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The Index of Economic Activity for Humboldt County

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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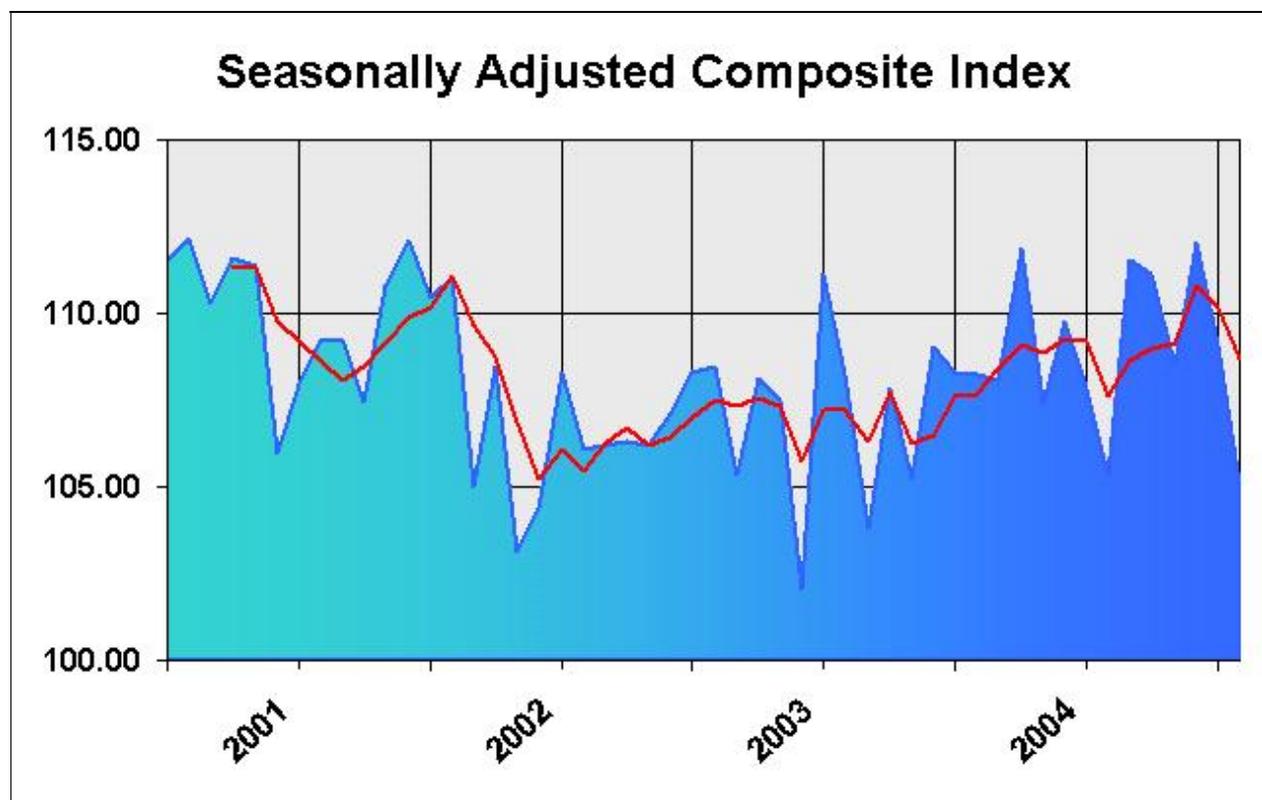
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HSU Economics Department



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red trendline shows the four-month moving average of the *Index* which smoothes month-to-month volatility to show the long run trend.

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. The current *Index* is based on the most recently available data, which is generally data from the previous month.

