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The Index of Economic Activity for Humboldt County

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INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

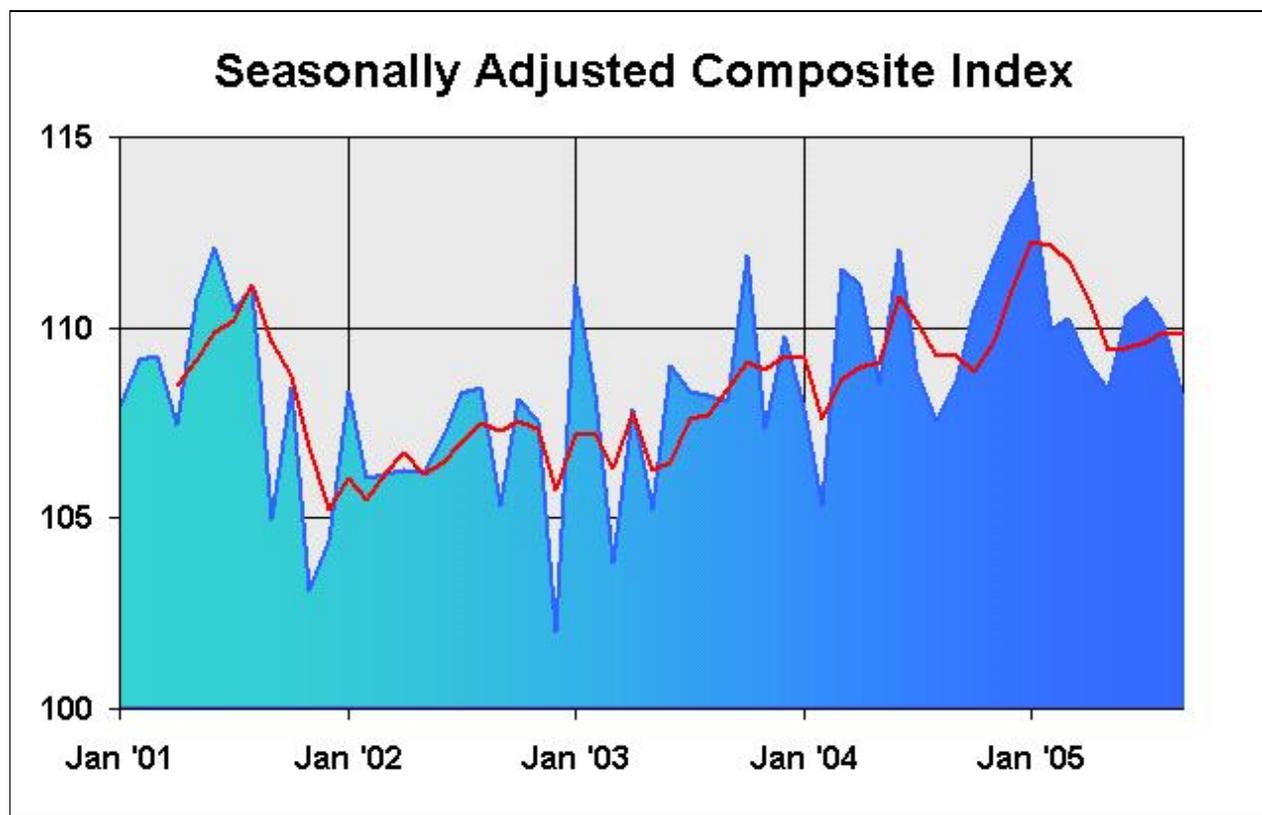
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October 2005



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 smoothes 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.

