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The Index of Economic Activity for Humboldt County

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INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

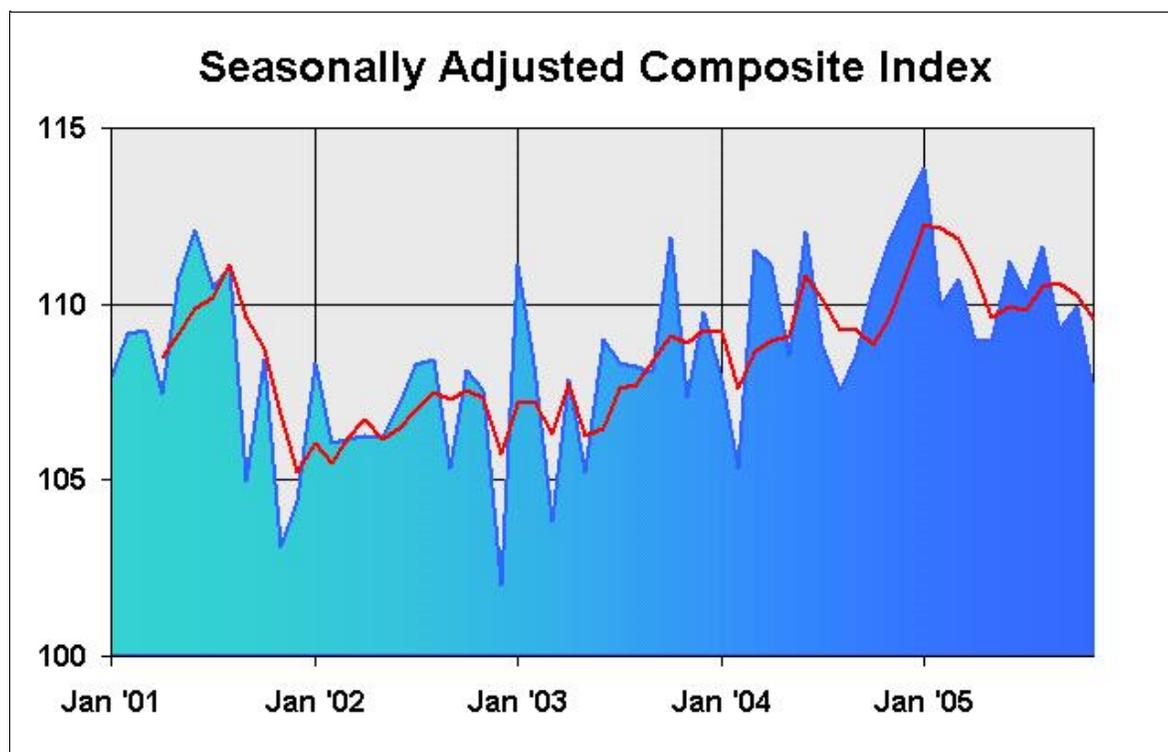
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[# 20](#)

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December 2005



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 smoothes 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.

In November, the Index fell somewhat, more than erasing last month's small gain and posting a decline of 2.2 percent to arrive at a Composite Index value of 107.5 (100 = January 1994). The Index was weighed down by renewed declines in the Home Sales Index, which fell 11.9 percent to rest at 108.0. We also witnessed a significant drop in the Manufacturing Index which gave up 15.2 percent and now stands at a seasonally adjusted level of 69.9. The Hospitality sector was also weak after a respectable performance last month. In November this Index gave up 7.7 percent with the Hospitality Sector Index now at 92.1. Total County Employment was also off this month by 3.1 percent, falling to an Index value of 102.5. The Retail Sales Index is this month's only strong performer, advancing 12.6 percent to bring the Retail Sales Index to 145.9. This advance is a seasonally adjusted gain, so it reflects performance beyond the normal seasonal holiday shopping boom.

