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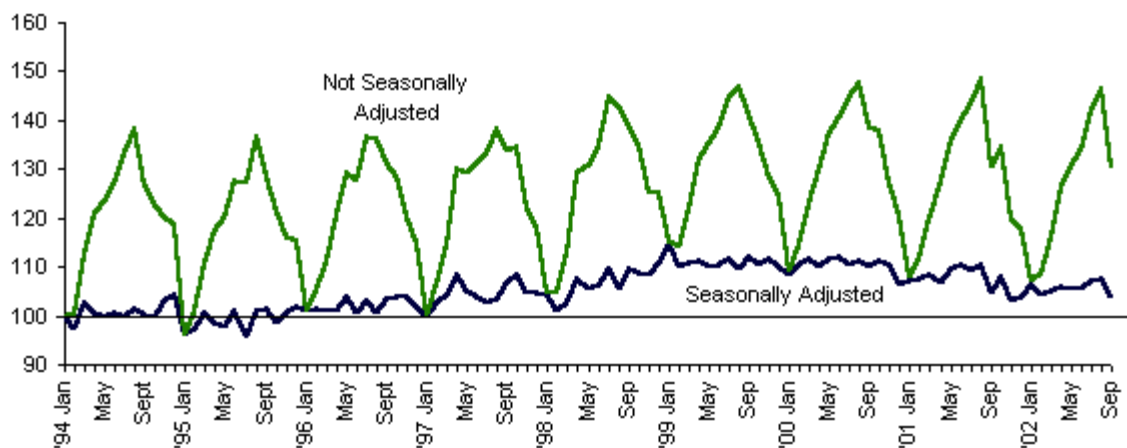
[HSU Economics Department](#)

**Professor Steven Hackett, Executive Director  
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**October 2002**

**This month's report is sponsored by Six Rivers Bank**

**Composite Index**



Key Statistics		Leading Indicators	
<b>Humboldt County</b>		<i>Seasonally Adjusted</i>	<b>% Change From Previous Month</b>
Median Home Price*	\$179,750	Help Wanted Advertising	+10.6
30 Yr. Mortgage Rate	n/a	Building Permits	+21.4

Average Hotel Occupancy Rate	63.9%	Unemployment Claims	-8.0
Unemployment Rate**	4.9%	Manufacturing Orders	-7.0
* 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. See the <a href="#">EDD Website</a> for updates.			

Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
***		Percent Change From:					
Sector	Seasonally Adjusted Sectoral Index Value (1994=100)	Previous Month	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998	Same Month 1997
Home Sales	115.5	-27.6	+34.1	+10.3	+4.4	+4.4	+16.8
Retail Sales	136.6	0	+10.4	+13.7	+5.0	+6.3	+17.2
Hospitality	88.3	-8.4	-4.8	-12.3	-14.2	-13.1	-9.0
Electricity Consumption	98.8	+0.5	-26.3	-22.1	-20.3	--	--
Total County Employment	103.6	+0.9	+1.2	-0.7	-1.7	-0.9	+1.4
Lumber Manufacturing	81.1	+0.7	-2.7	-29.5	-28.4	-34.7	-38.6

## Discussion

### Composite Index and Overall Performance

The *Index of Economic Activity's* seasonally adjusted composite value, which now stands at 104.0, fell 3.3 percent from last month's downwardly revised figure.

A look at the graph above shows that our Composite Index took a noticeable turn for the worse in September. It's not entirely clear, however, whether this is the beginning of a negative trend. For instance, while much of the drop resulted from a large monthly decrease in home sales activity, most indications point towards a fundamentally sound local housing market. Moreover, three of our six sectors grew slightly, and a fourth remained at its previous level. The countywide labor market in particular is showing signs of resilience. That said, the downturn might just as well be a local manifestation of the uncertainties affecting the national economy.

September's Leading Indicators are generally positive. Help-wanted advertising, and building permits are both up by double digits from August's levels and unemployment claims fell by a healthy amount. At face value, this seems to indicate improving conditions. As we noted last month however, building permit activity appears to be on a two-month cycle, so a decrease next month would not be surprising. The four-month moving average for this indicator (see below) also suggests slowing activity. The two employment indicators are pointing towards a strengthening labor market. This observation is corroborated by recent performance of the county's unemployment rate. The four-month moving average for new unemployment insurance claims precludes outright optimism, though. Its month-to-month volatility seems to have been trending upwards since March. Finally, the September drop in manufacturing orders was enough to turn the mildly positive trend of this

indicator downwards. Recent increases in housing construction activity throughout the country should increase the demand for lumber, however, so it's too early to predict whether a negative trend will emerge.

