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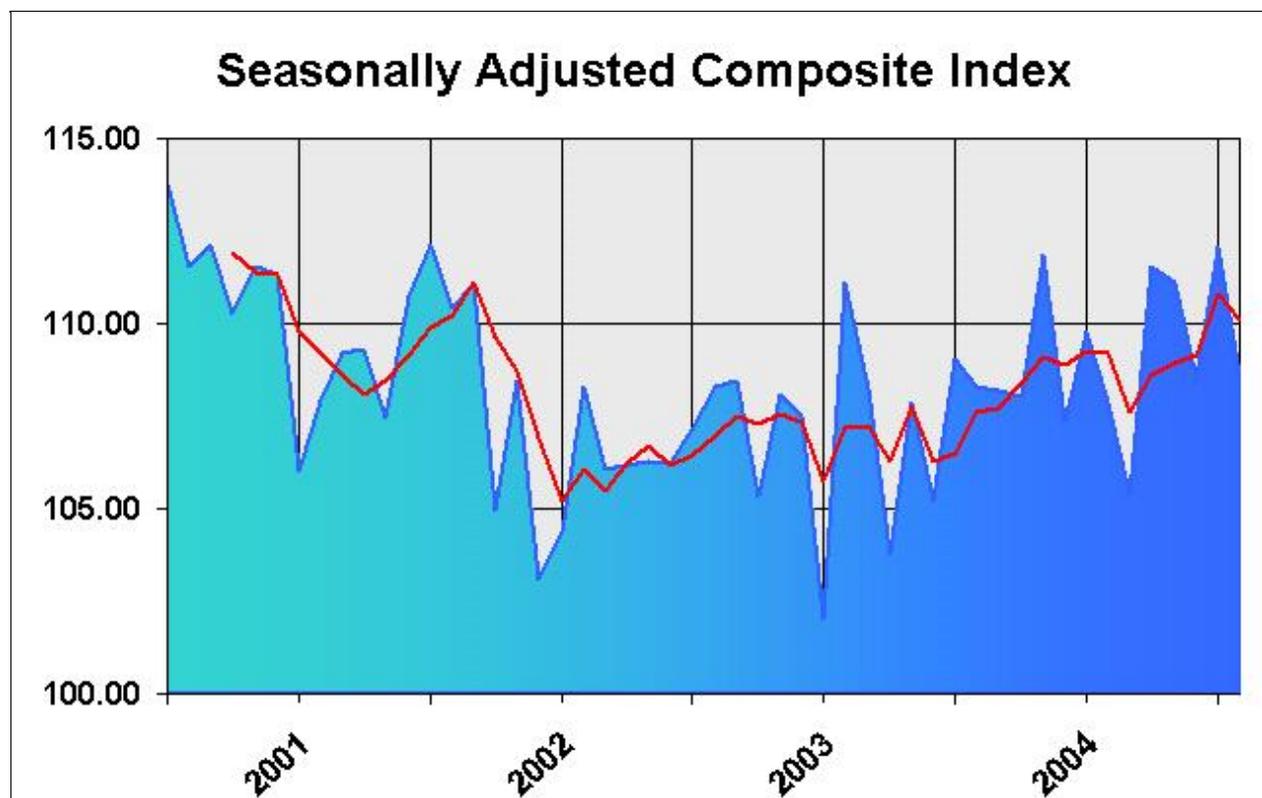
The Index of Economic Activity for Humboldt County

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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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 smooths month-to-month volatility to show the long run trend.

Composite Index and Overall Performance

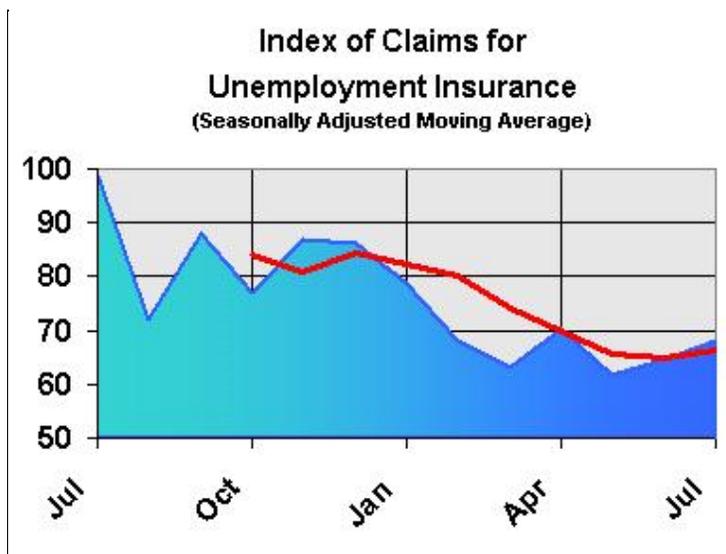
The *Index of Economic Activity for Humboldt County* measures changes in the local economy using data from local businesses and organizations. The data are compiled into a seasonally adjusted *Index* that shows changes relative to the base month (January 1994). The composite *Index* is a weighted combination 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.