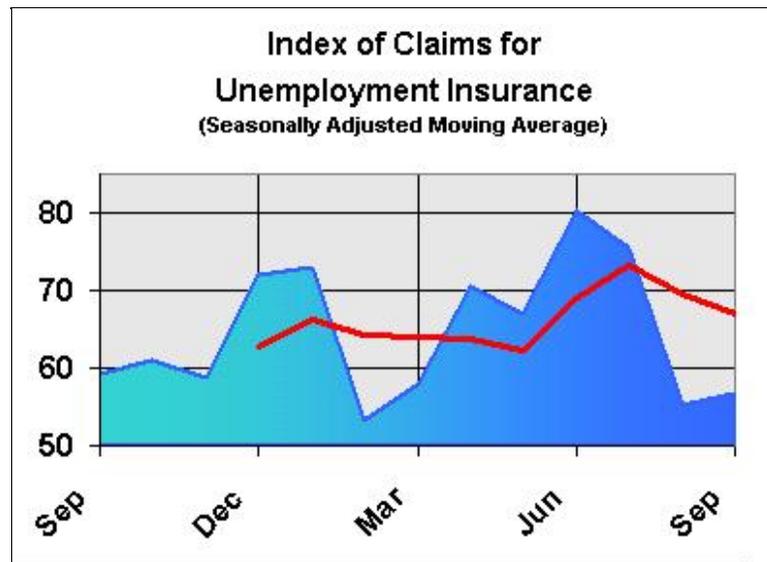
In September the Index shrank slightly, decreasing 1.8 percent to a composite Index value 108.1 (100 = January 1994). The Index was pulled down by declines in the home sales, retail sales, and manufacturing sectors. The Hospitality sector put the greatest upward pressure on the Index, while county employment increased only slightly and electricity consumption remained unchanged. Seasonally adjusted home sales in Humboldt County fell again this month, following last month's surprising decline, and now stands at 123.2. This is an 11.2 percent contraction from August's value, and a 7.9 percent contraction from September of 2004. Retail sales also declined after four months of measured increases. The retail sector's Index currently stands at 133.8, 3.6 percent lower than last month. Manufacturing also declined slightly, dropping just 0.2 percent to an Index value of 76.3. County Employment grew just slightly, inching up 0.1 percent to a seasonally adjusted Index value of 106.3. This was driven mostly by an increase in local government employment. Finally, the electricity consumption Index was estimated at 124.8, unchanged from last month.

Composite & Sectoral Performance, <i>Index of Economic Activity</i> for Humboldt County							
***		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000
COMPOSITE	108.1	-1.8	-0.5	0.1	2.6	3.0	-2.0
Sector							
Home Sales	123.2	-11.2	-7.9	-13.7	4.6	40.3	15.4
Retail Sales	133.8	-3.6	-6.5	-4.3	-4.1	7.7	12.3
Hospitality	95.1	2.9	-4.0	0.5	4.6	-2.0	-9.6
Electricity Consumption	120.24	0.0	5.9	19.8	19.9	-11.6	-6.6
Total County Employment	106.3	0.1	3.3	2.4	2.9	4.2	2.2
Manufacturing	76.3	-0.2	0.3	-11.0	-9.4	-3.4	-30.4

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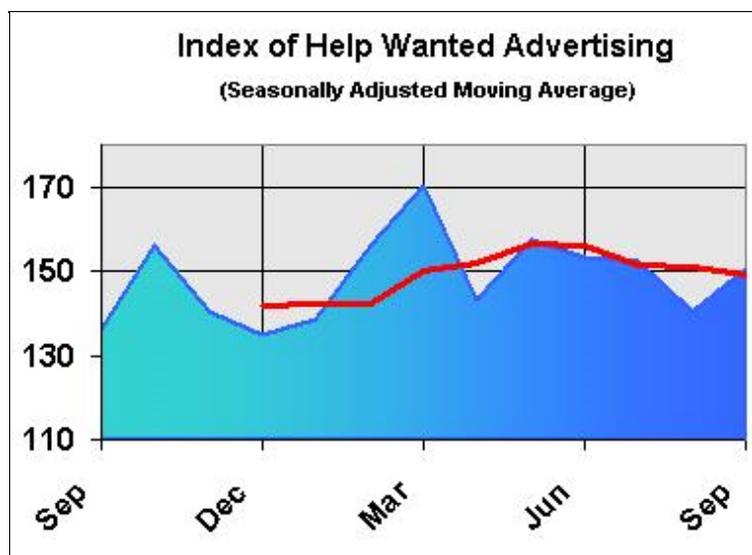
Leading Indicators

The Index tracks four leading indicators to get a sense of the direction that the county economy may take in the near future. The four leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) 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 "smooths" month to month volatility.

