



Humboldt Economic Index

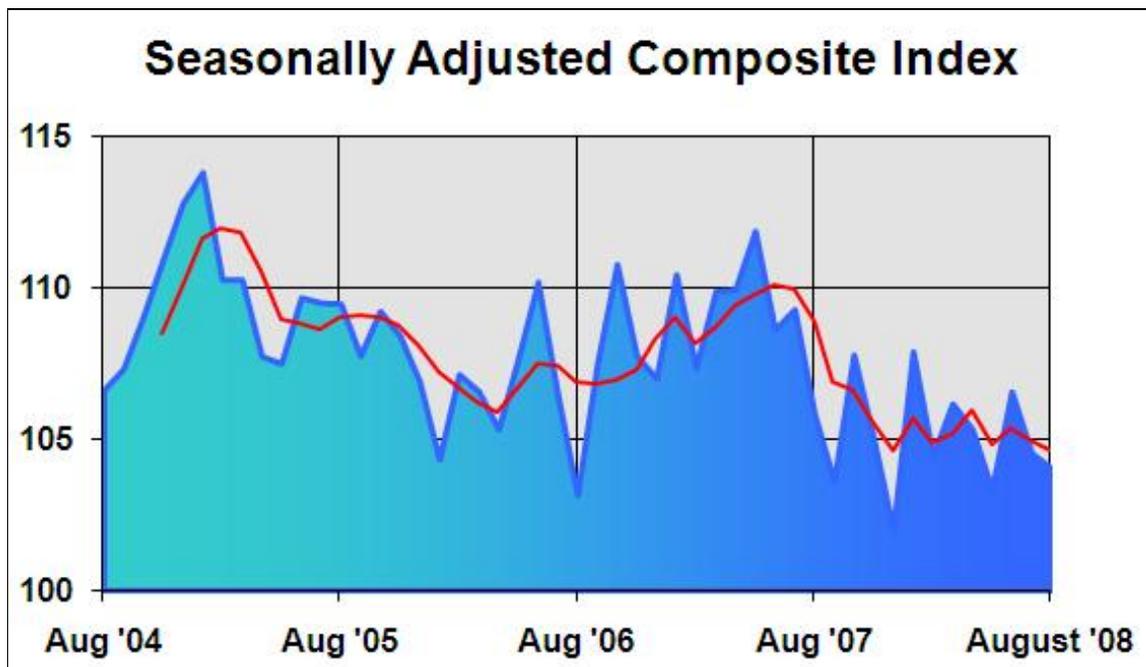
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Humboldt Economic Index

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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 Humboldt Economic Index 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.

The overall composite for August barely rose and remained essentially unchanged at 104.6 from last month's 104.5 and remains in the red compared to one, five, and ten years ago. Home sales fell by 2% from July 2008. The current credit crisis remains to keep sales down while also affecting labor markets. The seasonally adjusted unemployment rate soared to levels not even reached during our last recession. Total County Employment fell to a seasonally adjust index value of 102.0, a 1.1% fall from last month and 2.1% from a year ago. While consumers remain uncertain about future economic conditions discount stores are experiencing higher sales while gasoline sales fall due to a decline in fuel demand. Retail remained steady at 161.3 a mere 0.6% increase from July. Hospitality expanded by 3.5% throughout the month, possibly from the increase in HSU's freshman enrollment. Leading indicators suggest future softening in labor markets and building performances. However, the Emergency Economic

Stabilization Act of 2008 which will take some time to come into full effect may help turn around the current economic crisis and divert a major recession. The current economic conditions have resulted in higher unemployment and possibly may force Evergreen Pulp in Eureka to shut down temporarily. The credit crisis is far reaching and will affect Humboldt County further by contracting businesses, slower sales of retail, manufactured, and housing goods. Another issues related to California is the lack of state funding that will be running out soon. California may need to acquire a seven billion dollar loan from the federal government to stabilize itself until the end of the fiscal year.

Composite & Sectors					
		Percent Change From:			
Index	Value*	Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	104.6	0.01	-1.7	-3.0	-0.6
Home Sales	77.9	-2.0	-11.5	-33.6	-11.5
Retail Sales	161.3	0.6	4.0	7.2	37.9
Hospitality	89.2	3.5	-2.1	-1.5	-6.3
Electricity Consumption	132.3	0.0	2.3	19.2	25.7
Total County Employment	102.0	-1.1	-2.1	-0.7	-1.7
Manufacturing	47.9	0.4	-17.9	-41.6	-58.5

* 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.