The Humboldt County economy contracted slightly in July. The composite Index of Economic Activity For Humboldt County dropped 3.1 percent this month and now stands at 108.6. All major sectors of the local economy experienced declines this month, except for the electricity consumption sector. A cooling off in the housing market lead to lower home sales and home prices this month. Though the home sales declined this month, this sector remains at historically high levels. After dropping 7.4 percent, the home sales index now stands at 145.3. Huge reductions in local and state government employment caused a significant drop in the local employment sector. The employment index declined 0.3 percent to 102.4. The boom seen early in the tourist season fizzled out in July. After dropping 6.6 percent, the hospitality sector now stands at 98.4. The reduction in tourism coupled with poor consumer confidence related to government layoffs contributed to a decline in the retail sector. The retail sales index declined 7.4 percent to 140.1.

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	108.6	-3.1	0.3	0.3	-1.6	-2.6	-3.8
<i>Sector</i>							
Home Sales	145.3	-7.4	12.8	9.5	18.1	25.0	14.5
Retail Sales	140.1	-7.4	2.4	-1.7	-0.3	13.2	9.5
Hospitality	98.4	-6.6	-1.0	-1.2	0.9	-6.4	-0.5
Electricity Consumption	113.2	3.2	1.7	12.9	-9.0	-15.6	---
Total County Employment	102.4	-0.3	-1.2	-0.9	-0.9	-1.6	-3.0
Manufacturing	76.1	-2.8	-8.8	-11.5	-15.9	-26.4	-30.3

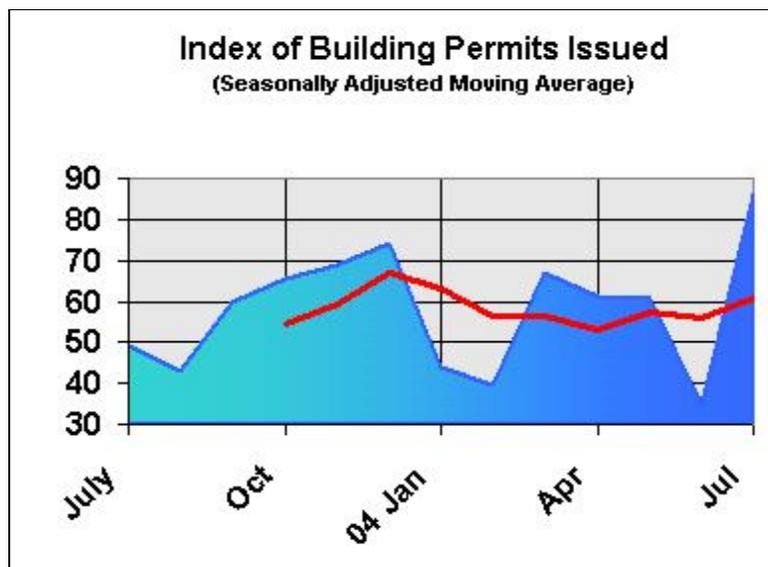
Leading Indicators

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 "smoothes" month to month volatility.

The index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator increased by 5.8 percent in July. However, the four month moving average remains near its lowest point in the past twelve months.



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 "smoothes" month to month volatility.

The index of building permits issued gives insight to future home sales and construction. The Index of Building Permits jumped 148.7 percent from last month to its highest level since 1997. This change in the index was great enough to pull the four month moving average upward, counteracting the large drop last month.



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. Producer expectations continued to trend upward this month, increasing 43.5 percent. After declining in the first and second quarters, the index of manufacturing orders is now giving positive signals for third quarter manufacturing sales.