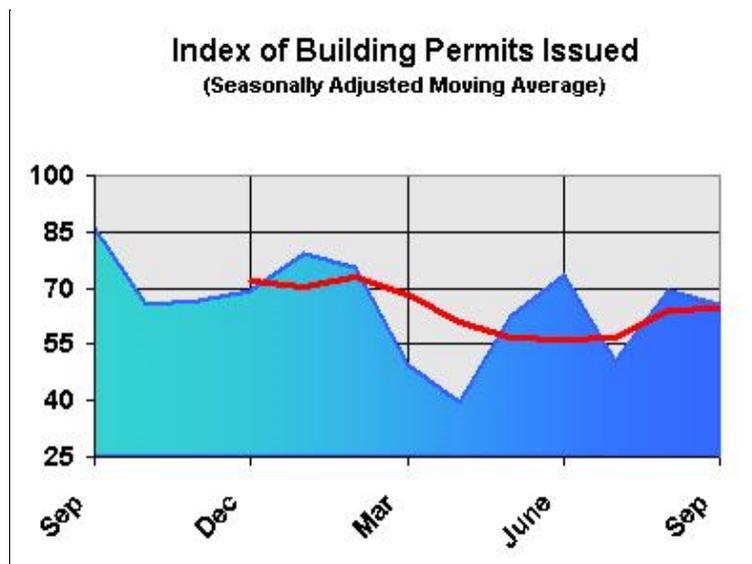
The Index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator rose by just 2.7 percent this month, suggesting a slight contraction in economic activity in general and employment in specific in the future. This follows two months of marked decrease in initial claims for unemployment insurance, dropping from a high of 73.3. The Index of claims for unemployment insurance now stands at 56.6, 4.3 percent lower than the same period last year. The four month moving average now stands at 66.9, indicating a continuing decline in future unemployment.



Graphic description: The seasonally adjusted Index of Help Wanted Advertising 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 help wanted advertising is an indicator of labor market conditions and job creation. This Index is based on help wanted advertisements posted in the *Times Standard*. In September, the Index increased 7.1 percent to an Index value of 150.1. This is a 10.6 percent increase in help wanted advertising from September of 2004. The four month moving average for this indicator remained fairly constant at 149.1, reflecting this month's rebound from August's drop of 7.7 percent. Combined with the decrease in the unemployment leading indicator, employment in Humboldt County appears to be headed for an upturn.

National help wanted advertising increased this month according to the Conference Board. Their Index of help wanted advertising rose one point to 39. This is also a point higher than the same month a year ago. The gains were driven largely by the South Central regions of the US, both of which reported gains. Most other regions lost ground. Consumer's expectations about finding work also declined this month as surveyed by the Conference Board. (conferenceboard.org)



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. In September the Index of building permits leveled off, dropping 5.4 percent to a value of 65.6. This is a 23.7 percent decrease from the September of last year when our economy was in the midst of a housing boom. As you can clearly see from this indicator's recent activity, this measure experiences a great amount of month to month variability. The four month moving average, used to determine longer term trends, rose to 64.8 this month.

Nationally, the Pending Home Sales Index as reported by the National Associations of Realtors (NAR) also reported a contraction, dipping 0.3 percent to an Index value of 128.8. In August NAR reported a record setting Index value of 129.2. The Pending Home Sales Index is based on the pending sale of existing homes across the United States. David Lereah, NAR's chief economist, said the index shows a lot of momentum. "We're still seeing a post-Katrina boost in home sales activity, where the needs of displaced residents are supplementing a fundamentally strong market," he said. "Aside from this temporary lift, the market is entering a period of transition in which we will see a somewhat slower but more sustainable pace of home sales—a period that is expected to be historically healthy. This will help to create a better balance between home buyer and sellers, so price appreciation should be cooler as well." (realtor.org)



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 leading indicator fell 16.0 percent in September and now stands at 63.2. The represents a 24.1 percent decrease from the same period last year. Because manufacturing orders are subject to dramatic shifts, the four month moving average helps to illustrate the larger trend. The average of the last four months of manufacturing orders now stands at 70.3, down just slightly from August's average of 72.5.

