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The Index of Economic Activity for Humboldt County

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HSU Economics Department

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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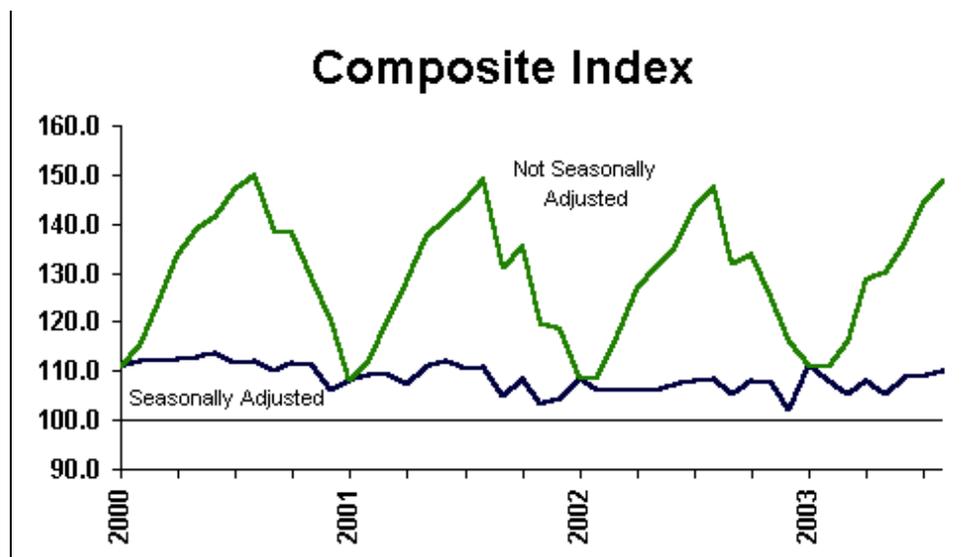
Note to readers: I want to welcome two new members to the Index team. Jessica Digiambattista is the new Assistant Editor with primary responsibility for writing and layout. Garret Perks is the new Assistant Analyst with primary responsibility for data management. Ceema Feizollahi, the outgoing Managing Director, did a great job during her time working on the Index and will now devote her abilities and efforts to other areas. -Dr. Erick Eschker

This month's report is sponsored by [Coast Central Credit Union](#)

September 2003

Composite & Sectoral Performance, *Index of Economic Activity for Humboldt County*

Index	Seasonally Adjusted Index Value (1994=100)	Percent Change From:					
		Previous Month	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
COMPOSITE	110.1	1.1	1.6	-0.9	-1.8	0.2	4.3
<i>Sector</i>							
Home Sales	117.28	-9.0	-25.1	-12.9	-14.7	9.4	33.3
Retail Sales	147.6	10.6	4.7	7.1	21.5	18.4	26.1
Hospitality	101.5	-1.1	3.0	2.6	4.0	1.5	-.06
Electricity Consumption	121.17	3.9	21.4	-5.9	-6.3	-4.4	--
Total County Employment	102.9	-0.7	0.5	0.4	-2.6	-1.7	-0.9
Lumber Manufacturing	82.1	-1.7	2.7	-7.4	-23.4	-21.9	-28.9



Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$212,450	Help Wanted Advertising	21.5
30 Yr. Mortgage Rate as of 9/30	6.375%	Building Permits	-12.8
Average Hotel Occupancy Rate	85.1%	Unemployment Claims	-27.3
Unemployment Rate**	5.6%	Manufacturing Orders	6.2
<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>			

Discussion

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.

In August, the overall composite index rose to 110.1, up 1.1 percent from July's revised index of 109.2. Only retail sales and electricity consumption registered positive growth, yet the increases were strong enough to pull the composite upward. Retail sales rebounded from last month's drop to gain 11.7 points. This is a 10.6 percent increase over July's index level. The electricity consumption index had an estimated increase of 3.9 percent from July's level to stand at 121.17. Traditionally the largest home sales month in Humboldt County, August sales failed to meet expectations. The home sales index decreased 9 percent from July's level to stand at 117.28. The county unemployment rate

dropped significantly from 6.4 to 5.6 percent, as the labor force shrank and the total number of jobs increased. However, when seasonally adjusted the employment index actually dropped by 7 percent to stand at 102.9. Summertime usually brings steady levels of tourism to the northcoast. These expectations of high occupancy rates in the hospitality sector were not met this month. Consequently the seasonally adjusted hospitality index decreased by 1.1 percent to stand at 101.5. The lumber-manufacturing sector has conceded some of the gains from the 14.4 percent leap back in June. This index fell 1.7 percent from July's level to stand at 82.1.

