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## The Index of Economic Activity for Humboldt County

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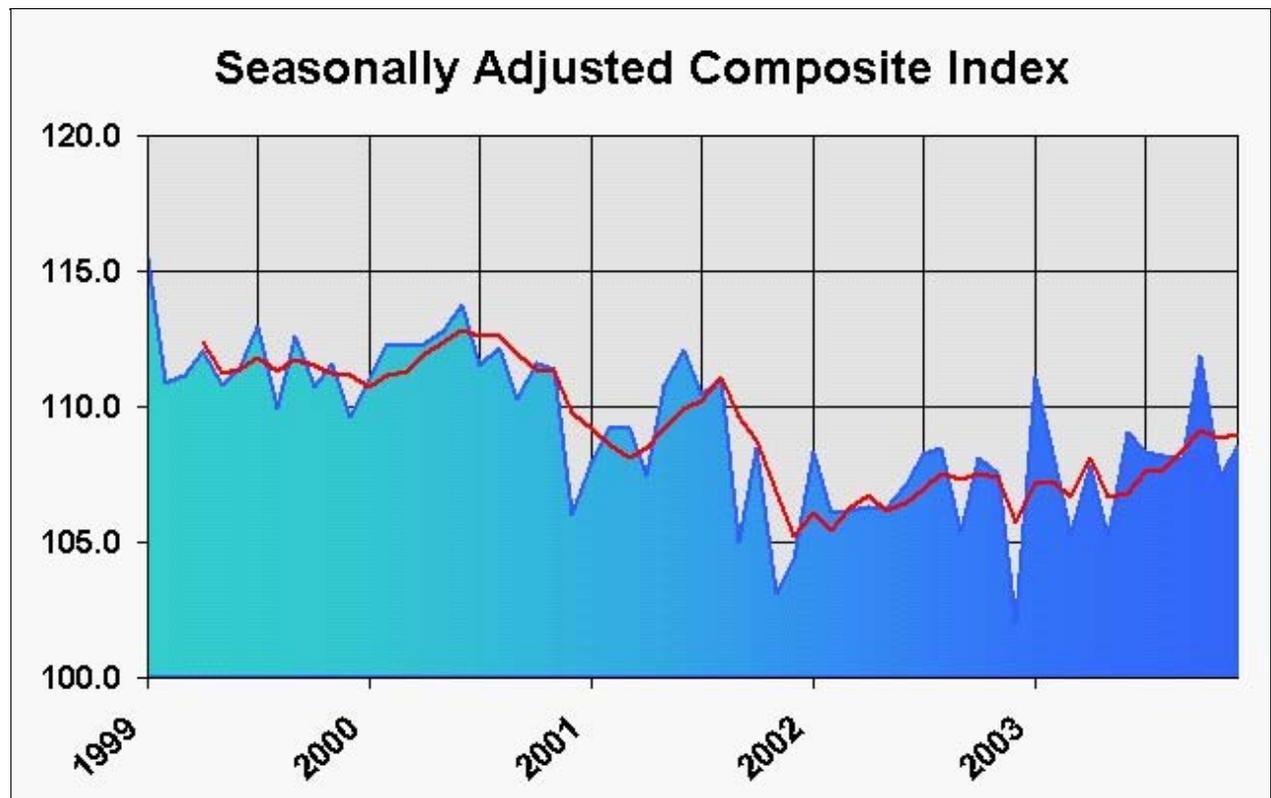
HSU Economics Department

# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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This month's report is sponsored by  
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The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red line shows a 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.

