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# The Index of Economic Activity for Humboldt County

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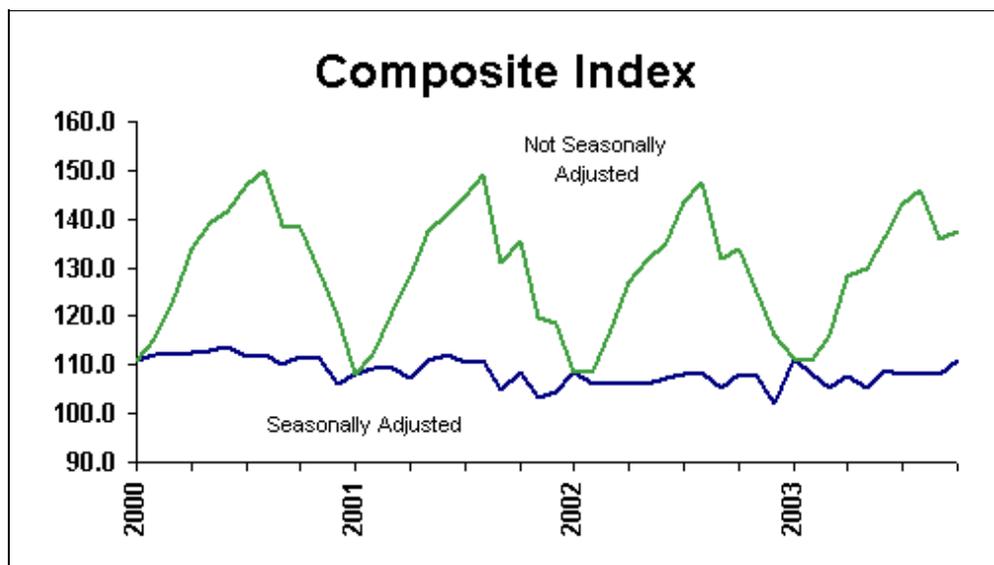
## INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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November 2003

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 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
<b>COMPOSITE</b>	111.1	2.8	2.6	2.3	-0.5	0.2	1.7
<i>Sector</i>							
Home Sales	147.47	3.3	4.5	12.0	26.1	55.6	75.0
Retail Sales	141.1	1.3	10.3	2.0	12.7	8.3	6.4
Hospitality	95.7	1.1	-0.7	-9.0	-11.6	-2.5	-10.0
Electricity Consumption	110.87	10.5	-3.0	8.7	-14.6	-15.8	--
Total County Employment	104.7	0.9	2.2	3.7	-0.2	0.0	0.9
Manufacturing	91.9	7.2	1.4	-1.1	-7.5	-16.1	-23.9



Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$221,000	Help Wanted Advertising	-2.1%
30 Yr. Mortgage Rate as of 11/28	6.000%	Building Permits	9.5%
Average Hotel Occupancy Rate	57.0%	Unemployment Claims	-12.4%
Unemployment Rate**	5.3%	Manufacturing Orders	0%
<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 <a href="#">EDD Website</a> for updates.</p>			

## Discussion

### 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.

All sectors of the *Index* experienced positive growth in October. The composite index value is 111.1; this is the highest level since January of this year. A slight increase in interest rates couldn't slow the housing market this month. The local home sales index increased 3.3 percent, and the housing sector remained strong throughout the nation. Shoppers got an early start on the holiday season, and local retail sales rebounded. The retail index for October rose 1.3 percent. Tourists decided to enjoy the last bit of sunshine before the winter rain hit the north coast. Local hotels, motels and inns had a 1.1 percent seasonally adjusted increase in business. Estimated electricity consumption rose 10.5 percent. Humboldt County's employment sector retains a positive outlook. The employment index rose another 0.9 percent this month. October was the third consecutive month that the County's unemployment rate was below the state and national averages. Local manufacturing also grew in October; this parallels a nationwide upward trend in manufacturing growth.

