

# Humboldt Economic Index

October 2011

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## Leading Indicators Positive, Mixed Growth

The Humboldt economy is delicately balanced, October data seems to show. The Composite Index fell to a value of 98.4, still up from its value a year ago, but down from August.

Leading indicators were all positive. Unemployment claims were down yet again, building permits continued to plod steadily onward, and the number of advertisements for labor actually increased.

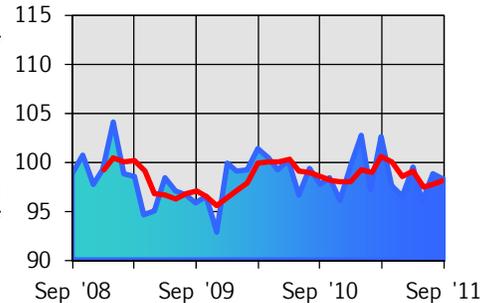
Similarly, employment continued to increase, decreasing the number of county unemployed but not the seasonally adjusted rate. And housing sales held steady in the local area.

Hospitality increased despite the end of summer. Retail sales, however, are down slightly, contributing to, and perhaps being contributed to, by general economic pessimism on the part of consumers.

The quarterly report on electricity consumption showed a consistent decline in energy usage over the last three months. Lumber manufacturing, though, did continue to rise.

Meanwhile, students and other malcontented young people descended on public areas near Wall Street, the

Composite Index



Arcata Plaza, and around the nation to protest what they see as unfair aspects of the US economy. This includes rising income inequality and unbalanced political influence. Beyond a strong sense of entitlement, however, little has emerged from the Occupy movements. Ultimately, they may be nothing more than an expression of frustration with an ailing economy that will fade away as economic recovery progresses.

The Humboldt Economic Index is produced by the Economics Department at Humboldt State University. It 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.

## Composite & Sectors

Index	Value*	Percent change from			
		Last Month	One Year ago**	Five Years ago**	Ten Years ago**
<b>Composite</b>	<b>98.4</b>	<b>-0.4</b>	<b>0.6</b>	<b>-8.4</b>	<b>-5.1</b>
Home Sales	82.8	0.4	10.7	-12.6	-5.7
Retail Sales	143.1	-1.8	-2.0	-9.7	15.4
Hospitality	90.5	3.0	6.7	0.9	2.5
Electricity	119.9	-6.7	-4.2	6.4	-11.9
Employment	97.5	1.1	-0.7	-6.2	-4.4
Manufacturing	42.2	3.5	14.0	-45.9	-46.6

\* 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.

# The Index – Leading Indicators

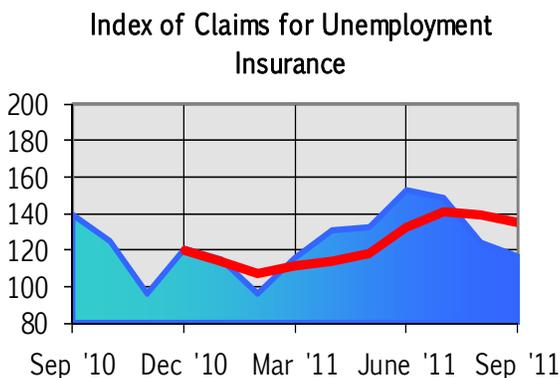
## Leading Indicators

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

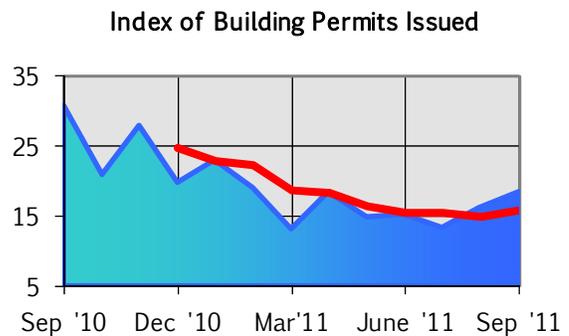
Leading Indicators			
	Unemployment Claims	Building Permits	Help Wanted Advertising
Change from prior month*	-6.3%	14.6%	38.2%
* All values are seasonally adjusted.			

Key Statistics			
Median Home Price*	Monthly Rent**	Mortgage Rate†	Unemployment Rate‡
\$250,000	\$1,286	4.25%	12.4%
<p>* The Humboldt Association of Realtors provides home price data. 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>** Average rent on 2, 3 and 4 bedroom houses listed in the Times Standard.</p> <p>† 30-year owner occupied conforming conventional fixed rate provided by Umpqua Bank.</p> <p>‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.</p>			

**Unemployment Claims** were down last month. Continuing its three-month decline, the number of unemployment claims reached its lowest value since September of 2008, coming to rest at 1,239. That landmark number is a good omen for the Humboldt County economy, signaling potentially stronger labor markets in the near future. The Unemployment Claims Index fell more than 6%, resting at a current value of 116.1.