Key Statistics		Leading Indicators	
		% Change From Previous Month	
Median Home Price*	\$318,250	Unemployment Claims	2.7
30 Yr. Mortgage Rate as of 6/28	6.0%	Help Wanted	7.1
Unemployment Rate**	5.1%	Building Permit	-5.4
		Manufacturing Orders	-16.0
<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 EDD Website for updates.</p>			

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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.

September saw another sharp decline in the home sales Index, with the raw number of homes sold pushing the seasonally adjusted Index value down 11.2 percent to 123.2. This is a 7.9 percent decrease from September of 2004, but still remains high when compared to Index values from three or four years ago, before we began to enjoy a national housing boom. The median price of a home sold in September was \$318,250, up from last month's median selling price. The median selling price rose about \$300,000 for the first time in May, and has stayed above \$300,000 since then. The median selling price is not adjusted for inflation and does not affect the Index.

California's median selling price, as reported by the California Association of Realtors, decreased in September, falling 4.4 percent to \$543,980. This is a 17.3 percent increase over the home selling price for the same period last year. The state sales Index grew, increasing 3.9 percent when compared with September of 2004. "The September median home price compared with August has fallen every year since 1993, and in 20 of the last 26 years," said C.A.R. President Jim Hamilton. "This year is no exception and is part of the seasonal shift to an off-peak period in the real estate market as we approach year's end. Despite the seasonal slow down for the market as a whole, the median price in the High Desert, Riverside/San Bernardino, Santa Barbara South Coast and San Luis Obispo regions hit record highs last month."

"Year-to-date sales are on track with our expectation that the market in 2005 will set new records for both statewide sales and median price," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "Entry level and mid-range homes are showing more strength in year-over-year price gains compared with the high end of the market. But all tiers of the market are appreciating more slowly than they did a year ago." (car.org)

Nation wide existing home sales, a measure of the United States housing market produced by the National Association of Realtors (NAR), reported an decrease in selling price in September. The national median selling price of a home fell to \$212,000 in September, down from \$220,000 in August and up 13.4 percent from September of 2004 when the national median selling price was \$187,000. The seasonally adjusted number of homes sold remained virtually unchanged from

August at 7.28 million homes sold. This represents a 7.2 percent increase from September of 2004, when the sales level reached just 6.79 million homes. David Lereah, NAR's chief economist, said near-record activity was supported by spiking home sales in areas surrounding the Hurricane Katrina disaster zone. "We are now getting some hard data from this region, with spot checks showing sharply higher home sales to residents who were displaced by the hurricane. The sales surge is more than offsetting declines in the disaster zone." Lereah said the housing market is entering a period of transition, "The underlying fundamentals of the housing market are solid and sales will stay historically strong, but they will trend modestly down from current peaks," he said. (realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of November 3rd ticked upward to 6.3 percent with an average 0.5 points. The 30-year fixed mortgage rate averaged 5.7 percent the same time last year. Based on preliminary GDP figures for the third quarter, the economy is expanding faster than had been expected," said Frank Nothaft, Freddie Mac vice president and chief economist. "Originally, the markets had lowered economic expectations for the third quarter because of the impact of the hurricanes. So the news of an economy growing at such a strong pace gave financial markets a jolt and added to the impetus that caused mortgage rates to rise again this week. It's interesting to note that although mortgage rates have been rising lately, rates are still an average of about two percent less than other interest rates – such as car loans – made by lending institutions, according to Bankrate.com." (freddiemac.com)

For a local perspective on the possibility of a housing bubble, visit our [Special Projects page](#) for a study of the Humboldt County housing market.

Retail Sales

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

The retail sales sector shrank in September, falling 3.6 percent to a seasonally adjusted Index value of 133.8. This is a 6.5 percent decrease from the same period last year. Retail sales have been consistently low this year, after achieving a high in January of 149.0. This month's decrease acts as a counter-balance to August's growth, pulling the Index back down to the values we saw in May, June, and July. The four month moving average, which reflects the recent trend of the sector, still reflects August's growth and stands at 135.1.