Humboldt County's economy declined slightly in August. The composite Index of Economic Activity

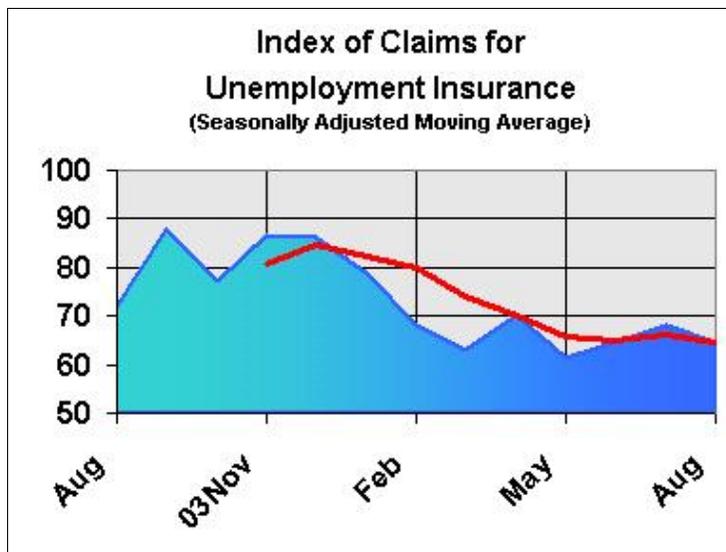
dropped 1.1 percent from last month's revised number and now stands at 107.8 (100 = January 1994). The Index was pulled downward by a drop in home sales, as well as declines in manufacturing and hospitality. As many economists predicted, home sales are beginning to slow. The summer months are typically high sales times in the housing industry. However, after adjusting for this expected seasonal variation, home sales declined by 17.4 from the previous month. The home sales index now stands at 120.0. A similar type of seasonality can be seen in the hospitality sector. Occupancy rates at local hotels, motels and inns are typically at their highest during the summer months when more visitors come to the north coast. Real growth in this sector can only be measured after seasonal fluctuations have been taken into account. In August, the hospitality index (seasonally adjusted), declined 3.6 percent from the previous month. This is the second consecutive monthly decline in the hospitality sector. Please note that the hospitality index is based on a sample of local hotels, motels, and inns in Humboldt County. This sample represents a diversity of types of establishments, both locally owned and nationwide chains. The hospitality index measures economic activity in the hospitality sector throughout Humboldt County including some of the County's smaller communities as well as Eureka and Arcata. Manufacturing also declined in August, the index for this sector dropped 3.6 percent from last month's revised figure to stand at 76.9. Both the retail and employment sectors posted gains in August. Changes in the retail sector are important to note as they capture residual economic activity from many industries in the County. The retail sales index increased 5.2 percent to stand at 147.3, it's third highest level ever. The employment sector gained 0.7 percent and now stands at 103.1. When related back to the base month January 1994, this shows that employment in Humboldt County has grown 3.1 percent in the past decade. Slow growth in this sector is not unusual given the relatively low population growth rate in Humboldt County. Additionally, the County's unemployment rate dropped down to 5.4 percent, it's lowest level this year. The only sector to remain unchanged in August was electricity consumption, which is still estimated at 113.2.

| Composite & Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i> | | | | | | | |
|--|--|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| * * * | | Percent Change From: | | | | | |
| Index | Seasonally Adjusted Index Value (1994=100) | Previous Month | Same Month 2003 | Same Month 2002 | Same Month 2001 | Same Month 2000 | Same Month 1999 |
| COMPOSITE | 107.8 | -1.1 | -0.4 | -0.6 | -2.9 | -3.8 | -1.9 |
| <i>Sector</i> | | | | | | | |
| Home Sales | 120.0 | -17.4 | 2.3 | -23.4 | -10.9 | -12.7 | 12.0 |
| Retail Sales | 147.3 | 5.2 | -2.1 | 4.5 | 6.9 | 21.3 | 18.2 |
| Hospitality | 94.9 | -3.6 | -2.4 | -3.8 | -4.1 | -2.9 | -5.2 |
| Electricity Consumption | 113.2 | 0.0 | 5.4 | 13.4 | -12.0 | -12.5 | --- |
| Total County Employment | 103.1 | 0.7 | 0.4 | 0.7 | 0.5 | -2.4 | -1.6 |
| Manufacturing | 76.9 | -3.6 | -6.2 | -3.7 | -13.2 | -28.1 | -26.7 |

