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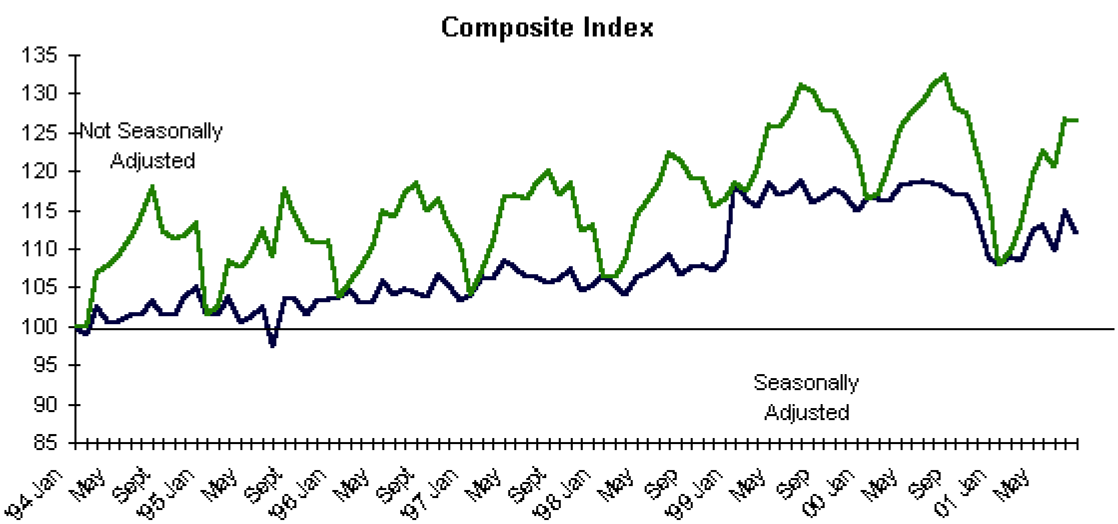
September 2001



Key Statistics		Leading Indicators	
Humboldt County		***Seasonally Adjusted***	**% Change From Previous Month**
Median Home Price*	$143,500	Help Wanted Advertising	+14.6
30 Yr. Mortgage Rate (9/20)	6.75%	Building Permits	-40.8
Prime Rate (9/20)	6.0%	Unemployment Claims	-12.5

Unemployment Rate**	4.9%	Manufacturing Orders	+2.6
* Home price data are provided by the Humboldt County Board 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 EDD Website for updates.			

Sectoral Performance, *Index of Economic Activity for Humboldt County*							
* * *		Percent Change From:					
Sector	**Sectoral Index Value (1994=100)**	**Previous Month**	**Same Month 2000**	**Same Month 1999**	**Same Month 1998**	**Same Month 1997**	**Same Month 1996**
Home Sales	140.1	+14.0	-2.0	+25.6	+53.1	+72.9	+86.1
Retail Sales	154.8	+4.0	+11.9	+10.5	+16.8	+20.0	+55.1
Hospitality	107.8	+3.8	+2.1	-1.5	-3.5	-1.5	-4.4
Electricity Consumption	119.1	-7.0	-8.9	-7.0	+15.7	+15.7	+9.9
Total County Employment	103.1	-0.4	-2.4	-1.5	-0.7	+0.9	+3.1
Lumber Manufacturing	108.1	-8.5	-16.5	-14.0	-21.4	-23.9	-18.4

Discussion

Composite Index and Overall Performance

This edition of the *Index* covers conditons prior to the events of September 11th. As such, some of our information may already seem dated and irrelevant. A brief discussion of the disaster's many possible and probable effects on the economy is in The Bigger Picture section at the end of this report. Next month, we will have a more comprehensive account of the rapidly changing conditions and how they may affect the local economy.

