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## The Index of Economic Activity for Humboldt County

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# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

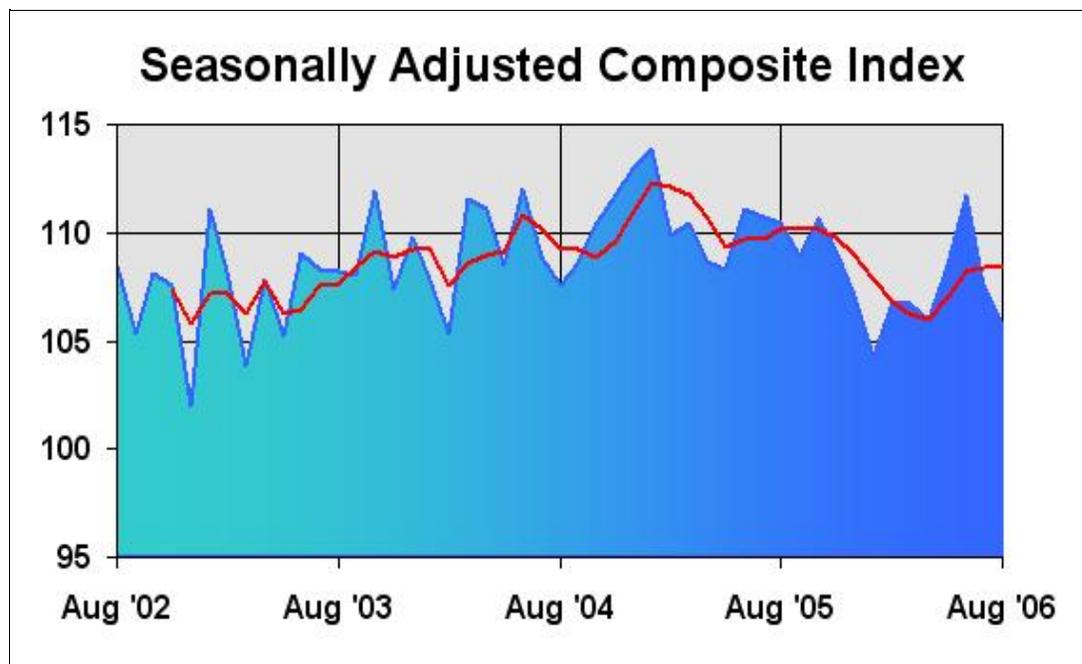
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September 2006



Graphic description: 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 *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.

In August the Composite Index declined further as the Manufacturing and Hospitality Indices gave up serious ground and only Retail Sales showed strength. Were it not for the gain in the Retail Index, the Composite would have been markedly lower. Manufacturing posted the greatest decline, losing 17.7 percent and marking one of the weakest Augusts on record. Hospitality was also very weak, losing 12.5 percent and posting the weakest August on record. Housing posted a slight gain, but is very weak as prices fall dramatically explaining the increase in sales that buoyed the Index. Employment posted a slight decline, leaving only Retail Sales performing well.

<b>Composite &amp; Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i></b>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2005	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001
COMPOSITE	105.8	-1.6	-4.2	-1.6	-2.2	-2.4	-4.7
<i>Sector</i>							
Home Sales	97.1	3.4	-28.4	-19.1	-17.2	-38.0	-27.9
Retail Sales	144.0	8.7	0.2	-2.2	-4.3	2.2	4.5
Hospitality	85.5	-12.5	-9.1	-9.9	-12.1	-13.3	-13.6
Electricity Consumption	130.2	0.0	3.8	17.5	21.2	30.4	1.2
Total County Employment	102.9	-0.4	-1.9	-0.2	0.2	0.5	0.4
Manufacturing	71.9	-17.7	-6.0	-6.5	-12.3	-10.0	-18.9

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## Leading Indicators

The Index tracks four 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)

