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## The Index of Economic Activity for Humboldt County

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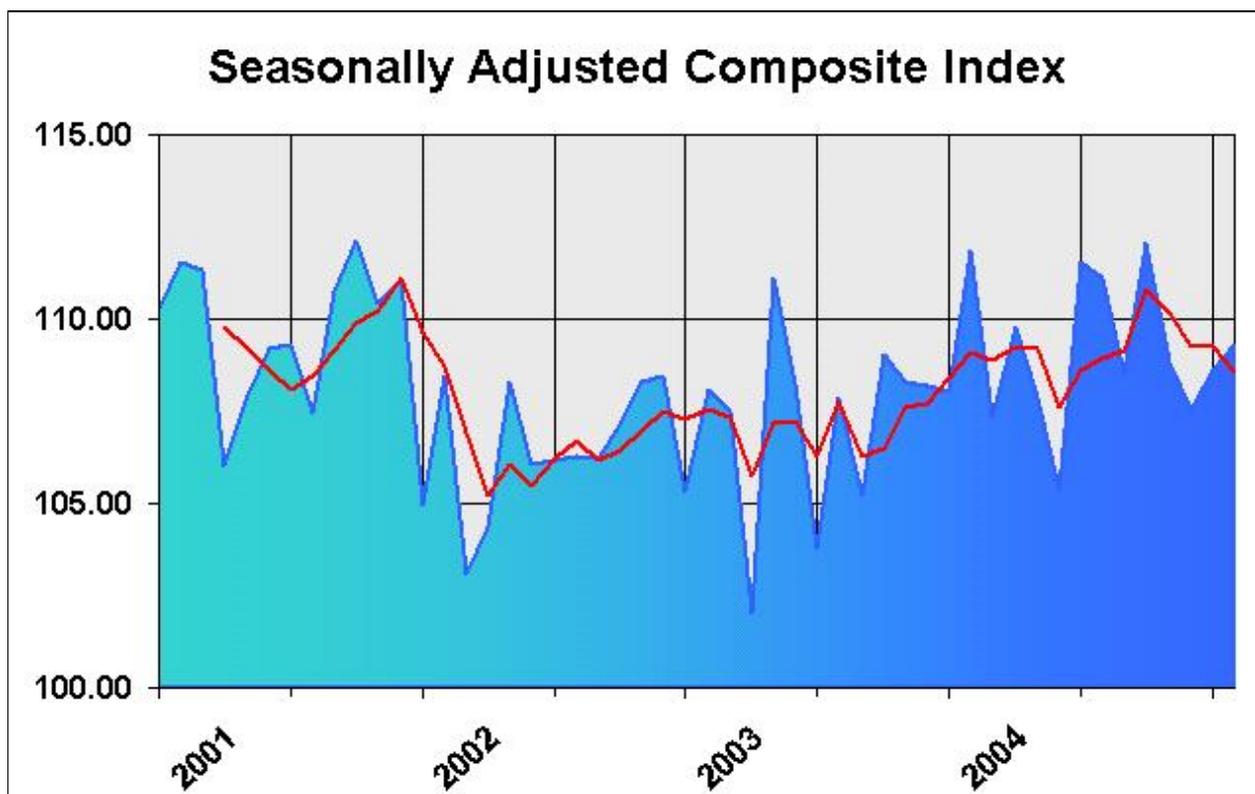
# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

This month we thank Jessica for her great contributions to this project and wish her well as she begins graduate work in economics, and we welcome Andrea as our new assistant editor.

Professor Erick Eschker, Director  
Jessica Digiambattista, Assistant Editor  
Andrea Walters, Assistant Editor  
Laura Lampley, Assistant Analyst

This month's report is sponsored by  
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November 2004