Leading Indicators

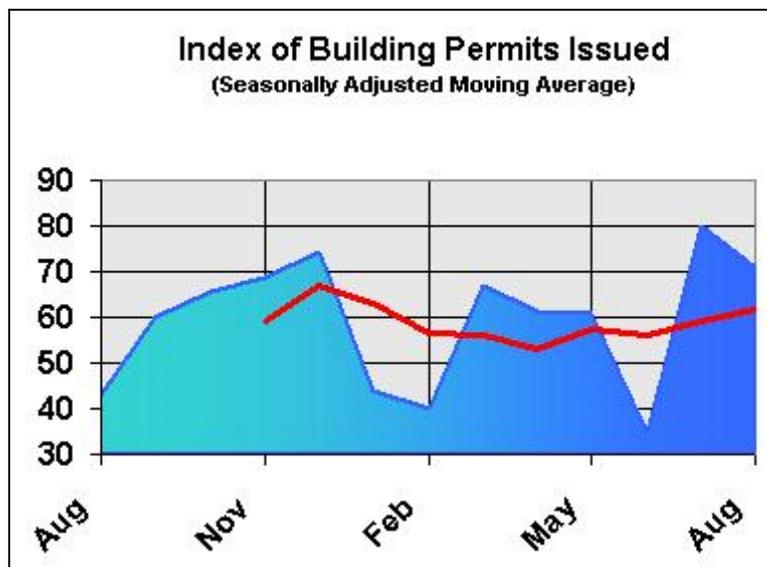
The Index tracks three leading indicators to get a sense of the direction of change in the county

economy in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) building permits, and (3) manufacturing orders. 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.



Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smooths" month to month volatility.

The index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator decreased by 5.5 percent in August, pulling the four month moving average downward.



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red trendline shows the four month moving average which "smooths" month to month volatility.

The index of building permits issued gives insight to future home sales and construction. The Index of Building Permits dropped after last month's huge increase. Even after losing 11.0 percent this index remains at one of it's highest levels this year. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above, the moving average tick upward slightly in August.



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The index of manufacturing orders shows expectations for future manufacturing sales. This index dropped 2.4 percent in August, to stand at 80.43. However, the four month moving average is still reflecting an upward trend.

| Key Statistics | | Leading Indicators | |
|--|-----------|------------------------------|--------|
| | | % Change From Previous Month | |
| Median Home Price* | \$265,000 | Manufacturing Orders | -2.4% |
| 30 Yr. Mortgage Rate as of 6/30 | 5.875% | Building Permits | -11.0% |
| Unemployment Rate** | 5.4% | Unemployment Claims | -5.5% |
| * 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. | | | |
| ** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates. | | | |

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.

In August, Humboldt County home sales dropped for the second consecutive month. The home sales index is down 17.4 percent and now stands at 120.0. This month's decrease is in line with economist's predictions that the housing market will cool off toward the end of the year. However, 2004 is still poised to be one of the highest sales years on record for the local housing market. The median home price pushed upward again, reaching \$265,000, the highest price on record. Prices will likely remain high, while interest rates are low and buyers have added purchasing power.

Statewide home prices increased, while sales declined. The median home price in California is \$474,370, up 2.6 percent from the previous month, and up 16.8 percent from August 2003. "We anticipated a decrease in home sales last month compared to August 2003," said C.A.R. President Ann Pettijohn. "Last summer, mortgage interest rates were at their lowest levels in more than 30 years and monthly existing home sales hit an annualized all time high of nearly 646,000 units." (www.car.org)

David Lereah, chief economist for the National Association of Realtors commented on home sales throughout the country. "Since April we've experienced three out of the four strongest months on record for existing-home sales, and August was the sixth highest," he said. "We're at a more sustainable level now, but long-term there should be some additional easing toward the end of the year. In fact, the August sales pace is close to what we project for total sales this year." (www.realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of September 30th, was 5.72 percent with an average 0.6 points. "Mortgage rates didn't move much this week, keeping us on target with industry forecasts for the year," said Frank Nothaft, Freddie Mac vice president and chief economist. "Our forecast is for the 30-year fixed-rate mortgage rate to remain below six percent for the rest of the year and not much higher than that for 2005. Low mortgage rates continue to keep the housing market vibrant. Indeed, the Mortgage Bankers Association figures show that applications for home purchase and refinancing – both of which had fallen off somewhat – have rebounded to the higher levels experienced earlier in the year." (www.freddiemac.com)

Retail Sales

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

The retail sector improved in August, and gained back some of the previous month's losses. A gain of 5.2 percent from last month puts the retail sales index at 147.3. However, this sector is down 2.1 percent when compared to August 2003.