## Home Sales

The *Index* value of this sector is based on the number of homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Local real estate market activity fell to its lowest level of the year in September. The seasonally adjusted *Index* value for this sector plummeted by 27.6 percent from August's record setting performance. Given the consistent strength of homes sales over the last two years, it's too early to read much into the precipitous drop. The measure is up in all of the year-over-year comparisons.

September's median home price rose 5.8 percent from August's \$169,900. This sometimes volatile measure is a whopping 24 percent higher than it was in September 2001. The current statewide median sale price of \$323,310 for existing homes fell 3.2 percent from August's number. This figure increased 17.3 percent from September 2001, when it was \$275,620 ([www.car.org](http://www.car.org)). September's national median price for existing homes is down 2.8 percent from August's level to \$159,000, while the similar figure for new homes is up 0.6 percent to \$176,300. These two measures rose by 7.9 percent and 5.9 percent, respectively over September 2001([www.realtor.org](http://www.realtor.org) and [www.census.gov](http://www.census.gov)).

The nationwide average for a 30-year fixed rate mortgage (10/24) rose to 6.31 percent according to the country's largest mortgage company, Freddie Mac.

The California Association of Realtors released its forecast for the state's 2003 real estate market. The group predicts a 10 percent increase in the median sale price to \$344,300 from this year's approximate average of \$313,000. Some economists dispute the estimate, claiming that without a dramatic increase in overall economic activity, home prices will more likely remain flat or rise at a slower rate. CAR maintains that price is driven more by California's housing shortage than by any other factor. It argues that the approximately 150,000 new homes built in the state each year is not nearly enough to accommodate the 220,000 to 250,000 new households established annually. The CAR report also forecasts a 3 percent decrease in the number of homes sold next year ([www.car.org](http://www.car.org) and [www.sfgate.com](http://www.sfgate.com)).

In a separate report, CAR announced that its Housing Affordability Index dropped to 28 percent in August. This measure, which represents the percentage of California households that can afford to purchase a median priced home, is 2 percentage points lower than it was in August 2001 ([www.car.org](http://www.car.org)).

There may be some relief in store for those having trouble finding affordable homes. A recently released Commerce Department report shows that national housing starts jumped 13.3 percent in September to the highest level since June 1986. The number of homes newly under construction in the West region rose by an even more impressive 24.2 percent ([www.census.gov](http://www.census.gov) and [www.nytimes.com](http://www.nytimes.com)).

## Retail Sales

September activity in the local retail sector was unchanged from August's level. The current level is up in all of the year-over-year comparisons.

National retail sales fell 1.2 percent in September from the previous month's downwardly revised level. Most of the decline can be accounted for by decreased automobile sales. Sales at health and personal care stores and building material suppliers registered modest gains. Overall retail sales were 5.8 percent higher than in September 2001 ([www.census.gov](http://www.census.gov)).

Some analysts fear that the large drop in car sales nationally may be the first sign of an impending slowdown in consumer spending. Last year's recession was relatively mild and brief because consumers, many of whom had

additional cash available through home mortgage refinancing and tax cuts, continued to spend. This level of consumer activity will probably not be sustainable unless there is a significant improvement in the overall economy, however. Refinancing a mortgage is generally a one-time occurrence and governmental budget deficits make further tax cuts much less likely for the time being. Moreover, uncertainty is growing due to factors such as a weak job market, a highly volatile stock market, the lingering labor dispute at West Coast ports, and the threat of a war with Iraq ([www.sfgate.com](http://www.sfgate.com)).

The two leading measures of consumer confidence appear to corroborate this point of view. The Conference Board's Consumer Confidence Index took a nosedive in October, falling more than 15 percent to 79.4 This is the fifth straight monthly decline and the Index's lowest level since November 1993. Planned expenditures on big-ticket items like homes, cars and major appliances also fell. The Conference Board's head of consumer research said the current finding points to a fairly bleak outlook for the holiday retail season ([www.conference-board.org](http://www.conference-board.org)).