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

## Composite Index and Overall Performance

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

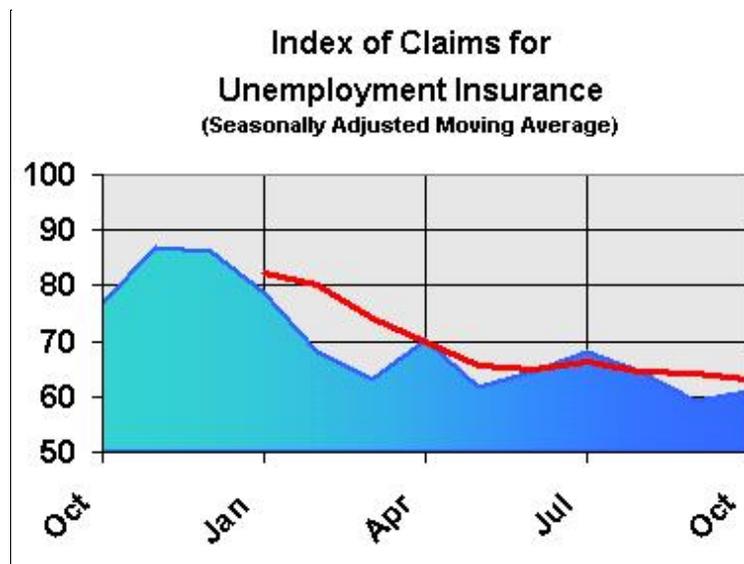
recently available data, which is generally data from the previous month.

In October Humboldt County's economy continued to show modest growth. The composite Index of Economic Activity rose 0.7 percent to 109.3. While most of the sectors experienced growth this month, total county employment and retail sales contracted slightly for the second month in a row. The home sales index rose this month, pushed by an increase in the number of homes sold. The home sales sector continues to hold at higher than expected levels due to persistently low interest rates and homes continue to sell for high prices. October's median selling price of \$270,000 is only slightly less than last month's record setting median price of 285,000. Additionally, low investor confidence in the stock market and concerns about inflation continue to contribute to an increase in the demand for real estate. Manufacturing also grew this month, rebounding by 7.2 percent to an index value of 81.6. The hospitality sector grew slightly to an index value of 99.34, contributing to September's summer rebound. While the County unemployment rate dropped still further to 4.8 percent this month, total employment did not meet seasonal expectations, and fell 0.2 percent despite an increase in raw numbers. Retail sales declined 3.0 percent this month, consistent with national retail sales figures. The retail sales index now stands at 138.9. Electricity consumption remains unchanged at an estimated 113.49.

<b>Composite &amp; Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i></b>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999
<b>COMPOSITE</b>	<b>109.3</b>	<b>0.7</b>	<b>-2.3</b>	<b>1.1</b>	<b>0.8</b>	<b>-2.0</b>	<b>1.3</b>
<i>Sector</i>							
<b>Home Sales</b>	<b>144.3</b>	<b>7.9</b>	<b>-2.1</b>	<b>2.2</b>	<b>9.6</b>	<b>23.4</b>	<b>52.2</b>
<b>Retail Sales</b>	<b>138.9</b>	<b>-3.0</b>	<b>-2.1</b>	<b>8.5</b>	<b>0.4</b>	<b>10.9</b>	<b>6.6</b>
<b>Hospitality</b>	<b>99.34</b>	<b>0.3</b>	<b>0.4</b>	<b>3.0</b>	<b>-5.5</b>	<b>-8.3</b>	<b>1.2</b>
<b>Electricity Consumption</b>	<b>113.49</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.7</b>	<b>11.3</b>	<b>-12.6</b>	<b>---</b>
<b>Total County Employment</b>	<b>102.7</b>	<b>-0.2</b>	<b>-1.5</b>	<b>0.3</b>	<b>1.8</b>	<b>-2.0</b>	<b>-1.9</b>
<b>Manufacturing</b>	<b>81.6</b>	<b>7.2</b>	<b>-11.3</b>	<b>-10.0</b>	<b>-12.3</b>	<b>-17.9</b>	<b>-25.6</b>