Nationwide retail sales, as reported by The Commerce Department, decreased in August. Seasonally adjusted sales were \$335.2 billion, a decrease of 0.3 percent ($\pm 0.7\%$) from the previous month, but up 4.9 percent ($\pm 1.0\%$) from August 2003. (census.gov)

The latest release from the Conference Board shows that consumer confidence declined again in September. The Consumer Confidence Index, which now stands at 96.8 (100=1985), is down 1.9 percentage points from last month's figure. (www.conference-board.org)

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.

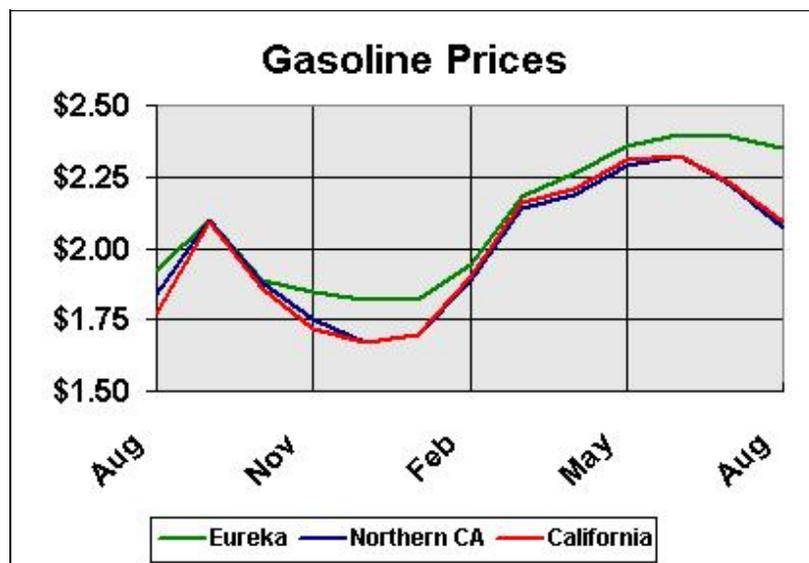
The hospitality index declined for the second consecutive month. After dropping 3.6 percent, from last month, the index for this sector now stands at 94.9. This most recent figure is down compared to the same month in previous years. The index declined from it's August 2003 and August 2002 levels by 2.4 percent and 3.8 percent, respectively. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately.

Gasoline Prices

Gas prices are beginning to stabilize in California, but consumers are still feeling the cruch at the pump. "At least people who are on a tight budget have some idea how much of their checking account will be drained into their gas tanks," said Sean Comey, spokesman for AAA of Northern California. "From the consumer's perspective, however, there's still a lot of room left for improvement." (www.csaa.com)

| Average Price* (as of 9/14) | | Change From Prev. Month (cents/gal.) |
|---------------------------------|--------|---|
| Eureka | \$2.35 | -4¢ |
| Northern CA | \$2.07 | -15¢ |
| California | \$2.09 | -14¢ |

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).



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, 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.

The estimated electricity consumption index for July is 113.2, unchanged from last month's figure.