The University of Michigan's Consumer Sentiment Index is also down for the fifth consecutive month. It fell 5.5 points to 80.6 in October and now stands at its lowest level in nine years ([www.sfgate.com](http://www.sfgate.com)).

## Hospitality

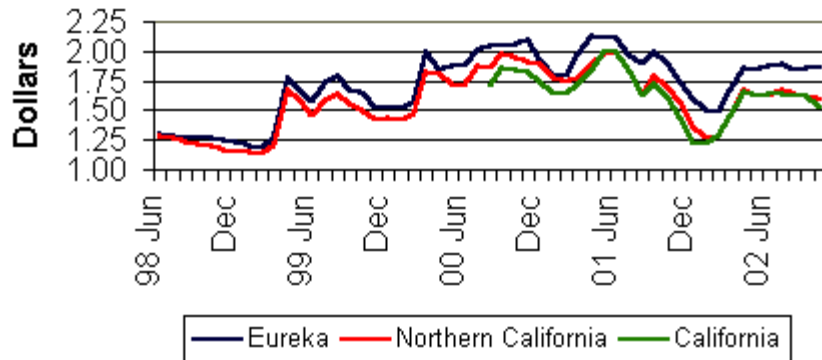
We use average occupancy at a cross section of local hotels, motels and inns as our indicator of economic activity in the hospitality sector. While the performance of this sector is, in turn, a good indicator of performance in the local tourism industry, it's important to note that not all visitors to Humboldt County are tourists, nor do all tourists stay in lodging establishments.

Average occupancy at the participating hotels, motels and inns in September dropped from the previous month's level. As a result, the *Index* level for this sector also declined by a fairly large amount. The measure is down in all of the year-over-year comparisons as well.

Two cruise ships are scheduled to make stops in Eureka year. According to the Humboldt County Convention and Visitors Bureau, A consortium of West Coast ports, from San Diego to Prince Rupert, British Columbia, has been successful in marketing itself to various cruise lines. There has always been plenty of cruise traffic passing by on the way to Alaska, but larger ships rarely stop at smaller ports. A recent industry trend towards smaller ships may mean more visits. The last time a cruise ship stopped over at Humboldt Bay was around five years ago ([www.times-standard.com](http://www.times-standard.com)).

## Gasoline Prices:

Average Price* (as of 10/15)		Change From Previous Month (cents/gal.)
Eureka	\$1.86	0
Northern California	\$1.59	-3
California	\$1.52	-10
* Current average price per gallon of self-serve regular unleaded gasoline as reported by The American Automobile Association's monthly gas survey ( <a href="http://www.csaa.com">www.csaa.com</a> ).		



Click [here](#) for a brief description of the local gasoline market's structure.

The proposed gas station at Costco's Eureka store is one important step closer to being built. The city's Design Review Committee approved a revised design that it feels adequately addresses the concerns of neighboring businesses. Construction is expected to begin early next year ([www.times-standard.com](http://www.times-standard.com)). Many North Coast consumers hope the new station will increase competition in the local retail gasoline market. According to an article in the Times-Standard earlier this year, gas sales by the giant discounter in other areas have resulted in falling prices as competitors react to Costco's lower price. Economic analysis of this situation points to a couple of likely outcomes. Costco has indicated that it wants to earn a profit on fuel sales and it faces the same transportation constraints as other suppliers. If the profit margins of the two major local gasoline distributors are reasonable, then Costco won't have much room for lowering their price. In this event, Costco's price will probably be the same 2 to 3 cents lower than other discount stations offer. Obviously, this would not lead to any great changes in the market. If, however, the dominant suppliers' profit margins are significantly higher than the industry norm, Costco may be able to sell its gas at a significantly lower price and still make money as a volume seller. In this case, Costco's price may be as much as 7 to 8 cents cheaper than the current average, and other participants in the market would have to lower their prices in response or lose market share.