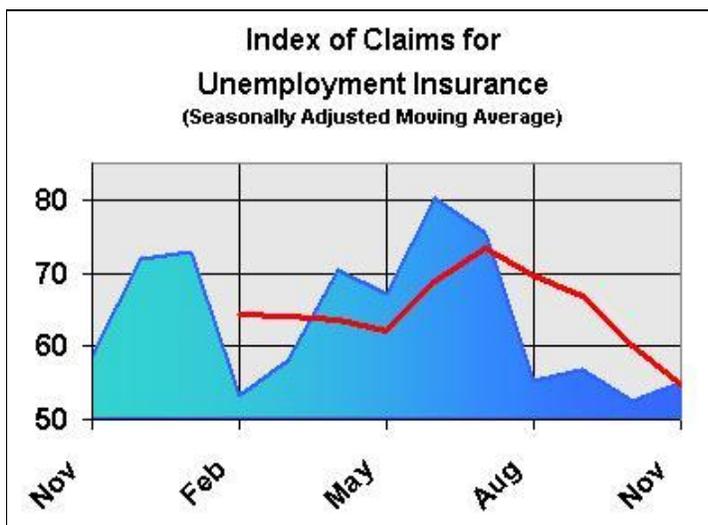
| Composite & Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i> | | | | | | | |
|--|--|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| *** | | Percent Change From: | | | | | |
| Index | Seasonally Adjusted Index Value (1994=100) | Previous Month | Same Month 2004 | Same Month 2003 | Same Month 2002 | Same Month 2001 | Same Month 2000 |
| COMPOSITE | 107.5 | -2.2 | -3.8 | 0.1 | 0.0 | 4.3 | -3.5 |
| <i>Sector</i> | | | | | | | |
| Home Sales | 108.0 | -11.9 | -20.7 | -16.8 | -23.6 | -0.6 | -11.8 |
| Retail Sales | 145.9 | 12.6 | -1.9 | 3.5 | 8.2 | 20.2 | 4.3 |
| Hospitality | 92.1 | -7.7 | 1.7 | 0.3 | 2.5 | -4.5 | -3.5 |
| Electricity Consumption | 131.5 | 0.0 | 3.1 | 16.9 | 16.1 | 21.0 | 7.1 |
| Total County Employment | 102.5 | -3.1 | -1.3 | -1.0 | -1.3 | 1.6 | -2.0 |
| Manufacturing | 69.9 | -15.2 | -19.7 | -10.7 | -13.6 | -19.4 | -29.3 |

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Leading Indicators

These Indices track 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) manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to smooth month-to-month volatility and render

the longer-term trend more apparent.



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 show the overall trend in the data with less monthly volatility.

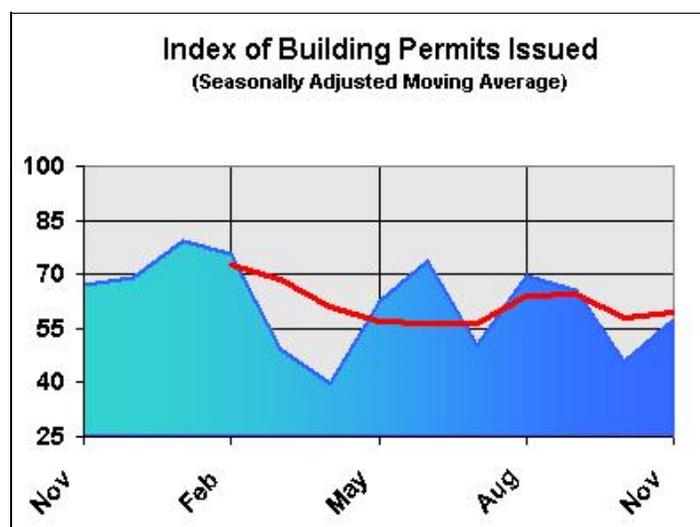
The Index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator rose by 4.7 percent this month, which was a smaller change than the 7.3 percent decline last month. The Index now stands at 55.02. This is still a low number, 6.4 percent lower than the same period last year and around 35 percent below historic levels for the month of November. This continues to be a positive indicator for future employment in Humboldt County.



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 show 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. This Index is based on help wanted advertisements posted in the *Eureka Times Standard*. In November the Index decreased slightly, showing a 3.0 percent decline to an Index value of 162.5. This is still a fairly high number. The decline this month has not nearly cancelled the gains of the last two months which together totaled 18.4 percent. This indicator bodes well for employment in the County in the future.

