



# Humboldt Economic Index

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## Humboldt Economic Index

### October 2007

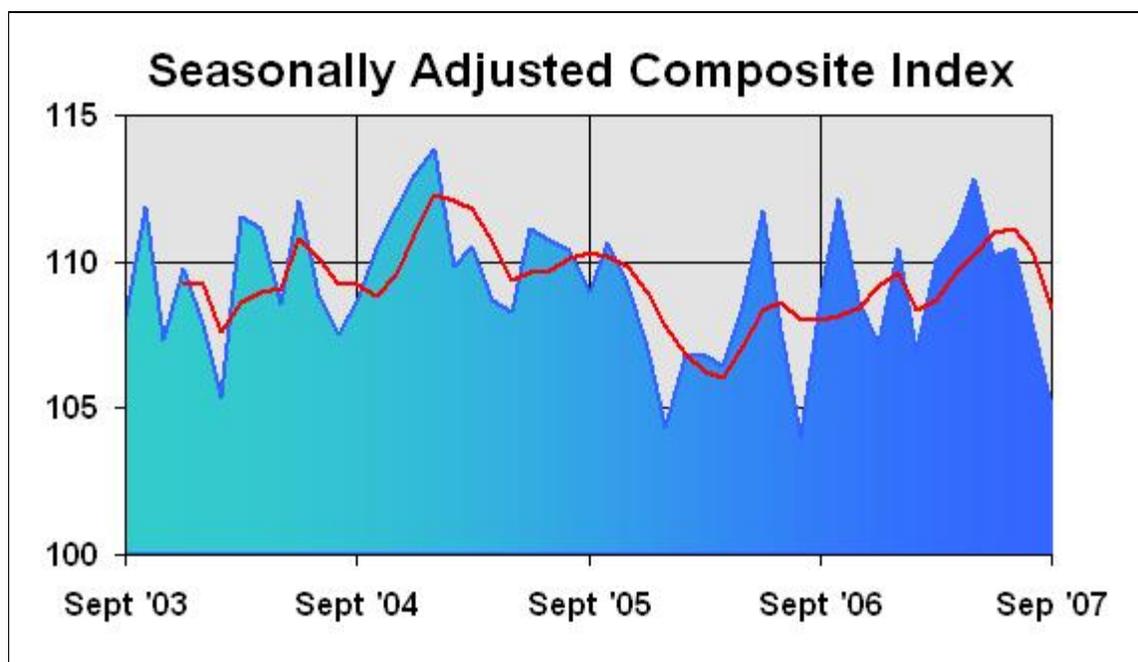
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The seasonally adjusted composite Index is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

## Composite Index and Overall Performance

The Humboldt Economic Index 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.

This was a weak month for the Humboldt County economy, with several leading indicator showing signs of slowing. Building Permits and Help-Wanted advertising have been marching downward for several months. Housing is showing considerable signs of distress, with sales down to their lowest level since November, 1997. Hospitality and Manufacturing both declined noticeably and Retail was off as well. The seasonally adjusted unemployment rate for the county has been rising for several months, and gas prices are up as well with a good chance of pressing higher in coming months. Only energy consumption and Employment were up on the month, and the increase was marginal.

**Composite & Sectors**

Index	Value*	Percent Change From:			
		Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	104.0	- 2.8	- 3.2	- 0.2	- 0.9
Home Sales	68.9	- 21.7	- 27.4	- 41.5	- 31.7
Retail Sales	160.4	- 1.5	1.0	14.9	41.5
Hospitality	83.2	- 8.6	- 7.2	0.6	- 9.8
Electricity Consumption	125.4	0.3	11.2	25.1	24.1
Total County Employment	105.0	0.8	- 3.4	- 0.3	- 1.2
Manufacturing	53.7	- 7.9	- 31.2	- 36.2	- 57.5

\* These values are adjusted to remove seasonal fluctuation. The base month is Jan. of 1994, with an Index value of 100.  
\*\* The percent change from the same month one, five and ten years ago.