Key Statistics		
Median Home Price*	Mortgage Rate†	Unemployment Rate‡
\$296,900	5.750%	8.3%

* 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.
 † 30 year owner occupied conforming conventional fixed rate provided by Umpqua Bank.
 ‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

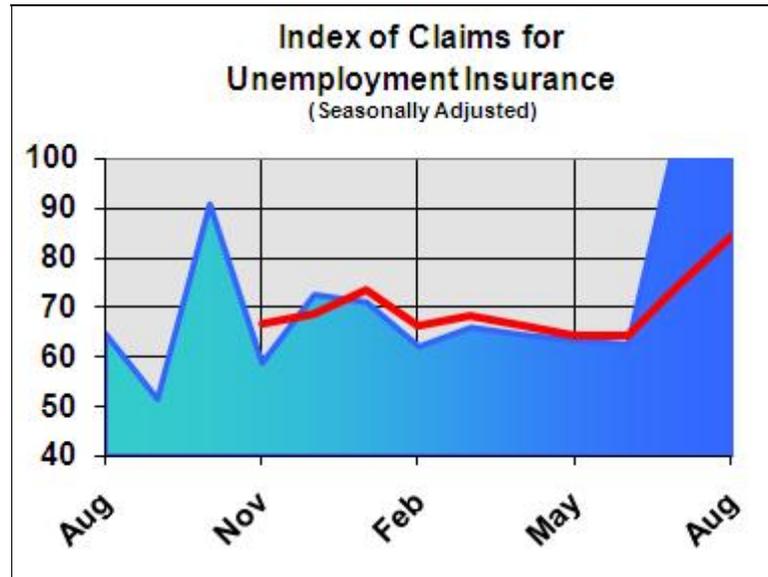
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Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	-3.8%	-7.7%	0.8%	Not Available

* All values are seasonally adjusted.

The Index tracks four leading indicators to get a sense of the direction that the county economy may take in the near future. The four leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) expected 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.



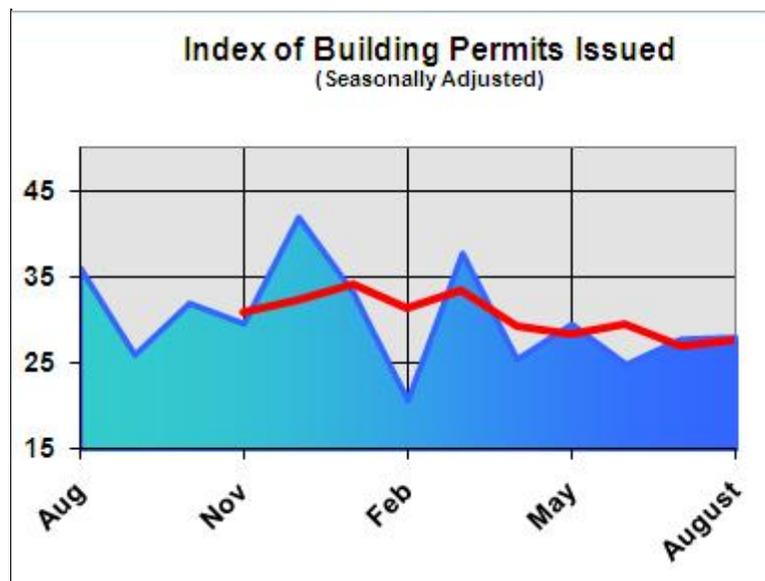
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment Claims contracted slightly after July's 72.4% increase to a seasonally adjusted value of 103.8, a 3.8% difference from July. However, this indicator still remains historically high and may symbolize a continued softening of local labor markets in the near future.



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.

Help Wanted Advertising declined in August by 7.7% to 99.2. The reduction in this index suggests that cooling in local labor markets as producers scale back during uncertain times. Unfortunately, this may lead to higher unemployment in coming months as local employers may be unable or unwilling to hire new workers.



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.

Building Permits rose by 0.8% from last month. The current level of this index still remains historically low which implies a weakening in local building performances.

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.

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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.