Total County Employment

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

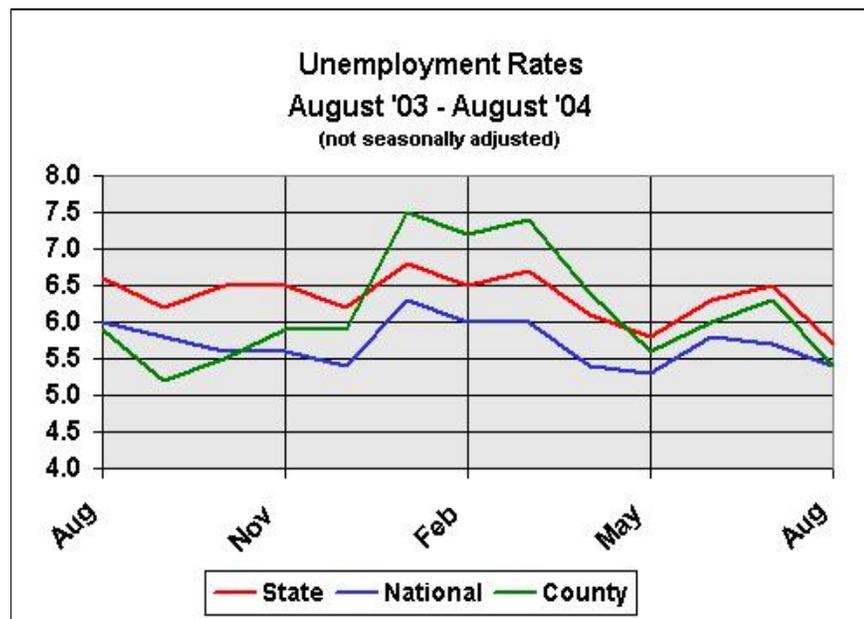
In the preliminary report for August, the EDD reported that 56,900 people were employed in Humboldt County. This number is up from July's revised figure, indicating a net gain of 800 jobs. The total civilian labor force increased by 200 people to 60,200. The seasonally adjusted total county employment index rose 0.7 percent, and now stands at 103.1.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 400 jobs in July.
 - Food and Beverage stores gained 100 jobs.
 - Miscellaneous Retail gained 100 jobs.
 - Professional and Business Services lost 100 jobs.
 - Food Services and Drinking Places gained 100 jobs.
 - Arts and Entertainment lost 100 jobs.
 - Local government gained 300 jobs.

- Overall goods production employment was unchanged in August.

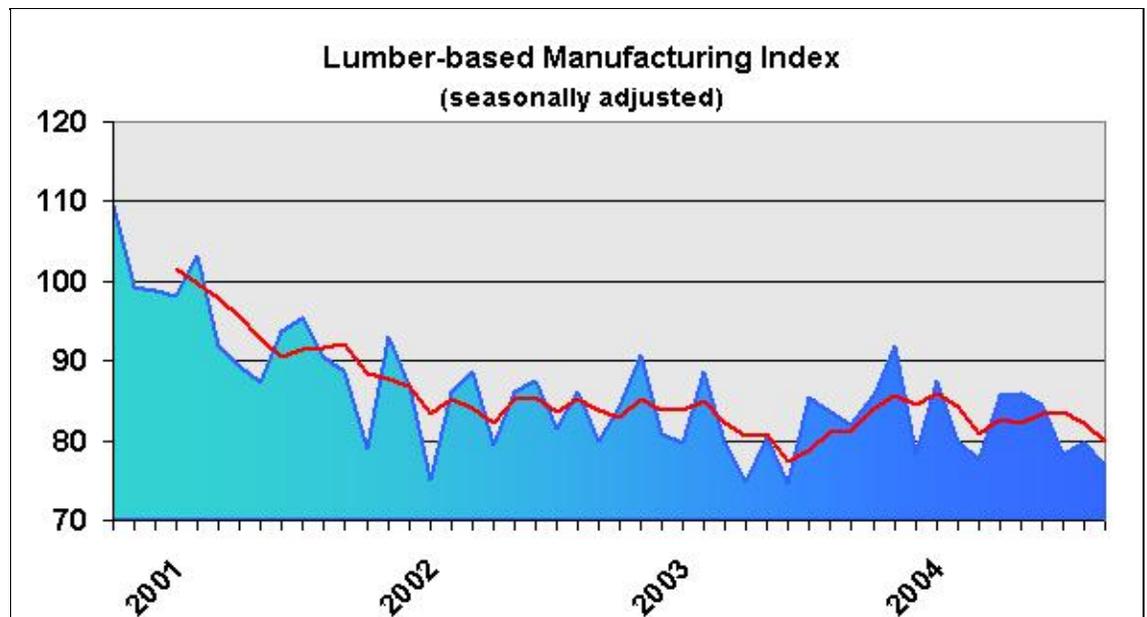
The unemployment rate declined sharply in August. The measure which now stands at 5.4 percent is lower than the state average and on par with the rest of the nation. The rate fell despite an increase in the size of the labor force, and local government cutbacks which took effect the previous month.



