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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

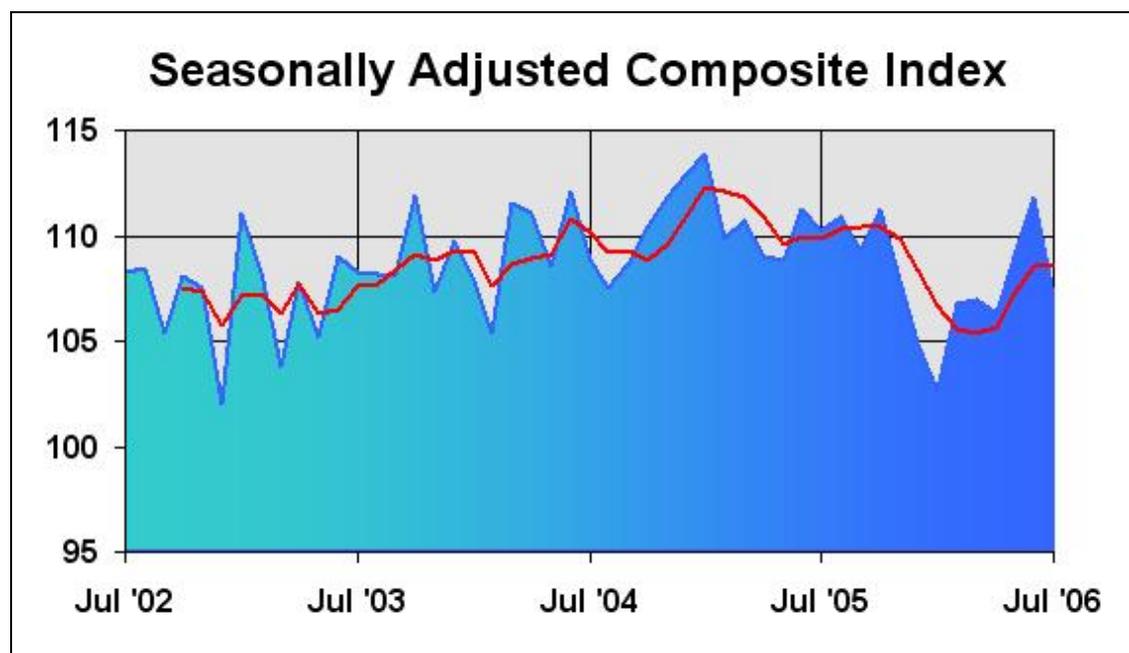
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## August 2006



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 July, the Index declined, losing 4.1 percent to a composite Index value 107.2 (100 = January 1994). The Index was pulled down most notably by declines in the Home Sales and Retail Sales Indices. The Manufacturing Index put the greatest upward pressure on the Index, while the County Employment, Energy and Hospitality Indices moved more gradually. The biggest story this month was the 26 percent decline in the Housing Index. In this sector, prices rose slightly as the number of sales declined drastically. In spite of this month's increase, prices in real terms have declined over the past several months.

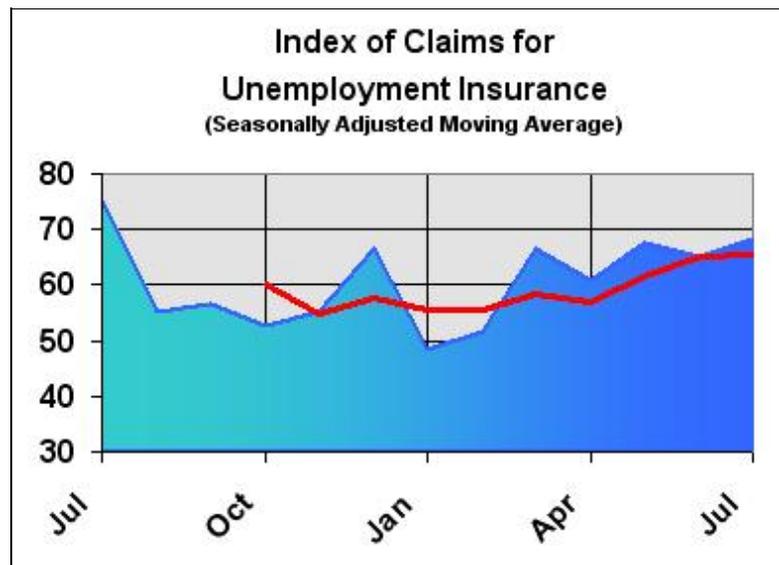
<b>Composite &amp; Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i></b>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2005	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001
<b>COMPOSITE</b>	<b>107.2</b>	<b>-4.1</b>	<b>-2.8</b>	<b>-1.5</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-2.9</b>
<i>Sector</i>							
Home Sales	94.0	-26.0	-37.0	-35.3	-27.1	-29.2	-23.6
Retail Sales	132.7	-11.6	-1.2	-5.2	-3.0	-6.9	-5.5
Hospitality	97.7	-3.8	1.0	-0.7	-1.7	-1.9	0.1
Electricity Consumption	130.2	0	8.9	17.3	17.1	30.0	4.8
Total County Employment	102.3	-2.6	-1.7	-0.1	-1.4	-1.0	-1.0
Manufacturing	87.4	22.3	3.5	9.5	4.7	1.5	-3.5

