

[skip navigation](#)

Humboldt Economic Index

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Humboldt Economic Index

October 2008

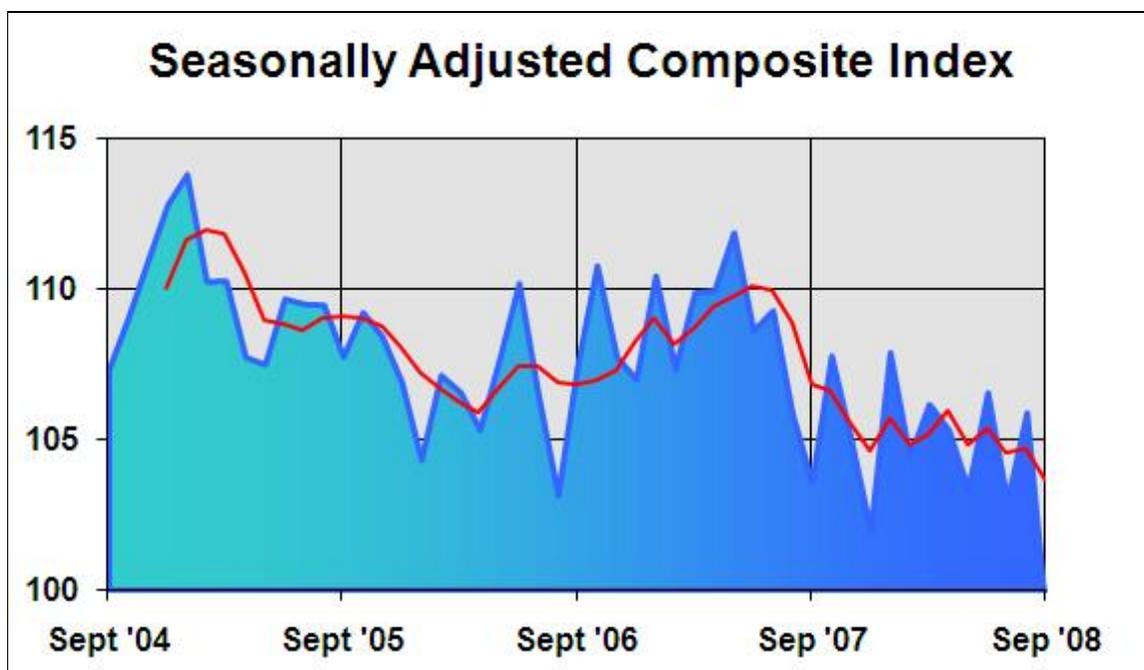
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The seasonally adjusted composite Index is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

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.

September was a hard month for Humboldt County as the composite fell 6.5% under the 100 level to 99.0. The biggest hit came from a 21.2% decline in retail sales. Sales contracted due to a decrease in discretionary spending and unfavorable consumer expectations. Home Sales also contracted as mortgage interest rates soared 0.5 percent since August and consumer expectation about the near future continues to diminish. Hospitality and Electricity Consumption both declined modestly again as consumers begin to start reducing consumption to weather the projected on coming economic downturn. Manufacturing also declined as global demand for lumber continues to decline. County Employment grew 1.5 percent from August (the only sector to grow this month) but is still down from last year. Future projections are mixed in the labor markets as producers search for a stable employment level while consumer expectation

continue to deteriorate. This has a negative feedback affect that could potentially cause further declines in all sectors of the economy. However, expectations may change with the new Obama administration.

For a summary of the recent rise in the unemployment rate, see [The Pain Begins](#) from October, 14.

Composite & Sectors					
		Percent Change From:			
Index	Value*	Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	99.0	-6.5	-4.4	-7.3	-8.8
Home Sales	71.9	-7.7	4.3	-49.7	-36.3
Retail Sales	137.5	-21.2	-13.9	-1.7	7.9
Hospitality	87.3	-2.1	4.9	1.4	-9.6
Electricity Consumption	122.1	-3.8	-2.6	21.7	21.0
Total County Employment	107.7	1.5	-1.4	-0.2	-0.5
Manufacturing	42.0	-12.3	-17.7	-51.0	-64.5