Humboldt County's economy experienced slow but steady growth in December. The overall economy grew 1.1 percent over the previous month. The composite *Index* now stands at 108.5. Though it is not a huge leap for the local economy, it is stable growth with moderate increases in five of the six

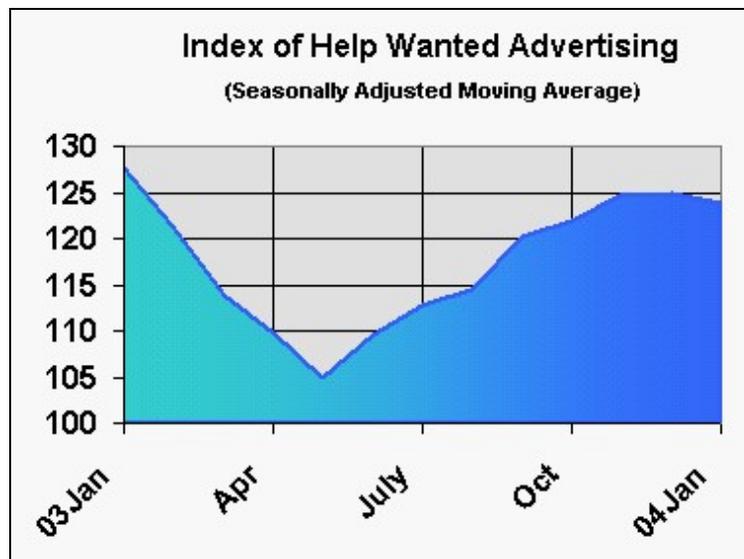
economic sectors. With interest rates dipping back down in December, more people jumped into the housing market. Home sales have been a pillar of strength in the local economy throughout the latter half of 2003. This mirrors a national trend in home sales. The home sales index rose 11.1 percent to stand at 144.2. Tourism made a healthy turnaround in December. Tourists didn't mind a little rain especially when compared to the record breaking cold temperatures on the east coast. The rise in tourism is reflected by a 2.8 percent increase in the hospitality index. The electricity consumption index also increased by 1.9 percent, it now stands at 114.6. As the rest of the state struggles with weak labor markets, Humboldt County's employment sector has remained steady. The total county employment index rose 1.3 percent to 104.9. Locally the unemployment rate also remained below the state average. End of the year manufacturing picked up slightly with a 0.9 percent increase. The manufacturing index now stands at 79.0. This increase manufacturing comes in the wake of positive manufacturing data nationwide. The Christmas season which started off with a bang, fizzled out in December. The retail sales sector was the only sector that failed to improve, dropping 5.1 percent to 133.7. Consumers were conservative with holiday spending due to uncertainties about the future fiscal situation of the state and local governments. Humboldt County has a proportionally high number of state and local government workers as well as college students all of whom may potentially be affected by upcoming budget cuts. The county and city governments may be faced with more job and program cuts in the new fiscal year. The California State University system which has a significant presence in Humboldt County is also faced with large cuts in funding.

| <b>Composite &amp; Sectoral Performance, Index of Economic Activity for Humboldt County</b> |  |                      |                 |                 |                 |                 |                 |
|---|--|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| * * *   |  | 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 |
| <b>COMPOSITE</b>  | <b>108.5</b>                               | <b>1.1</b>           | <b>6.4</b>      | <b>4.0</b>      | <b>2.4</b>      | <b>-1.0</b>     | <b>-1.6</b>     |
| <i>Sector</i>   |  |                      |                 |                 |                 |                 |                 |
| <b>Home Sales</b>   | <b>144.2</b>                               | <b>11.1</b>          | <b>23.6</b>     | <b>12.9</b>     | <b>32.3</b>     | <b>33.7</b>     | <b>21.3</b>     |
| <b>Retail Sales</b>   | <b>133.7</b>                               | <b>-5.1</b>          | <b>-7.6</b>     | <b>-8.5</b>     | <b>3.6</b>      | <b>4.3</b>      | <b>1.0</b>      |
| <b>Hospitality</b>  | <b>94.4</b>                                | <b>2.8</b>           | <b>15.8</b>     | <b>12.8</b>     | <b>4.2</b>      | <b>-0.8</b>     | <b>-2.8</b>     |
| <b>Electricity Consumption</b>  | <b>114.6</b>                               | <b>1.9</b>           | <b>29.5</b>     | <b>1.1</b>      | <b>-2.6</b>     | <b>-11.8</b>    | <b>--</b>       |
| <b>Total County Employment</b>  | <b>104.9</b>                               | <b>1.3</b>           | <b>3.4</b>      | <b>6.9</b>      | <b>3.7</b>      | <b>3.7</b>      | <b>2.1</b>      |
| <b>Manufacturing</b>  | <b>79.0</b>                                | <b>0.9</b>           | <b>-0.8</b>     | <b>5.3</b>      | <b>-19.4</b>    | <b>-29.9</b>    | <b>-34.0</b>    |