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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 four leading indicators are (1) initial claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) 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 Claims for Unemployment Insurance 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 claims for unemployment insurance is an indicator of negative economic activity. This leading indicator increased 5.0 percent this month, indicating possibly slowing job market conditions in future months. This number is historically above average, and is the highest number in the last twelve months.

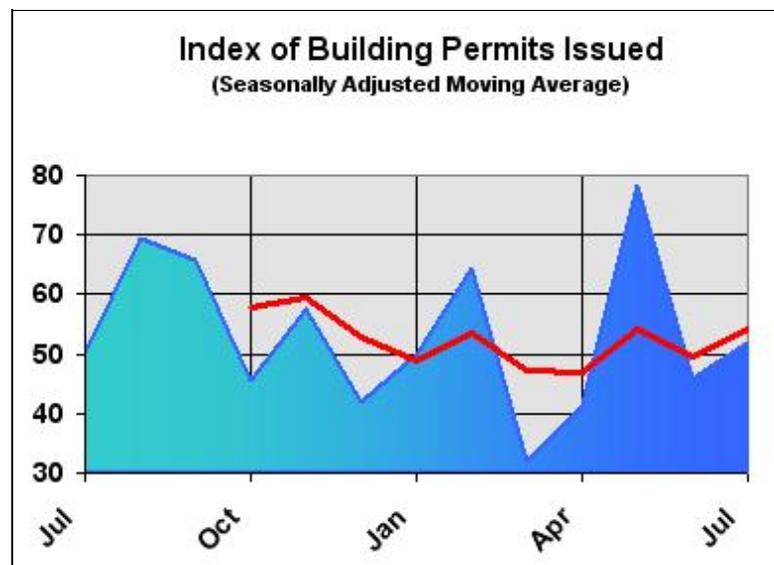


Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above

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 July, the Index declined 4.1 percent to an Index value of 149.3. This is slightly lower than the value of a year ago. This indicator may suggest slowing in future months in the Humboldt County labor market.

National help wanted advertising also slowed this month according to the Conference Board. Their Index of help wanted advertising remained dropped 2 points from 34 to 32. This is well below the same month a year ago when the Index stood at 39. Ken Goldstein, a labor economist at the conference board commented regarding the economic measures produced by that group, "While there is a tendency to blame gas prices and a cooling housing market for the softening trend in overall economic activity, that isn't the whole story. The economy was starting to lose some steam a year ago, before gas prices went through the roof and the housing market began cooling down, and even before the hurricanes and flooding." ([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 July the Index of building permits grew by 13.1 percent to a value of 51.9. An increase in this indicator is usually an indication of increased activity in the local housing market.



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 rose sharply by 59.4 percent in July. This increase may be an indication of future growth in this sector, although one-month movement in this extremely volatile Index is not to be given a great deal of weight. The four month moving average, indicated by the red line on the graph above, is to be accorded more significance. In spite of this month's increase in the Index, the moving average is still declining.

Key Statistics		Leading Indicators	
		% Change From Previous Month	
Median Home Price*	\$313,000	Unemployment Claims	5.0
30 Yr. Mortgage Rate	6.5%	Help Wanted	-5.1
Unemployment Rate**	5.8%	Building Permit	13.1
		Manufacturing Orders	59.4
<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>** Seasonally adjusted from preliminary non-seasonally adjusted EDD data. See</p>			

the [EDD Website](#) for updates.

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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.