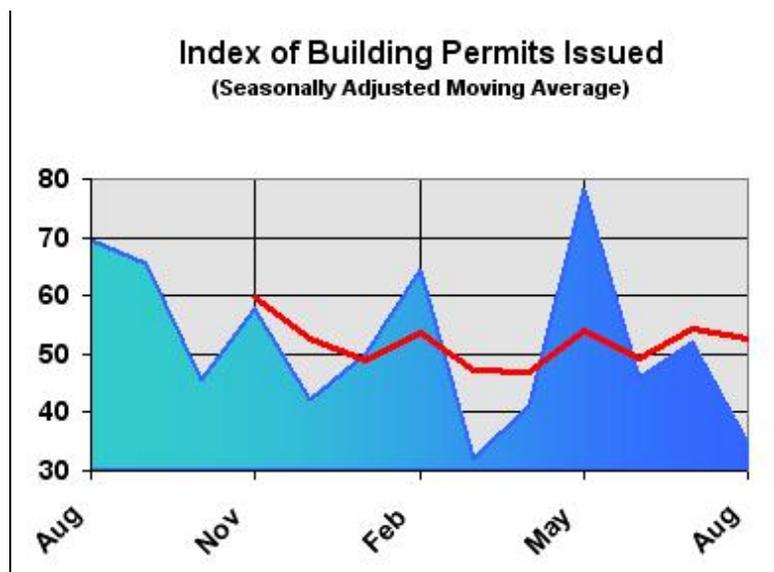
help wanted advertising, (2) building permits, and (3) manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.



Graphic description: 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.

The Index of help wanted advertising is an indicator of labor market conditions and job creation. It may suggest future trends in the Humboldt County labor market. This Index is based on help wanted advertisements posted in the *Eureka Times Standard*. In August, the Index increased 16.6 percent to an Index value of 174.1. The trend over the past twelve months appears to be upward, which may bode well for the local job market.

National help wanted advertising, as reported by The Conference Board, declined in August. Their Index of help wanted advertising lost a point to 31. This continues a long decline begun in February when the Index stood at 39. Ken Goldstein, labor economist at The Conference Board, feels businesses are bracing for a season of lower profits as a cooling economy and higher costs squeeze margins. He does not expect further improvement in the national labor market through the winter. ([conference-board.org](http://conference-board.org))



Graphic description: 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.

The Index of building permits issued gives insight into future home sales and construction. In August the Index of building permits fell, more than reversing last month's gain. The Index dropped 32.8 percent to a value of 34.9. Doubtless, a decline in the county housing market is underway, and the low level of this indicator is consistent with this conclusion. A high level, in fact would be distressing in fact, indicating a high level of building being undertaken in a market unable to support even its current inventory.



Graphic description: The seasonally adjusted Index of Manufacturing Orders 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.

The Index of manufacturing orders shows expectations for future manufacturing

sales. This leading indicator fell slightly by 1.1 percent in August and now stands at 66.4. This decline is not significant, but the Index shows a declining trend since the end of last year. This is more significant, and may indicate future slowing in manufacturing within the county in coming months.

Key Statistics		Leading Indicators	
			<b>% Change From Previous Month</b>
<b>Median Home Price*</b>	<b>\$289,900</b>	<b>Unemployment Claims</b>	<b>-18.4</b>
<b>30 Yr. Mortgage Rate</b>	<b>--</b>	<b>Help Wanted</b>	<b>16.6</b>
<b>Unemployment Rate**</b>	<b>5.3%</b>	<b>Building Permit</b>	<b>-32.8</b>
		<b>Manufacturing Orders</b>	<b>-1.1</b>
<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 <a href="#">EDD Website</a> for updates.</p>			

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## 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.