**Building Permits** held steady in September. The number of permits issued each month has remained almost constant through 2011, a trend that continued in the latest data. With the raw number of permits unchanged in the face of adverse seasonal expectations, the Building Permits Index increased by 14.6 percent, coming to rest at a still relatively meager value of 18.4.



**Help Wanted Advertising** rose in September. Contrary to seasonal expectation, labor demand is still holding fast, and the number of advertisements printed actually increased from August. The combined result was that the Help Wanted Index increased by more than 38%, from 48.1 in August to a current value of 66.4. If demand for labor continues to hold, the next months could see a significant drop in seasonally adjusted unemployment.



**Graphs Explanation:** The blue area represents the seasonally adjusted Index of Unemployment Claims 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 Index – Individual Sectors

## Home Sales

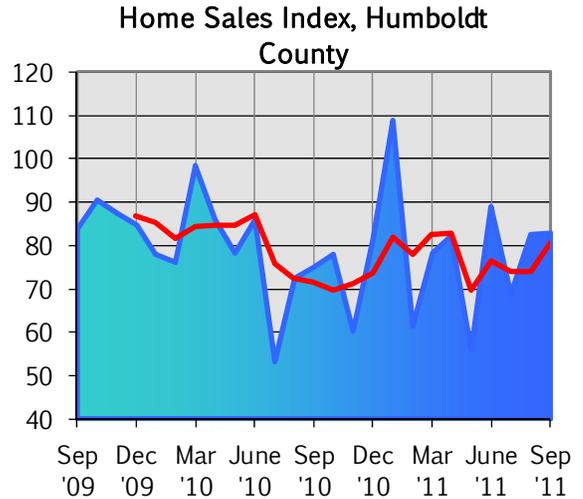
The Index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Home sales remained strong in September. The number of houses sold fell slightly from its high last month, but remained high. Together with seasonal expectations for such a relaxation in the real estate market, this led the Home Sales Index to remain almost unchanged, up 0.3% to a current value of 83.8.

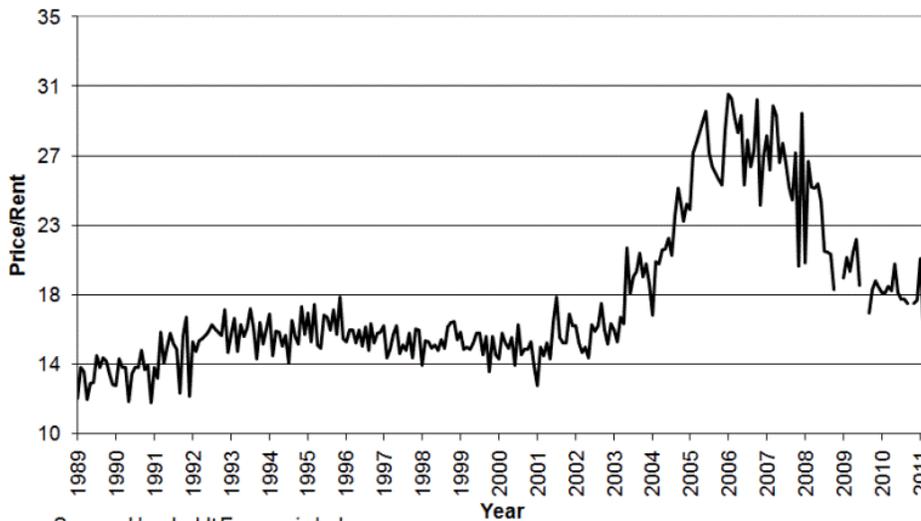
The price of a home, meanwhile, rose sharply. The median price of homes sold in the county rose from its seven-year low last month to \$250,000 in September. The mortgage rate increase quickly also, returning to its July rate of 4.25%. Mean and Median rent fell slightly, however, and are down by about \$15 and \$25, respectively. Both are approximately \$1,300.

For California as a whole, housing sales dropped slightly in September. After August's surge, the number of houses sold last month fell by 2%, the California Association of Realtors reported. The state median price dropped along with sales, however, and as compared with September of 2010, sales are up and price down. Case-Schiller reported on data through August that national home prices were just barely up from July in both its 10- and 20-city composites, but still significantly down from last year.

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](#).



**Humboldt County Housing Price to Rent Ratio, 1989-2010**  
(medium home price/mean rent, adjusted for expenses)



Source: Humboldt Economic Index

# The Index – Individual Sectors

## Total County Employment

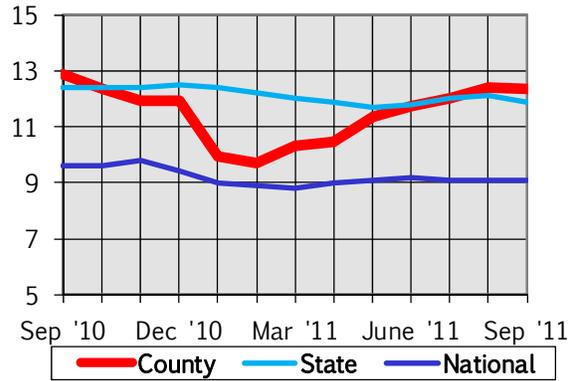
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Employment again increased in the Humboldt County economy in September. The Employment Index rose by slightly over 1%, from 96.4 in August to 97.5 last month. According to the California EDD, the county's labor force increased by 600 persons. The number of available jobs grew even faster, however, as 1,100 were added to the August total, reducing by 500 the number of persons unemployed. Much of that change was the result of hiring by state and local governments. The raw county unemployment rate fell by almost a percentage point, but the seasonally adjusted rate remains constant at 12.4%.