Home Sales

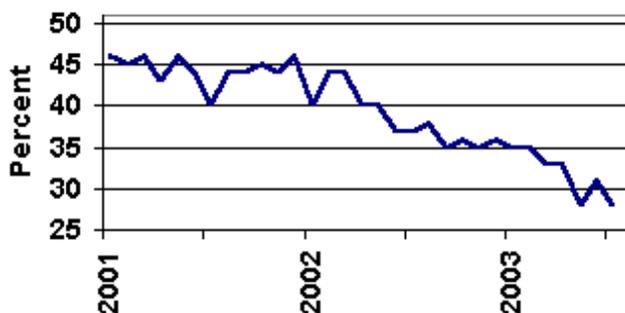
The index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Seasonally adjusted home sales fell this month to 117.28. This is a more than 11.5 point decrease from July's index level. This represents a 9 percent decrease in the home sales index compared to the previous month. The month of August usually has the highest home sales of the year. Expectations were not met and the total number of home sales actually decreased from July to August.

The median home price in Humboldt County fell slightly in August to \$212,450. This is a 1.2 percent decrease over July's record breaking price of \$215,000. Statewide home prices continued to rise, setting a record high median home price of \$404,870. This is a 5.6 percent increase in price over the previous month. "Consumers' concerns about the recent up-tick in the mortgage interest rates pushed sales into record territory last month as buyers jumped into the housing market," said C.A.R. President Toby Bradley. "The median price of a home broke the \$400,000 mark for the first time in history, increasing to a record of \$404,870 in August." Nationally the median existing home price fell slightly to \$177,500, a 2.5 percent decrease over the previous month. The national median price for new homes also fell in August, decreasing 3.7 percent to \$184,500.

The Humboldt Association of Realtors' Housing Affordability Index represents the percentage of Humboldt County households that could afford to purchase a median priced home. In the most recent release the affordability index fell 3 points to stand at 28.

**Humboldt County Housing
Affordability Index**



According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of October 2nd, was 5.77 percent with an average 0.6 points. Last year at this time, the average rate was 6.01 percent. (www.freddiemac.com)

Retail Sales

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

Seasonally adjusted August sales at participating retailers rose to 147.6, which is a 10.6 percent from July's index level. Retail sales seem to be trending upward. The current level is 4.7 percent higher than August of 2002, and 7.1 percent higher than August of 2001.

The Commerce Department reports that national August retail sales were up 0.6 percent from the previous month's level, and up 5.3 percent from August 2002. The increase was led by strong activity in retail trade, electronics and appliances, and food services and drinking places.

The Conference Board's Consumer Confidence Index, which had rebounded in July, dropped again in August. The measure, which now stands at 76.8, is down 4.9 points from the previous month. "The lack of improvement in labor market conditions continues to dampen consumers' spirits," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "Despite September's retreat, consumers remain cautiously optimistic about the outlook for the next six months. Consumer spending is likely to continue at or near current levels." (www.conference-board.org)

The Federal Reserve Bank's Beige Book notes an improvement in sales in the western region of the country. This is due in large part to dealer incentives on automobile sales and the demand for appliances associated with increases in the housing market. Stronger sales prompted a large national retailer to resume construction plans for new stores in the Pacific Northwest. (www.federalreserve.gov)

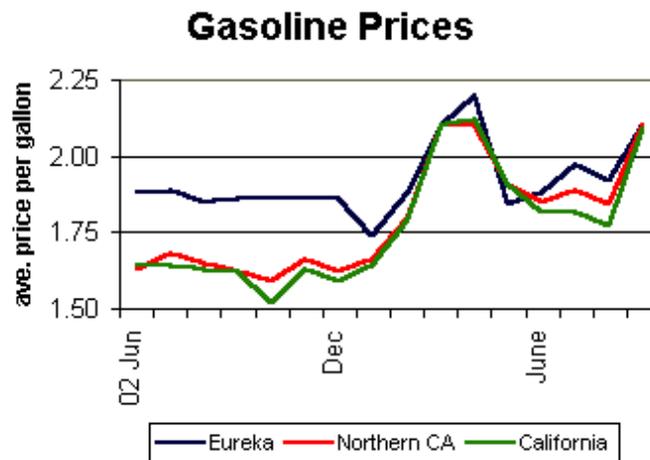
Hospitality

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.

August is traditionally the peak of the tourist season when occupancy levels are the highest. Although average occupancy at participating hotels, motels and inns increased to 85.1 percent, expectations were not met. The seasonally adjusted index number for the sector decreased 1.1 percent to stand at 101.5.