* 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‡
\$290,000	6.250%	6.8%

* 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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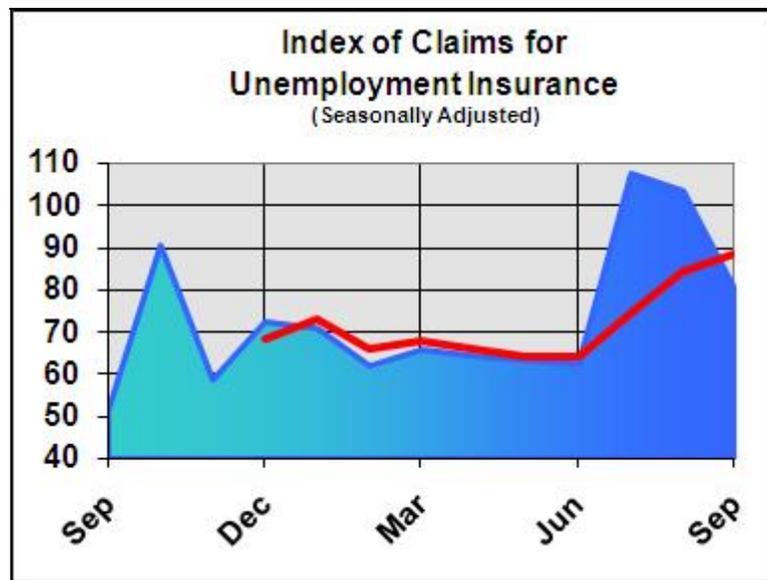
Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	-22.9%	10.1%	63.7%	Not Available

* All values are seasonally adjusted.

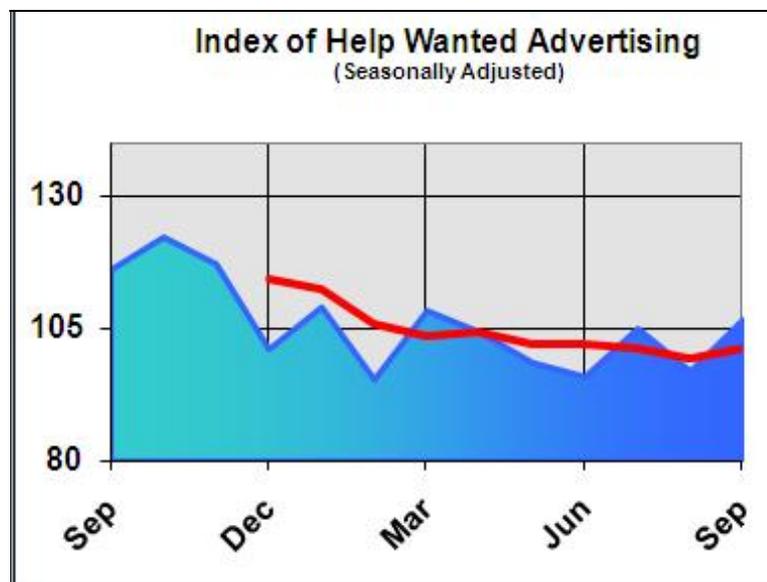
The Index tracks four leading indicators to get a sense of the direction that the county economy may

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 Unemployment Claims 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.

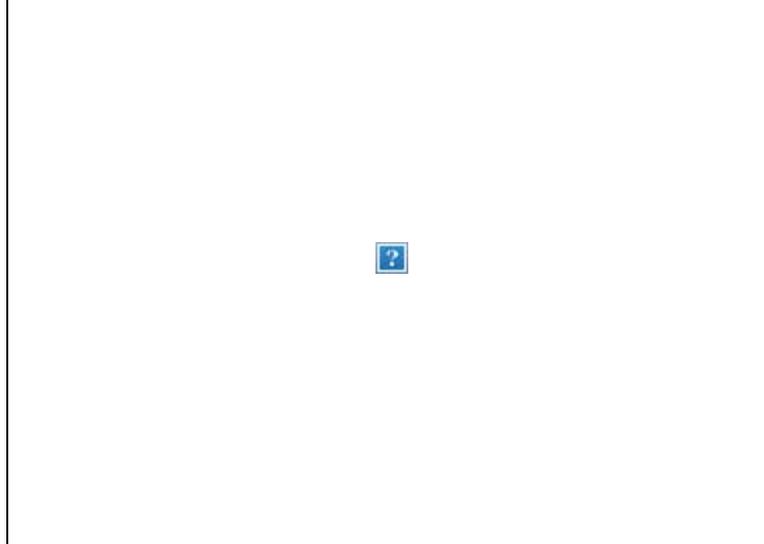
Unemployment Claims fell for the second month in a row. The 22.9 percent decline in September brings this index to 80. A decline in this index resembles a strengthening in local labor markets. Furthermore, if a downward trend develops it could support stronger labor conditions for Humboldt County in the near future. However, there were recent increases in the number of weeks eligible for benefits, which may explain the jump in July.