Key Statistics		
Median Home Price*	Mortgage Rate†	Unemployment Rate‡
<b>\$ 324,900</b>	<b>6.125 %</b>	<b>6.6 %</b>

\* 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.  
† 30 year owner occupied conforming conventional fixed rate provided by Umpqua Bank.  
‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

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## Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	<b>Not Available</b>	<b>10.0 %</b>	<b>- 27.9 %</b>	<b>Not Available</b>

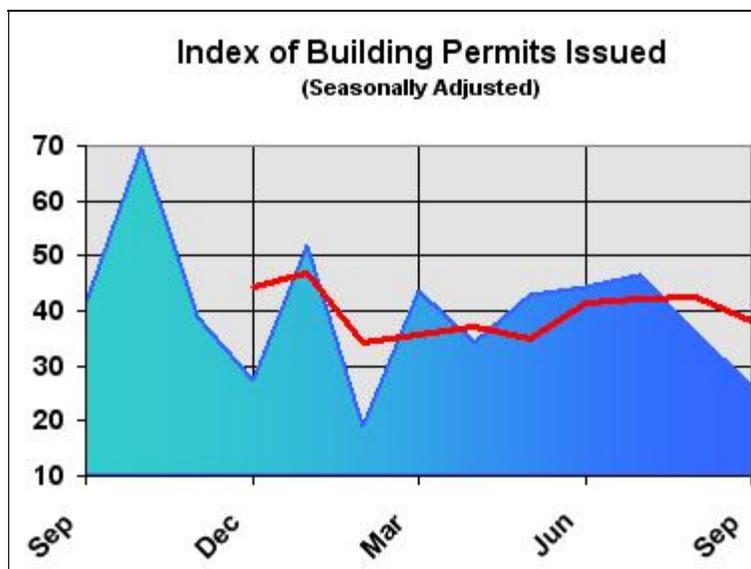
\* All values are seasonally adjusted.

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) expected manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.



The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Help Wanted Advertising added 10 percent in September to come to 116.2. This Index built to a major peak beginning in 2003 and reaching a climax in Autumn of 2006. Since then it has cooled somewhat, and is now in the lower range of its historical values. The long run average of this Index is 134. This is a negative indicator for employment and economic activity in general in the months ahead. The cooling of this Index is consistent with the rise seen in the Humboldt County unemployment rate.



The seasonally adjusted Index of Building Permits is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Building Permits Declined sharply in September, dropping 27.9 percent to come to an index value of 26.11. This Index has been on a measured downward march since Autumn of 2004. At that time it had a value of 86.0 and now is well under a third of that level. This indicates a definite slowdown in building in the county and may also reflect a general cooling of expectations about the future business climate on the part of local businesses who are planning less construction and expansion of capital. This is an indicator of slower economic activity in the county in the months ahead.

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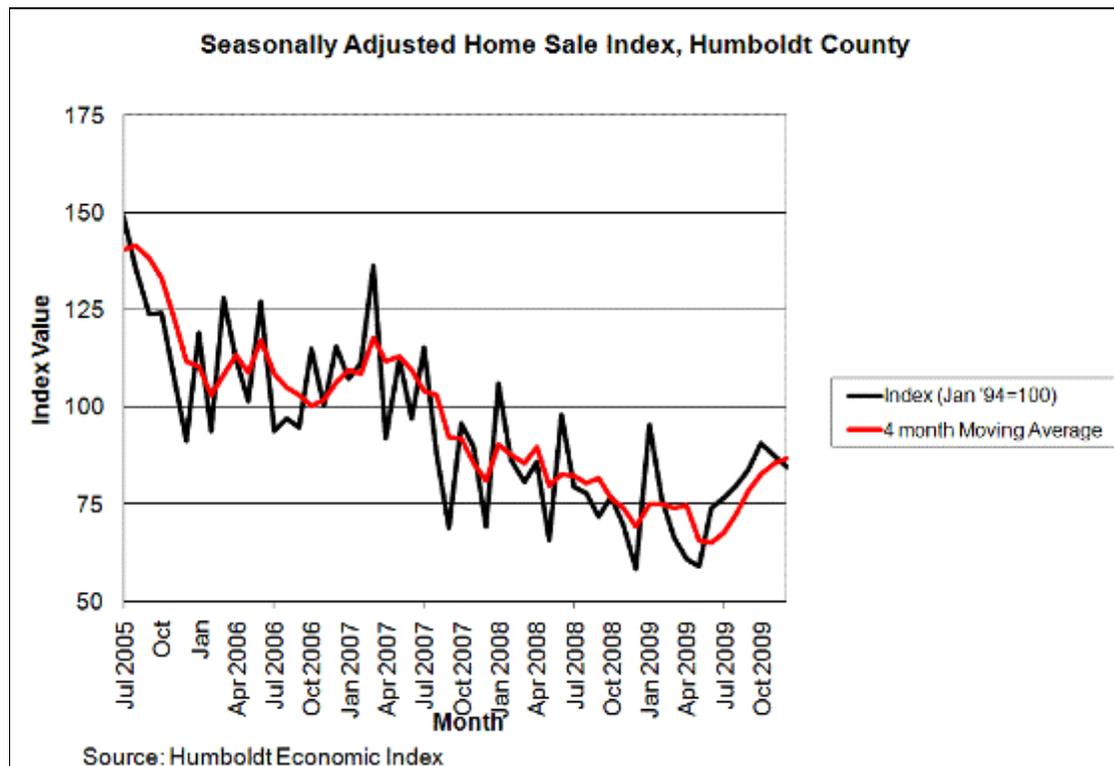
## Individual Sectors

