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The Index of Economic Activity for Humboldt County

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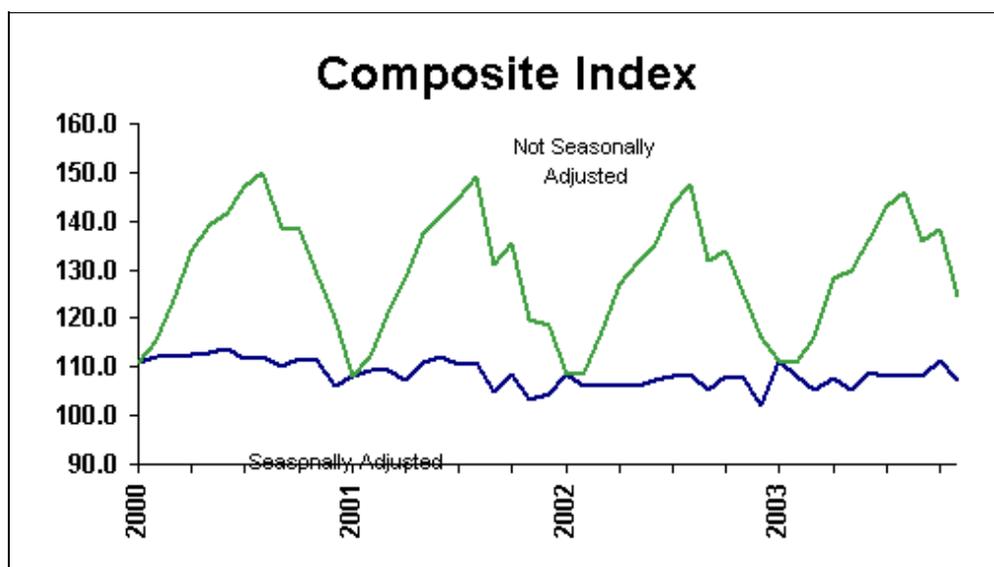
INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

Professor Erick Eschker, Director
 Jessica Digiambattista, Assistant Editor
 Garrett Perks, Assistant Analyst

This month's report is sponsored by
[North Coast Small Business Development Center](#)

December 2003

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 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
COMPOSITE	107.1	-3.8	-0.4	3.9	-3.8	-4.0	-0.8
<i>Sector</i>							
Home Sales	129.76	-12.0	-8.2	19.4	6.0	7.0	26.8
Retail Sales	139.9	-0.9	3.8	15.3	0.0	6.2	7.7
Hospitality	91.8	-7.2	2.2	-4.8	-3.8	-3.1	-9.7
Electricity Consumption	110.73	-0.1	-2.2	1.9	-9.9	-13.9	--
Total County Employment	103.9	-0.4	0.0	3.0	-0.7	0.0	0.7
Manufacturing	78.3	-14.8	-3.2	-9.8	-20.8	-28.3	-29.7



Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$215,000	Help Wanted Advertising	-20.1%
30 Yr. Mortgage Rate as of 12/31	5.875%	Building Permits	4.8%
Average Hotel Occupancy Rate	46.7%	Unemployment Claims	12.7%
Unemployment Rate**	5.8%	Manufacturing Orders	0%
<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 EDD Website for updates.</p>			

Discussion

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 local economy tumbled downward in November. The composite Index dropped 3.8 percent to 107.1. Home sales which had been at record breaking levels dropped 12.0 percent to 129.76. This comes despite historically low interest rates and positive signals from the home sales leading indicator. Holiday shoppers didn't quite meet retailer's expectations in November. The retail sales Index dropped 0.9 percent to 139.9. Although the retail sales Index fell from the previous month, the Index is 3.8 percent higher than November 2002, and 15.3 percent higher than November 2001. An early start to the winter season attracted tourists away from the North coast. The hospitality Index fell 7.2 percent to 91.8. Electricity consumption was virtually unchanged with a slight decrease of 0.1 percent to 110.73. The employment Index which had been on an upward trend made a slight turnaround in November, dropping 0.4 percent to 103.9. Despite the huge gains in the national manufacturing sector, local manufacturing took a nose dive. The manufacturing Index dropped 14.8 percent to 78.3.