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 expanded by 10.1 percent throughout September. Since December 2007 this index has bounced around index values of 109 to 95. This could be in response to the current uncertainty in the market as producers try to find the line where production is stable.

Graph of the Seasonally Adjusted Index of Building Permits



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 greatly expanded in September by 63.7% to an index value of 46.1, the last time this index was at this level was December 2007. While the running average for this index is 53.6, the sizable increase this month should provide some future confidence in manufacturing orders as construction picks up in the approaching months.

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[Individual Sectors](#) |

[Home Sales](#) |

[Gasoline](#)

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.

Homes Sales slipped 7.7% from 77.9 to 71.9 in September while the median price continues to fall; with a month to month drop of \$6,900. Mortgage rates jumped 0.5% to 6.25%. A rise in interest rates could symbolize further tightening of credit markets which could discourage some potential home buyers from entering the market. Uncertainty in the market also puts downward pressure on sales as consumers are both unsure about future income and housing prices.

California experienced an increase in sales of 96.7% and a drop in median home prices of 40.9% when compared to September 2007. Median home prices in California now stands at \$316,480 which is 9.6% under the August 2008 level, as reported by the [California Association of Realtors](#). Buyers are taking advantage of falling home prices and favorable interest rates. September average mortgage rates were recorded by Freddie Mac at 6.04%, which is a 0.34% decline from the same period last year. As their Unsold Inventory declines from 6.7 months to 6.5 this could be symbolic of weaker downward pressure on housing prices as the surplus of housing starts to dry up. Furthermore, foreclosures in California skyrocketed 228 percent in the past three months when compared to the same time last year; while default notices were down 22.5 percent from last quarter but up 29.9 from the same period last year.

Nationally, Standard & Poor's/Case-Shiller 20-city housing index dropped a record 16.6 percent from August of last year. This is a stunning year over year drop on a national basis and shows that house price declines are accelerating accross the country. [The National Association of Realtors](#) reports that single-family home sales rose by 6.2 percent while median home prices dropped 8.6 percent to 190,600 when compared to September 2007.

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 plummeted 21.2% to an index value of 137.5. Sales in the automobile industry

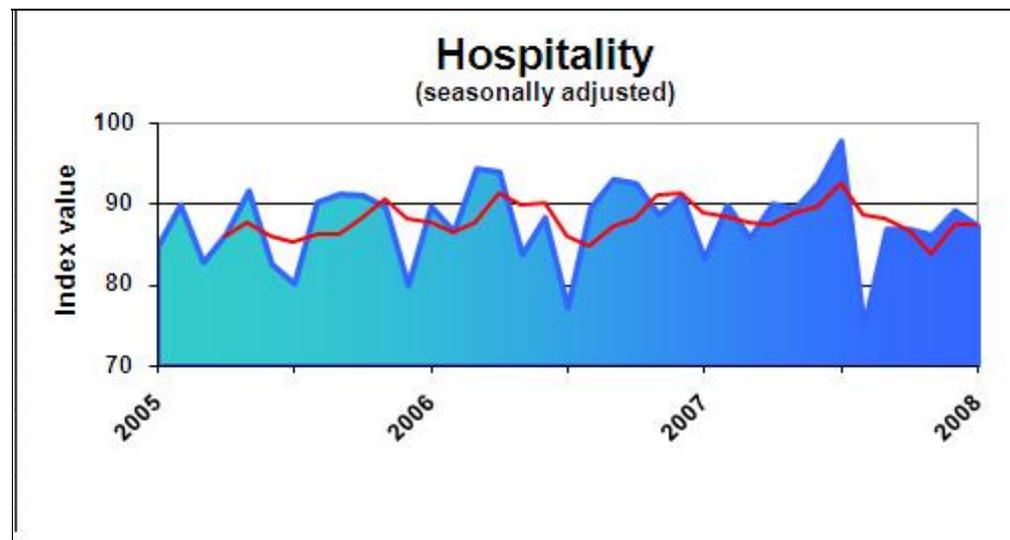
continue to struggle to keep afloat as tightening credit restricts potential buyers from entering the market along with other buyers postponing purchases until more favorable economic conditions arise. Overall, Humboldt seems to be experiencing a reduction in discretionary spending as projected future conditions seems to worsen.

Consumers, in an attempt to save money, have reduced the amount of dining out and increased that amount of home cooking. Indicators suggest higher rates of unemployment in coming months which will put further downward pressure on luxury goods and increase the need to necessary goods and services. **The Conference Board** reports that consumer confidence had fallen to an all time low in October to 38.0. All in all, there may be further reduction in overall retail sales; however, there could be a strengthening in discount stores as consumers try to find better deals. It is important to know that falling consumer confidence can lead to a negative feedback affect. This means that as consumption scales back producers must also scale back production which, if severe, leads to layoffs negatively affecting consumer confidence.