### 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.

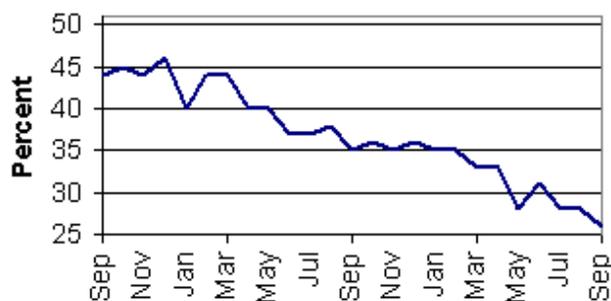
The October seasonally adjusted home sales index continued to trend upward to 147.47. This is a 3.3 percent increase from September and is the third highest index level ever recorded. Though interest rates are slowly beginning to rise, home sales remain a strong sector of the local economy.

The median home price in Humboldt County remained unchanged at \$221,000 in October. Statewide home prices leveled off with a 1.2 percent decrease from September, to stand at \$381,200. "Price appreciation in California continues to outpace that of the nation," said Leslie Appleton-Young, C.A.R.'s vice president and chief economist. "The median price of a home in California has increased

by double digits for 23 consecutive months, a reflection of robust demand and a tight housing market. In addition, year-to-date sales are up 3.5 percent compared to the same period a year ago." (www.car.org) Nationwide home prices have continued to trend upward. In October the national median existing home price rose 8.2 percent to \$172,400. However, recent record breaking home sales may have peaked according to David Lereah, National Association of Realtors' chief economist. "We think this marks the beginning of a soft landing for sky-high home sales," he said. "The last four months are the only months on record when the existing-home sales pace exceeded the 6.0-million mark – we expect the pace to ease gradually but to remain at historically high levels over the next year." (www.realtor.org)

The Humboldt Association of Realtors' Housing Affordability Index represents the percentage of Humboldt County households that could afford to purchase a median priced home. In the most recent release the affordability index dropped to 26 percent. This is a record low for the Affordability Index. The incredible drop means that home ownership is less likely for income-earners and first time home buyers in Humboldt County.

**Humboldt County Housing  
Affordability Index**



According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of December 4th, was 6.02 percent with an average 0.6 points. This is a slight increase over last month's rate of 5.94 percent. As the economy gains steam, some economists are predicting that the Fed will raise interest rates in the near future. "Financial markets are speculating about what the Federal Reserve Board will say when it meets next week," said Frank Nothaft, Freddie Mac chief economist. "And it looks like the market is taking bets that the Fed will soften its language and raise rates sooner rather than later. As a result, bond yields drifted higher and with it went mortgage rates." (www.freddie.com)

## Retail Sales

The index value of the retail sales sector is based on the dollar value of sales each month from a cross section of local retail businesses.

The holiday season got off to an early start as the retail sector made a turnaround in October. Seasonally adjusted sales at participating retailers rose 1.3 percent to an index level of 141.1. The current index level is the highest ever for the month of October, up 10.3 percent over October 2002.

The Commerce Department reports that national October retail sales were down 0.3 percent from the previous month's level, yet up 6.1 percent from October 2002. While overall retail sales slipped, there were again sizable gains in building material and garden equipment which is up 12.5 percent from October 2002.

The Conference Board's Consumer Confidence Index trended upward for the second consecutive month. The measure, which now stands at 91.7, is up 10.0 percentage points from the previous

month. "Consumer confidence is now at its highest level since the Fall of 2002," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The improvement in the Present Situation Index, especially in the jobs component, suggests that consumers believe a slow but sure labor market turnaround is underway. The rise in expectations is a signal that consumers will end this year much more upbeat than when the year began." ([www.conference-board.org](http://www.conference-board.org))

The Federal Reserve Bank's Beige Book is reporting sluggish sales in the western region of the country. An end to zero percent auto financing was also the end to increasing vehicle sales. New car and truck sales dropped 20 to 30 percent in October and early November. ([www.federalreserve.gov](http://www.federalreserve.gov))