That said, the Humboldt County economy seems to have bounced back somewhat from a weak July performance. Three of our six sectors show strong positive growth in August. Homes sales once again is leading the way after having dropped sharply last month. Retail sales and hospitality also show welcome improvement over the previous month. As mentioned in past reports, the fall in electricity consumption can be interpreted positively since the reduced level of demand helps pacify a highly volatile electricity market. And, even though total county employment declined, the figures reflect a labor market in better shape than in many other areas .

The Leading Indicators point towards a mostly favorable outlook. The large drop in building permits denotes a return to more normal activity after unusually high performance in July.

Home Sales

After cooling off a bit in July, home sales, rebounded strongly in August, with the current figure coming in 14.0 percent higher than the previous month. It is down when compared to August performance in 2000, but is vastly higher in the remaining year-over-year comparisons. 147 units were sold in August. The current quote

(9/20) shows that the 30-year fixed mortgage rate (zero points) in Humboldt County is down another one-eighth percent to 6.75 percent.

The news is not so good for sellers in the Bay Area. The number of homes sold there in August is down 16 percent from the same month last year. The reduced demand is welcomed by buyers, however, since prices seem to be falling in response to market conditions. The median home price in the nine Bay Area counties fell 2.1 percent from July to $383,000. The often volatile median price measure is down locally by 5.6 percent from $152,000 to $143,500. The median price for California as a whole is up 8.6 percent to $276,590, while the national figure rose 5.8 percent to $154,700 (www.sfgate.com, www.dismal.com, and www.car.org).

The national numbers, showed positive, but uneven performance in August. Sales of new homes rose by a scant 1 percent over July, while sales of existing homes rose 5.8 percent over the same period, setting a new monthly record of 5.5 million homes sold. Low home morgtgage interest rates seem to be propelling growth in this sector, but the economic uncertainty that is likely behind the deceleration of new home sales will probably begin to affect existing home sales in the near future (www.dismal.com)

Retail Sales

Retail sales in Humboldt County increased a respectable 4.0 percent from the previous month. The sector is also strongly up across all of the year-over-year comparisons. As we have noted for several months now, most economists maintain that consistent growth in retail spending is necessary to avoid or ameliorate recession. It seems local consumers, whatever their motivation, are doing their part.

Nationally, August's retail sales rose by a better than expected 0.3 percent. Strong sales in the building supply, health and sporting goods subsectors led the growth, while the apparel, autombile and furniture measures all declined. Analysts point to the strong 0.6 percent monthly increase in department store sales (a subsector that has been performing poorly lately) as evidence suggesting the tax rebate is beginning to have the desired effect (www.dismal.com).

Nagging concerns over high levels of job loss and rising debt preclude any unrealistic optimism, however. Layoffs that had slowed in July are back to punishingly high numbers in August (see below). Additionally, a significant portion of the money currently being spent by consumers is coming from cash-out refinancing of home mortgages and other types of home equity borrowing. As reported last month, the personal debt to disposable income ratio, now at a fifteen year high, is thought not to be sustainable over the long term.

Hospitality

We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The hospitality sector regained some of the ground lost in the previous month. August's performance was a 3.8 percent improvement over July's. It is also up when compared to the same month in 2000, but is down across all other comparisons.

High gasoline prices and concerns over a faltering economy are still the most likely negative factors affecting this sector. As reported last month, Humboldt County consistently has the highest gasoline prices in the state. Before September 11th, analysts at The Dismal Scientist argued that these conditions would probably get worse before they get better. They cited a structural shortage in refining capacity. This means refiners must run their plants at full capacity in order to meet demand for their products, which is not sustainable over the long term. When plants are shut down for maintenance or repair, supply falls short of demand and prices rise. This problem is particularly acute in California where retailers are required to sell a relatively cleaner burning formulation of fuel. Since there are fewer refineries producing this product, any significant down time has a potentially large effect on total supply. We've seen the effects of these conditions in large price spikes following refinery fires in recent years.