Key Statistics		Leading Indicators	
		% Change From Previous Month	
Median Home Price*	\$259,450	Manufacturing Orders	43.5%
30 Yr. Mortgage Rate as of 6/30	6.25%	Building Permits	148.7%
Unemployment Rate**	6.3%	Unemployment Claims	5.8%
* 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

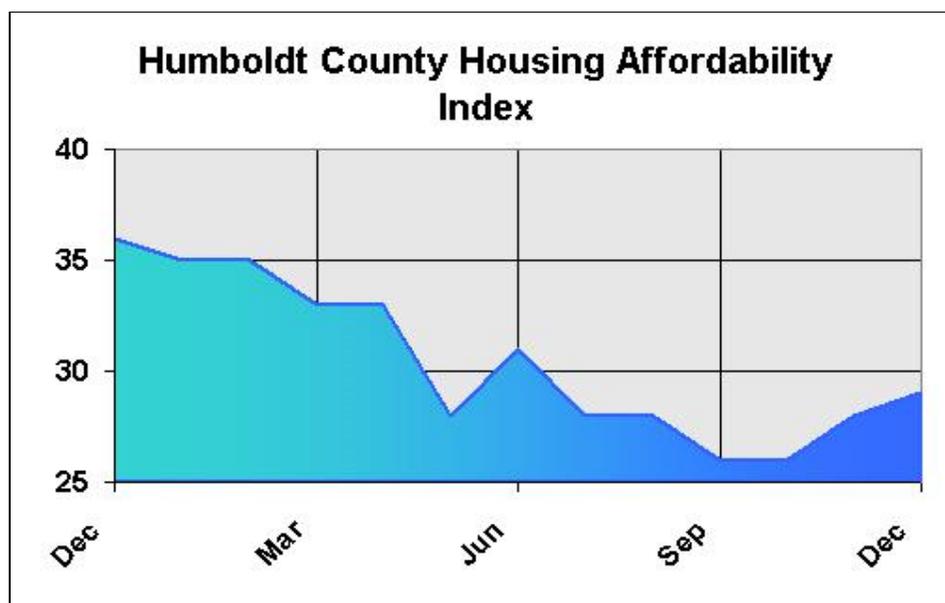
Home Sales

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.

Humboldt County home sales leveled off in July, after setting a new record high last month. The home sales index dropped 7.4 percent to stand at 145.3. Though July's figures are down from last month, the long term trend still shows growth in this sector. Many economists expect home sales to level off throughout the rest of the year, as interest rates rise and the housing market begins to cool. Home prices followed a similar pattern as home sales. The median home price leveled off this month at \$259,450, the second highest price level ever recorded. Strong demand and purchasing power from low interest rates continued to fuel the historically high price levels. Both home sales and home prices mirrored the trends seen throughout the state and the rest of the nation.

Statewide home prices also leveled off, but remain at historically high levels. The median home price in California is \$463,540, down 1.1 percent from the previous month, but up 21.4 percent from July 2003. "While year-to-date sales have increased 7.4 percent, we expect to see them level off in the coming months as increases in the supply of homes and interest rate expectations temper consumers' concerns about the recent pace of the real estate market," said Leslie Appleton-Young, C.A.R.'s vice president and chief economist. (www.car.org)

David Lereah, chief economist for the National Association of Realtors commented on home sales throughout the country. "Prior to this year, the July sales pace would have been a real eye-popper," he said. "The fact is – it remains so. The present level of home sales activity is considerably above last year's record, and the new benchmark we'll set in 2004 is a significant contributor to overall U.S. economic growth." (www.realtor.org)



Graphic Description: The Humboldt County Housing Affordability Index is compiled by the Humboldt Association of Realtors, and shows the percentage of households that can afford a median priced home in Humboldt County. Data for 2004 is not yet available.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of September 2nd, was 5.77 percent with an average 0.8 points. "The drop in consumer confidence left an unsavory taste in the market, creating a fear that consumer spending will slow," said Frank Nothaft, Freddie Mac vice president and chief economist. "Because consumer spending constitutes about 2/3 of the economy, this could seriously impact economic growth. As a result, interest rates tend to retreat to lower levels." (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 Humboldt County retail sector stumbled in July. After dropping 7.4 percent the retail sales index now stands at 140.1. This decline is probably due to poor consumer confidence caused by the significant loss of jobs in the local and state government sectors.

Nationwide retail sales, as reported by The Commerce Department, increased in July. Seasonally adjusted sales were \$336.5 billion, up 0.7 percent ($\pm 0.8\%$) from the previous month and up 6.5 percent ($\pm 1.0\%$) from July 2003. (census.gov)

The latest release from the Conference Board shows that consumer confidence dropped in August. The Consumer Confidence Index, which now stands at 98.2 (100=1985), is down 7.5 percentage points from last month's figure. "The slowdown in job growth has curbed consumers' confidence," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The level of consumer optimism has fallen off and caution has returned. Until the job market and pace of hiring picks up, this cautious attitude will prevail." (www.conference-board.org)