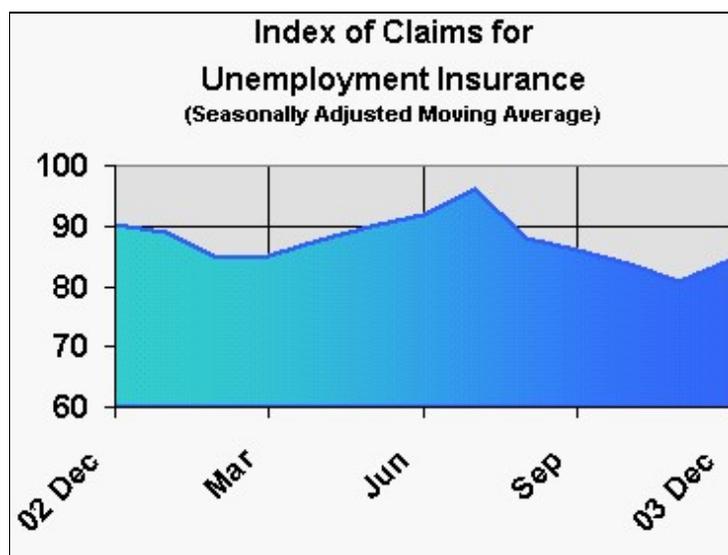
## Leading Indicators

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 help-wanted advertisements in the *Eureka Times-Standard*, (2) number of claims for unemployment insurance, and (3) 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:

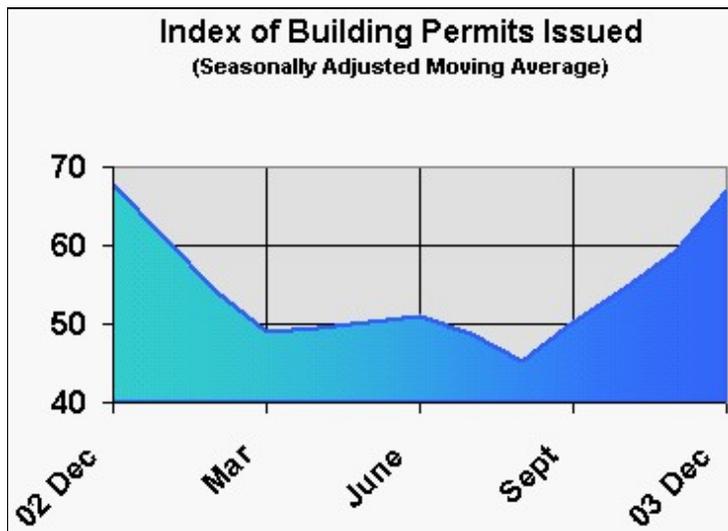


The index of help wanted advertising is a leading indicator for new job creation in Humboldt County. Actual help wanted advertising increased by 16.8 percent in December. However, when smoothed with a four month moving average the leading indicator shows a leveling off of new job creation. The actual data for December shows an increase in demand for workers. This includes seasonal employment such as temporary holiday jobs. As a whole this employment leading indicator shows slowing, but stable job creation.



The index of claims for unemployment insurance is an indicator of negative economic activity. The actual number of new unemployment claims fell by 0.6 percent in December. However, when smoothed with a four month moving average, this leading indicator rose slightly. Positive trends in the employment sector coupled with nationwide economic growth should work to keep unemployment claims down.