## 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.

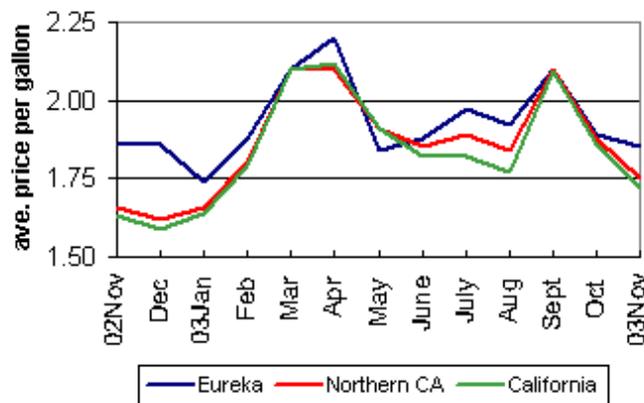
Humboldt County's hospitality sector rebounded in October. The seasonally adjusted index number for the sector increased 1.1 percent to stand at 95.7.

## Gasoline Prices

Average Price* (as of 11/11)		Change From Prev. Month (cents/gal.)
Eureka	\$1.85	-4
Northern CA	\$1.75	-13
California	\$1.72	-14

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](http://www.csaa.com)).

### Gasoline Prices



Gas prices have come down just in time for the holiday travel season. Gasoline prices dropped significantly in California for the second consecutive month. Decreasing demand which is typical in the winter season has contributed to the price decline. "California's retail gasoline market was due for this major correction. Average prices throughout the state have dropped 17 percent since mid-September," said AAA of Northern California spokeswoman Jenny Mack. "Barring any unforeseen production problems, gas prices will likely level off over the coming weeks," ([www.csaa.com](http://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.

In October seasonally adjusted estimates of electricity consumption rose 10.5 percent to stand at 110.87.

## Total County Employment

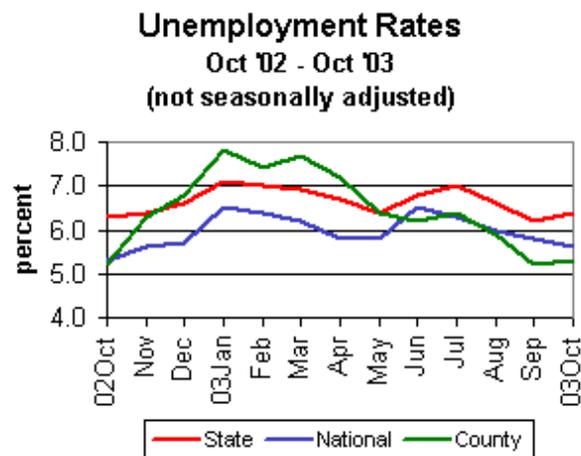
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

In the preliminary report for October, the EDD reported that 59,100 people were employed in Humboldt County. This is a 2.4 percent increase over August's revised figure, indicating a net gain of 1,400 jobs. This jump in employment pushed the seasonally adjusted employment index up 0.9 percent to 104.7.

Sectoral changes in Humboldt County employment:

- The service sector continued to lead the county in new job creation. Miscellaneous retail trade gained 100 jobs. Educational and health services also gained 100 jobs. There were 200 jobs created in the leisure and hospitality industries. State and local governments continued to be a major force behind new job creation. Local government and state education both added 200 new jobs.
- Wood product manufacturing lost another 100 jobs in October. This brought total manufacturing employment down.
- Employment in the construction, and natural resources & mining sectors remained unchanged.
- The agricultural sector also had employment gains, with 100 new jobs being created.