The Home Sales Index rose 3.4 percent in August, as a result of an increase in the number of homes sold in the county in August. These homes were sold, however at markedly lower prices than in previous months. The median home sales price in the county in August was \$289,900. This is a decline of 7.4 percent since only last month, and a sizable 17.1 percent decline since the spring peak. The real twelve month decline in median home prices is now 11.5 percent, the largest real decline since March of 1996. This decline indicates significant weakening in the local housing market.

The California Association of Realtors reports that California also shows significant weakening of its housing market. The number of homes sold in the state this August was 30.1 percent less than was sold last August. This decline is the most dramatic the state has seen since 1982. The real median sales price in the state has declined 2.3 percent since August of 2005, and CAR economists are expecting more dramatic declines in coming months. ([car.org](http://car.org))

At the national level, housing markets were also in decline as total existing home sales were 12.6 percent lower than August of 2005. The national median existing home price in August was \$225,000, down 1.7 percent since August of 2005. Accounting for inflation, this represents a real 5.5 percent drop in national home values on the year. This was the first time since 1995 that year on year prices declined, and the national housing for sale inventory is at it's highest levels since 1993. ([realtor.org](http://realtor.org))

Freddie Mac, the nation's largest mortgage company, reports an average 30 year fixed rate mortgage as of September 28, averages 6.31 percent with an average of 0.4 points. This continues the downward trend in the rate from last month's rate of 6.44 percent. ([freddiemac.com](http://freddiemac.com))

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.

## 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.

The Retail Sales Index recovered somewhat in August, posing an 8.7 percent gain. This is a strong performance, but after last month's 11.6 percent trouncing, it is only a partial recovery of what has been lost. This month's gain, however does make the retail sector the strongest performing sector. Apart from the upward move in this sector, the Composite Index for August would be dismal indeed, with very weak performances in both manufacturing and hospitality and all other sectors not dramatically changed. Ongoing performance in this sector will at least somewhat depend upon whether the slowdown in the national economy, led by the cooling housing market, is moderated or whether it leads to contraction.

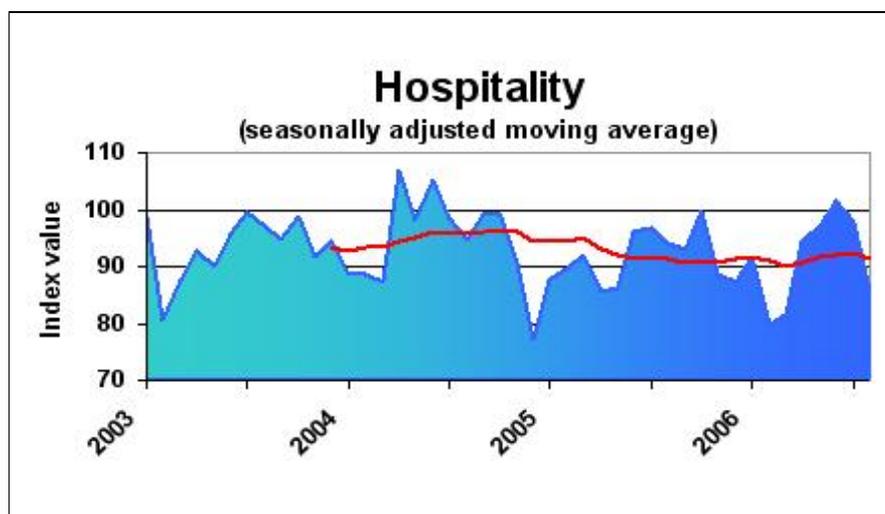
The Federal Reserve Board's Beige Book reported on September 6th that at the national level, Retail sales were moderate. Auto sales and housing related sales were weak, and weighed upon retail sales. Also, energy prices were perceived as still hampering consumer spending. ([federalreserve.gov](http://federalreserve.gov))

National consumer confidence as measured by the Conference Board, increased in September, adding 4.3 points to 104.5. A level of 100 is equivalent to the base year of 1985's level. The Conference Board's Index measure of consumer's perceptions of the present economic situation also increased, as did the measure of

consumer future expectations of the economy. All of these are positive factors for Consumer purchases in coming months. Consumer spending represents the largest part of national economic activity. All the same, Lynn Franco, Director of The Conference Board Consumer Research Center feels that in spite of these increases there is little to suggest any significant change in economic activity. ([conferenceboard.org](http://conferenceboard.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.