With uncertainties about the state budget deficit and future budget cuts, consumer's expectations have grown dreary. Humboldt County's labor force has a high percentage of state and local government workers. The County also has a large college population. Both groups are facing financial cuts the upcoming fiscal year. Fears of layoffs and tuitions increases could be prompting consumers to spend less in anticipation of the budget cuts.

Home Sales

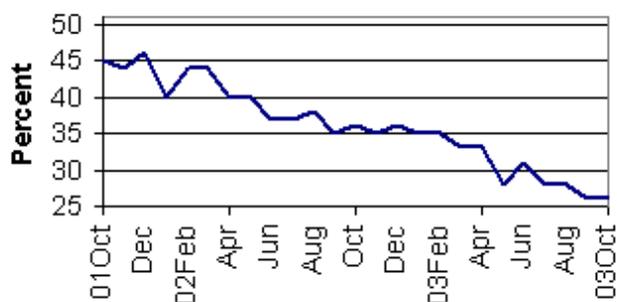
The index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

The November seasonally adjusted home sales index plummeted 12.0 percent from the previous month to stand at 129.76.

The median home price in Humboldt County dropped to \$215,000 in November. Statewide home prices resumed an upward trend after a slight decrease last month. In November, the median home price in California jumped 17.8 percent to \$386,760. "The Southern California and Central Valley real estate markets were very strong last year, and 2003 has been no exception," said Leslie Appleton-Young, C.A.R.'s vice president and chief economist. "This year, San Francisco Bay Area sales are up dramatically compared to the second half of last year, which has propelled the statewide market into record high sales territory over the past few months." (www.car.org) Nationwide home prices leveled off. The national median existing-home price was \$170,900 in November, down from \$172,400 the previous month. David Lereah, NAR's chief economist, said 2003 easily will be the high-water mark for the housing sector. "The last five months have been the strongest on record for existing-home sales. Although sales in November were off from recent peaks, last month's pace is a very respectable number," he said. "The market is being driven by low interest rates, a growing job market and a rising number of households. We will continue to see strong sales going forward, with 2004 likely to be the second-best year on record." (www.realtor.org)

The Humboldt Association of Realtors' Housing Affordability Index represents the percentage of Humboldt County households that could afford to purchase a median priced home. In the most recent release, the affordability index remained at the record low 26 percent. This low percentage means that home ownership is less likely for income-earners and first time home buyers in Humboldt County.

**Humboldt County Housing
Affordability Index**



According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of January 1st, was 5.85 percent with an average 0.7 points. This is a decrease over last month's rate of 6.02 percent. With inflation still at bay, it appears as though the Fed will not raise interest rates until after the first half of 2004. "The economy is ending the year on a modest but upbeat tone. Interest rates cannot rise too quickly any time soon, because the inflation indicators have been declining. But interest rates cannot fall by too much either, because consumer spending is still quite strong," said Amy Crews Cutts, Freddie Mac deputy chief economist. "And for the year as a whole, interest rates for 30-year fixed-rate mortgages were the lowest since Freddie Mac began its survey in 1971." (www.freddiemac.com)

Retail Sales

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

Retail sales failed to meet holiday expectations. The November retail sales Index dropped 0.9 percent

to 139.9.

The Commerce Department reports that national November retail sales were up 0.9 percent ($\pm 1.0\%$) from the previous month and up 6.9 percent ($\pm 1.0\%$) from November 2002. The increase was led by retail trade, electronics and appliances, and building material and garden equipment sales.

The Conference Board's Consumer Confidence Index slipped after a 10 point increase last month. The measure, which now stands at 91.3, is down 1.2 percentage points from the previous month's revised number. "The improvement in consumers' expectations signals healthy economic growth in 2004," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "But job worries continue. Consumers' lackluster assessment of current conditions reflects continuing anxiety about labor market conditions. While consumers expect the job situation to improve in the months ahead, until a significant turnaround takes place, consumers' optimism about current-day conditions will continue to lag behind their expectations." (www.conference-board.org)

The Federal Reserve Bank's Beige Book reported strong economic growth in the western region of the country. Holiday discounting at large retailers helped to keep inventories low in November. Automobile sales continued to slow as dealer incentives were cut back even further. Many dealerships in the western region have accumulated large inventories. These dealers may give beginning of the year incentives until they sell off some of the accumulated inventory. (www.federalreserve.gov)

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.