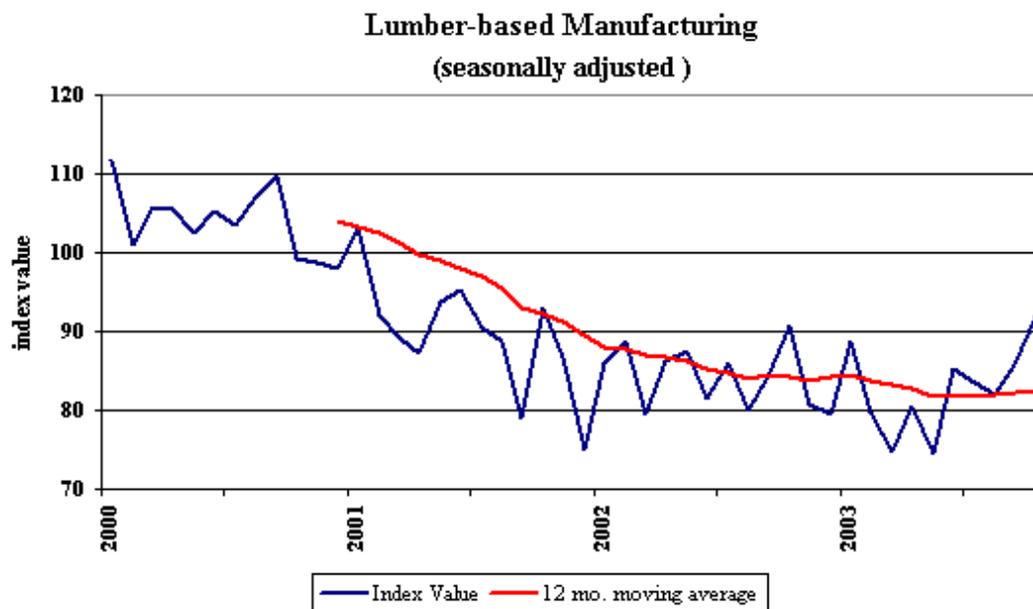
Humboldt County's unemployment rate increased slightly, but remains well below the state and national rates. October's preliminary unemployment rate (not seasonally adjusted) edged upward 0.2 percentage points to 5.3. This slight increase mirrors a 0.2 percentage point increase in the state unemployment rate which now stands at 6.4 percent. Nationally unemployment continued a downward trend to stand at 5.6 percent.



## 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.

The preliminary October index value for this sector rose 7.2 percent from the previous month to stand at 91.9. This is the second consecutive monthly increase in the lumber-manufacturing sector of the local economy.



National manufacturing output, as measured by the Institute of Supply Management, grew significantly in November. The ISM Index level jumped 5.8 percentage points this month and is currently at 62.8 percent. (a number higher than 50 indicates growth). "The manufacturing sector enjoyed its best month since December 1983," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. "Based on this data, it appears that the recovery is gaining momentum. Indications are that the manufacturing sector is ending 2003 on a very positive note, and all of the indexes support continued strength into 2004. While there are still companies lagging the recovery, they should be encouraged by the current indicators in the sector." ([www.ism.ws.cfm](http://www.ism.ws.cfm))

## Leading Indicators

The Index tracks 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 (1) number of help-wanted advertisements in the *Eureka Times-Standard*, (2) number of claims for unemployment insurance, (3) volume of manufacturing orders, and (4) number of building permits issued. 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.

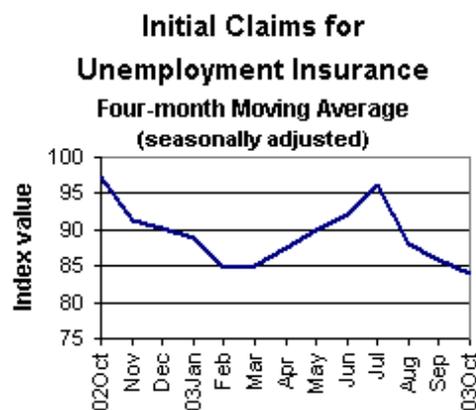
## Employment-Based Economic Indicators:

The leading indicators for Humboldt County's economy are giving mostly positive signals for future economic growth. Initial unemployment claims fell 12.4 percent, continuing the recent downward trend. Building permits rose another 9.5 percent indicating a continuation of the upward trend in the housing market. The manufacturing industry leading indicator remained unchanged. However, seasonally adjusted help wanted advertising decreased by 2.1 percent in October.