## Electricity Consumption

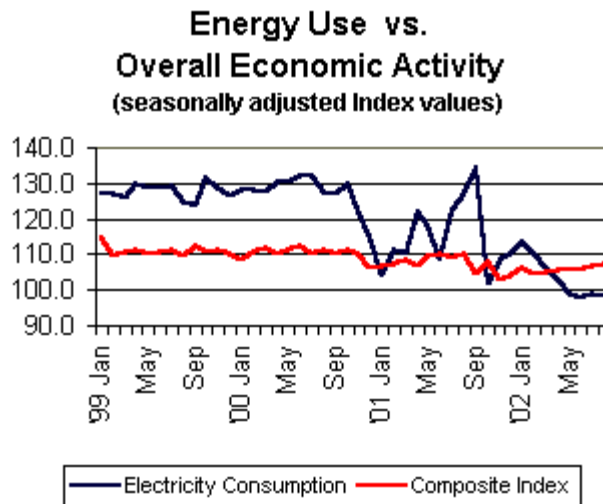
We use kilowatts-hours of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, beneficial increases in energy efficiency and conservation reduce the sector's *Index* value.

With the actual third quarter consumption data in hand, our previous estimations, which were based on prior years' consumption, have been revised downwards:

- July's *Index* level was 98.4, down from an estimated 103.9.
- August's *Index* level was 98.4, down from an estimated 108.7.

September consumption of electricity rose a seasonally adjusted 0.5 percent from August's revised level. As the graph below illustrates, electricity use declined over 15 percent from January to June this year. Given the mild weather we experienced during the period, this activity is not surprising. However, the fact that consumption appears to be remaining at a much lower level relative to overall economic activity than in years past is noteworthy. One likely contributing factor may be the drastically reduced output at local lumber mills. But, while reduced activity in an energy intensive industry would explain a portion of the phenomenon, one would expect a higher level of consumption given the growth, slow though it may be, in overall activity. Economic theory predicts that as the price of a good or service rises, the quantity demanded falls. So, recent behavior in this sector could be explained by higher levels of conservation by consumers after a volatile period of

adjustment to the record high rate increase last year.



### It's Official

At least one energy company illegally profited at the expense of California consumers during last year's energy crisis. Timothy Belden, former head of Enron's electricity trading office in Portland, OR, recently pled guilty to illegally manipulating California's electricity market. The fraudulent activity took a number of forms. In one scheme, Enron moved power generated in California to Oregon, then back to California in order to avoid price caps imposed by the state. In another, Enron would schedule a delivery of power it did not have and did not intend to supply at such times that the delivery, if actually made, would severely congest the transmission system. California would then pay the firm not to complete the delivery in order to avoid the congestion. "I did it because I was trying to maximize profits for Enron," Belden told the judge. Revenue generated by Belden's office went from \$50 million in 1999 to \$500 million in 2000 to \$800 million in 2001. Belden and Enron apparently did not act alone. Deputy Attorney General Larry Thompson said "Belden and others conspired to defraud California electricity consumers and customers," though he declined to identify other alleged conspirators. Sources close to the case report that Belden is cooperating with investigators and that others will likely be charged in the near future ([www.sfgate.com](http://www.sfgate.com) and [www.nytimes.com](http://www.nytimes.com)).

The former president of Dynegy, who resigned one week prior to Belden's plea, may be one of those soon to be implicated. According to published reports, Steve Bergstrom rose to the top position at the energy firm largely because of his success building Dynegy's electricity trading unit. A company spokesperson claimed that Bergstrom's resignation, which came after Dynegy agreed to pay \$3 million to the Securities and Exchange Commission to settle federal fraud charges, was unrelated to the Belden case. Dynegy has maintained in the past that its business practices had nothing to do with the failure of California's deregulated electricity market. The Houston-based company remains under investigation by the Justice Department ([www.sfgate.com](http://www.sfgate.com)).

The California Public Utilities Commission recently approved a plan that would allow the state's three major utilities to begin buying power again beginning January 1, 2003. The California Department of Water Resources has been the state's primary power purchaser since the badly restructured electricity market began to collapse in early 2001. The plan will require the three firms to negotiate long-term contracts to meet expected future needs. Any additional power needed will be bought on the open market. PG&E criticized a portion of the plan it interprets as giving the PUC the right to invalidate contracts after they've been signed if the commission objects to the terms ([www.sfgate.com](http://www.sfgate.com)).

Local county and city officials have begun to explore the possibility of forming a Regional Energy Authority. The proposed body would help residents, businesses and local governments assess their energy use and devise strategies for conservation. The idea has been successfully implemented in San Diego and Santa Monica. The PUC has authorized \$454,000 to set up the authority. The money would come from a \$1.5 million account local consumers have been funding since 1998 through a small fee on their monthly power bills ([www.times-](http://www.times-)

standard.com).