Gasoline Prices

Average Price* (as of 9/16)		Change From Prev. Month (cents/gal.)
Eureka	\$2.10	18
Northern CA	\$2.10	26
California	\$2.09	32
Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association's monthly gas survey (www.csaa.com).		



Gas prices skyrocketed just before the Labor Day weekend and have yet to drop significantly. The initial price hike was due to high summertime demand and a decrease in supply caused by a pipeline problem in Arizona. With demand subsiding and supplies back on line drivers are waiting to see prices at the pump come back down. "California refinery production is back on track, crude oil and wholesale prices have dropped, and summertime demand has eased," said AAA of Northern California spokeswoman Jenny Mack. "We really should be seeing retail prices dropping significantly as a result." (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, beneficial 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.

Estimated August consumption of electricity rose a seasonally adjusted 3.9 percent from the previous month.

In the news, the second annual Humboldt County Solar Homes Tour took place on Saturday October 4th. Seven homes and buildings throughout the community that use solar power to offset fossil fuel generated power were on display. The self-guided tour seeks to bring increased awareness about viable alternative energy sources. (Times-Standard)

Total County Employment

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

In the preliminary report for August, the EDD reported that 56,800 people were employed in Humboldt County. This is a 0.4 percent increase over July's revised figure, indicating a net gain of 200 jobs. However, this increase did not meet expectations and the seasonally adjusted index actually fell by 0.7 percent to stand at 102.9.

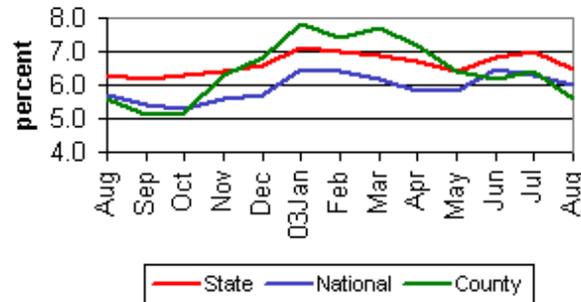
Sectoral changes in Humboldt County employment:

- In the service sector the loss of 100 jobs in food service was offset by the 300 local government jobs that were created in August. This leaves the service sector with an overall net gain of 200 jobs. Employment in this sector increased 0.5 percent from July, but is 0.9 percent lower than August of 2002. The service sector employs 41,900 people in Humboldt County.

- 100 jobs were lost in the the manufacturing sector of Humboldt County's economy. The loss came primarily from wood product manufacturing.
- Employment in the agricultural, construction, and natural resources & mining sectors remained unchanged.

Humboldt County's unemployment rate has dropped below the state and national rates. August's unemployment rate for Humboldt County (not seasonally adjusted) decreased eight-tenths of a point from July's figure of 6.4 percent to a preliminary 5.6 percent. Meanwhile, the state and national rates (not seasonally adjusted) also dropped to 6.5 percent and 6.0 percent respectively.

Unemployment Rates
Aug '02 - Aug '03
(not seasonally adjusted)

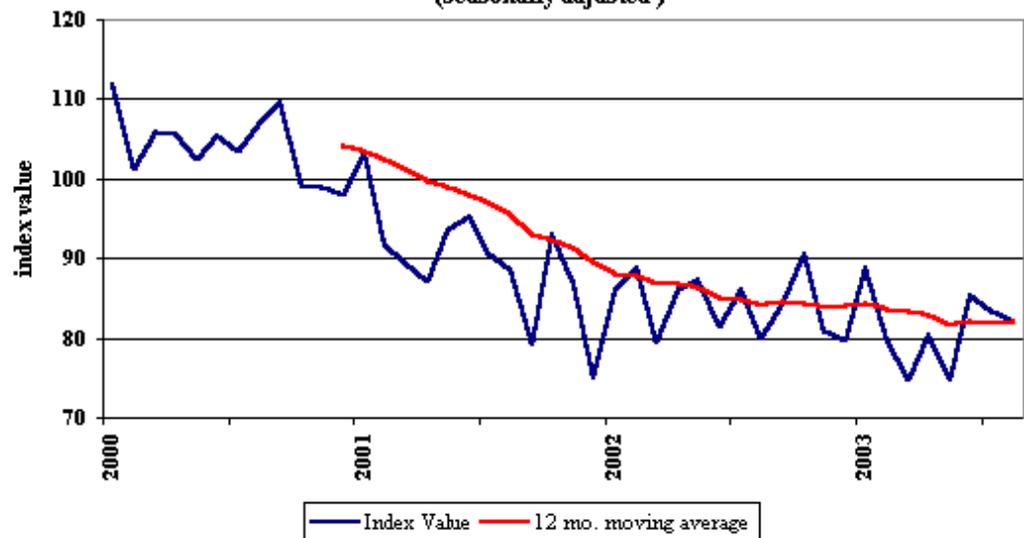


Lumber Manufacturing

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. Lumber-based manufacturing generates about 60 percent of total county manufacturing employment.