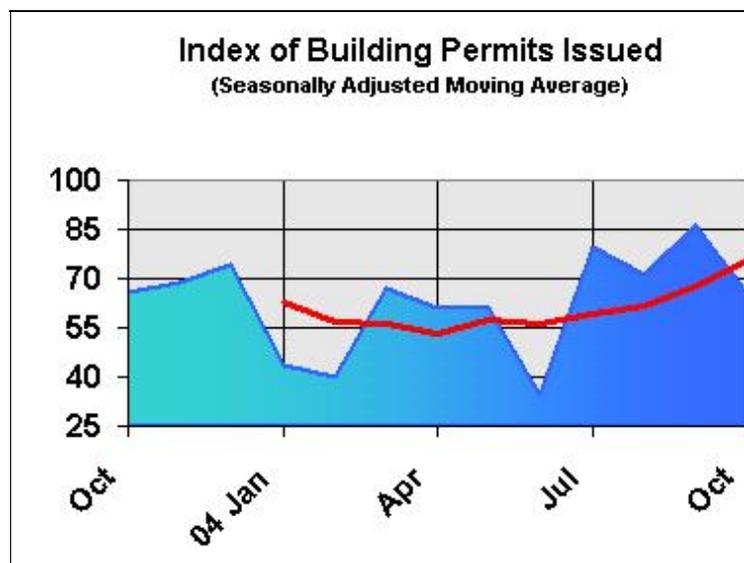
## Leading Indicators

The Index tracks three leading indicators to get a sense of the direction of change in the county economy in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) 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 "smooth" ordinary month-to-month volatility and reveal underlying trends.



Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator increased by 3.1 percent in October, leveling the four month moving average out slightly. An increase in the number of claims for unemployment insurance may indicate declining labor market conditions in the future, despite low unemployment rates the last three months.



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The index of building permits issued gives insight to future home sales and construction. The Index of Building Permits decreased this month. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above, the moving average ticked upward in October.



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The index of manufacturing orders shows expectations for future manufacturing sales. This index increased 4.9 percent in October, to stand at 87.33. The moving average for this indicator shows a strong upward trend.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$270,000	Manufacturing Orders	4.9%
30 Yr. Mortgage Rate as of 12/6	5.750%	Building Permits	-23.7%
Unemployment Rate**	4.8%	Unemployment Claims	3.1%
* Home price data are provided by the Humboldt Association of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does not verify such information provided and disclaims any responsibility for its accuracy. Each Participant agrees to hold the Service harmless against any liability arising from any inaccuracy or inadequacy of the information.			
** Preliminary EDD data (not seasonally adjusted). See the <a href="#">EDD Website</a> for updates.			

## Individual Sectors

### Home Sales

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

In October, Humboldt County home sales rebounded. The home sales index is up 7.9 percent and now stands at 144.3. Local home prices, though still higher than usual, are down this month from September's record high. A median priced home in Humboldt County now costs \$270,000. Increased purchasing power from low interest rates as well as investor's weariness about the stock market are contributing to the recent price jumps.

Statewide home prices declined and home sales increased by 0.5 percent. The median home price in California is \$460,370, down 0.7 percent from the previous month, but up 21.4 percent from October 2003. "Year-to-date sales are up 4.1 percent compared with the same period a year ago, in line with our expectations," said Leslie Appleton-Young, C.A.R.'s vice president and chief economist. "October was the ninth month where the year-over-year price has increased by more than 20 percent, with the most rapid appreciation occurring in the shrinking pockets of affordability in the state." ([www.car.org](http://www.car.org))

David Lereah, NAR's chief economist, said home sales continue to exceed expectations. "The ongoing stimulus of lower-than-expected mortgage interest rates was the primary driver of strong home sales in October," he said. "Of course all of the other market fundamentals remain sound, so we should only see a modest decline from record home sales this year if mortgage interest rates gradually rise." ([www.realtor.org](http://www.realtor.org))

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of December 5th, was 5.81 percent with an average 0.6 points. "Recent economic indicators came out better than had been anticipated, buoying financial markets this week, and reinvigorating confidence in financial markets that the last three months of the year will post a very positive rate of economic growth," said Frank Nothaft, Freddie Mac vice president and chief economist. "Of course, with the signs of strong growth come fears of inflation and that tends to push up long-term mortgage rates." ([www.freddiemac.com](http://www.freddiemac.com))