A count of help-wanted ads indicates the number of new job openings.



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.



Manufacturing Economic Indicator:

Manufacturing orders are a leading indicator of activity and employment in the County.



Home Sales Economic Indicator:

Single and multiple unit residential and commercial **building permits** from municipalities and unincorporated county areas are a leading indicator of future home sales.



## The Bigger Picture

Third quarter U.S. GDP grew at a rate not seen since 1984. The latest news release from the Bureau of Economic Analysis states that the most recent GDP figures have been revised upward. The gross domestic product (GDP), which measures the total value of the nation's output of goods and services, grew at a seasonally adjusted annual rate of 8.2 percent during the third quarter. This number was revised up from the preliminary estimate of 7.2 percent. The GDP growth was led by strong increases in personal consumption expenditures, residential fixed investment, equipment and software, and exports. Personal consumption expenditures were revised to a real (seasonally adjusted annualized) growth rate of 6.4 percent in the third quarter. This was led by tremendous growth in durable goods consumption. Equipment and software was revised to a real (seasonally adjusted annualized) rate of 18.4 percent. Residential fixed investment was revised to a real (seasonally adjusted annualized) growth rate of 22.7 percent. Exports were revised to a real (seasonally adjusted annualized) rate of 11.0 percent. (bea.doc.gov)

Threatened with a global trade war, President Bush ended the illegal steel tariffs that he had signed into effect in March of 2002. The World Trade Organization ruled last month that the Bush administration's tariffs were in violation of global trade laws. After the W.T.O.'s ruling the European Union had threaten \$2.2 billion in sanctions against the U.S. if the tariffs were not removed. (cnn.com)

Governor Arnold Schwarzenegger was sworn into office on November 17th. With the new governor come new policies and political appointees. The new governor has proposed a \$2 billion spending cut in the state's budget. Locally, Humboldt County officials are trying to figure out the impact the budget cuts will have on the county. The hardest hit will probably be Humboldt County's Department of Health and Human Services, which provides public and mental healthcare along with other social services. (Eureka Times Standard) Pacific Lumber Company executive Jim Branham has been appointed by Governor Schwarzenegger as the second in command at the California Environmental Protection Agency. Environmentalists are disappointed to see a lumber industry lobbyist chosen to help run the agency that implements environmental and water quality regulations. (Eureka Times Standard)

## Local Spotlight

The Humboldt County Economic Development Department is working on a long term redevelopment plan that will focus on blighted areas in the County. Eight communities (Samoa, Alton, Glendale, Redway, Manilla, Orick, Willow Creek and Fields Landing) are candidates for the program that seeks to revitalize economically depressed or stagnant areas. According to Paula Mushrush at the Humboldt County Economic Development Department, most of these communities have suffered from downturns in natural resource based industries such as timber and fishing. The County is seeking Brownfield grants to clean up polluted industrial areas, such as old mill sites. Through community based workgroups the County will help local citizens and entrepreneurs to provide a sound economic environment to attract new businesses. Paula Mushrush acknowledged that people are suffering economic hardships because of past unsustainable business practices by the industries that used to

operate in their communities. When questioned about what types of businesses may be attracted to the redevelopment areas, Paula Mushrush seemed certain that environmentally and socially unsustainable industries are a thing of the past for Humboldt County. The redevelopment project has two components: 45 year plans outlining general overarching goals, and 5 year implementation plans, designed by the communities, that specifically direct the redevelopment process.

**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. 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

[The Eureka Times-Standard web site](#)

[The San Francisco Chronicle web site](#)

[The New York Times web site](#)

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[Freddie Mac web site](#)

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[U.S. Bureau of the Census's home page](#)

[U.S. Bureau of Economic Analysis' web page](#)

[U.S. Bureau of the Census's Economic Briefing Room web page](#)

[U.S. Bureau of Labor Statistic's web page](#)

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