### 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.

You can listen to the October 5, 2007 KHSU [radio interview](#) with Prof. Eschker about subprime and housing issues. On October 22 San Francisco Federal Reserve Bank Senior Economist Gary Zimmerman presented a talk on the "U.S. Economic Outlook." You can view his [presentation](#) (pdf format).

Home Sales suffered a tremendous decline in September, falling from the already low 88.0 to 68.9. This is a 21.7 percent drop after last month's 23.7 percent drop. Housing Sales have fallen more in the last two months than in any other two month period in the history of the Index. The housing Index is now giving Lumber-Based Manufacturing a solid run for its money as the report's weakest long term sector standing well below the 100 level where the series began in 1994. This has happened as prices and sales climbed stratospherically in recent years. Since that time the pace of sales has slowed a seasonally adjusted 54 percent. Below is the Home Sales Index:



The median sale price rose in September to \$324,900 from \$315,000 in August, contributing to the stunning decline in sales. Until prices fall to reflect the drop in demand (due to reductions in credit availability) housing sales will most likely continue to suffer. At the same time there is reason to believe that during a market downturn the median price overstates housing prices. The lower end of the housing market has likely been disproportionately stricken by the slowdown in housing so that the median is pressed upward as traditionally-lower priced homes fail to sell. This may also account for some of the apparent strength in recent months in the statewide median as home sales collapsed at that level as well.

Humboldt County's drop in sales exactly matches the 22% monthly fall in Sacramento, and other cities also experienced double-digit drops in sales. The pace of sales statewide continued to decline according to the [California Association of Realtors](#), and now has fallen 38.9 percent over the past twelve months. Meanwhile the median sales price statewide declined a historic 9.9 percent in September alone. CAR reports that this is the largest month to month decline on record, and it claims that this month has seen the first year to year decline in more than 10 years. This fails to account, however for the effect of inflation in further eroding the value of homes over that period. In inflation adjusted terms, there have already been recent months which saw year to year declines in the state and this month's decline, in inflation adjusted terms, is even sharper. In real, inflation adjusted terms the median sale price of a house in California fell 7.5 percent over the last year. This picture is further darkened by the fact that it is likely that the lower end of the market has been hit hardest. If that is the case then the median actually understates the magnitude of the decline in market value suffered by California houses. The CAR reports that California has been harder hit than the rest of the nation because of the reliance of the California housing market on jumbo loans, those above the conforming limit of \$417,000. The inventory of unsold homes in California now stands at over 16 months. In other words, at current sales pace, it would take nearly a year and a half to sell the homes already on the market without considering any additional homes that will be put on the market in that period. Growing numbers of foreclosures in

coming months are likely to contribute further to the stock of unsold homes.