The preliminary August index value for this sector fell slightly by 1.7 percent from the previous month to stand at 82.1. Although the index fell, an increase in the four month moving average signals a possible turnaround.

Lumber-based Manufacturing
(seasonally adjusted)



National manufacturing output in August, as measured by the Institute of Supply Management, grew

for the second consecutive month. The current ISM Index level of 54.7 is an increase of 2.9 percentage points when compared to 51.8 in July (a number higher than 50 indicates growth). Norbert J. Ore, C.P.M., chair of the Institute for Supply Management says "The manufacturing sector showed improvement for the second month as the PMI is at its highest level since December of last year. Though two months of growth do not establish a trend, there is strength in the various segments of this report that we have not seen for some time. New Orders and Production have both been above 50 percent for four consecutive months; the continuation of a second half recovery appears on track." (www.ism.ws.cfm)

The wholesale price of lumber has risen sharply in the past month driven by tremendous demand. New home starts are up this month and builders are demanding more lumber products. The need to rebuild in areas hit by hurricane Isabel has also increased demand. Possibly the largest force to affect lumber prices in August was the U.S. military. The Defense Logistics Agency purchased \$50 million of lumber to send to Iraq for force protection purposes. (San Francisco Chronicle, September 6) This huge spike in demand helped drive prices even higher.

Leading Indicators

The Index tracks 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 (1) number of help-wanted advertisements in the Eureka *Times-Standard*, (2) number of claims for unemployment insurance, (3) volume of manufacturing orders, and (4) number of building permits issued. 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.

Employment-Based Economic Indicators:

The leading indicators for Humboldt County's economy are showing mostly positive signals for future economic growth. Seasonally adjusted help wanted advertising increased by 21.5 percent in August, signaling a possible increase producer confidence. The improved job market conditions are also reflected in a seasonally adjusted 27.3 percent decrease in unemployment insurance claims. Positive signals also came from the manufacturing industry as seasonally adjusted advanced orders jumped 6.2 percent from July's level. The only leading indicator to send negative signals is building permits, which had a seasonally adjusted decline of 12.8 percent from July's level.

A count of help-wanted ads indicates the number of new job openings.



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.

Initial Claims for Unemployment Insurance



Manufacturing Economic Indicator:

Manufacturing orders are a leading indicator of activity and employment in the County.

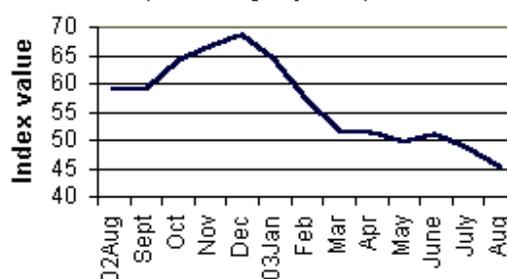
Manufacturing Orders



Home Sales Economic Indicator:

Single and multiple unit residential and commercial **building permits** from municipalities and unincorporated county areas are a leading indicator of future home sales.

Building Permits



The Bigger Picture

The gross domestic product (GDP), which measures the total value of the nation's output of goods and services, grew at a seasonally adjusted annual rate of 3.3 percent during the second quarter. This is a revision from the preliminary estimate of 3.1 percent. The GDP growth was led by strong

increases in personal consumption expenditures, defense spending, and nonresidential fixed investment. Personal consumption expenditures experienced real (seasonally adjusted annualized) growth of 3.8 percent in the second quarter. Federal government spending increased significantly in the second quarter with real (seasonally adjusted annualized) growth of 45.8 percent in national defense expenditures. Non-residential fixed investment experienced real (seasonally adjusted annualized) growth of 7.3 percent. (bea.doc.gov)

In Cancun, World Trade Organization talks collapsed over disagreements on agricultural subsidies. This meeting of the Doha round of trade negotiations was supposed to promote freer trade among developing nations and reduce agricultural subsidies in the developed nations. The World Bank estimates that successful negotiations would increase global income by \$500 billion each year by 2015. Alliances of developing nations demanded significant reductions in subsidies to U.S. and European Union farmers. Prodded by agricultural interests on their home turf, the U.S. and E.U. were reluctant to concede on the issue of subsidies. The talks ended abruptly when it was apparent that no resolution could be reached.

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 "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

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