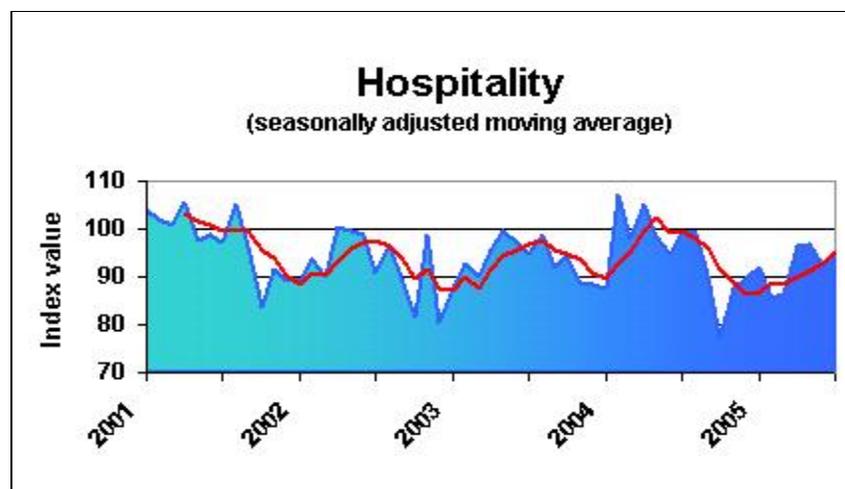
National retail sales, as reported by U.S. Census Bureau, increased slightly in September. Seasonally adjusted sales were \$351.5 billion, up just 0.2 percent ($\pm 0.7\%$) from the previous month and 6.5 percent ($\pm 0.8\%$) higher than September 2004. Total sales for the July through September 2005 period were up 8.3 percent ($\pm 0.5\%$) from the same period a year ago. (census.gov)

Retail sales across the nation grew moderately according to the Federal Reserve Board's Beige Book, except in areas most hurt by hurricane activity. Despite measured retail growth, businesses in many sectors reported a softness to the market, and some areas, including San Francisco, worried that increased gasoline prices would continue to hurt sales across the board. Vehicle sales have dropped across the board in response to the end of special pricing deals that had previously supported sales in this sector. While sales of light trucks and sport utility vehicles have sharply declined, many automobile producers report strong sales of more fuel efficient vehicles and hybrid cars. (federalreserve.gov)

National consumer confidence as measured by the Conference Board continued last month's declines. The Index fell to 85.0 from 86.6 last month. A level of 100 is equivalent to the base year of 1985's level. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "Much of the decline in confidence over the past two months can be attributed to the recent hurricanes, pump shock and a weakening labor market." She added that, "Consumers' assessment of current conditions, however, remains above readings a year ago, but their short-term expectations are significantly below last October's level." (conferenceboard.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.



Graphic description: The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four-month moving average of the hospitality index which smoothes month-to-month volatility to show the long run trend.

The hospitality sector increased 2.9 percent in September to an Index value of 95.1. This represents a 4.0 percent decrease from the same period last year and a

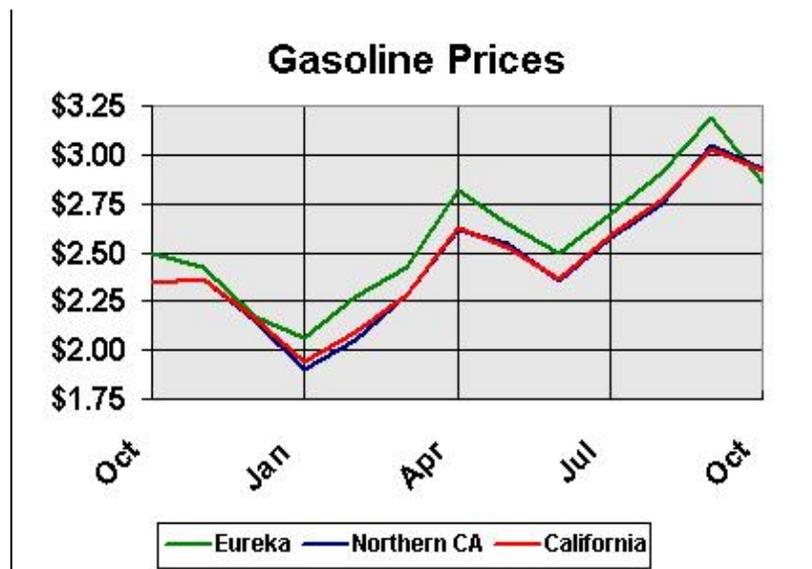
0.5 percent increase from September of 2003. The four month moving average remained high this month, pushed up by higher numbers in June and July, and currently stands with the Index value at 95.1. Last month's moving average rested at just 92.9. This seasonally adjusted Index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. The four-month moving average, indicated by the red trend line, shows that while the hospitality sector fluctuates from month to month beyond seasonal variability, the overall trend is one of consistency.