Humboldt County Home Sales declined slightly in August by 2% from July. The fall in the interest rate more than offset the rise in the median home price, which rose to \$296,000. Payments for a thirty-year fixed-mortgage fell by approximately sixty dollars per months. This change in monthly payments is negligible to most home buyers in the market. However, with current economic conditions throughout the United States some potential home buyers seem to be more cautious before entering into the market. The **U.S. Census Bureau** released data from 2007 reporting that seven million American homeowners, or 15%, with a mortgage spends half or more of their income on housing costs. Financially burdened homeowners are traditionally viewed as those spending 30% or more of their income on housing costs; however, 19 million homeowners now fall into this category.

California Association of Realtors reported the median home price reported stands at \$350,140, a decline of 40.5% from the last time last year. Home sales in August continue to rise after last months, a 43.4% increased when compared to twelve months prior. **Freddie Mac** reports that a thirty-year fixed-mortgage averaged 6.48% which is down from 6.57% from August 2007. A survey by **C.A.R.** shows that 77% of first-time home buyers were influenced by falling home prices. However, falling housing prices and interest rates will not sustain continued sales as the current credit condition worsens. **AB 1830**, a piece of legislation that would change the mortgage industry in California was vetoed in late September by Governor Schwarzenegger. AB 1830 would essentially required mortgage companies to determine if borrowers can afford the monthly payments throughout the life of the loan, prohibiting negative amortization and repayment penalties.

Nationally, sales were down in August from July as reported by the **National Association of Realtors**. Tightening mortgage credit continues to restricting future sales. Single-family home sales fell 9.6% from August 2007. The national median home price fell 9.7% from twelve months ago to \$201,900. On a federal level, the United States government passed the Emergency Economic Stabilization Act of 2008 on October 3. A brief **breakdown** of this bill authorizes \$250 billion to be used immediately to buy up troubled assets from financial institutions, an additional \$100 billion certified by

the president, and \$350 billion more to be certified by president, subject to a congressional hearing. Congress and the president passed the bill in hopes to restore confidence and liquidity in the national and global markets. The effects of this bill are unknown as it will take about at least one month for funds to be distributed throughout the nation.

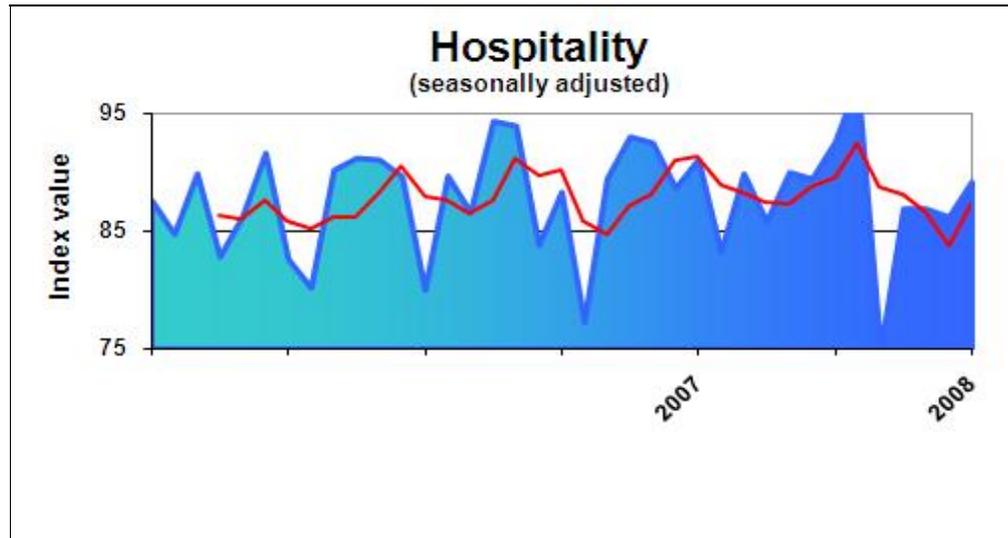
For a local perspective on the possibility of a housing bubble, visit our [Special Projects](#) page for a study of the Humboldt County housing market. Also, visit the [Humboldt Real Estate Economics Page](#).

Retail Sales

Retail sales edged up 0.6% to an index value of 161.3. While retail sales continue to remain steady as uncertainty looms in the economy. The [Conference Board](#) reports that their confidence index rose significantly in August to 58.5 from 42.7 July. While this is still low it seems that consumers are gearing up for unclear times. The Federal Reserve Board's [Beige Book](#) reports that consumers continue to buy less from specialty stores and more from discount stores. As food and energy prices continue to rise consumers are facing falling purchasing power. Along with sluggish sales in the national housing market, household appliance sales remain weak throughout August. Future retail sales remain unclear as credit conditions weaken and unemployment on the rise. Furthermore, the affects of the Emergency Economic Stabilization Act of 2008 remain unclear. Sales at discount stores seem to remain more favorable as individuals feel out current economic conditions.

