, this indicator soared 37.5 percent in October. This is disheartening news for a local labor market that has been outperforming much of the nation lately. The measure is also higher than it was in the same month for the previous three years, by 7.0 percent, 32.6 percent and 14.6 percent, respectively (2000-1998). For the years 1997 and 1996, it is down by 24.8 percent and 1.6 percent, respectively.

### Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, increased 5.6 percent in October, but are down across all other comparisons once again. The current figure fell 18.2 percent from October 2000, 14.4 percent from October 1999, 29.1 percent from October 1998, 30.0 percent from October 1997, and 37.9 percent from October 1996.

### Home Sales Economic Indicator:

The building permits indicator returned to normal territory in October after September's unusually high showing. The number of permits issued in October fell by 22.6 percent over the previous month, but rose substantially in all of the year-over-year comparisons. The figure is up 65.5 percent from October 2000, 17.1 percent from October 1999, 33.3 percent from October 1998, 50.0 percent from October 1997, and 26.3 percent from October 1996. Low interest rates and good weather in October continue to be the most likely factors behind the ongoing strength of this indicator.

## The Bigger Picture

As mentioned above, the big news this month is the national economy has been in recession since March and third quarter GDP growth has been revised substantially downwards. The NBER used its new definition of recession, "a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income and wholesale-retail trade," to help determine the starting date ([www.sfgate.com](http://www.sfgate.com)). The old definition had been two consecutive quarters of negative GDP growth. The long lag between the event and its official designation is due to the time required to gather and analyze the relevant data.

**The GDP figure is this measure's worst showing since the first quarter of 1991 and indicates conditions are much softer than originally thought. The size of the revision is cited as evidence of the magnitude of September 11th's impact.**

**The latest release of the Federal Reserve's Beige Book, covering economic activity for late October and early November, reflects that despite some positive indications in a few of its twelve districts, the overall outlook is not good for the near term. ([www.federalreserve.gov](http://www.federalreserve.gov)). In response to these conditions, the Fed lowered interest rates for the tenth time this year (11/7), bringing the Federal Funds rate to 2.0 percent. Another cut is anticipated in December ([www.nytimes.com](http://www.nytimes.com)).**

**The Conference Board's Consumer Confidence Index continues to fall. The latest 3.6 percent monthly decrease is most likely in response to the weakening market. It has dropped 38 percent over the past year. Nonetheless, consumers remain optimistic about future conditions, particularly in expectations of increased job availability next year ([www.dismal.com](http://www.dismal.com)).**

**Many economists share this view and expect a recovery in the first half of 2002. They believe that much of the revision in GDP growth can be accounted for by lower business inventories, which fell \$60.1 billion in the third quarter. As such, it is a positive indicator. Once inventory levels have bottomed out, businesses will be poised to ramp up production. If consumers continue to spend, an imminent recovery is much more likely.**

**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 "November 2001" report reflects data from October 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 Eureka Times-Standard webpage](#)

[The San Francisco Chronicle webpage](#)

[The Seattle Post-Intelligencer webpage](#)

[The New York Times webpage](#)

[The Federal Reserve Bank's Beige Book webpage](#)

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