Locally, the problem is exacerbated by a relative lack of competition in the retail gasoline market, which is

dominated by only two distributors. When consumers are unwilling or unable to alter their behavior (economists call this inelastic demand), a lack of competition among suppliers almost always results in higher prices. Additionally, the great majority of petroleum products sold locally are shipped, by barge, by one company (Chevron). The firm then adds various additives to the fuel at its Eureka facility to meet the specifications of its individual wholesale customers. Although it is substantially cheaper to ship fuel by barge than by truck (4 cents per gallon vs. 12 cents per gallon), Chevron has an obvious incentive to sell its products at a price that is only slightly lower than that for fuel shipped by truck (www.times-standard.com).

Since September 11th, however,the lower demand for crude oil due to drastically reduced air travel has led to a decrease in price for that commodity. Additionally, the lower demand for aviation fuel opens up refining capacity for additional production of gasoline. The result of these two factors is falling gas prices. Locally, the price has recently dropped as much as ten cents per gallon. This still leaves us considerably above the state-wide average of $1.69 per gallon for self-serve regular unleaded. The national average fell to $1.49 per gallon (www.times-standard.com).

Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Because we collect data for this sector quarterly, the figure in this month's report is estimated and will be revised in October's edition of the *Index*.

Electricity use fell 7.0 percent in August from the previous month. Much of this decrease is due to a substantial upward revision of the estimated July figure. Californians consumed 8.9 percent less electricity this month than in August 2000. This follows the 5.2 percent decline in July from July 2000 (www.sfgate.com). This level of conservation is good news since the severe wholesale price spikes experienced last winter and spring were triggered by the relatively higher demand for electricity.

Pacific Gas & Electric has announced a bankruptcy recovery plan which, if accepted, would repay all of the company's creditors. According to the Chairman of PG&E's parent company, PG&E Corp., this would be achieved without rate increases or a state-funded bailout. Under the plan, the utility and the parent company would become seperate entities. PG&E would continue to distribute retail electricity and natural gas, while PG&E Corp. would own and operate three new companies, which would generate electricity, transmit electricity to distribution centers and transmit natural gas, respectively. Consumer advocates were quick to criticize the plan, claiming it would allow for the transfer of valuable assests from the regulated utility to the unregulated parent. According to opponents of the plan, this would allow PG&E Corp. to charge the same high rates charged by out-of-state suppliers earlier this year. The California Public Utilities Commission announced it would oppose the proposal, citing a state law that requires any transfer in ownership of a utility property be in the public interest, as determined by the PUC. The President of the Commission claimed not to see how the deal helps rate payers. It is not known if the proposal will be accepted by the federal bankruptcy court. The court, whose mandate is to protect the interests of the company's creditors, has the power to supercede state law in certain cases if it is in the creditors' best interest. (www.sfgate.com).

Total County Employment

In their preliminary report for August, the Employment Development Department (EDD) reported that 56,900 people were employed in Humboldt county, up 500 jobs, or 0.9 percent from July's revised figure. The seasonally adjusted September *Index* figure for this sector is down 0.4 percent from the corresponding revised number in August's report. It is also down when compared to the same month's performance in the most recent years. Preliminary EDD data indicate the following changes in Humboldt county employment:

- **Total county employment in the various service industries increased 1.5 percent from a revised 41,200 during the month of July to a preliminary 41,800 for the month of August. This sector is also up 0.5 percent over last year's figures. The increase was led by job creation in the Hotels and Other Lodging, Local Government, and State Education subsectors. The preliminary figure for the retail subsector in**

August shows 11,000 jobs, which is unchanged from the revised July figure.

- The small increase last month in total county manufacturing employment was erased with a 1.7 percent decline in August. The number of people employed in this sector stands at approximately 5900. The Sawmills subsector registered a fairly large drop of 3.3 percent, which represents a loss of about 100 jobs. It would seem that recent plant closures, such as the one at Pacigic Lumber's Carlotta mill, are beginning to show up in the numbers. Total manufacturing employment is down 6.3 pecent from August 2000.