Cold and rainy weather helped to keep tourists away in November. Humboldt County's hospitality sector dropped 7.2 percent to 91.8. The drop more than erases last month's gains.

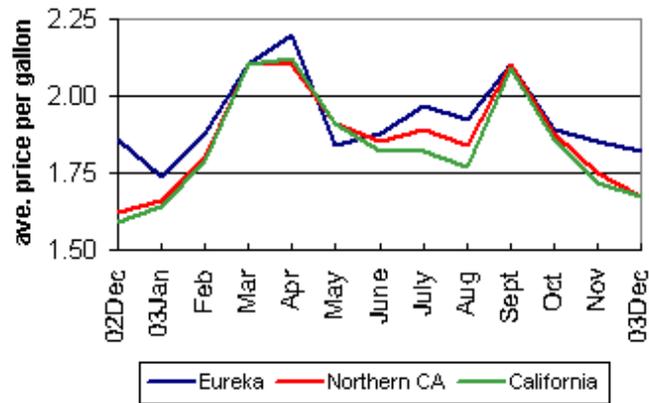
According to the Federal Reserve Bank's Beige Book, vacationers flocked to the snow capped Sierras as early snows helped to boost winter tourism for California's mountain resorts. Hawaii also reported an increase in domestic tourism as many Americans escaped the winter weather on Hawaii's warm beaches.

Gasoline Prices

Average Price* (as of 12/16)		Change From Prev. Month (cents/gal.)
Eureka	\$1.82	-3
Northern CA	\$1.67	-8
California	\$1.67	-5

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).

Gasoline Prices



Locally the price of gasoline fell for the third consecutive month. The drop in price has been more significant in other parts of the state. Local prices remain well above the California and Northern California averages, and are the highest in the region. According to Jenny Mack, spokeswoman for AAA of Northern California, the majority of Californians travel by car over the holidays. The lower prices gave these travelers a holiday bonus at the gas pump. (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.

In November seasonally adjusted estimates of electricity consumption fell 0.1 percent to stand at 110.73.

Total County Employment

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

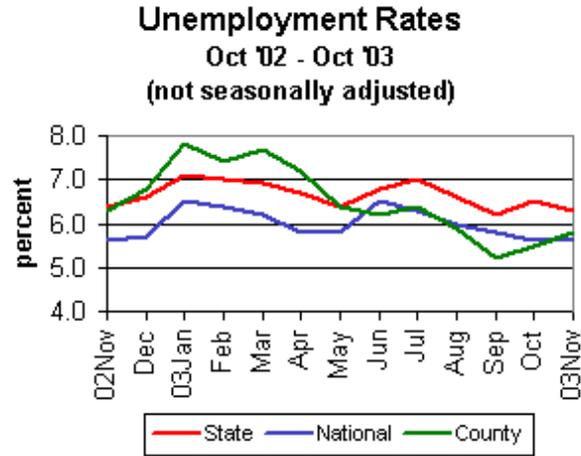
In the preliminary report for November, the EDD reported that 58,700 people were employed in Humboldt County. This is a 0.3 percent decrease over October's revised figure, indicating a net loss of 200 jobs. This dip in employment comes after a gain of more than 1,000 jobs in the previous month. The employment data pushed the employment Index down 0.4 percent to 103.9. The total civilian labor force remained unchanged at 62,300.

Sectoral changes in Humboldt County employment:

- The service sector continues to provide new jobs in Humboldt County. General merchandise stores gained 100 new jobs. Miscellaneous retail added 200 new jobs. Educational and health services lost the 100 jobs it had gained last month. Leisure and hospitality suffered from job cuts. With food services and entertainment each losing 100 jobs. Professional and business services also gained 100 jobs.
- State and local governments continued to be a major force behind new job creation. Local government and state education both added 100 new jobs.
- Employment in wood product manufacturing was stable in November.
- Employment in the construction, and natural resources & mining sectors declined by 100 jobs.

- The agricultural sector remained unchanged.