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 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.

Hospitality rose 3.5% to a seasonally adjusted index value of 89.2. Partly buoyed by high occupancy from HSU's record breaking freshmen class at the beginning of the semester. This potentially will have an affect in the October occupancy rates as well, as HSU students invite parents to come by and celebrate parents weekend in Humboldt County.

Gasoline Prices

Gas prices throughout the nation continue to decline through August now selling at \$3.80 a gallon this is a 31 cents drop from July 2008. The [American Automotive Association](#) reported that average gas prices for California have dropped 41 cents from July. Eureka remained the most expensive gas in Northern California at \$4.47 a gallon in August. Drastic drops in gas prices have been contributed to falling demand from the United States and Europe, and a stronger U.S. dollar. The price per barrel of oil in August traded for \$114 dollars, down from its peak in July at \$147.27 a barrel. Some economist worry if the Emergency Economic Stabilization Act of 2008 will cause higher inflation in coming months which may drive the price of gas higher in the near future.

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.

Gas Prices		
Prices as of 10/05/2008	Average Price*	Change from Previous Month
Eureka	\$3.96	-\$0.51
San Francisco	\$3.80	-\$0.33
California	\$3.61	-\$0.41
* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (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 frequently estimated, and are revised when the quarterly data are received.

Energy consumption remains unchanged from last month due to quarterly data collections. The seasonally adjusted index value for July stands at 132.3.

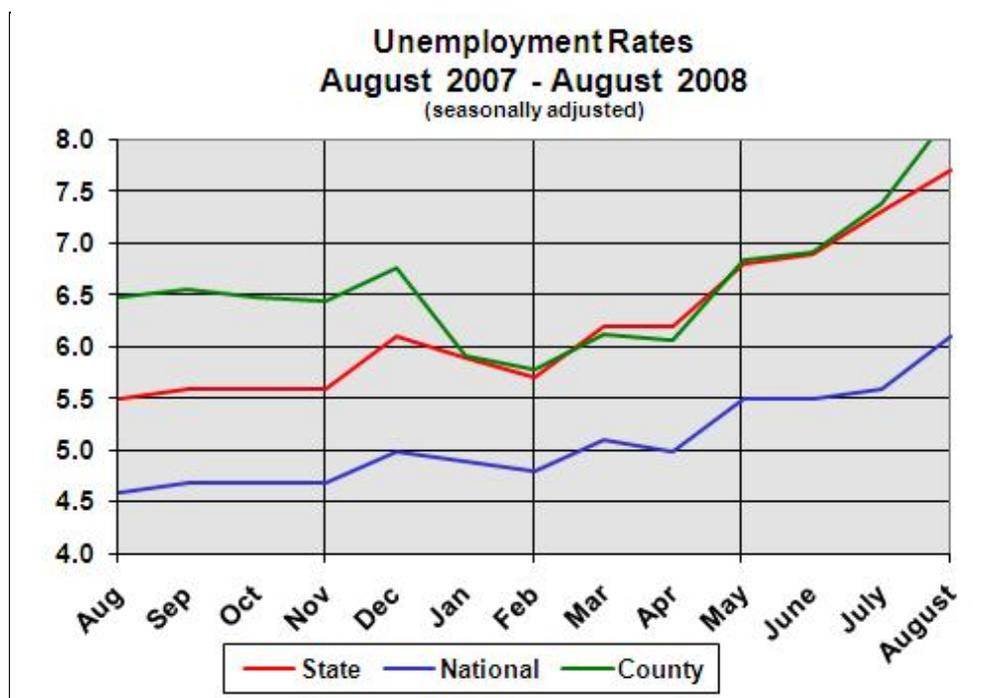
On a state level two new propositions will be voted on in November. Prop 7 and Prop 10, or also known as Big Solar and Big Wind. Proposition 7 requires that California utilities produce 50% of their power from renewable resources by 2025, while Proposition 10 is the California Alternative Fuels Initiative. However, this initiative authorizes a \$5 billion dollar bond. This is obviously an issue as California is having financial troubles. In a letter to Henry Paulson, Gov. Schwarzenegger warns that California will run out of reserves in the near future to continue day-to-day government operations and may request a \$7 billion loan in coming months. For more information follow the links at the bottom of this report.