Hospitality

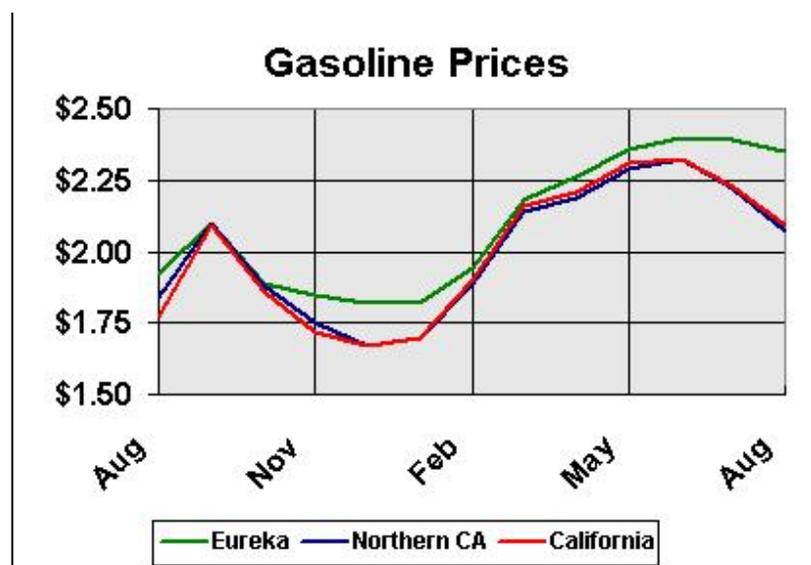
The index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.

Tourism fizzled down in July. The hospitality index decreased 6.6 percent and now stands at 98.4. The index has only reached above the 100 mark three times since September 2001.

Gasoline Prices

Gas prices dropped again, but there is still cause for concern. "This is welcome relief for consumers, but there are still some troubling market forces at work right now," said Sean Comey, spokesman for AAA of Northern California. "Extremely high crude oil prices are looming on the horizon. If they stay at or near record high levels, the cost of that commodity could reverse the current downward trend at the pump." (www.csaa.com)

Average Price* (as of)		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, down 3.2 percent from last month's figure.

Revised electricity index figures for the second quarter are as follows:

- April's electricity index was revised to 118.8.
- May's electricity index was revised to 110.5.
- June's electricity index was revised to 109.7.

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 July, the EDD reported that 55,900 people were employed in Humboldt County. This number is down from June's revised figure, indicating a net loss of 800 jobs. The total civilian labor force decreased by 700 people to 59,700. The seasonally adjusted total county employment index fell 0.3 percent, and now stands at 102.4. All of the jobs lost were in the state government education and local government sectors. These reductions in employment reflect budget cuts implemented July 1st, which is the first day of the fiscal year for the state.

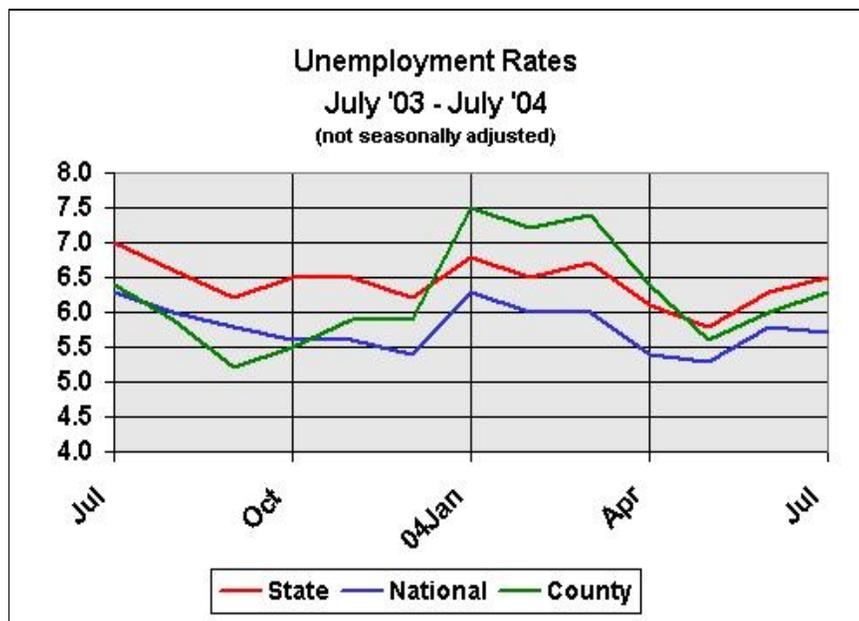
Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net loss of 1600 jobs in July.
 - Arts and entertainment gained 100 jobs.
 - State government education lost 400 jobs.

Local government lost 1300 jobs.

- Overall goods production employment gained 100 jobs
 - Natural resources and mining gained 100 jobs.
 - Manufacturing remained unchanged at 4,100 jobs.