Help wanted advertising in newspapers nationwide increased slightly this month according to the Conference Board's Index of help wanted advertising. This Index rose a single point to 39. This is three points higher than the number a year ago. Ken Goldstein, who is a labor economist with the Conference Board, is not terribly excited by these gains. He notes that the gains are not stellar even if the impact of the recent hurricanes is eliminated, and that the gains are mitigated by the fact that online help wanted advertising has been declining in recent months. He foresees tepid labor market conditions at the national level in the post-holiday season lasting until the reconstruction effort in the wake of the hurricanes reaches its height. He believes that when this happens it will provide a lift to the national labor market. (conferenceboard.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 show the overall trend in the data with less monthly volatility.

The Index of building permits issued gives insight to future home sales and construction. In November the Index of building permits recovered much of last month's loss, rising 26.1 percent to a value of 59.6. This is still 13.9 percent lower than November of last year. As you can clearly see from this indicator's recent activity, this measure experiences a great deal of month to month volatility. The four month moving average, used to determine longer term trends, appears to be trending slowly downward from its peak in October of 2004 when it reached 75.6. This may be consistent with a slow let down in what has been a booming real estate 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 show 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 dramatically again this month, now standing at 118.7, which is 31.9 percent higher than last month's number. This is a very high number historically. It remains to be seen whether these expected orders will come to fruition or not, but if they do it will represent a definite boon to Humboldt County manufacturers. Although it isn't clear what is driving these increases in manufacturing orders, one conjecture is that hurricane recovery and reconstruction is causing increased orders to county lumber producers.

| Key Statistics | | Leading Indicators | |
|---|-----------|----------------------|------------------------------|
| | | | % Change From Previous Month |
| Median Home Price* | \$319,450 | Unemployment Claims | 4.7 |
| 30 Yr. Mortgage Rate as of 01/04/06 | 6.0% | Help Wanted | -3.0 |
| Unemployment Rate** | 5.8% | Building Permit | 26.1 |
| | | Manufacturing Orders | 31.9 |
| <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> | | | |

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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.

November saw a sharp decline in the home sales Index on the same order as the decline we saw in September. The seasonally adjusted Index value fell 11.9 percent to 107.95. This is almost 21 percent lower than November of 2004, and is the lowest value since 2001. This reflects a softening of what has been a booming housing market. The median price of a home sold in November fell to \$319,450, from last month's median selling price of \$331,055. The median selling price is not adjusted for inflation and does not affect the Index.

See the Bigger Picture section below to learn about Humboldt County's high-priced neighbors.

Showing slightly less evidence of slowdown, California's median selling price, as reported by the California Association of Realtors, increased in November by 1.8 percent to \$548,400. This is a 16.2 percent increase over the median selling price for the same month last year. The C.A.R projects that median home sale prices in California in the year ahead will appreciate by ten percent and total units sold in the year ahead will be two percent less than in 2005. These projections were made in the California Association of Realtors' 2006 Housing Market Forecast. (car.org)

The National Association of Realtors reports that existing home sales at the national level eased 1.7 percent to a seasonally adjusted rate of 6.97 million units. This is 0.1 percent lower than the rate in November 2004. David Lereah, the NAR chief economist, credited the softening in sales to increases in mortgage rates. For the year ahead, Mr. Lereah, expects 2006 to be a slower year, but still strong, and further, that this slowing will be healthy in the long run for what has been a booming industry. He expects 2006 to be the second strongest year on record. (realtor.org)

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 expanded significantly in September, rising 12.6 percent to a seasonally adjusted Index value of 145.9. This is a 1.9 percent decrease from the same period last year. This new level of 145.9 is a marked improvement over previous months this year, but is still not historically impressive. The Retail Sales Index has been hovering between 120 and 150 for a few years, beginning with the last quarter of 1998. Prior to that time the Index was generally trending upward. Since that time the trend in the Index has been rather flat. For the past twelve months the trend in the Index has been somewhat

