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The Index of Economic Activity for Humboldt County

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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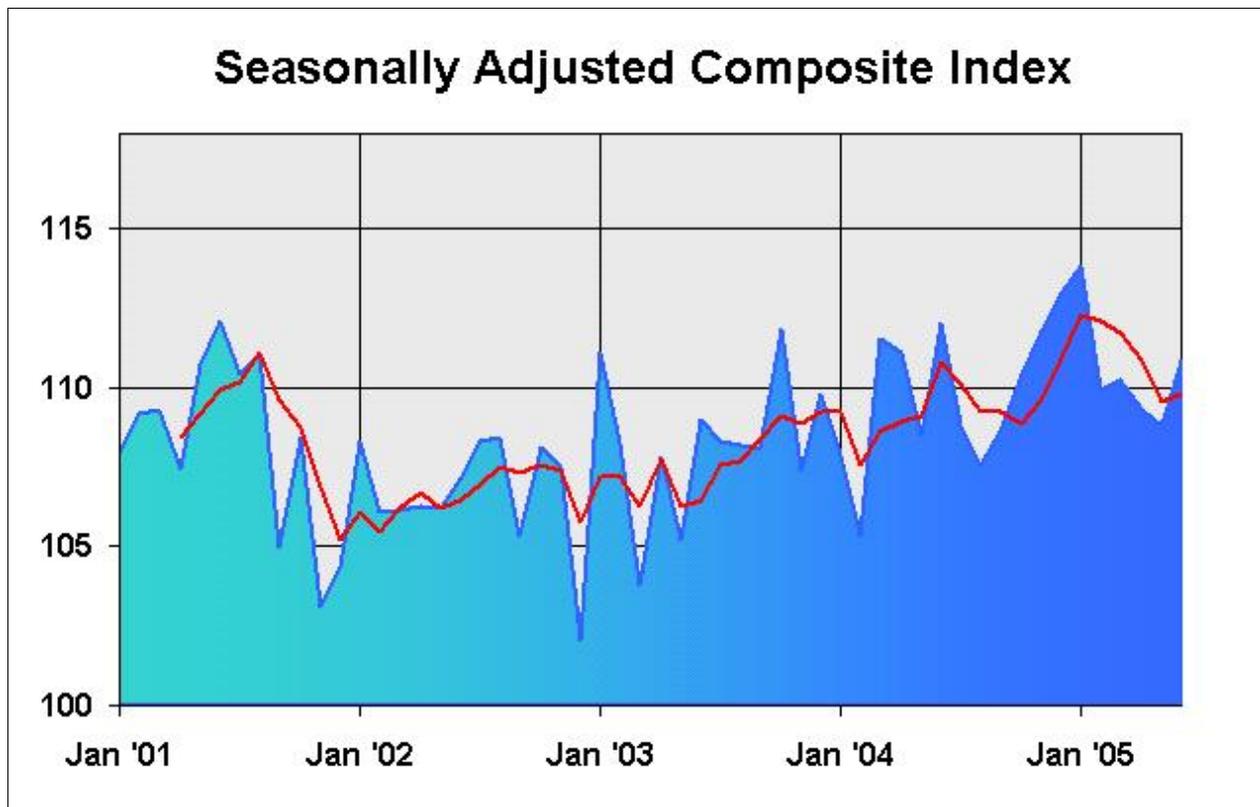
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Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red trendline shows the four-month moving average of the *Index* which smoothes month-to-month volatility to show the long run trend.

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.