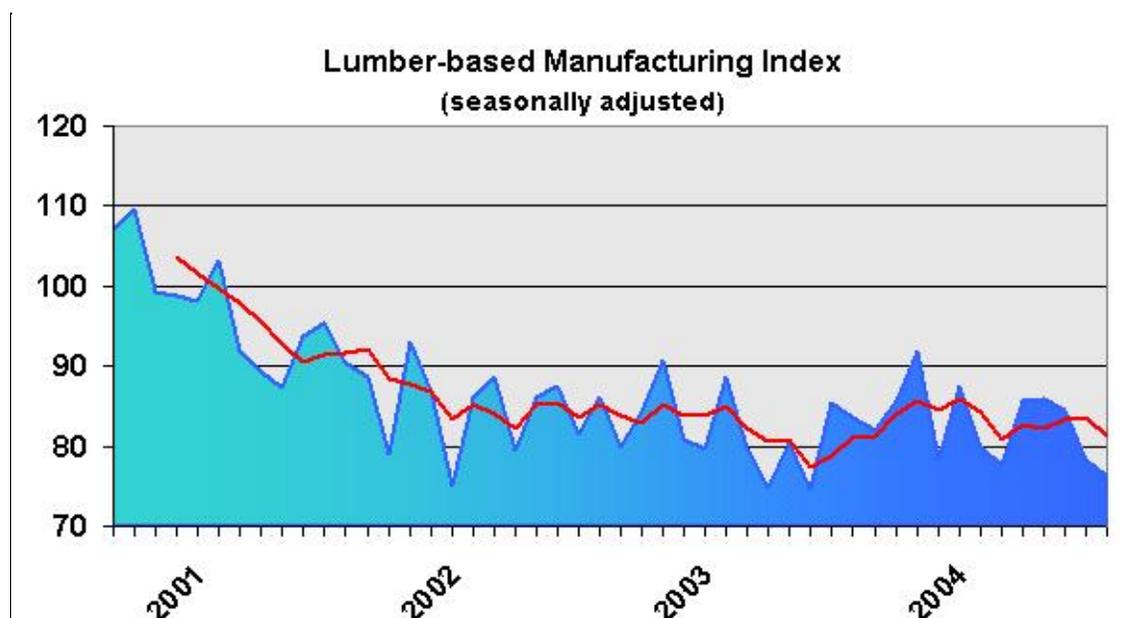
July's unemployment rate increased again, but still remains lower than the statewide average. An decrease in the size of the labor force mitigated the drop in total employment. The unemployment rate now stands at 6.3 percent.



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 2.8 percent and now stands at 76.1. 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, shows positive growth in August. The PMI registered 59.0 in the latest release, a number over 50 indicates growth. "August was another good month for the manufacturing sector. While the near-term outlook remains positive, both the Inventories and Customers' Inventories Indexes show signs of inventory building. Such a build may be justified if it is to meet additional sales demand, and if new orders and production remain strong," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (www.ism.ws.cfm)

The Bigger Picture

National Economic News

The Federal Reserve Bank its target short term interest rate by one-quarter of a percentage point. This is the second such increase by the Fed since May 2000. Fed chairman, Alan Greenspan, acknowledged a recent "soft patch" in the economy, but sighted that slow down as only temporary. In a press release following the most recent rate increase the Fed explained its actions. "In recent months, output growth has moderated and the pace of improvement in labor market conditions has slowed," the Fed wrote. "This softness likely owes importantly to the substantial rise in energy prices. The economy nevertheless appears poised to resume a stronger pace of expansion going forward." (cnn.com)

The economic impacts of Hurricane Charley will be felt long after the storm has passed. The hurricane tore through the heart of Florida's tourist and citrus production regions. Tourism, a \$50 billion a year industry in Florida will likely suffer negative repercussions from the images of the damaged areas being shown in news broadcasts. Charley's path also ripped through Florida's top citrus producing counties. The citrus industry which averages \$9 billion annually in the state has suffered substantial crop losses due to the recent weather. (msnbc.com)

State Economic News

A study released by UCLA researchers predicts modest economic growth for California during the next year. Researchers predict uneven job growth in the state. Southern California will produce most of

the state's new jobs, while tech-heavy Bay Area payrolls will continue to stagnate. The study predicts that the state's unemployment rate will drop to 6.3 by the end of 2004 and continue decreasing in 2005 and 2006. Researchers assert that a weak dollar, the statewide housing boom, and economic growth in Japan and Asia are all contributing to California's economic growth. (Reuters.com)

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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[U.S. Bureau of the Census's home page](#)

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