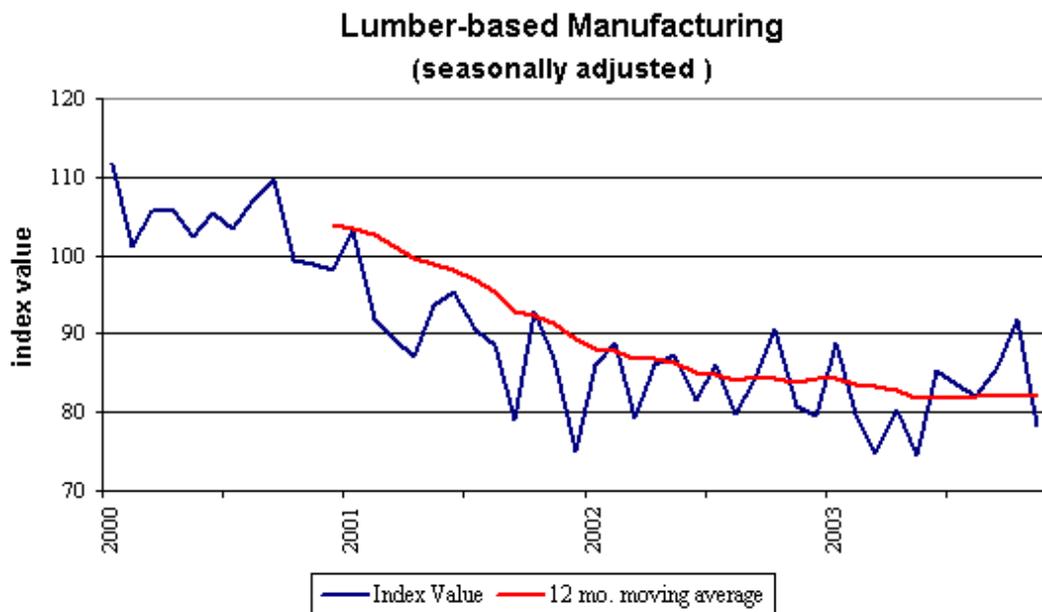
Humboldt County's unemployment rate increased slightly, and is higher than the national average for the first time since July. However, local unemployment is still significantly lower than the statewide average. November's preliminary unemployment rate (not seasonally adjusted) edged upward 0.3 percentage points to 5.8. This increase in unemployment comes in spite of good national economic news and falling state and national unemployment rates.



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.

The preliminary November index value for this sector plummeted 14.8 percent from the previous month to stand at 78.3. This huge drop comes after positive gains in lumber manufacturing during the last two months.



National manufacturing output, as measured by the Institute of Supply Management, grew significantly in November. The ISM Index level rose 3.4 percentage points this month and is currently at 66.2 percent (a number higher than 50 indicates growth). "With the PMI growing at an accelerating rate, the manufacturing sector enjoyed its best month since December 1983," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. "Much of the momentum is in New Orders, as the Index is the highest reported reading since July 1950. The strength in December's data provides significant encouragement for prospects in the first quarter of 2004." (www.ism.ws.cfm)

Leading Indicators

The Index tracks four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (1) number of help-wanted advertisements in the Eureka *Times-Standard*, (2) number of claims for unemployment insurance, (3) volume of manufacturing orders, and (4) number of building permits issued. 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.

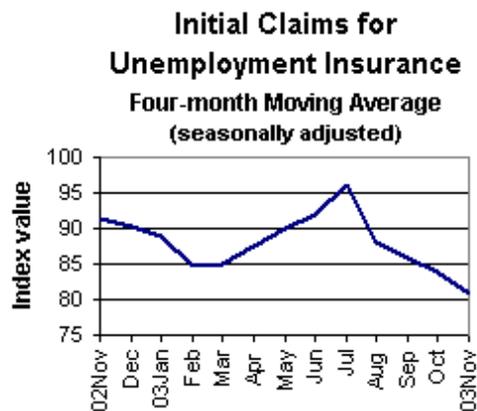
Employment-Based Economic Indicators:

The leading indicators for Humboldt County's economy are giving positive signals for future economic growth. Help wanted advertising dropped 20.1 percent. However when adjusted with a four month moving average the help wanted leading indicator rose slightly. Initial unemployment claims rose 12.7 percent. However when adjusted with a four month moving average the unemployment leading indicator continued downward. The unemployment leading indicator has been trending downward since July of 2003. Building permits rose another 4.8 percent. The manufacturing industry leading indicator remained unchanged. When adjusted with a four month moving average, the manufacturing leading indicator rose slightly.