Gasoline Prices

The California State Automobile Association (CSAA) reports that county gas prices have continued to fall this month. Similar trends are at work at the state and national levels as production and refining capacity lost during the Gulf Coast hurricanes comes back on-line. The average price per gallon of gas in Eureka fell even more sharply this month than last, shedding 33 cents as of October 19. AAA spokesperson Sean Comey recently commented that he believes consumers have reason to be cautiously optimistic about the price of gasoline. He expects that if there are no more shakeups like the recent gulf coast hurricanes, gas prices should continue to fall through thanksgiving. The price of crude oil has been falling and retail gas prices have fallen as well. Comey believes these benefits will continue to trickle down to consumers. (csaa.com)

For a local perspective on gasoline prices, visit our [Special Projects page](#) for our study of the Eureka gasoline market and an examination of why Humboldt County gas prices tend to be higher than the rest of California's.

Average Price* (as of 10/19)		Change From Prev. Month (cents/gal.)
Eureka	\$2.86	-33¢
Northern Ca	\$2.93	-12¢
California	\$2.92	-11¢
Current average price per gallon of self-serve regular un-leaded gasoline as reported by the American Automobile Association's monthly gas survey (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.

September's electricity consumption Index is estimated at 120.2, unchanged from last month.

Total County Employment

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

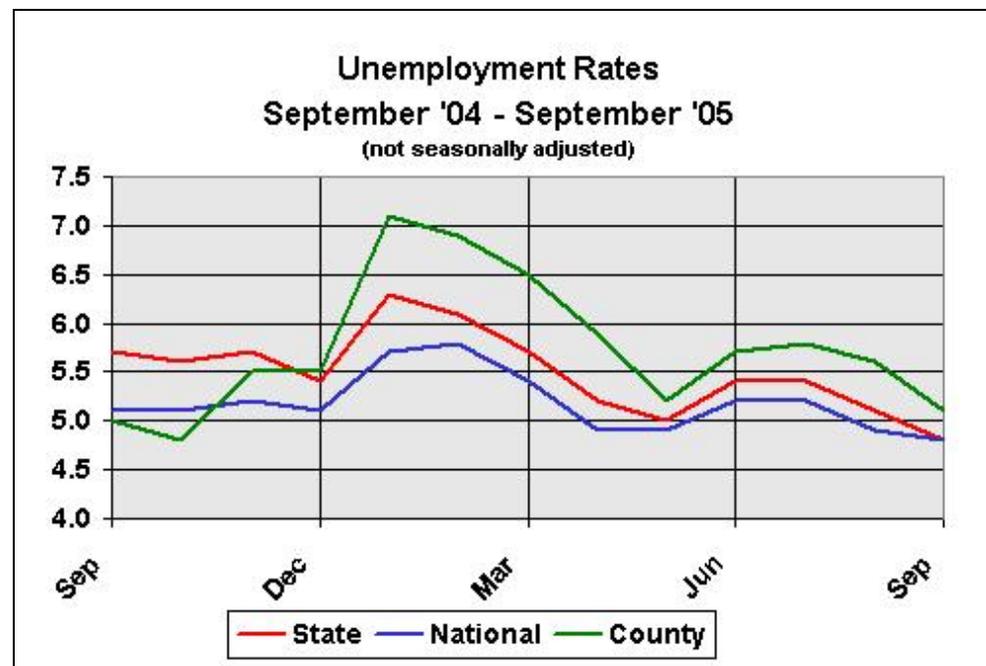
Preliminary employment and labor force data for September reported 58,600 people employed in Humboldt County. This is a net gain of 700 jobs from August's revised figure. The majority of the jobs gained were service providing jobs. The total civilian labor force also increased by 300 people to 61,700. After adjusting for seasonal variation, the employment sector's Index value contracted slightly, decreasing 0.1 percent to 106.3. This represents a 3.3 percent increase from the same period last year.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 900 jobs in September.
 - Miscellaneous Retail stores lost 200 jobs.
 - Educational and Health Services gained 100 jobs.
 - Financial and Insurance Services gained 100 jobs.
 - Local Government gained 600 jobs.
 - State Government Education gained 300 jobs.