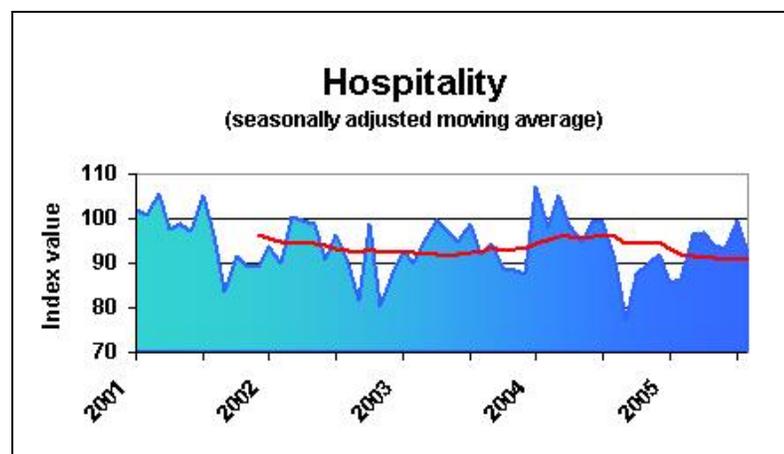
downward.

National food service and retail sales, as reported by U.S. Census Bureau, increased slightly in November. Seasonally adjusted sales were \$353.9 billion, an increase of 0.3 percent ($\pm 0.7\%$) from the previous month and 6.3 percent ($\pm 0.8\%$) higher than November 2004. (census.gov)

National consumer confidence as measured by the Conference Board surged this month by 5.4 percent and now stands at 103.6. A level of 100 is equivalent to the base year of 1985's level. The Present Situation Index, which measures consumers' view of current economic circumstances surged as well by 7.3 percent to 121.5 from 113.2. Also, the Expectations Index which measures consumers' expectations of future economic conditions increased to by 3.6 percent to 91.6 from 88.4 last month. These are all positive indicators for consumer spending, and for the economy as a whole. (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 show the overall trend in the data with less monthly volatility.

The hospitality sector fell 7.7 percent in November to an Index value of 92.1. This represents a 1.7 percent increase from the same period last year. This seasonally adjusted Index differs from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. The four-month moving average, indicated by the red trend line, shows that while the hospitality sector fluctuates from month to month beyond seasonal variability, the overall trend is fairly level.

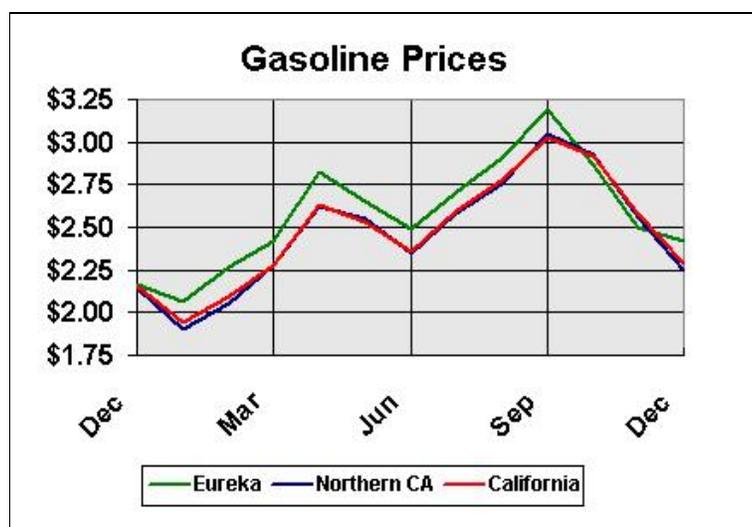
Gasoline Prices

The California State Automobile Association (CSAA) reports that county gas prices have continued to fall in the past month. Similar trends are at work at the state and national levels as well. The average price per gallon of gas in Eureka fell eight cents from November to December. More dramatic declines were seen in the broader area of Northern California and in the state at large which experienced 31 and 29 cent declines respectively. Prices as of December 13, 2005 at the state level came to \$2.29 and in Northern California average pump prices came to \$2.25. (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 12/13/05) | Change From Prev. Month (cents/gal.) |
|-------------|------------------------------------|---|
| Eureka | \$2.42 | -08¢ |
| Northern Ca | \$2.25 | -31¢ |
| California | \$2.29 | -29¢ |

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 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. Because we collect our

data for this sector quarterly, values are estimated in months between those in which the data are collected. The estimate is made in such a way as not to affect the index positively or negatively until data are collected. Our estimates are revised when the quarterly data are received. We will report activity in this sector each quarter, when data are collected.