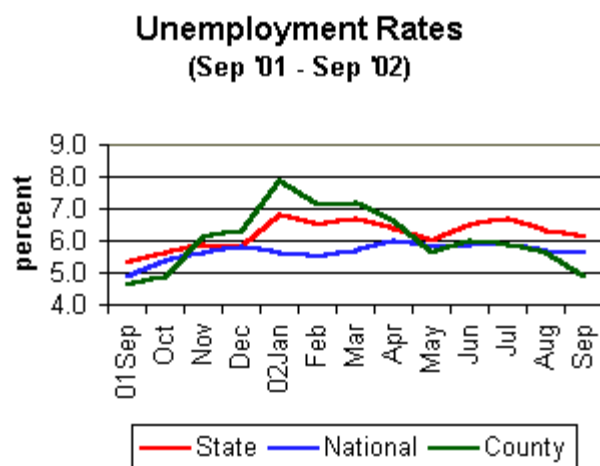
## Total County Employment

In their preliminary report for September, the Employment Development Department (EDD) reported that 57,400 people were employed in Humboldt County. This is a sizable 1.6 percent increase over August's downwardly revised figure and it indicates that a net 900 jobs were created during the month. Once seasonality is accounted for, the local labor market improved 0.9 percent as indicated by the seasonally adjusted *Index* value.

Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries increased 2.4 percent from a revised 42,500 in the month of August to a preliminary 43,500 for the month of September. This sector is up 3.6 percent over last year's figure. Most of the month-over-month gain occurred in the *State Government* and *Local Government* classifications. *Hotels and Other Lodging*, *Business Services* and *Amusement and Recreation* each lost around 100 positions. The preliminary figure for the retail subsector shows 11,800 jobs, an increase of 1.7 percent from August's figure. The 200 job improvement here was evenly split between the *Food Stores* and *Eating and Drinking Establishments* classifications. This number is 9.3 percent higher than it was in September 2001.
- Total county manufacturing employment came in at 5,100. This is 4.1 percent higher than August's upwardly revised 4,900. Approximately 100 new jobs each were added in the *Sawmills* and *Food and Kindred Products* classifications. Total manufacturing employment is down 7.3 percent from September 2001.

The unemployment rate for Humboldt County fell from August's upwardly revised 5.6 percent to the current 4.9 percent according to the preliminary EDD report. Meanwhile, the national rate fell one-tenth of a percentage point to 5.6 percent and the state rate fell two-tenths of a percentage point from August's upwardly revised 6.3 percent to a preliminary 6.1 percent.



The graph above shows that Humboldt County appears to be bucking both the statewide and national unemployment trends. While all three measures are up slightly from September 2001, Humboldt County seems to have been much harder hit by the economic turmoil that occurred late last year, and seems to have recovered much more quickly.

## 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 preliminary September *Index* value for this sector rose slightly from August's figure. The large recent increase in housing construction may help sustain this mild growth into the near future.

National manufacturing output, as measured by the Institute of Supply Management, declined in September for the first time in eight months. The current ISM Index level of 49.5 fell from August's 50.5. A number higher than 50 indicates growth ([www.ism.ws](http://www.ism.ws)).

The Commerce Department reported that orders for durable goods, manufactured products expected to last three or more years, plunged 5.9 percent in September. This is the largest one-month decline in 10 months and is much more severe than the 2 percent drop expected by economists. The current performance also represents the third month-over-month decline in the last four months and it is indicative of weakening demand for everything from automobiles to communications equipment ([www.salon.com](http://www.salon.com)).

## 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. Our graphs in this section use a four-month moving average in order to "smooth" ordinary month-to-month volatility. In this way, any underlying trends present in the series become more apparent.

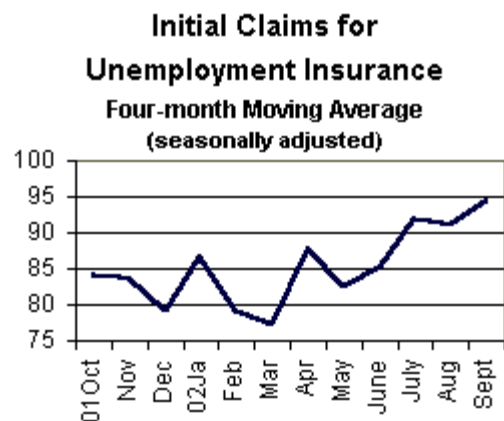
### Employment-Based Economic Indicators:

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.