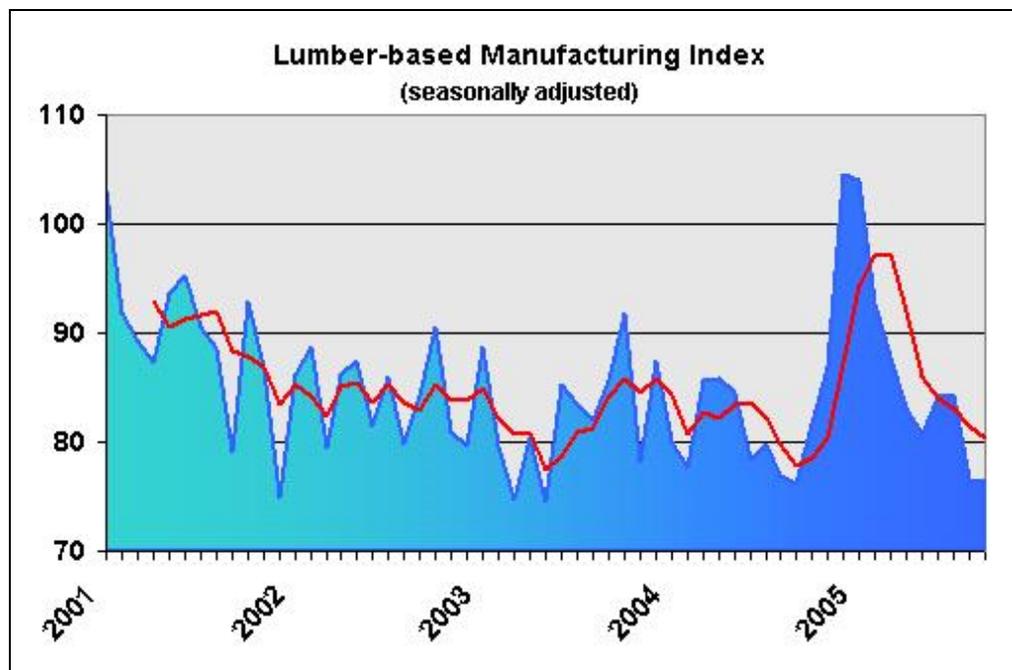
- Net employment in the manufacturing sector posted a net loss of 100 jobs in September.
 - Wood Product Manufacturing lost 100 jobs.

The revised county unemployment rate fell again in September, dropping to 5.1 percent. The state and national unemployment rates also fell, though not as dramatically. California's unemployment rate fell to 4.8 percent, from 5.1 percent last month, while the national unemployment rate also fell to 4.8 percent, but from just 4.9 percent in August. Humboldt County's unemployment rate remains above California and the United States, though it is beginning to close in on the gap.



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.



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 smooths month-to-month volatility to show the long run trend.

In September lumber based manufacturing fell again, decreasing 0.2 percent to an Index value of 76.3. This is a much more measured contraction in lumber-based manufacturing than we have seen earlier in the year, including last month's drop of almost 10 percent. The four month moving average, balanced by the last two months' declines and June and July's relatively high numbers, remained somewhat stable. The four month moving average now stands at 80.4, a 1.1 percent decrease from last month. This month's Index value represents a 0.3 percent decrease over September of 2004's manufacturing sector Index.