## Home Sales Economic Indicator:



The index of building permits issued gives insight to future home sales and construction. The actual number of building permits issued rose 8.0 percent in December. The fourth quarter of 2003 as a whole experienced a significant increase in building permits issued. This is reflected in the upward trend of the moving average. There is a time lag between issuance of a building permit and construction or sale of a home. The fourth quarter rise in building permits may signal a surge in construction and sales once the rainy season has ended.

| Key Statistics   |           | Leading Indicators      |                              |
|--|-----------|-------------------------|------------------------------|
|  |           |                         | % Change From Previous Month |
| Median Home Price*   | \$206,500 | Help Wanted Advertising | 16.8%                        |
| 30 Yr. Mortgage Rate as of 12/31   | 5.875%    | Building Permits        | 8.0%                         |
| Unemployment Rate**  | 5.7%      | Unemployment Claims     | -0.6%                        |
| * 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 <a href="#">EDD Website</a> for updates.  |           |                         |                              |

## Individual Sectors

### Home Sales

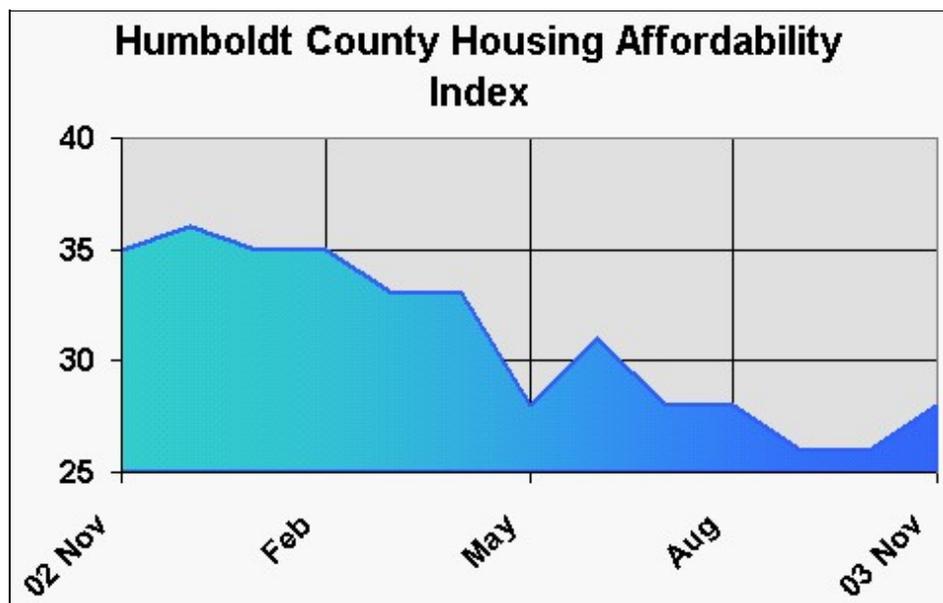
The index value of the home sales sector is based on the number of new and existing homes sold in

Humboldt County each month as recorded by the Humboldt Association of Realtors.

The December seasonally adjusted home sales index rebounded from last month's big drop. Most of last month's decline was wiped away by the 11.1 percent increase. The home sales index now stands at 144.2, one of the highest levels in the Index's history.

The median home price in Humboldt County dropped for the second consecutive month in December to stand at \$206,500. Statewide home prices seem to have found their second wind. Home prices took off again after three months of decline from a record breaking \$404,870 in August 2003. The median home price in California rose 5.1 percent to \$404,520. "The median price of a home in California topped \$400,000 for the second time in 2003, hitting a record \$404,520 last month," said C.A.R. President Ann Pettijohn. "Demand for homes continued unabated, propelled by mortgage rates that remained below 6 percent and an extremely low inventory of homes for sale." (www.car.org) Nationwide home prices also resumed an upward trend. The national median existing-home price was \$173,200 in December, up from \$170,900 in November. "We've been expecting the pace of home sales to ease, and a decline in November seemed to indicate a more sustainable pace, but the rebound in December – the second highest monthly pace on record – shows there's still a lot of life in this market," said David Lereah, National Association of Realtors' chief economist. "The biggest factor is a resumed decline in mortgage interest rates, which have been much lower than most analysts expected." (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. While declining home prices may not be welcome by some, it comes as relief for income-earners and first time home buyers. In the most recent release, the Affordability Index rose from 26 to 28 percent.