The outlook is not so gloomy at the national level. The **National Association of Realtors** reports that the pace of sales in the US is down 8.0 percent in September from August and 19.1 percent versus a year ago. The real, inflation adjusted median price is down 6.9 percent over the last 12 months and 5.7 percent just during the month of September. This is still quite a sharp drop over a single month.

**Freddie Mac**, the nation's largest mortgage lender reports that the interest rate on a 30 year fixed rate mortgage as of November 1 is 6.25 percent with an average of 0.4 points. This is a continued decline from October's rate of 6.37 percent and a average of 0.5 points.

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. Also, visit the **Humboldt Real Estate Economics Page**.

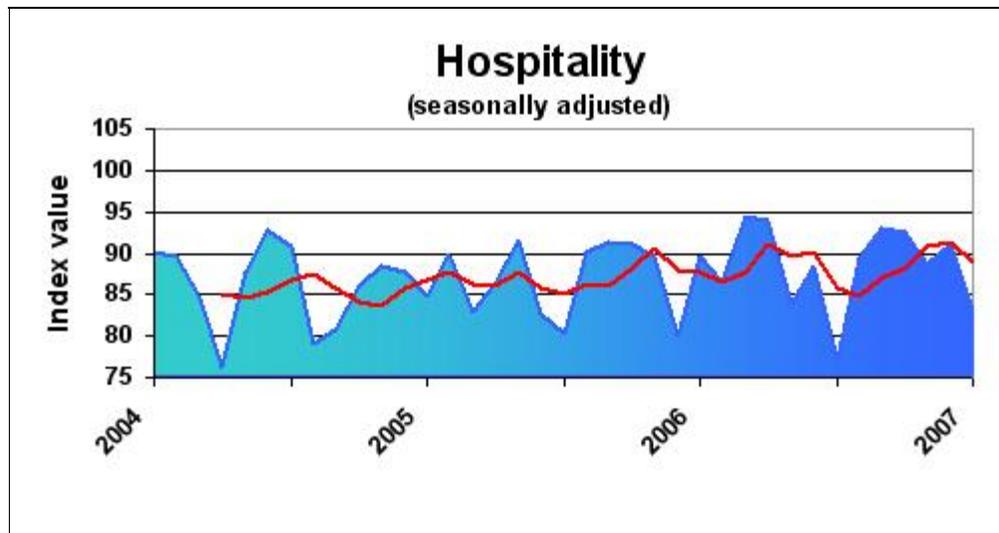
## Retail Sales

The Retail Sales Index declined slightly in September, shedding 1.5 percent to come to 160.4. This makes it the strongest index over the years by far in our report. It was for a time outpaced by the Home Sales Index, but home sales have fallen far behind in the last two years, and now Retail Sales is the Index mostly responsible for the Composite being in the black with Energy contributing as well. Retail, in spite of being off this month is higher now than it has been over much of its history. In the table above Composite, Home Sales, Employment & Manufacturing all show red from one month back to ten years back and Hospitality has only a single column in black. In contrast Energy and Retail both show black in most columns, indicating that these indices are above their levels in most prior periods.

Nationally, the Federal Reserve Board, in its **Beige Book** reports that retail sales and consumer spending in September and early October grew, but at a slower rate, with indications that growth was uneven, concentrated in certain areas and certain industries. Also the Federal Reserve noted that its contacts in industry reported a "high level of uncertainty about the outlook for retail sales," and a few areas of the country had reports that retailers were reducing inventories. Vehicle sales were reported as weaker, but reports indicated that sales of fuel-efficient and used cars remained strong.

## 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 seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The Hospitality Index dropped 8.6 percent in September. It now stands at 83.2 and was this month's second largest loser after the dramatic drop in Home Sales. This Index has trended somewhat upward in recent years. A recent improvement in our seasonal adjustment formula for this Index has smoothed the graph somewhat and made it more readable.

## Gasoline Prices

According to **AAA**, Gas prices are up across the board in October, adding 16 cents in Eureka, 21 cents in Northern California and 20 cents in the state as a whole. This has happened as oil prices have shot up

into the 90's, with prices currently at \$94 per barrel. The association said this month that "The unfortunate reality is that unless oil prices reverse course and move substantially lower from where they are today, American motorists will likely continue to see gas prices trend higher." The unfortunate reality is that AAA wrote that when oil prices were ten percent lower than they are today.