The Seattle Times reports that President-elect Obama announced his first agenda as providing a multi billion-dollar stimulus package aimed at restoring infrastructure, jobs, and confidence. It also calls for an increase of 13 weeks to unemployment insurance and increased funding for food stamps. All of which could stabilize sales from falling further.

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 remains well within its long term average range, now standing at 87.3, a slight 2.3% decline from the previous month. Future strength in Hospitality remains unclear as consumers' future expectations cause them to scale back discretionary spending; thus, tourism which accounts for a majority of the occupancy levels may also decline putting contractionary pressure on hospitality in coming months.

Gasoline Prices

Gasoline Prices throughout the nation are experiencing extremely rapid declines in prices at the pumps. The average price of a gallon of unleaded gas in Eureka fell 94 cents while the state as a whole experienced a 60 cent drop. The United States, Europe, and China's demand for oil had declined due to unfavorable economic conditions. With the three largest consumers of oil cutting back consumption, **MSNBC reports** that the price of oil continues to have tremendous downward pressure on prices and while the price per barrel of oil stands at \$61.04. OPEC has responded to such drastic declines in prices by scaling production back in hopes to stabilize oil prices. Gas prices are projected to slightly decline or remain unchanged in the coming months as demand remains relatively low.

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 10/08/2008	Average Price*	Change from Previous Month
Eureka	\$3.02	-\$0.94
Northern CA	\$3.28	-\$0.52
California	\$3.01	-\$0.60
* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (www.csaa.com).		

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 frequently estimated, and are revised when the quarterly data are received.

New quarterly energy data produced seasonally adjusted index values from July to September as follows: 130.4, 127.0, and 122.1. From August to September the index fell by 3.8%. Electricity consumption has been falling since concerns have risen. Once again consumers and business have started to reduce electricity consumption in order to decrease household spending and curb production costs. Matt Drange, a writer for the student run newspaper of Humboldt State University, **The LumberJack**, reports that HSU has signed onto a solar power project incorporating 15 of the 23 CSU campuses. The 15 campus project is estimated to produce 12.2 million kilowatt hours which is equivalent to 1,256 households. Other renewable energy projects have been put on hold for another time as falling oil prices make alternative energy less attractive and more importantly current economic conditions could not support large renewable energy projects at this time for many businesses.