## Retail Sales

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

Humboldt County's retail sector experienced a slight drop in October. The retail sales index, which now stands at 138.9, is down 3.0 percent from the previous month. November marks the beginning of the holiday shopping season, typically very strong months for retail sales. Expectations are high for future retail sales, both locally and nationally; "Consumers appear to have more holiday cheer heading into Thanksgiving this year than last year," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "This upbeat attitude should translate into a more favorable holiday season for retailers." US households are expected to spend more this holiday season than last year. ([www.conference-board.org](http://www.conference-board.org))

Nationally, retail sales figures varied among Federal Reserve Districts. The overall trend, however, was one of slowing growth, if not decreased spending. Specifically, while sales increased for grocery items and discount stores in general, the sale of big ticket items, luxury goods, and autos declined in October. Many districts also reported that consumers were shifting their preference to discount brands. ([www.federalreserve.gov](http://www.federalreserve.gov))

Nationwide retail sales, as reported by United States Department of Commerce, increased in October. Retail trade sales were up 0.1 percent ( $\pm 0.8\%$ ) from September 2004 and were 7.6 percent ( $\pm 1.0\%$ ) above last year. ([census.gov](http://census.gov))

The latest release from the Conference Board shows that consumer confidence declined for the fourth consecutive month in November. The Consumer Confidence Index, which now stands at 90.5 (100=1985), is down 2.4 percentage points from last month's figure. ([www.conference-board.org](http://www.conference-board.org))

## Hospitality

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

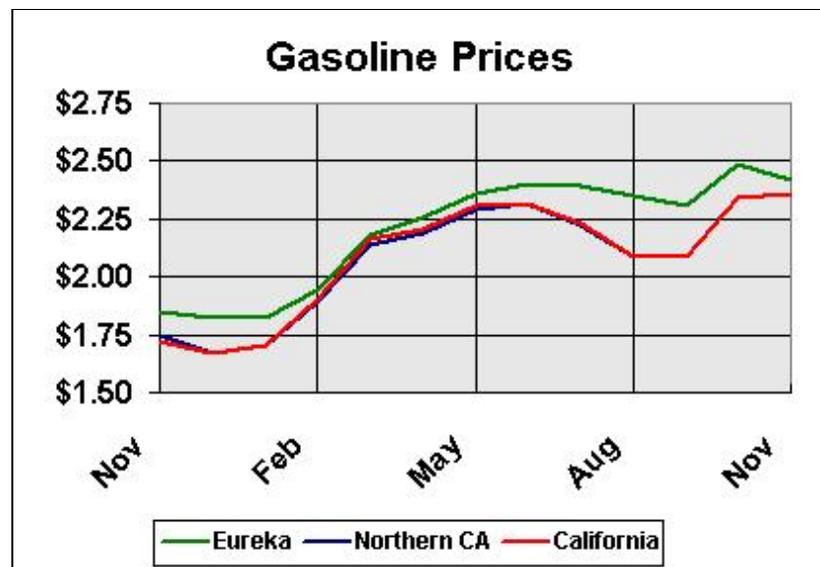
The hospitality index rebounded in October and stands at 99.1. This most recent figure is up when compared to the same month in previous years. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately.

## Gasoline Prices

Gas prices this month are lower than last month's peak price of \$2.45. Gas prices peaked on October 21, after the American Automobile Association's monthly gas report, but the trend over the last three weeks shows a slow and steady decrease in the price of gasoline. The price of gasoline is directly related to the price of crude oil, which fell almost eight dollars per barrel since last month. "At least drivers are getting a little relief," said Sean Comey, spokesman for AAA of Northern California. "But it's important to keep this in perspective. Statewide, we're still paying 63 cents a gallon more than we were this time last year." ([www.csaa.com](http://www.csaa.com))

Average Price* (as of 11/16)		Change From Prev. Month (cents/gal.)
Eureka	\$2.42	-7¢
Northern CA	\$2.36	2¢
California	\$2.36	2¢

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)).



## Electricity Consumption

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

The estimated electricity consumption index for October is 113.49, unchanged from last month's figure.