July saw a devastating decline in the home sales Index, with this month's decline being the largest in many years. The Index lost 26 percent to a seasonally adjusted Index value of 94.0. The sharp decline in this sector strongly contributed to the overall decline in the Composite Index this month. This July was the worst July on record for Home Sales since 1997.

For the third straight month, Year-over-Year inflation-adjusted house prices fell. The median price of a home sold in July was up \$4000 to \$313,000, up from last month's median selling price of \$309,000 while the inflation-adjusted median sales price is 12.1 percent lower than the peak reached in March. Considering the drastic declines in sales this month coincident with an increase in prices, it may indicate an unwillingness on the part of sellers to accept lower prices in a slowing market and buyers waiting until prices stop falling. The median selling price is not adjusted for inflation and does not affect the Index.

According to data from the National Association of Realtors and the Bureau of Labor Statistics, the inflation-adjusted median selling price of existing houses fell 3.2% from July 2005 to July 2006 and sales were off 11.2%. The California housing market is also showing dramatic changes. The median selling price in the state has begun to decline, dropping 1.5 percent in July to \$567,360 and rising only 1% after inflation from July 2005 to July 2006. The pace of home sales in the state has plummeted 30 percent on the year. ([car.org](#))

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of August 31st ticked downward to 6.44 percent with an average 0.4 points. The 30-year fixed mortgage rate averaged 5.71 percent during the same period last year. Frank Nothaft, Freddie Mac vice president and chief economist noted that, "Mortgage rates continued to drift lower this week in large part because of the cooling in the housing market and in consumer confidence..." ([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.

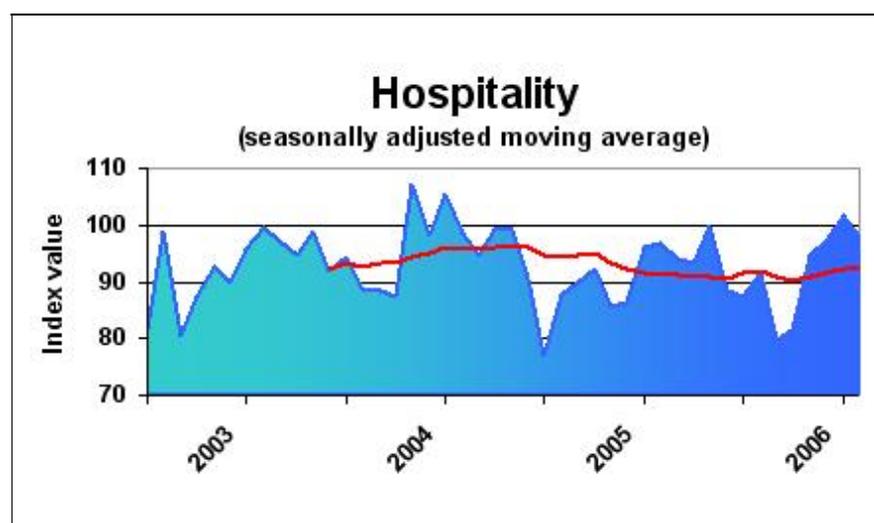
The retail sales sector shrank in January, falling 11.6 percent to a seasonally adjusted Index value of 132.7. This is a 1.2 percent decrease from the same period last year. This level is quite low historically, for this Index. The table above shows that no July in the past five years has been so low.

National retail sales, as reported by U.S. Census Bureau, increased in July. Seasonally adjusted sales were \$367.9 billion, up 1.4 percent ( $\pm 0.7\%$ ) from the previous month and 4.8 percent ( $\pm 0.8\%$ ) higher than July 2005. Gas retailers and nonstore retailers were both up dramatically, adding 19.2 and 15.6 percent respectively from July of last year. ([census.gov](http://census.gov))

National consumer confidence as measured by the Conference Board dropped sharply in August, losing 7.4 points to a value of 99.6. "Consumer confidence lost significant ground in August and is now at its lowest level this year," says Lynn Franco, Director of The Conference Board Consumer Research Center. "Less favorable business conditions coupled with a less favorable job scenario have resulted in the largest one month decline in confidence since Hurricane Katrina last year." ([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 sector declined by 3.8 percent in July to an Index value of 97.7. This represents a 1.0 percent increase from the same month last year. This sector has historically been fairly flat, now standing 2.3 percent below where it began more than a decade ago in January of 1994. With that said, the Index may be unseasonably high in the next month or so because of the beautiful weather we've seen in the past month with the late arrival of the rains.