Nationally, 113,000 net jobs were lost in August. Yet again, reports indicate manufacturing led layoffs with 141,000 jobs shed. This is the thirteenth consecutive monthly decrease for this sector. Service industries added 72,000 jobs led by health services and mining, oil and gas extraction. One of the most telling signs of the times may be that computer service employment declined for the first time since February 1988, losing 5000 jobs (www.dismal.com and www.nytimes.com).

Young workers are being affected disproportionately by the job losses. Some 336,000 16-24 yer olds became unemployed in the first six months of 2001. According to an economist at The Dismal Scientist, this is not surprising since younger, less experienced workers are generally the least productive and most expendable. Additionally, these workers have a more difficult time finding new employment in the weak economy. As a result, labor force particpation for this age group has fallen over 2.5 percent this year. By contrast, workers aged 25-54 have managed to maintain a more or less consistent level of labor force participation, and those aged 55-64 have increased their level by about 0.5 percent.

Interesting developments continue to unfold in the unemployment rate picture. For the first time in recent memory, the figure for Humboldt County matches that for the United States. The county unemployment rate fell 0.5 percent from a revised 5.4 percent for July to a preliminary 4.9 percent for August. Unfortunately, the 4.9 percent figure represents a 0.4 percent increase in the national number. This was the largest monthly increase in six years and brought the national measure to its highest level since September 1997. A likely explanation for this unusual situation is that those industries cutting the most jobs are not well represented in our area. When taken with the current numbers in help-wanted advertising and claims for unemployment insurance, this indicator suggests a local labor market that is out performing much of the country. The unemployment rate for the state fell from a revised 5.4 percent for July to a preliminary 5.2 percent for August.

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.

This sector's figure for last month's report was revised sharply upwards to 118.2, indicating a third straight month of positive growth. Unfortunately, the current number came in 8.5 percent lower at 108.1. This seems to indicate a fairly typical late summer dropoff in lumber sales. The industry continues its poor performance in the year-over-year comparisons with substantial double-digit decreases for the prior six years.

Eel River Sawmills recently announced (9/28) the closures of Mill A in Fortuna and the power plant in Fairhaven citing weak market conditions for lumber and wholesale electricity, respectively. The resulting 122 layoffs will take place at the end of November and will last at least three months. According to a company spokesperson, if conditions don't improve early next year, the action could be permanent. Over 200 employees at the Alton mill, and mills B and D in Redcrest were laid off earlier this year (www.times-standard.com).

Nationally, July's signs of encouragement in the overall manufacturing sector essentially evaporated in August. Slowing rates of decline in both layoffs and in industrial production had led some economists to suggest that the recession in manufacturing was reaching its bottom. Unfortunately, both of these indicators have dropped sharply. The sector experienced net job loss in August for the thirteenth consecutive month with 141,000 people

laid off. And, the monthly growth in industrial production decreased by a factor of eight, going from -0.1 percent in July to -0.8 percent in August. This drop marks the eleventh consecutive month of negative performance for this indicator (www.dismal.com).

Worker productivity growth , which grew by 2.1 percent in the second quarter, is one thread of hope that optimists are holding on to. The lower costs that result from increased productivity are, of course, welcomed by firms swimming in red ink. This figure is a big improvement over the barely perceptible 0.1 percent growth in the first quarter.

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.

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. August's *Index* figure is up 14.6 percent from the previous month. It also up in all of the year-over-year measures: 0.3 percent from August 2000, 0.6 percent from August 1999, 17.0 percent from August 1998, 18.8 percent from August 1997, and 13.3 percent from August 1996.

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. This sector experienced a double-digit drop for the second month in a row. Claims made in August were 12.5 percent lower than in July, which were 12.6 percent lower than in June. The sector is also down 4.2 percent from August 2000. Going farther back, the current figure is up 4.1 percent from the same month in 1999, up 6.6 percent from 1998, down 13.4 percent from 1997, and down 11.2 percent from 1996.