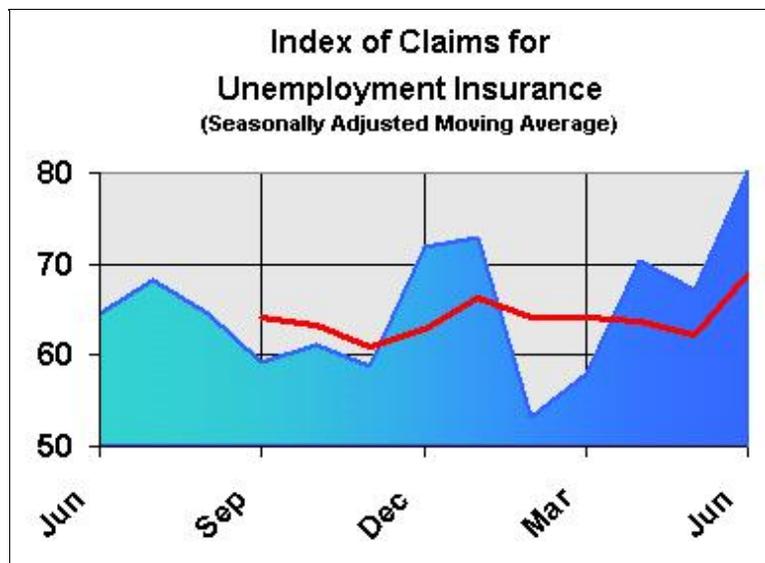
The composite moved upward in June, breaking a few months downward trend. The composite Index rose 5.0 percent and currently stands at 114.3 (100 = January 1994). The Index was pulled up by gains in the home sales, hospitality, and manufacturing sectors. Slight contractions in employment and retail sales tempered economic expansion, while electricity consumption remained unchanged from last month. Seasonally adjusted home sales in Humboldt County jumped 40.3 percent to an Index value of 193.1, a 23.1 percent increase from the same point last year. Conversely, the retail sector suffered a 0.8 percent decline, dropping to an Index value of 131.9. The retail sector has struggled consistently since February, although June's value indicates a slowing of that downward trend. This month's value represents a 12.8 percent decrease from June of 2004. Employment also saw a decline, dropping just 0.6 percent to an Index value of 106.5. Manufacturing broke a six month downtrend in June, increasing 4.4 percent to an Index value of 84.2. Hospitality also showed an increase, rising 11.5 percent to 96.2 in June. The hospitality sector experiences a lot of month to month variability, and a change of this magnitude does not represent a significant trend for Humboldt County. Finally, figures for electricity consumption for the month of June were estimated at 122.1.

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 2004	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000
COMPOSITE	110.9	1.9	-1.1	1.7	3.5	-1.1	-2.6
<i>Sector</i>							
Home Sales	144.3	4.9	-0.8	20.3	12.8	7.8	31.3
Retail Sales	131.9	-0.8	-12.8	-13.9	-6.4	-9.5	-5.5
Hospitality	96.2	11.5	-8.7	0.5	-4.2	-8.7	-6.6
Electricity Consumption	122.0	0.0	10.5	5.2	21.5	2.0	-7.8
Total County Employment	106.5	-0.6	3.7	3.7	3.1	2.8	1.4
Manufacturing	84.2	4.4	7.5	-1.3	3.4	-11.7	-20.1

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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 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" 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 19.8 percent in June. This suggests a decrease in economic activity in the future. The Index of claims for unemployment insurance now stands at 80.32. The four month moving average, which stands at 68.9, indicates that overall unemployment activity is fairly static

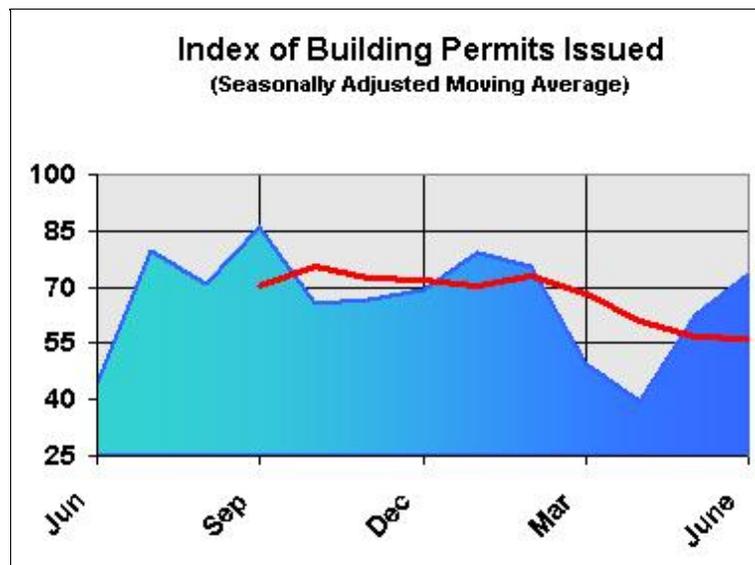


Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The Index of help wanted advertising is an indicator of labor market conditions and job creation. This Index is based on help wanted advertisements posted in the *Times Standard*. In June the number of help wanted advertisements decreased by 2.5 percent to an Index value of 153.3. The four month