According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of January 29th, was 5.68 percent with an average 0.7 point. Interest rates, which were expected to rise slowly during the end of 2003, have again fallen to historically low levels. "Mortgage rates were basically unchanged leading up to the FOMC's announcement that opened the door to the possibility the Fed would raise rates sooner than expected," said Frank Nothaft, Freddie Mac's Chief Economist. "Following the policy statement, bond yields shot up, taking mortgage rates with them, raising the prospect that mortgage rates will be even higher next week. However, even at higher levels next week, mortgage rates remain incredibly low and affordable and shouldn't starve off the demand for housing in 2004. The real estate market, although slowing from

last year's blockbuster pace, will continue to be robust this year." (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 last rush of the Christmas season along with the after Christmas sales were not enough to post gains to Humboldt County's retail sector. The seasonally adjusted retail sales index declined for the second consecutive month, falling 5.1 percent to 133.7.

The Commerce Department reports that national December retail sales were up 0.5 percent ( $\pm 0.8\%$ ) from the previous month and up 6.7 percent ( $\pm 1.0\%$ ) from December 2002. The increase was led by electronics and appliances, and building material and garden equipment sales.

The Conference Board's Consumer Confidence Index rebounded in January. The measure, which now stands at 96.8, is up 6.1 percentage points from the previous month's revised number. "Consumer confidence is now at its highest level since July 2002, when the Index registered 97.4," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "Growing optimism about the overall health of the economy continues to bolster consumers' short-term outlook. But consumers' assessment of current conditions, which strongly hinges on improvements in the labor market, remains both weak and volatile." (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.

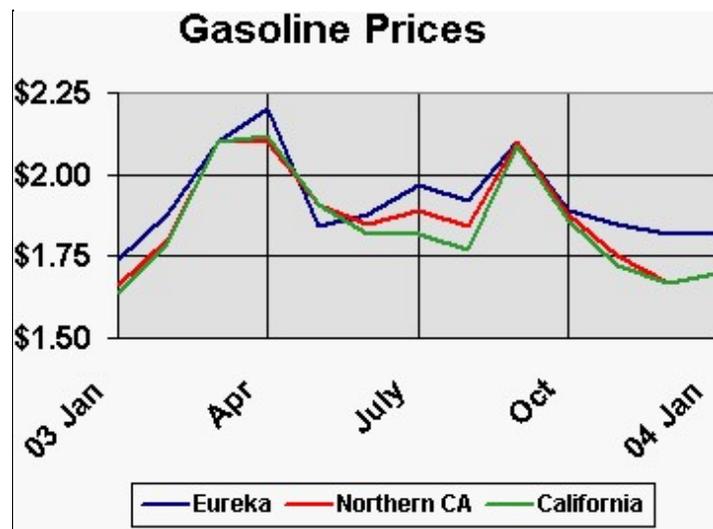
After dropping for two consecutive months the hospitality sector rebounded in December. Whether it was holiday travelers or vacationers escaping the bitter cold in other parts of the country, local hotels motels and inns were glad to see tourists this month. Though the hospitality index rose 2.8 percent to 94.4, the sector is still experiencing a long run downward trend.

## Gasoline Prices

Locally the price of gasoline leveled off, with no change over last month's price of \$1.82 per gallon. "Crude oil prices have been rising for about the last two months so it's not surprising to see retail prices begin to move upwards as a result," said AAA of Northern California spokeswoman Jenny Mack. "Gas prices started creeping upwards right about the time Californians were ringing in the New Year." (www.csaa.com)

| Average Price*<br>(as of 1/13) |        | Change From Prev. Month<br>(cents/gal.) |
|--------------------------------|--------|---|
| Eureka                         | \$1.82 | --                                      |
| Northern CA                    | \$1.70 | 3¢                                      |
| California                     | \$1.70 | 3¢                                      |

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.