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, are down across all comparisons once again. July's number decreased 3.6 percent from June's. In the year-over-year comparisons, the current figure fell 20.9 percent from July 2000, 8.2 percent from July 1999, 37.2 percent from July 1998, 42.5 percent from July 1997, and 40.5 percent from 1996. As noted in the past several reports, the relative lack of new orders nation-wide remains one of the most significant drags on the economy.

Home Sales Economic Indicator:

The building permits indicator is down across most comparisons this month. The number of permits issued in August fell a sharp 40.8 percent from July. This is likely due to the higher than usual number issued last month. The figure is up 28.3 percent from August 2000, but down 12.8 percent, down 8.1 percent, down 29.2 percent, and down 19.0 percent when compared to August activity for the years 1999 back to 1996, respectively.

The Bigger Picture

Given the vast loss of life resulting from the September 11th attacks on the World Trade Center in New York and the Pentagon in Washington, D.C., parsing the economic outcome seems hard-hearted, to say the least. However, a successful recovery from the tragic events depends on an accurate assessment of present conditions. With apologies to everyone still grieving the losses, we offer the following information.

The level of economic disruption caused by the attacks obviously goes far beyond the costs associated with mere physical destruction. Physical damage to buildings and infrastructure in Lower Manhatten alone is estimated at

more than $20 billion. As substantial a number as this is, economists are claiming lost output will be far higher. One of the most directly effected industries is financial services, which suffered a devastating loss of human capital with the collapse of the WTC. Airlines and air freight, with their huge fixed costs, have been staggered by estimated losses of $10 billion due to a week of lost activity and by evaporating demand. The rest of the travel/tourism industry, along with the hospitality industry, is suffering from the ripple effects of cancelled conventions and vacations. All told, lost ouput is expected to total an additional $50 billion. This economic shock is expected to be severe enough to guarantee a recession. (www.dismal.com).

The Federal Reserve acted quickly to shore up the financial infrastructure by dropping interest rates for the eighth time this year by another one-half percent and by infusing large amounts of money into the system in order to provide adequate liquidity. Central banks all over the world took similar actions in the hopes of stemming a deep global recession. The federal government also stepped up to limit the damage by proposing a total package of $180 billion in tax cuts and public spending (www.dismal.com and www.latimes.com).

Unfortunately, these moves don't seem to be gaining much traction. A huge amount of shareholder value was lost as financial markets suffered their worst week of performance on record (a portion of the 1370 point loss has since been recovered). Perhaps more important is the effect on consumer confidence of the tens of thousands of layoffs that occurred as a direct result of the events. The latest Consumer Confidence Index figure fell a shocking 14.4 percent from 114.0 in August to 97.6 in September. The 17+ point one-month drop is the largest since the Persian Gulf War (www.sfgate.com).

Add to all of this the fact that most of the underlying conditions causing the slowdown prior to September 11th remain in place, and optimism all but disappears. The latest release of the Fed's Beige Book , covering economic activity for August and early September (prior to 9/10), indicates a generally sluggish economy experiencing softening labor markets, rising consumer debt and weakening commercial real estate conditions (www.dismal.com). The International Monetary Fund reports that before the attacks, the global economy was growing at its slowest rate since 1993. According to the IMF's chief economist, a significant danger of a "deeper and more prolonged slowdown" remains due to the additional uncertainty and risks that arose in the aftermath of the disaster (www.salon.com). Economists seem to be in agreement that the third quarter numbers will confirm that we are now in a recession and that it will likely last at least through the end of the year.

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 "September 2001" report reflects data from August 2001. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

The Dismal Scientist webpage

The Eureka Times-Standard webpage

The San Francisco Chronicle webpage

The Los Angeles Times webpage

The New York Times webpage

Salon Magazine webpage

The California Association of Realtors webpage

The Federal Reserve Bank's Beige Book webpage

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