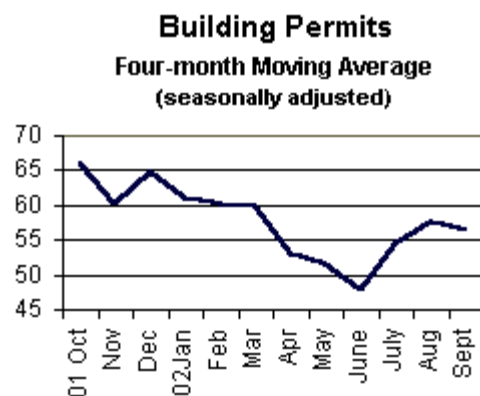
#### Manufacturing Economic Indicator:

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



#### Home Sales Economic Indicator:

Building permits are an indicator of both construction activity and the availability of new housing stock.



### The Bigger Picture

The Federal Reserve Bank sees little relief for the national economy according to the latest release of its Beige Book, which reports on activity during September and early October. It cites declining consumer spending, a lackluster labor market and poor performances in manufacturing and commercial real estate as the primary factors behind the economy's sluggish growth. On the positive side, homes sales continued to exhibit strength

**and demand for semiconductors and software, a key indicator of business growth, increased slightly ([www.federalreserve.gov](http://www.federalreserve.gov) and [www.sfgate.com](http://www.sfgate.com)).**

**Despite the apparent weakness, it seems the Fed will not lower interest rates at the November 6 meeting of the Federal Open Market Committee. In separate speeches given in early October, the presidents of the Federal Reserve Banks of San Francisco, Atlanta and Richmond sent strong signals that the central bank is confident the current level of interest rates will be sufficient to keep the economy growing. These messages followed the September meeting of the FOMC in which two of the twelve members voted to lower rates ([www.nytimes.com](http://www.nytimes.com)).**

**A major shadow has been cast over efforts to reform how major corporations do their accounting. The Securities and Exchange Commission appointed William Webster, former Director of the FBI and CIA to chair the new accounting industry oversight board established by recently passed legislation. The move was endorsed by many of the largest accounting firms, but was blasted by many others on Wall Street who see the appointment as an accommodation of industry interests. Mr. Webster, who is 78 years old and has no recent accounting experience, was approved on a 3-2 vote split down party lines. All three of the Republican commissioners are former accounting industry executives or lobbyists. The two Democratic commissioners had favored the appointment of John Biggs, the former head of a large pension fund and a vocal critic of recent industry practices.**

**Additionally, the Bush Administration has proposed to cut the Congressionally approved increase to the SEC budget by 27 percent. Under the Sarbanes-Oxley Act, which Mr. Bush signed less than three months ago, the SEC is authorized to increase its annual budget from the current \$438 million to \$776 million. The White House is now requesting that the figure be reduced to \$568 million. It claims the proposed savings are needed to fund the military and homeland security. A spokesman for SEC Chairman Harvey Pitt said the decreased level of funding would prevent the implementation of new initiatives, which some critics feel is the actual motivation for the proposal. The SEC's budget has barely kept pace with inflation over the past four years, even as the number of stockholders has mushroomed. The Commission also has had difficulty retaining experienced accountants and attorneys who can earn much more in the private sector or at other government agencies ([www.nytimes.com](http://www.nytimes.com)).**

**President Bush invoked the Taft-Hartley Act to end an 11-day lockout of dockworkers at West Coast ports. At Mr. Bush's request, a U.S. District Court judge found the lockout endangered the nation and ordered the ports to resume activity for an 80-day cooling-off period. According to most reports, the work stoppage was costing the national economy an estimated \$1-2 billion per day. The dispute is over whether the International Longshore and Warehouse Union will have jurisdiction over jobs created by new technologies ([www.sfgate.com](http://www.sfgate.com)).**

**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 "October 2002" report reflects data from September 2002. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Eureka Times-Standard website](#)

[The San Francisco Chronicle website](#)

[The New York Times website](#)

[Salon Magazine website](#)

[Humboldt County Convention and Visitor Bureau website](#)

[California Association of Realtors website](#)

[National Association of Realtors website](#)

[American Automobile Association website](#)

[The Conference Board website](#)

[Institute of Supply Management webpage](#)

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

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

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

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