In December seasonally adjusted electricity consumption rose 1.9 percent to stand at 114.6.

Fourth quarter revised electricity consumption:

- The electricity consumption index for October was revised upward from 110.87 to 114.04.
- The electricity consumption index for November was also revised upward from 110.73 to 112.44.

## 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 58,500 people were employed in Humboldt County. This is unchanged from November's revised figure, indicating no net loss of jobs. The total civilian labor force decreased by 100 to 62,100. The stable supply of jobs coupled with decreases in the labor force and unemployment rate pushed the employment index up 1.3 percent to 104.9.

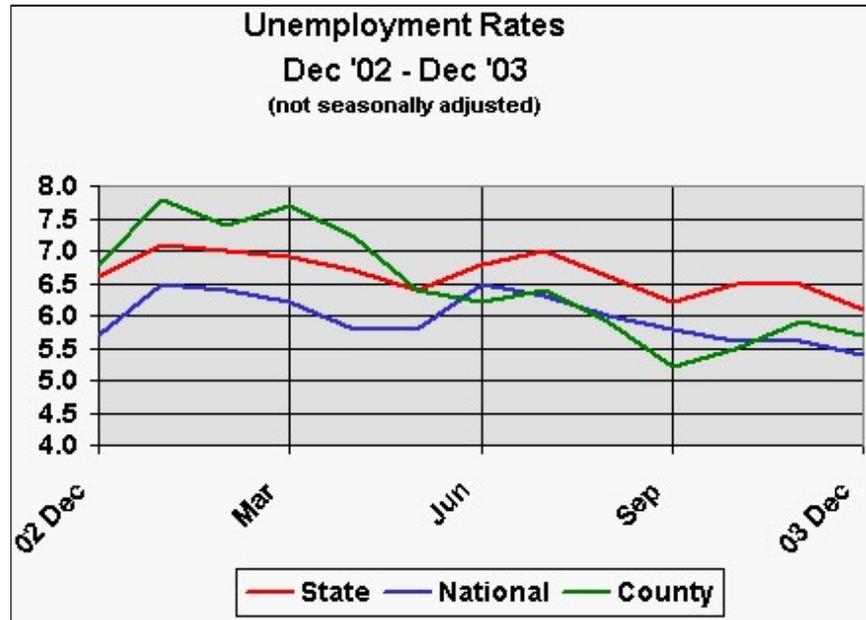
Sectoral changes in Humboldt County employment:

- The service sector experienced an overall loss of jobs. General merchandise stores and miscellaneous retail each gained 100 new jobs. Leisure and hospitality suffered more job cuts. With food services losing another 100 jobs. Information services and transportation each lost 100 jobs.
- State and local governments finally slowed down after months of new job creation. Local government added 100 jobs, while state government cut 100 jobs.
- Employment in wood product manufacturing resumed a downward trend, losing 100 jobs in

December. However, miscellaneous manufacturing and food manufacturing each gained 100 jobs.

- Employment in construction declined by 100 jobs.
- The agricultural sector remained unchanged.