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 60 percent of total county manufacturing employment.

In July the lumber-manufacturing index dropped 3.6 percent from last month's revised figure and now stands at 76.9. The index for this sector has not reached above the 100 level since January 2001. This shows a long run decline in the local lumber industry.



Graphic description: 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 of the lumber-based manufacturing index which smoothes month-to-month volatility to show the long run trend.

Economic activity in the manufacturing sector, as measured by the Institute of Supply Management, grew again in September. The PMI registered 58.5 in the latest release, a number over 50 indicates growth. "September was surprisingly strong given the recent slowing of growth in new orders. Production and employment were particularly encouraging as both indexes increased when compared to August. Any concern over inventory growth would seem to be offset by the decline in customer inventories," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (www.ism.ws.cfm)

The Bigger Picture

Spotlight on the Election

By: Jessica Digiambattista

As Americans head to the polls on November 2nd, we will have many important issues to weigh. With our politicians far away in Washington D.C., and their attention even farther way in the Middle East, it is easy to understand why so many Americans feel politically unempowered. Yet, whether we realize it or not, national policies have very real impacts on our lives and our economy. Here is a look at some of the economics behind the politics.

The War on Terror, and the war in Iraq are big issues this election. Whether you are a service person who witnessed the fall of Baghdad, or a protestor who marched in the streets of San Francisco, we are all impacted by this country's decision to engage in acts of war. The federal government has spent tremendous amounts of money on the war. Funding for our foreign excursion came in the form of debt, much of which is owned by entities outside the U.S. During fiscal year 2003, the federal government posted the highest ever budget deficit in history. While economists agree that budget deficits are sometimes necessary during economic downturns, we are also warned of the hazards of becoming too indebted. Borrowed money must eventually be repaid, and with interest. Additionally, too much borrowing by the government will crowd out business investment, an important stimulus to our economy. President Bush's challenger, John Kerry argues that the current administration is the first ever to oversee a decline in business investment and this is detrimental to our economy (www.johnkerry.com). The President's Plan for Creating Opportunity for America's Workers does not address the issue of business investment, but does state that the President will cut the deficit in half over the next five years (www.georgewbush.com).

The nation's current budget woes are also the result of the three tax cuts, which decreased revenue for the federal government. The idea behind the tax cut, aside from it's political popularity, is this: If the government allows people to keep a greater percentage of their income, they will spend some of it (consumption) and save some of it (investment). An increase in consumption may trigger employers to hire more workers as business picks up. In theory this spending multiplies through the economy fueling economic growth. The portion of income that is not spent will be saved, presumably with a bank or financial investment firm. These savings can then be loaned to businesses who need financial capital to cover start up costs or to expand or modernize current operations. In theory, this investment will also fuel economic growth. However, we have not seen the kind of growth that the theory behind the tax cuts might suggest. One reason, as some economists believe, is that the economic effects of tax cuts can take a long time to multiply through the economy. Another reason is that increased government borrowing due to the deficit can eat up the investment intended for businesses. This may be more of an issue if a tax cut is directed at the wealthy, who save rather than spend, a larger portion of this extra income. If elected to a second term President Bush will make permanent the tax cuts he passed during his first term (www.georgewbush.com). Challenger John Kerry, cites experts who claim the Bush tax cuts have not been an effective stimulus. Kerry also argues that the tax cuts unfairly benefit the wealthy at the expense of the working class (www.johnkerry.com).

Fiscal responsibility is just one of many economic issues in this election, but it is an important one. Deficits turn into long term debt which must be paid off in the future. Spending on public goods such as schools, roads, infrastructure, and other domestic programs will be limited in the future by the obligation to pay off the debts of today. While nobody likes paying taxes, we must also recognize that our society benefits from the public goods that are provided by our tax dollars. So whether you are on the left or the right or somewhere in between we all benefit from understanding the economic forces that drive politics in America.

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 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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