## Gasoline Prices

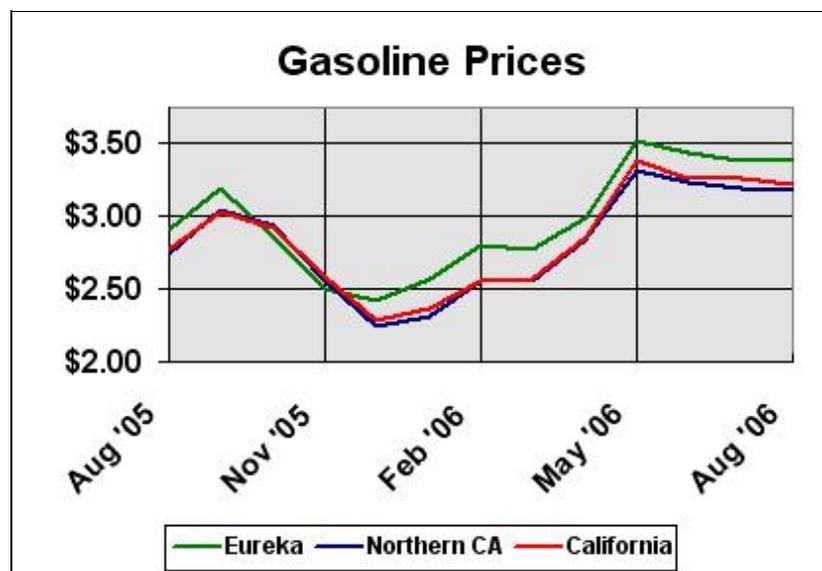
The American Automobile Association reports that county gas prices leveled off as of August 15, rising one penny to \$3.39. Eureka continues to be one of the most expensive communities in the state for gasoline purchasers. Prices declined for Northern California and the state as a whole. The average price per gallon of gas in California dropped 4 cents to \$3.22 and the Northern California price dropped 2 cents to \$3.18. Spokesperson for AAA of Northern California, Sean Comey noted that "Predictions from some industry analysts about significant price increases due to the pipeline problem in Alaska have failed to materialize". ([csaa.com](http://csaa.com))

It is also noteworthy that several oil companies led by Chevron announced recently that they have discovered sizable petroleum deposits in the Gulf of Mexico. Some have reported that the find may be the largest domestic discovery since Alaska's Prudhoe Bay, but production is years away, and even then will not reverse America's dependence on foreign supplies.

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 08/15/06)		Change From Prev. Month (cents/gal.)
Eureka	\$3.39	01¢
Northern Ca	\$3.18	-02¢
California	\$3.22	-04¢

Current average price per gallon of self-serve regular un-leaded 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 130.4. This is an 11 percent increase over June of the prior year. The estimated Index value for July is 130.2.