## Total County Employment

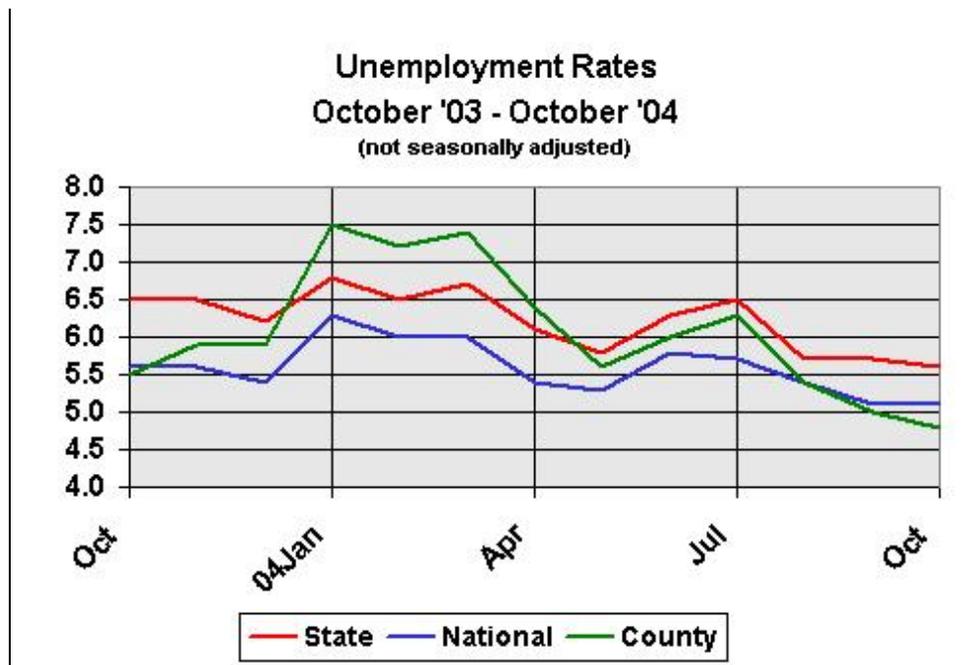
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

In the preliminary report for October, the EDD reported that 58,000 people were employed in Humboldt County. This number is up from September's revised figure, indicating a net gain of 600 jobs. The total civilian labor force increased by 300 people to 60,900. The seasonally adjusted total county employment index fell 0.2 percent, and now stands at 102.7.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 300 jobs in October.
  - Arts and Entertainment lost 100 jobs.
  - State Government Education gained 300 jobs.
  - Local Government gained 100 jobs.
  
- Overall goods production employment was unchanged in October.
  - Construction gained 100 jobs.
  - Durable Goods manufacturing lost 100 jobs.

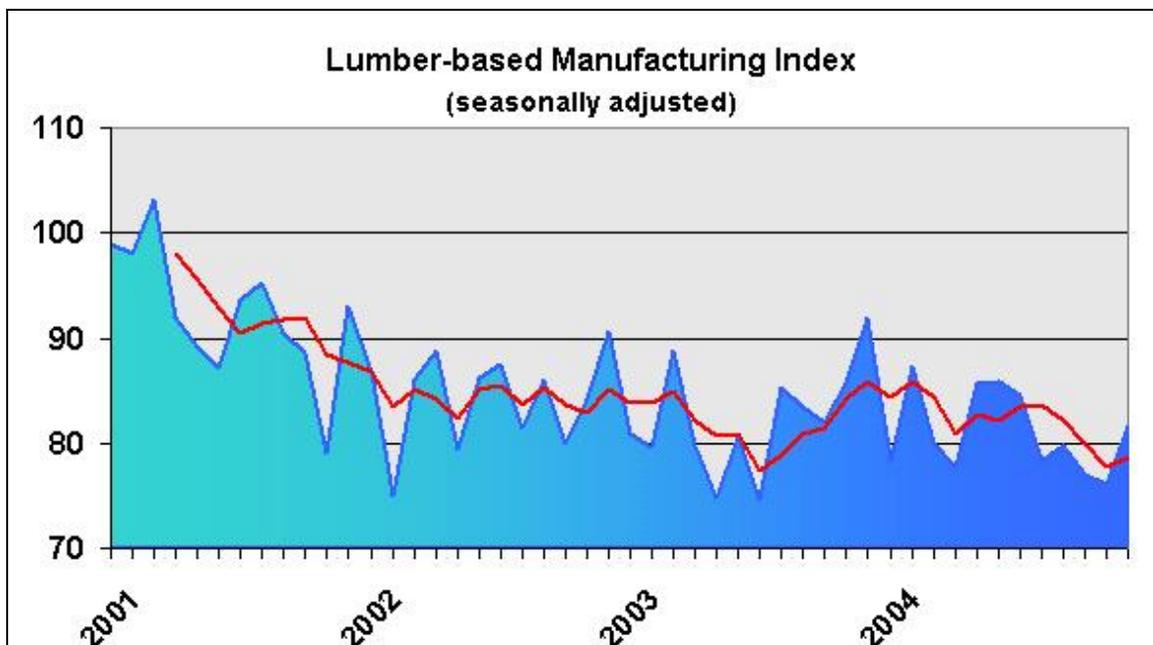
The unemployment rate continued to decline in October. The measure, which now stands at 4.8 percent, is lower than both the state average and the national average. The unemployment rate continues to fall in spite of an increase in the size of the labor force and local government cutbacks which took effect in July, when the unemployment rate began its recent descent.