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.

Gas Prices		
Prices as of 10/16/2006	Average Price*	Change from Previous Month
<b>Eureka</b>	<b>\$ 3.24</b>	<b>\$ 0.16</b>
<b>Northern CA</b>	<b>\$ 3.09</b>	<b>\$ 0.21</b>
<b>California</b>	<b>\$ 3.07</b>	<b>\$ 0.20</b>
* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey ( <a href="http://www.csaa.com">www.csaa.com</a> ).		



## Electricity Consumption

The Index value of this sector is based on seasonally adjusted kilowatt-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, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

Energy consumption, measured in Kilowatt-hours is up slightly in September over August, but more importantly is down from its peak in March when the Energy Index was 131.5. It now stands at 125.4. This Index has increased substantially since it began at 100 in 1994, but it has begun trending downward of late. Also, energy consumption has become a much more volatile index in recent years.

## Total County Employment

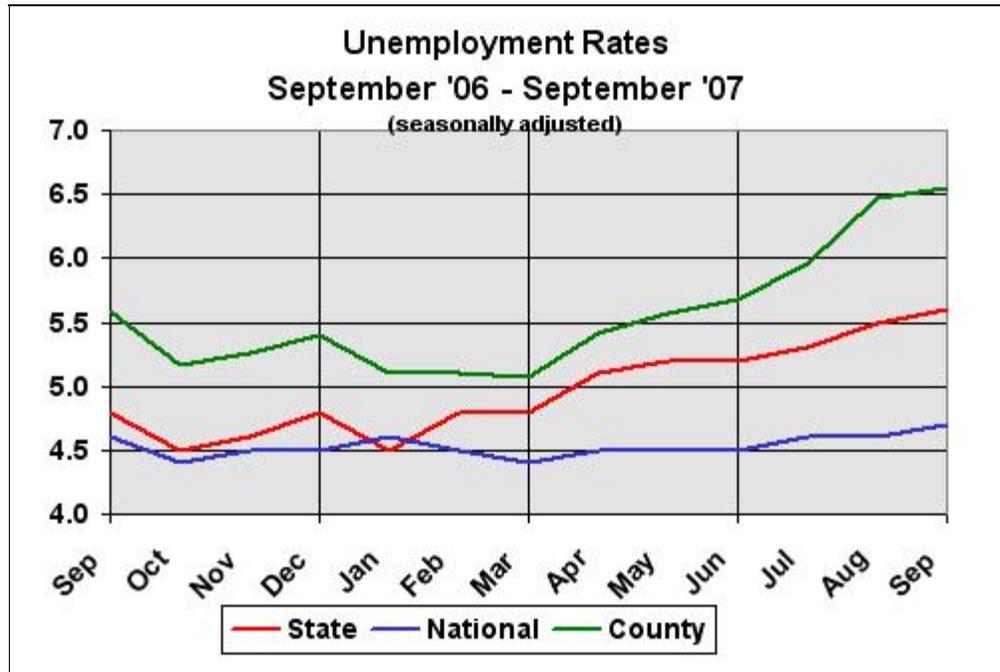
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

The seasonally adjusted Humboldt County unemployment rate ticked up in September to 6.6 percent from 6.5 in August. This, after successive increases since March when the rate stood at 5.1. The rate was quite low at that time, and even now stands below the average rate for the County since 1994, although it's now quite close. Since January of 1994 the seasonally adjusted Humboldt County unemployment rate has averaged 6.65 percent. Since the early years of the Index represent a time of high unemployment in the county, it may be more instructive to look at only the last decade if the lower unemployment rate in the county since the late nineties is a result of a fundamental shift in the county economy as opposed to simply resulting from a passing prosperous phase. Looking only at the last decade the average unemployment rate is 6.19 percent, indicating that even by this more exacting standard rates in the early part of this year were quite low, but perhaps current rates have moved above the past average.