Nationally manufacturing continued to grow, expanding at a rate only slightly lower than what we saw in August. According to the Institute of Supply Management (ISM) the manufacturing sector grew for the 29th consecutive month, registering 59.1 percent on November 1st. A number over 50 indicates growth. "The PMI continued its strong performance supported by continuing growth in New Orders and Production. Rising prices and energy costs in particular, are of major concern as manufacturers are struggling to control costs." said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management.

Fifteen industry sectors reported growth in September, including paper; electronic components and equipment; apparel; wood and wood products; furniture; glass, stone, and aggregate; fabricated metals and chemicals. Within the electronic components and equipment sector, industry leaders voiced concerns over the fluctuating price of oil and its effect on commodities prices. (ism.ws.cfm)

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The Bigger Picture

Oil Executives Defend Profits

By: Andrea Walters

Americans across the nation are struggling with fluctuating gas prices and politicians, journalists and business persons speculate on the future of gasoline consumption and oil production. In the recent years people on fixed incomes have struggled to pay for heating oil and in recent months minimum wage earners have micro-managed every cent spent on gasoline while political and social satirists have had a field day guessing what the rising price of fuel will cause people to do next.

Oil demand is considered inelastic because it is so essential to so many aspect of our daily life and economy, and because there are so few affordable substitutes. This means that for every one percent increase in the price, the quantity demanded will fall by less than one percent. In a modern society where food and other goods are produced on a large scale and then distributed to smaller markets, efficient transportation of those goods is essential to a functioning economy. As a result of the limits of current automotive and transportation technology, there is no way to efficiently substitute for gasoline when the price suddenly rises. As we move into the deep winter months and heating oil prices become a larger concern, many fear that the high prices paid at the pump will pale in comparison to the increased cost to heat one's home, particularly in the Northeast.

Through price fluctuations, gas shortages, and driving out of your way to pay five cents less, some have questioned why, exactly, the prices have been so quick to respond to shortages and whether those in the oil industry have felt the same pinch on their budgets. In Washington on November 10, the Senate asked a representative group of oil executives just that question.

Senator Pete Domenici, a republican from New Mexico said, "The oil companies owe the American people an explanation", explaining that both politicians and their constituents are increasingly suspicious of oil companies. The five companies represented reportedly earned more than \$32.8 billion last quarter, and many officials have received multi-million dollar bonuses. "Your sacrifice appears to be nothing," said democratic Senator Barbara Boxer.

The oil executives defended their profits and prices, especially in the wake of Hurricane Katrina, saying they were protecting consumers from shortages by raising prices enough to discourage consumption. "We had to respond to the market," said Chevron chairman David O'Reilly. Lee Raymond, chairman of Exxon Mobil Corp. said the company tried to "minimize the increase in price [but] if we kept the price too low we would quickly run out at the service stations." Raymond emphatically denied that there was any price gouging. Exxon Mobil earned its biggest ever profit, \$9.9 billion, in the third quarter.

Federal Trade Commission Chairperson Deborah Platt Majoras agreed with the executives' testimony, testifying that, "While no consumer likes price increases, in fact, price increases lower demand and help make the shortage shorter-lived than it otherwise would have been."

Plans to help struggling Americans tackle rising heating costs in the winter include waiving the \$10 fee for collecting firewood in a national forest so that rural people can subsidize their heating with cheaper firewood. Obviously this plan would do nothing to assist urban families. Republican Senator Charles Grassley, head of the Senate Finance Committee said in one report that this hearing was an attempt to "embarrass" the oil industry into helping poor Americans pay their heating bills through donations.

At the conclusion of the hearing, oil executives asked lawmakers to not act hastily, in hopes of avoiding threatened profiteering taxes our price-gouging laws. "We respectfully request that Congress do no harm by distorting markets or seeking punitive taxes on an industry working hard to respond to high prices and supply shortfall," said John Hofmeister, president of Shell Oil Co., which also earned \$9 billion in the third quarter of this year. The Federal Trade Commission added that a federal price-gouging law "likely will do more harm than good."

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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

[American Automobile Association](#)

[California Association of Realtors](#)

[The Conference Board](#)

[Fox News](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

[The San Francisco Chronicle](#)

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