## Lumber Manufacturing

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

In October the lumber-manufacturing index increased 7.2 percent from last month's revised figure and now stands at 81.6. While this does represent a slight rebound in manufacturing, the index for this sector has not reached above the 100 level since January 2001. This shows the persistent decline in the local lumber industry.



Graphic description: The seasonally adjusted lumber-based manufacturing index is represented by the blue area in the graph above. The red line shows the four-month moving average of the lumber-based

manufacturing index which smoothes month-to-month volatility to show the long run trend.

At the national level, the manufacturing sector continued to show economic growth for the eighteenth consecutive month. The PMI registered 57.8 percent most recently, indicating continued growth. "November reverses three consecutive months in which the rate of growth had slowed. The manufacturing sector appears poised to end the year on a strong note as the New Orders Index made its way back above the 60 percent mark, and the Employment Index picked up significant momentum. There is still significant upward pressure on prices as commodity price increases are common," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. ([www.ism.ws.cfm](http://www.ism.ws.cfm))

## The Bigger Picture

Andrea Walters  
December 5, 2004

The national economy is shifting to a world economy, and technology and development have meant job displacement and a shift in employment across the United States. In Humboldt County specifically, we have seen a combination of globalization factors and government regulations constrict the lumber industry that was once central to the local economy. Throughout the Pacific North West, lumber extraction has become more expensive, causing companies to harvest trees in the South East of the U S more and more. Additional government regulations in California have robbed local companies of the comparative advantage they relied upon.

While lumber-based manufacturing is rebounding, Humboldt County will benefit most from supporting the development of many different industries.

Humboldt County is home to an unprecedented number of entrepreneurs and small business owners, who make up a large portion of our employment and economic activity. Companies like Kokatat, Holly Yashi Jewelry, Amulet Manufacturing, Fire and Light Glassware, and Wallace & Hinz Manufacture and Design contribute to the local economy by exporting their goods nationally (and internationally) to bring outside dollars in. One way to support our various exporting manufacturers is to provide more and cheaper ways to export their products. Because of our isolated location, shipping costs can easily threaten the success of an exporting manufacturer.

Projects like the expansion of the Arcata/McKinleyville airport and the development of a port in Humboldt Bay can support local manufacturers and encourage burgeoning industries. While development of local infrastructure will cost our local government and may alter the face of the county, this kind of development can provide the base for both existing and future economic growth. As we look to the future and sustainable economic development, it becomes clear that no one industry will support our unique and vibrant area. Humboldt County is unlike any other place, and its strengths, both economic and social, are unique and formidable. By drawing on those strengths as we develop economically, we will maintain the culture and flavor that makes Humboldt County a special place to live and do business.

**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**

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

[The San Francisco Chronicle web site](#)

[The New York Times web site](#)

[California Association of Realtors web site](#)

[National Association of Realtors web site](#)

[Freddie Mac web site](#)

[American Automobile Association web site](#)

[The Conference Board web site](#)

[Institute of Supply Management web page](#)

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

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