A count of help-wanted ads indicates the number of new job openings.



Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the number of new unemployment claims is a negative indicator of economic activity.



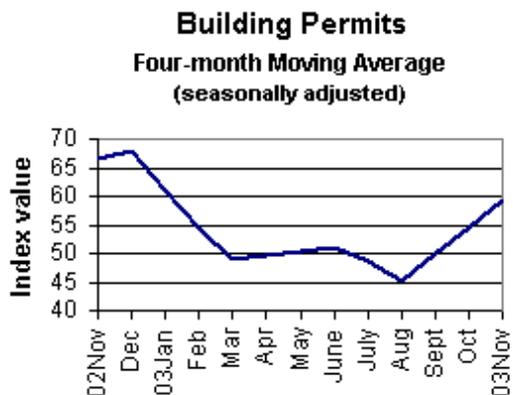
Manufacturing Economic Indicator:

Manufacturing orders are a leading indicator of activity and employment in the County.



Home Sales Economic Indicator:

Single and multiple unit residential and commercial building permits from municipalities and unincorporated county areas are a leading indicator of future home sales.



The Bigger Picture

National Economic News

The latest news release from the U.S. Bureau of Economic Analysis states that the revised third quarter gross domestic product (GDP), which measures the total value of the nation's output of goods and services, grew at a seasonally adjusted annual rate of 8.2 percent during the third quarter. This

number was unchanged from last month's preliminary third quarter estimate of 8.2 percent. The GDP growth was led by strong increases in personal consumption expenditures, residential fixed investment, equipment and software, and exports. Personal consumption expenditures were revised to a real (seasonally adjusted annualized) growth rate of 6.9 percent in the third quarter. This was lead by tremendous growth in durable goods consumption. Equipment and software was revised to a real (seasonally adjusted annualized) rate of 17.6 percent. Residential fixed investment was revised to a real (seasonally adjusted annualized) growth rate of 21.9 percent. Exports were revised to a real (seasonally adjusted annualized) rate of 9.9 percent. (bea.doc.gov)

New legislation signed by President Bush is aimed at helping low income first time home buyers. The American Dream Down Payment Act was signed by the President on December 16, 2003. In a statement made at the signing, President Bush said, "our government is supporting homeownership because it is good for America, it is good for our families, it is good for our economy." The law provides authorization for \$200 million to be used as down payment assistance to over 40,000 low income families. The President also outlined a three step approach to improving homeownership. The first step doubles the funds available for housing counseling services. These services help educate prospective home buyers on all of the costs and responsibilities involved with homeownership. Second, is a proposed set of rules that will make it possible for home buyers to shop around for the best deal on closing costs. Third, is a proposed set of rules to simplify the paperwork required to apply for a loan or close a mortgage. (U.S. Department of Housing and Urban Development Press Release)

State and Local Spotlight

Governor Schwarzenegger signed legislation on December 12, 2003, that will put two budget proposals on the March ballot. The first proposal is the sale of \$15 billion in bonds to ease the current deficit strain. The second proposal would require a balanced budget each fiscal year. The proposal would also create a reserve to fund spending during economic downturns. The Governor is still making cuts to the budget for the upcoming fiscal year which begins on July 1. Some predictions for the 2004/2005 fiscal year show a budget deficit of up to \$14 billion. (cnn.com)

Entrepreneur Marcus Brown is raising funds to open a tourist train excursion around Humboldt Bay. Brown hopes to have the Humboldt Bay Excursion Train up and running within four years. He also has plans for a Timber Heritage Museum and gift shop. Brown is optimistic about receiving the necessary donations for his non profit endeavor. The North coast's other tourist train, the Mendocino County Skunk Train, went bankrupt earlier this year. The Skunk Train was recently purchased by Sierra Railroad Company. The company plans to revitalize the Skunk Train which runs from Willits to Fort Bragg. Brown believes that the Humboldt Bay Excursion Train will attract tourists who want a shorter ride than the four hour Skunk Train ride. A study conducted for this project indicates that there is a market of 35,000 to 50,000 people each year who would ride a tourist train around Humboldt Bay. (Eureka Times Standard)

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 green 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 (the blue line in the diagram above) 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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[Institute of Supply Management web page](#)

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

[U.S. Bureau of Economic Analysis' web page](#)

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