Graphic description: 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 declined sharply this month, dropping 12.5 percent to join the Manufacturing Index at a historic low for August. The Hospitality Index is at 85.5, which is the poorest August performance on record. This is a dramatic decline for an Index that is usually fairly stable, fluctuating within a narrow range just above and below 100. It will be interesting to see if this decline is sustained, or if it is just one unusual month. The bright and warm weather we have enjoyed in September may lead to a strong performance for hospitality in next month's report. If so, this August may wind up being an anomalous month in a fairly stable Index.

## Gasoline Prices

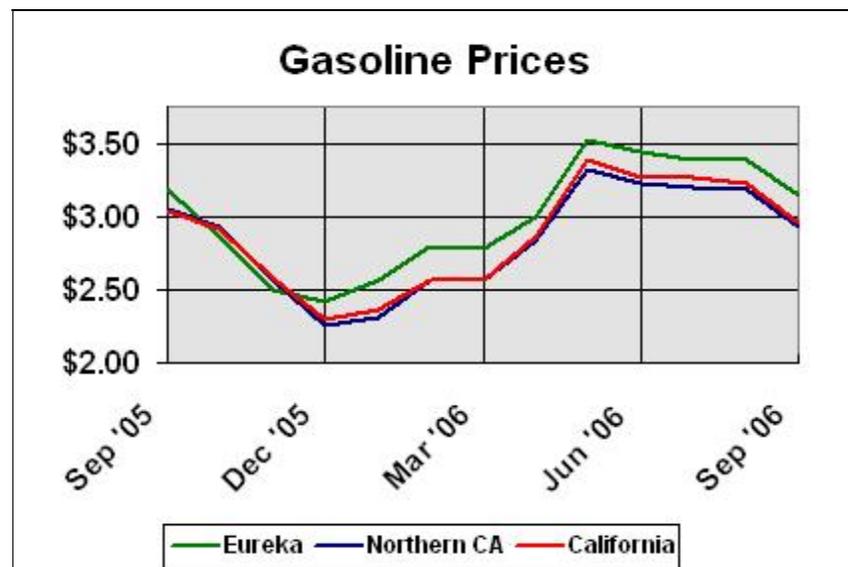
The American Automobile Association reports that county gas prices have fallen a

healthy 24 cents as of September 12th. Northern California and national prices are down by similar margins, 25 cents and 26 cents, respectively. This decline comes as oil prices are dramatically down from their highs in the area of \$70 per barrel. Prices are now under \$60 as the end of the Atlantic hurricane season approaches without any storms that wrought a serious impact on Gulf petroleum production. Simultaneously, the US economy is slowing its pace somewhat which will decrease domestic demand. US supplies are high, and recent production cuts by OPEC members Venezuela and Nigeria have not resulted in other members following suit. The result of all these factors is a less jittery petroleum market with lower prices and less apprehension about factors such as diplomatic tensions with Iran over their nuclear ambitions. This calming of the market has brought prices dramatically down, and consumers are beginning to feel the easing of tension at the pump as well. In the midst of all this, the end of the summer driving season usually is accompanied by lower prices at the pump and without a doubt this is also a factor now. ([csaa.com](http://csaa.com))

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.

Average Price* (as of 09/12/06)		Change From Prev. Month (cents/gal.)
Eureka	\$3.15	-24¢
Northern Ca	\$2.93	-25¢
California	\$2.96	-26¢

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](http://www.csaa.com)).