moving average for this indicator is slightly higher at 155.9, revealing a generally upward trend. Increases in the help wanted advertising Index imply future growth in county employment

Nationally, the Conference Board's help wanted advertising Index inched upward in June, following three months of decline. The Index now stands at 38, up one point from 37 in May. Says Ken Goldstein, The Conference Board's Labor Economist: "The labor market indicators turned soft in April and remained soft through June. Print want-ad volume was flat in April, edged lower in May, then recovered some in June. The data on initial unemployment claims point neither up nor down, even through the early weeks of July. The Bureau of Labor Statistics' data show the same lack of trend: job openings were essentially unchanged through May. These indications all point in the same direction: Hiring intentions have turned more cautious as the economy is poised to lose some steam in the second half of 2005." (conference board.org)



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. In June the Index of building permits continued to rise, increasing to an Index value of 73.6. This is an 18.2 percent increase from last month and a 65.6 percent increase from June of 2004. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above, the moving average is still responding to March and April's dip, and has only begun to reflect May's surge, leveling out to a value of 56.3.

Also looking to the future, The National Association of Realtors' (NAR) Pending Home Sales Index reached the third highest level on record in June. The Index rose 0.6 percent to 126.3, 3.6 percent higher than June of 2004. David Lereah, NAR's chief economist, said the index shows historic levels of home sales will continue in the near future. "Existing-home sales will stay in record territory for transactions in July and August," he said. "There is some volatility to the index due to the short history of seasonal factors, so we're not predicting another record month, but it certainly is possible." Existing-home sales in June were at the highest level on record. The pending Home Sales Index is based on pending sale of existing homes, and NAR began collecting this data in 2001. Because 2001 corresponds with a boom in sales, the Index base of 100 conveys that industry high.



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. This leading indicator showed a 6.8 percent decrease in June. The current value stands at 67.1, a 17.1 percent increase from the same period last year. Because manufacturing orders are subject to dramatic shifts, the four month moving average helps to illustrate the larger trend. The average of the last four months of manufacturing orders now stands at 70.2, up from last month's average of 68.0.

Key Statistics		Leading Indicators	
		% Change From Previous Month	
Median Home Price*	\$333,000	Unemployment Claims	19.8
30 Yr. Mortgage Rate as of 6/28	5.875%	Help Wanted	-2.5
Unemployment Rate**	5.7%	Building Permit	18.2
		Manufacturing Orders	-6.8
<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.

Home sales in Humboldt County continued its persistent upward trend in June, growing to a seasonally adjusted Index value of 193.1. This represents a 40.3 percent increase from May's value, and a 23.1 percent increase from the same period last year. The home sales Index value increased in response to a sharp increase in the raw number of homes sold. The median selling price for a home in Humboldt County also continued to increase, rising to a new record at \$333,000. The median selling price does not affect the Index.

Statewide home prices are also on the rise, increasing to \$542,720 in June. This represents a 16.0 percent increase in the median home price for the same period last year, and a 3.8 percent increase over May's revised median selling price. The state sales Index also grew, increasing 3.6 percent when compared with the same period last year. Industry leaders are still predicting continued strength in the California housing market. "Inventory levels in recent months were nearly double that of a year ago," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "This has contributed to the increased pace of home sales in the presence of continued strong demand for housing in California." (car.org)