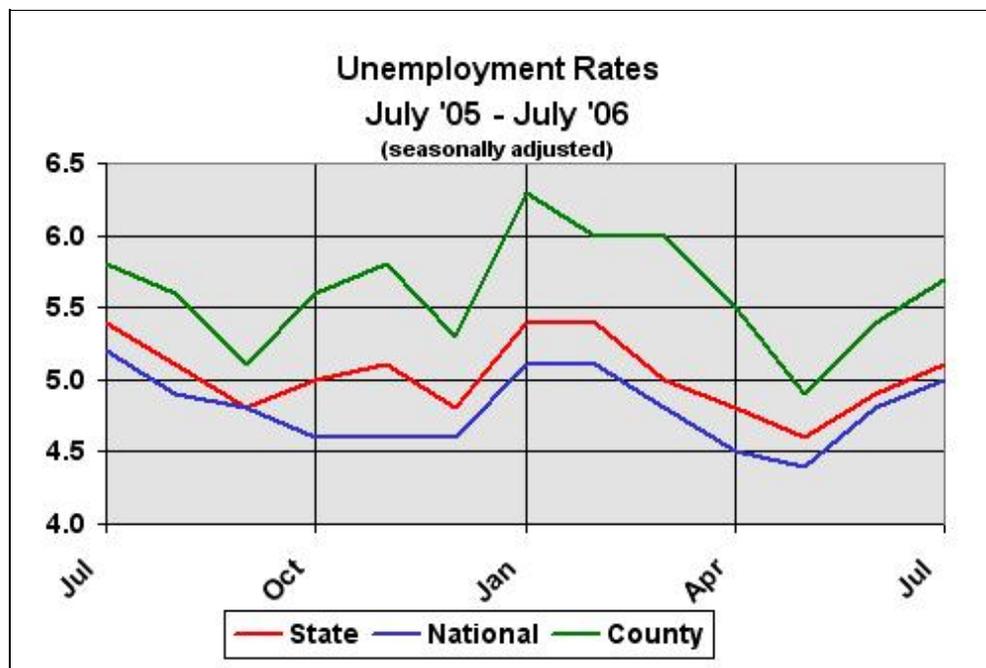
## Total County Employment

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

Preliminary employment and labor force data for July indicate 61,100 people in the Humboldt County labor force, of whom 56,400 are employed. This means that 300 individuals left the labor force in the month. Additionally, the Humboldt economy lost 100 jobs during the month. This resulted in an increase in the seasonally adjusted Humboldt County unemployment rate from 5.6 percent to 5.7 percent. The

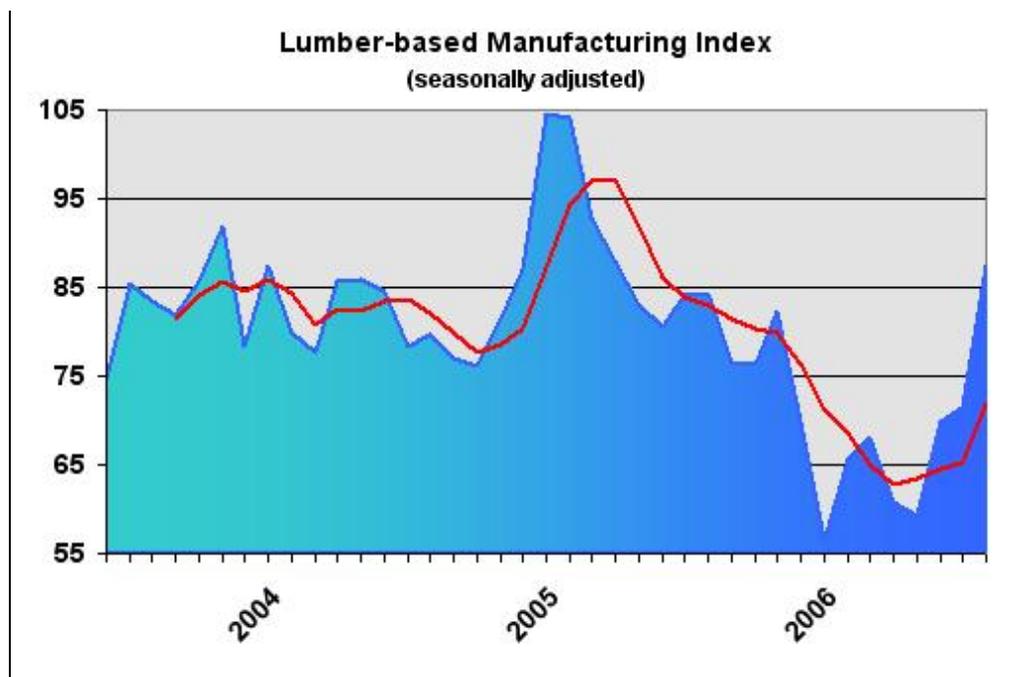
employment sector's Index value increased last month's loss, losing 2.6 percent to a level of 102.3.

The state and national unemployment rates also rose in July. California's unemployment rate rose to 5.1 percent, from 4.9 percent last month, while the national unemployment rate rose to 5 percent from its prior low rate of 4.8 percent. ([edd.ca.gov](http://edd.ca.gov))



## 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.

This month, lumber based manufacturing posted a strong gain. This sector was not only the strongest performer, but also was the only sector which was notably higher this month. Apart from this gain, the Composite Index would have been notably lower. The gain in the Lumber Based Manufacturing Index for the month was 22.3 percent, bringing the value of this sector's Index to 87.4.

At the national level, the Institute for Supply Management reports that American manufacturing continues to be strong. The Institute observes that although prices of raw materials are up and delivery time for inputs is lengthening, the sector continues to grow. New orders, production, employment, as well as exports and imports were all up. In spite of increased output, manufacturer's backlog of orders grew as well. ([www.ism.ws](http://www.ism.ws))

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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.

Cited References

[American Automobile Association](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[The Conference Board](#)

[Federal Reserve Board Beige Book](#)

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[Institute of Supply Management](#)

[National Association of Realtors](#)

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