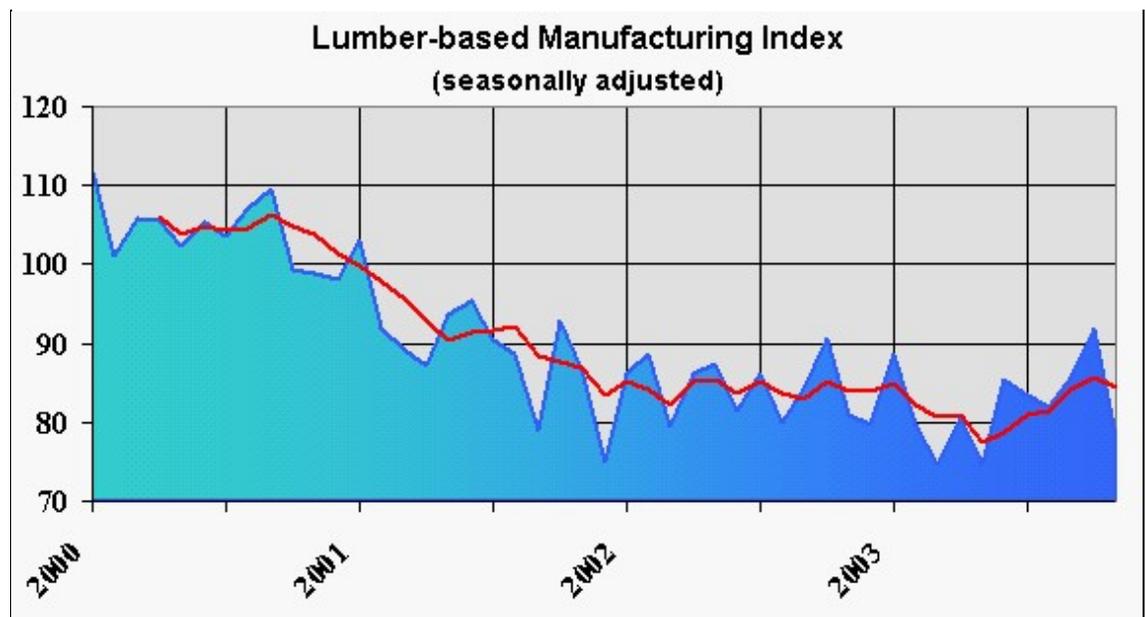
Though last month's unemployment rate was revised upward to 5.9 percent, December's unemployment headed back downward. The preliminary (not seasonally adjusted) unemployment rate decreased 0.2 percentage points to 5.7 percent. Local unemployment is once again higher than the national average, but below the state average.



## 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 December index value for this sector rose 0.9 percent, leveling off after last month's huge drop. The measure which now stands at 79.0 shows a long run decline in the local lumber manufacturing industry.



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.

National manufacturing output, as measured by the Institute of Supply Management, grew significantly in November. The ISM Index level rose 0.2 percentage points to 63.6 percent in January. This measure is up when compared to the seasonally-adjusted 63.4 percent in December.(a number higher than 50 indicates growth). "Both exports and imports remain strong based on this month's data. The weaker dollar is supportive of growth in exports, but it does not appear to be deterring imports into the U.S.," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. ([www.ism.ws.cfm](http://www.ism.ws.cfm))

## The Bigger Picture

### National Economic News

Preliminary fourth quarter U.S. gross domestic product (GDP) figures were released on January 30th by the Bureau of Economic Analysis. Economic growth slowed to 4.0 percent in the last quarter of 2003. The increase was led by growth in personal consumption expenditures, exports, equipment and software, inventory investment, and residential fixed investment. Growth in durable goods slowed to 2.6 percent, down from 6.9 percent in the third quarter. Motor vehicle sales decreased in the fourth quarter, while vehicle inventory investment rose. ([bea.gov](http://bea.gov))

President Bush has sent his proposed budget for the fiscal year 2004 to Congress for approval. The President's budget proposal has given ammunition to his critics. The budget is being criticized for failing to account for many costs that the federal government will be faced with in the next decade. Funding for the war and occupation in Iraq is not provided for in the proposed budget. Yet the President's own budget director admits that U.S. presence in Iraq will cost up to \$50 billion in 2005 alone. ([wsj.com](http://wsj.com)) The President set a record for the largest budget deficit in U.S. history last year at \$375 billion. The projected budget deficit for 2004 will be even higher topping off around \$521 billion. Fiscal year 2005 is also expected to have a huge budget deficit, about \$363 billion. Recent studies indicate that necessary costs not included in the President's plan may increase the budget by \$3.3 trillion over the next decade. ([cnnmoney.com](http://cnnmoney.com)) Many economists believe that excessively large budget deficits will have a negative impact on the nation's economy in the long run. Over time government deficits limit economic growth by causing higher interest rates and lower investment. Another fear is

an increase in Social Security and Medicaid payouts as members of the babyboomer generation begin retirement. Critics claim the current fiscal management is not adequately preparing for these inevitable future events.

**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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