November's electricity consumption Index is estimated at 120.2, unchanged from last month.

Total County Employment

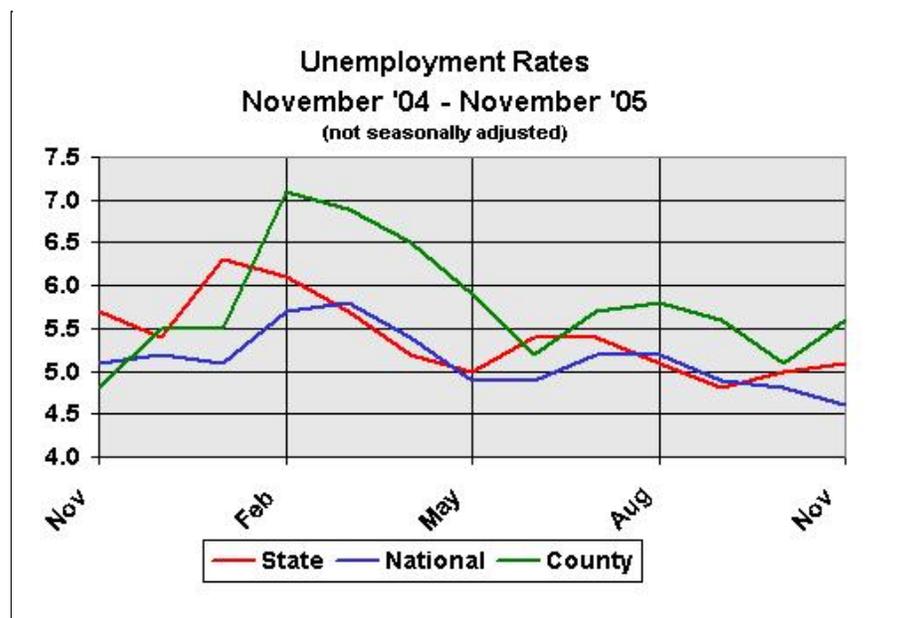
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Preliminary employment and labor force data for November reported 57,900 people employed in Humboldt County. This is a net loss of 900 jobs from October's revised figure of 58,800. The largest job loss was from natural resources and mining. The total civilian labor force also shrank by 700 people to 61,500. After adjusting for seasonal variation, the employment sector's Index value contracted, decreasing 3.1 percent to 102.5. This represents a 1.3 percent decrease from the same period last year. There were around 100 more unemployed individuals in the county in November than in October. The rest of the decline in the number of employed persons in the county consists of individuals who left the county labor force altogether and are no longer seeking employment in the county. These individuals may have moved out of the county, retired, or simply become discouraged with their prospects for finding work and left the labor force. In an attempt to differentiate those who do not work and who do not wish to find work, such as the retired and home-makers, from those who are genuinely unemployed, economists do not count anyone who is not seeking employment as an unemployed person. This is not an ideal method, but it is the one currently in use. For this reason, the 100 person increase in the number of unemployed in the county reflects only those who do not have work but are seeking it in the county.

Sectoral changes in Humboldt County employment:

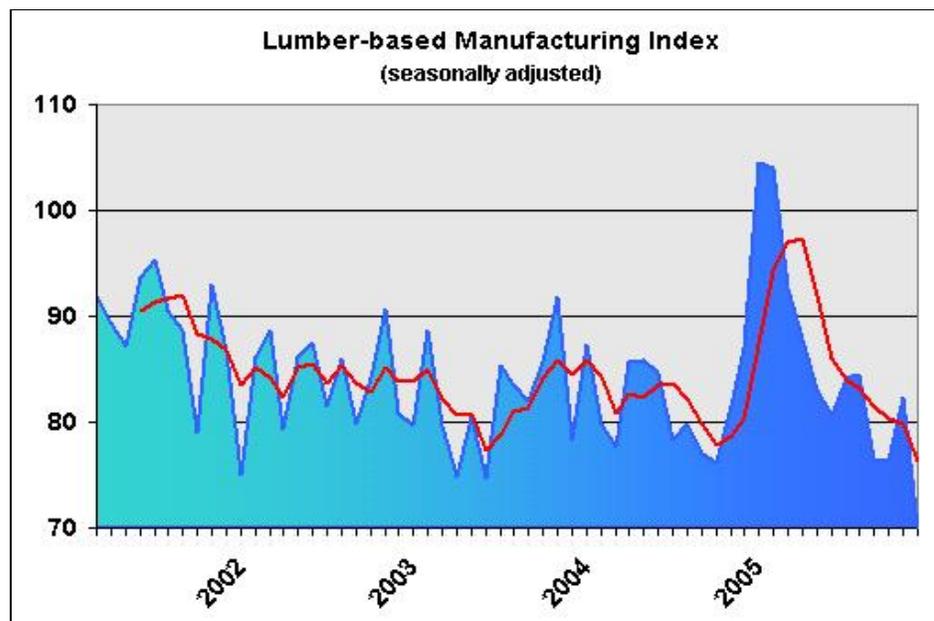
- The private service sector lost 200 jobs.
- Private goods producing lost 200 jobs
- Government employers gained 200 jobs.

The county unemployment rate rose in November to 5.8 percent. The state and national unemployment rates also rose. California's unemployment rate rose to 5.1 percent, from 5.0 percent in the previous month, while the national unemployment rate rose to 4.8 percent from 4.6 percent in October. Humboldt County's unemployment rate remains above California and the United States levels.



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.



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 show the overall trend in the data with less monthly volatility.

In November, lumber based manufacturing fell again and precipitously. Manufacturing decreased 15.2 percent to an Index value of 69.9. This is a particularly curious contraction in light of the dramatic increase last month in month-ahead expected manufacturing orders. It is not clear what explains the discrepancy between expected orders and actual output.

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The Bigger Picture

Humboldt County Surrounded by Most Overvalued Housing in the Nation

A recent report shows that seven of the twenty most overvalued housing markets in the nation are in cities near Humboldt County. Those cities range from Napa and Sacramento in the south to Bend and Medford, Oregon in the north. Redding California is listed at number seventeen and 56% overvalued. Further, thirteen of the twenty most overvalued housing markets are in California. The full list is given below.

| Rank | City | % Overvalued |
|------|---------------------|-----------------|
| 1 | Naples, FL | 84% |
| 2 | Merced, CA | 77% |
| 3 | Salinas, CA | 75% |
| 4 | Port St. Lucie, FL | 72% |
| 5 | Stockton, CA | 72% |
| 6 | Madera, CA | 70% |
| 7 | Santa Barbara, CA | 70% |
| 8 | Modesto, CA | 67% |
| 9 | Napa, CA | 65% |
| 10 | Riverside, CA | 65% |
| 11 | Medford, OR | 64% |
| 12 | Sacramento, CA | 61% |
| 13 | Atlantic City, NJ | 59% |
| 14 | Chico, CA | 59% |
| 15 | Fresno, CA | 58% |
| 16 | West Palm Beach, FL | 57% |
| 17 | Redding, CA | 56% |
| 18 | Santa Rosa, CA | 56% |
| 19 | Bend, OR | 56% |
| 20 | Sarasota, FL | 56% |

Source:

http://money.cnn.com/2005/12/29/real_estate/buying_selling/handicapping_housing_markets/

“House Prices in America” was written by Global Outlook and National City. They construct a model of housing prices from 1985 to 2005 which controls for population density,

mortgage rates, and income. A city's housing market is "overvalued" if the actual price of housing is greater than the price predicted by their model.

They do not consider Humboldt County because they don't have data for the county. But they show that some of the most overvalued cities in California are mid sized cities that are outside major metropolitan areas. The Index of Economic Activity for Humboldt County recently [compiled data for Humboldt County](#) and we found that the county P/E ratio had increased tremendously over the past few years. Together, these two reports suggest that Humboldt County housing prices will face a period of adjustment.

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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](#)

[The Federal Reserve Board Beige Book](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

[U.S. Bureau of the Census's Economic Briefing Room](#)

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