## Electricity Consumption

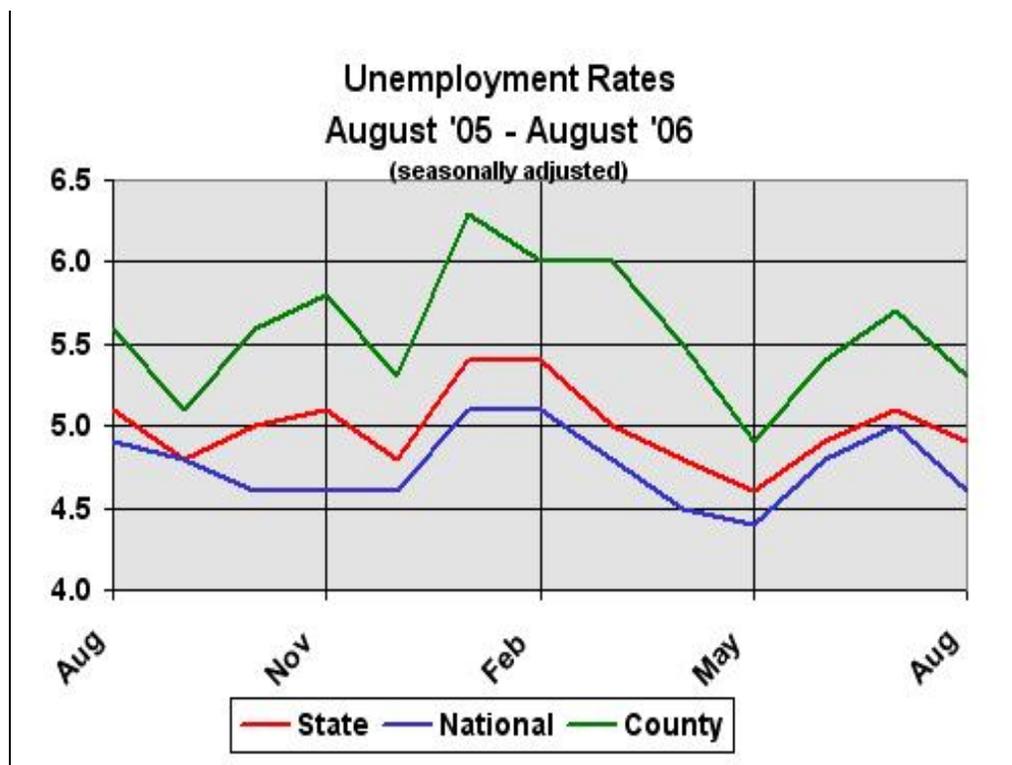
The Index value of this sector is based on seasonally adjusted kilowatt-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation 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 estimated, and are revised when the quarterly data are received.

Data for the quarter ending in June indicate continued high energy consumption. The Index values for June is 130.2. This is an 11 percent increase over June of the prior year.