The same trend is visible in federal unemployment.

While the raw rates have dropped, seasonally adjusted federal unemployment again held steady at 9.1%. State unemployment, however, fell significantly enough that even the adjusted rate inched downward by 0.2 percentage points, and now stands at 11.9%.

### Unemployment Percentage Rates



## 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.

With the summer boom fading into the past, hospitality managed to increase slightly last month. Average occupancy rates dropped significantly, but not by as much as seasonally expected. The result was a 3.0% increase in the Hospitality Index, which now stands at a value of 90.5.

## Gasoline Prices

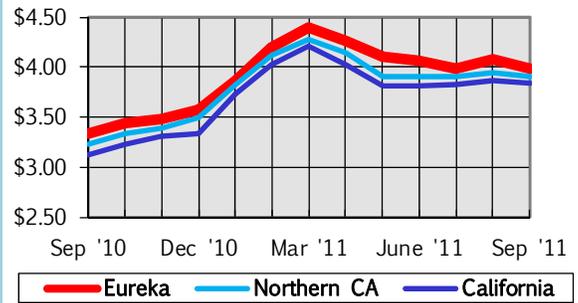
Gas prices reversed their \$0.10 increase from August, falling by the same amount in September. The price of a gallon of gas is now back to \$3.98 in nominal terms, cashing in at a value of \$3.21 in inflation adjusted money. Gas prices also fell in the northern California area and in the state at large, by about \$0.03 each.

Inflation, meanwhile, remained low. The Consumer Price Index rose by a cautious 0.152%, annualizing to an inflation rate of barely over 1%. Intriguingly, that decrease in the purchasing power of the dollar may be slightly contributing to the improving condition of the labor market noted above. Economist N. Gregory Mankiw recently commented on the increasing number of jobs in which minimum wage laws impose a binding constraint. By chipping away at the value of that mandated wage, price increases may be contributing to the growing demand for labor.

Gas Prices		
Prices as of 10/31/2011	Average price*	Change from previous month
Eureka	\$3.98	-\$0.10
Northern California	\$3.91	-\$0.03
California	\$3.84	-\$0.03

\* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey ([www.csa.com](http://www.csa.com)).

### Gasoline Prices



# The Index – Individual Sectors

## 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.

Retail sales declined in September. Seasonal adjustment remained relatively constant, and a slight drop in revenues led the Retail Sales Index to fall by 1.8% from 145.7 in August to 143.1 in September. This also represents a 2% decline from last year.

Nationally, the FED's Beige Board reported that growth was widespread, but weak. Automobiles and tourism were positive forces in consumer spending. This slight increase is in line with last month's uptick in consumer confidence. In October, however, the Conference Board reported that consumer confidence levels dropped sharply, down 6.6 percentage points, and reaching levels reminiscent of those registered during the Great Recession. The Consumer Confidence Index, which is based on a survey of consumer's economic expectations, now stands at 39.8. Those poor expectations could well translate into further cut-backs in consumption, leading to a reversal of upward national sales trends.

## 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.

In contrast to retail sales and electricity use, lumber manufacturing rose last month. Raw production decreased, but not as much as is seasonally typical. The result was a 3.5% increase in the Lumber Manufacturing Index, from 40.8 in August to 42.2 in September. This represents a sizable increase of 14.0% from this time last year, when the Index stood at a value of 37.0.

The institute for Supply Management, meanwhile, noted that manufacturing continued to expand in October, but that that growth was limited to less than half of the nation's 18 manufacturing industries. The PMI correspondingly dropped by less than a percentage point, resting at a current value of 50.8. The PMI (Producing Managers Index) is based on the number of manufacturing supply managers who expect business conditions to improve in the near future.

## 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.

Electricity use is down, both from last month, and from our last report. The Energy Consumption Index slumped to 119.9 in July after our last quarterly update, and then increased to a value of 128.6 in August. The decline was possibly due to decreased household heating over the summer months. In September, consumption fell again, reaching a final value of 120.0.

**Explanatory Note:** We have been tracking economic activity since January 1994. The Composite Index at the beginning of this report is a weighted average of each of the six sectors described 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 the most recent data available, which is usually from the previous month. For example, the "August 2006" report reflects mostly data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

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**Cited References:**

California Association of Realtors - Case-Shiller Home Price Indices  
Consumer Confidence - The Institute of Supply Management  
National Association of Realtors

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