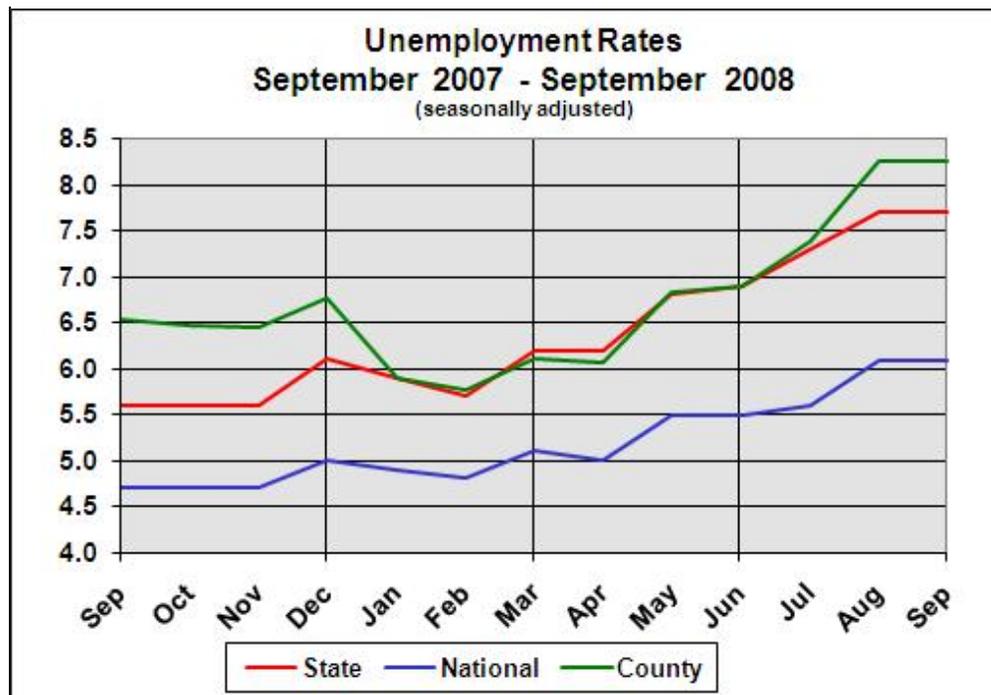
Total County Employment

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

The seasonally adjusted index value rose by 1.5% to 107.7 due to employment remaining relatively unchanged in September, where employment is usually weaker relative to August. Humboldt county's workforce expanded in September by approximately one thousand while employment rose by 1,300. Government employment rose by 9.2% throughout September 2008. However, California's economic situation does not support future strength in labor markets. On a local perspective, we have seen an increased rate of business closing; including the Evergreen Pulp Mill and Mervyns in Eureka, Green View Market in Arcata. The government employs nearly 25% of Humboldt County's workforce. Governor Schwarzenegger has proposed future budget cuts, which if passed, could result in higher unemployment rates for the county.

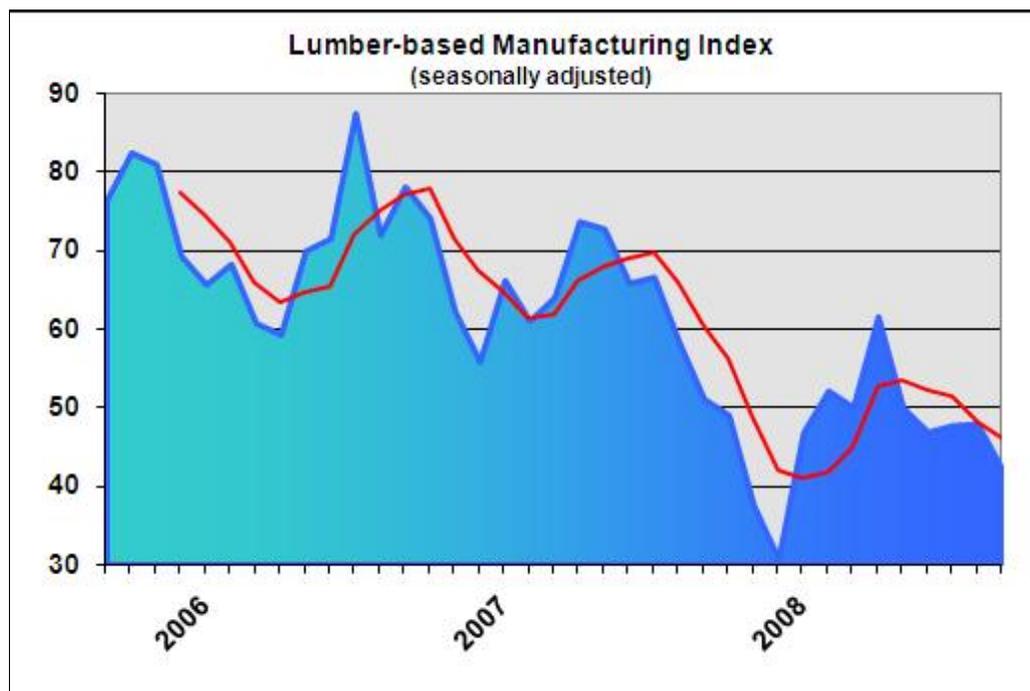
County, State, and National seasonally adjusted unemployment rates remained unchanged from last month. They are at levels not even seen during the last recession, and they may rise further.

On a more national level many business are closing or reducing their labor force from 5% to 20%. Circuit City plans to layoff 17% of its workforce, or 7,300 people; Yahoo and Google are also expected to scale back production; automobile producers have discussed temporarily closing some factories while laying off thousands of employees. Overall, future unemployment figures are expected to rise as companies reduce payroll expenses by laying off their workforce during a period of poor economic conditions.



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 took another hard hit in September, contracting 12.3% from the previous month to a seasonally adjusted value of 42.0. Humboldt lumber manufacturers face difficult times as demand for lumber nationwide dwindles as the housing market continues to find its equilibrium and future expectations are filled with uncertainty. Furthermore, the **Institute of Supply Management** also reports that manufacturers of wood products experienced a contraction throughout September 2008. The rise in local Building Permits could alleviate some of the downward pressure created from the current global economic situation; however, future declines seem inevitable in coming months as consumer confidence continues to fall throughout the United States, accompanied by the closure of the Evergreen

Pulp Mill in Eureka in mid-October.

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[Gasoline](#)

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:

[California Association of Realtors](#)

[The Conference Board](#)

[Employment Development Department](#)

[Institute of Supply Management](#)

[The LumberJack](#)

[MSNBC](#)

[The National Association of Realtor](#)

[The Seattle Times](#)

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