## Total County Employment

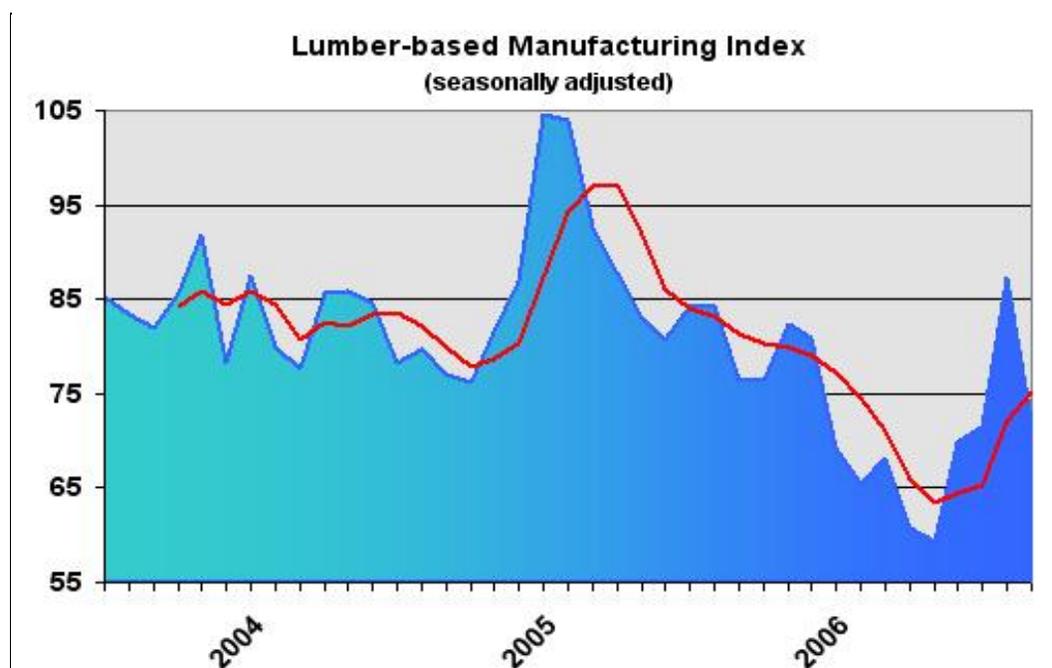
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

The employment picture presented by this month's index is somewhat complex. The seasonally adjusted unemployment rate declined from 5.8 percent to 5.3 percent. This is quite good, and indicates an improvement in August in the Humboldt County job market. At the same time, the seasonally adjusted Employment Index for this month declined. The Employment Index is not based on unemployment, but on the number of employed persons in the county. Preliminary employment and labor force data for August indicate an increase of 400 employed persons in the county and an increase of 200 in the labor force, which indicates 200 of last month's unemployed found work. This also is a positive development. The reason the Employment Index declined slightly is that it is seasonally adjusted and reflects how the job market performed this August *compared to* a normal August. Even though conditions improved this August, the improvement was less than what is normal for this month. As a result the Index declined slightly. To summarize, the unemployment rate improved this month even with the seasonal adjustment, indicating an unseasonably low amount of employment, but the Employment Index declined slightly because of the seasonal adjustment, indicating an unseasonably small increase in the number of persons employed in the county this August.



## 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.



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 which attempts to demonstrate the overall trend in the data with less monthly volatility.

In August, lumber based manufacturing fell sharply again, decreasing 17.7 percent to an Index value of 71.9. This level is not a historic low; it is still well above the 59.2 level it dipped to in April. Nonetheless, it is the weakest August number on record. This month is 6.0 percent below August of 2005 and a sizable 18.9 percent below August of 2001. This decline could be related to the slowdown in the national housing industry and the attendant decrease in demand for lumber and other building supplies. If this is the case, then further declines may be in store as the housing market continues to cool in the months ahead. This is also suggested by the fact that the Manufacturing Orders leading indicator is off from the peak it reached toward the end of last year.

At the national level, the Institute for Supply Management reports that American manufacturing continues its multi-year growth trend, but with signs of slowing. Wood products industry executives cited in the report noted that, "Within the past two weeks [they experienced a] serious downturn in customer orders related to the housing market downturn." In US manufacturing as a whole, new orders continued growing at a steady pace, but production grew at a slower pace. Inventories contracted, but customer inventories, while remaining too low, slowed their rate of contraction. The backlog of orders these manufacturers faced finally began contracting this month and price levels slowed their rate of increase. Taken together these factors suggest slowing conditions and decreasing inflationary pressure. While a mild hurricane season and falling oil prices bode well, it remains to be seen whether growth will be sustained at lower levels or if the cooling housing market and higher interest rates will lead us into a contractionary situation.

([www.napm.org](http://www.napm.org))

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**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.

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### Cited References

[American Automobile Association](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[The Conference Board](#)

[Federal Reserve Board Beige Book](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

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