The increase in unemployment in September was driven largely by new entrants to the labor force who do not yet have work and an unseasonably small decrease in the number of the unemployed. The [California Employment Development Department](#) reports that Humboldt County economy added 900 jobs in the month and 700 individuals joined the labor force. This resulted in a decrease of 200 in total unemployment. Since this increase was smaller than a typical September increase, it raised the seasonally-adjusted unemployment rate for the county.

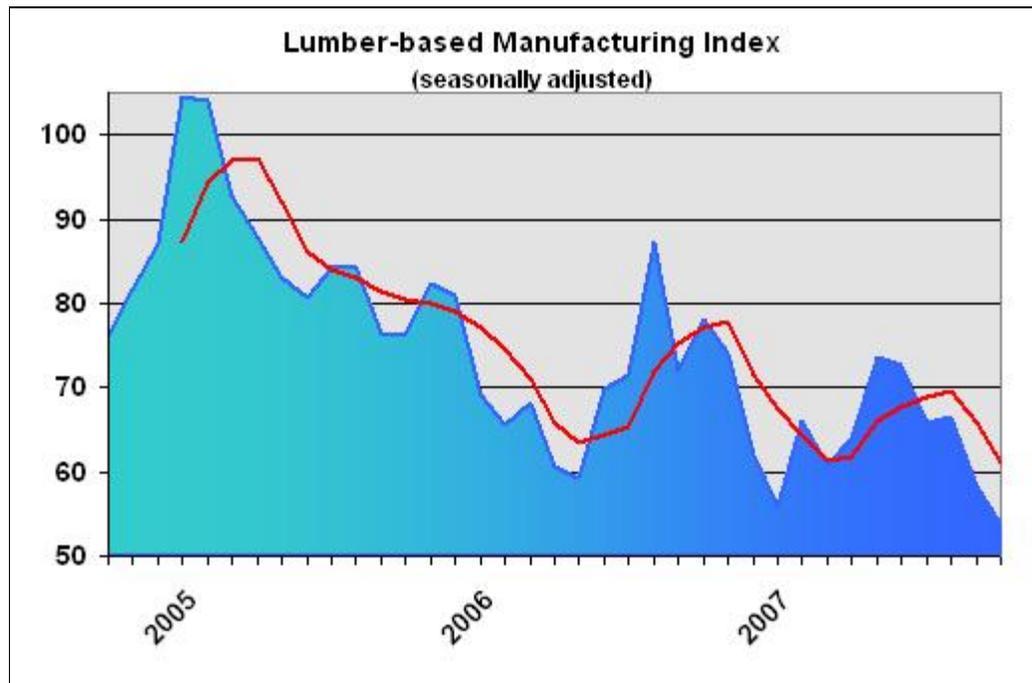
The state and national unemployment rates also rose in September, rising to 5.6 and 4.7 percent respectively. In August the state rate was 5.5 percent and the national rate was 4.6 percent. Both of

these rates are seasonally adjusted.



## 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 55 percent of total county manufacturing employment.



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 which attempts to demonstrate the overall trend in the data with less monthly volatility.

Lumber-based manufacturing in the county continued to decline this month after last month's sharp decline. This leaves the Index more than 20 percent off from two months ago. This has been a very poorly performing index for a considerable time now, declining more than half since the Index began in January of 1994.

Nationally, the **Institute for Supply Management**, a trade group based in Tempe Arizona, reports in their October Manufacturing Report on Business that US manufacturing continued to grow but at a slower

rate of expansion. It also reports that employment in US manufacturing, as well as new orders grew in October. Finally, the ISM reports that the US economy expanded in October for the 72nd consecutive month, logging a total of six years of uninterrupted month-over-month expansion. The **Bureau of Economic Analysis** concurred, noting that US GDP in the third quarter of 2007 expanded at a respectable 3.9 percent annualized rate. This implies that if the third quarter rate were sustained for a year, it would represent 3.9 percent growth on the year. This is a solid pace, but with the growing uncertainty of wobbly financial markets and the housing slump it is far from certain that growth will be sustained in coming quarters.

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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 2006" report reflects data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

### Cited References:

[Automobile Association of America](#)

[Bureau of Economic Analysis](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[Federal Reserve Beige Book](#)

[Freddie Mac](#)

[Institute for Supply Management](#)

[National Association of Realtors](#)

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