The **United States Department of Energy** reported on September 19 that it will invest \$67.6 million on 15 new projects to develop solar power storage and heat transfer projects. Further advancements in energy efficiency will reduce costs and emissions allowing for business access to cheaper cleaner energy.

Total County Employment

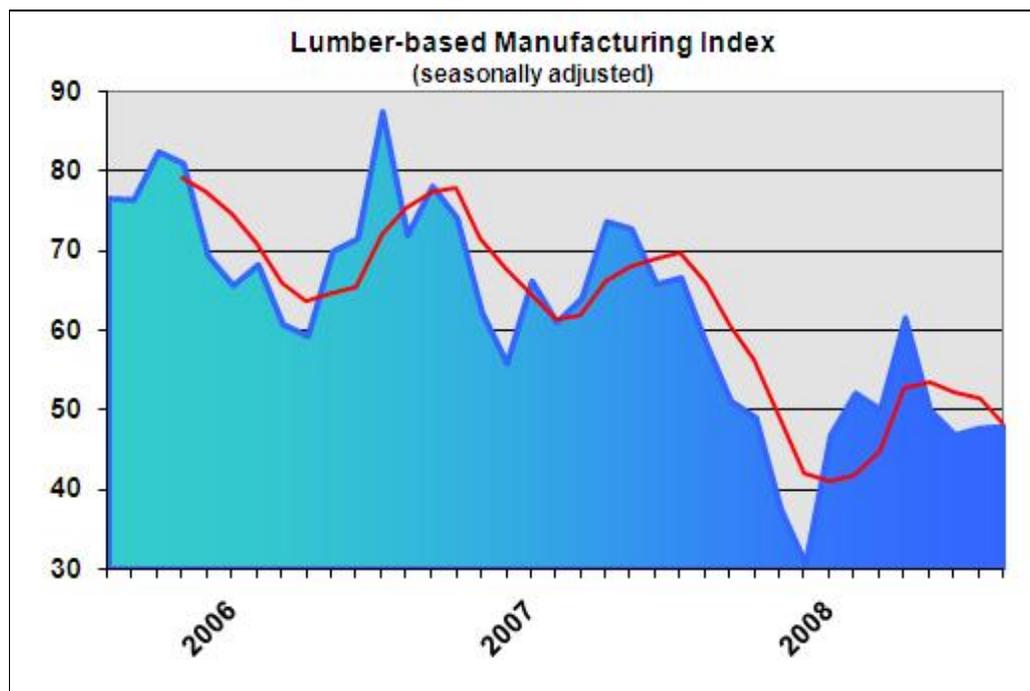
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

The seasonally adjusted unemployment rate rose to 8.3% which is the highest level since October 1997, and higher than any time during our last recession. August is typically a very low unemployment month, but the raw, unadjusted unemployment rate was the highest since March, 2004 (a typically high unemployment month). Economic conditions are worsening across America as many companies are forced to scale back production due to rising costs. Evergreen Pulp in Eureka may shut down temporarily in coming months due to unfavorable market conditions. As long as the economy remains strapped for credit and liquidity there will be continued upward pressure on unemployment. The rise in unemployment coincides with the rapid rise in unemployment claims. Furthermore, help wanted advertising is down from last month which could affect employment in the months ahead.



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.



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.

Manufacturing remained essentially unchanged from last month at a seasonally adjusted value of 47.9, a 0.4% increase from last month. Current market conditions are not favorable for lumber-based manufacturing as input costs rise faster than the selling prices of the companies products. The Times-Standard reported on October 4, 2008 that Evergreen Pulp will be laying off 32 employees and reducing up to 20 additional in the hourly work force. If market conditions do not improve, the mill may shut down until the improve. If Evergreen Pulp shuts down this will put upward pressure on unemployment as it currently employs 215 people.

The Institute of Supply Management reports that manufacturing on the national level contracted while wood products also fell in August. Wood products were among the industries experiencing a decline in new orders and increasing costs.

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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 2006" report reflects data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

Cited References:

[AB 1830](#)

[American Automotive](#)

[AssociationCalifornia Association of Realtors](#)

[Beige Book](#)

[Conference Board](#)

[Freddie Mac](#)

[National Association of Realtors](#)

[Proposition 7](#)

[Proposition 10](#)

[U.S. Census Bureau](#)

[United States Department of Energy](#)

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