Existing home sales, a measure of the housing market produced by the National Association of Realtors (NAR), also reported continued growth in June. The seasonally adjusted number of single family homes sold increased to 7.3 million this month. This represents a 2.7 percent increase from May and a 4.4 percent increase from June of 2004, when the sales level rested at 7.02 million homes. David Lereah, NAR's chief economist, said home sales were expected to ease slightly from peaks reached over the last couple of months. "Just when you think sales activity is ready to settle into a more sustainable pace, the housing market continues to surprise," he said. "We've been expecting sales to remain at historically high levels, but this performance underscores the value of housing as an investment and the importance of homeownership in fulfilling the American dream." The national median selling price of a home reached \$219,000 in June, 14.7 percent higher than in June of 2004. (realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of August 4th ticked upward to 5.82 percent with an average 0.6 points. The 30-year fixed mortgage rate averaged 5.99 percent the same time last year. Although mortgage rates ticked up this week, the 30-year mortgage rate – apart from a brief two-week stint in March – has stayed below six percent all year. As a result the housing industry is likely headed for another record-breaking year. "Long-term mortgage rates will more than likely rise over the next few months, albeit modestly compared to shorter-term rates," said Frank Nothaft, vice president and chief economist at Freddie Mac. "As the Federal Reserve (Fed) increases its targeted overnight-lending rate, home-equity loans will become more costly. Homeowners wanting to tap into recent gains in home values have turned to a refinancing option, whereby they can extract a portion of the home equity they built over the years. Just in the second quarter of 2005, approximately 74 percent of refinancing comprised of homeowners taking out a new loan balance of 5 percent or more, most of which had an interest rate below today's prime rate." (freddiemac.com)

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 continued its recent trend of slight contractions, dropping 0.8 percent in June to a seasonally adjusted Index value of 131.9. This is a 12.8 percent decrease from the same period

last year. Retail sales have been consistently low this year, after reaching a high point in January, when it reached 149.0. The four month moving average, which reflects the recent trend of the sector, also continued to drop and now stands at 134.8.

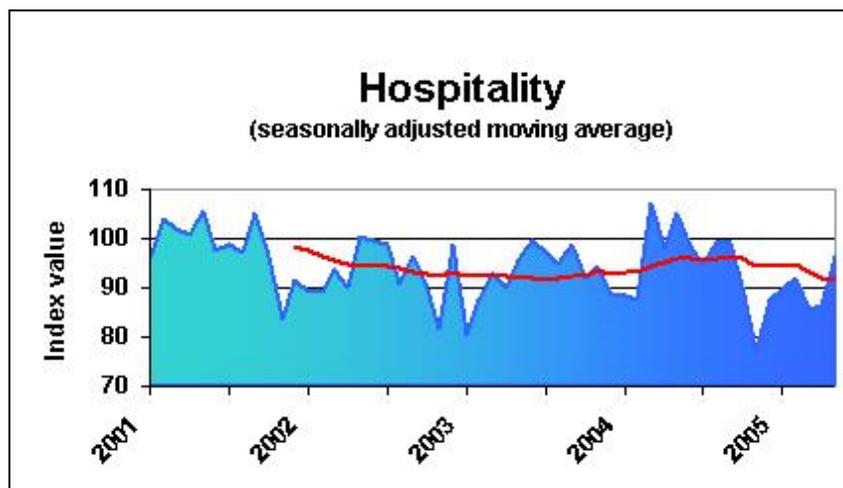
National retail sales, as reported by U.S. Census Bureau, increased in June. Seasonally adjusted sales were \$350.8 billion, up 1.7 percent ($\pm 0.7\%$) from the previous month and up 9.6 percent ($\pm 0.8\%$) from June 2004. Total sales for the April through June 2005 period were up 8.4 percent ($\pm 0.5\%$) from the same period a year ago. (census.gov)

According to the Commerce Department consumer spending rebounded in June. Spending rose 0.8 percent following a 0.1 percent decline in May, fueled by an increased consumption of durable goods including large appliances and automobiles. Durable goods sales in specific rose 2.9 percent, primarily due to special 'employee pricing' discounts offered by General Motors Co., Ford Motor Co., and Daimler Chrysler. Personal savings also increased in June, though only by 0.5 percent to a rate of 0.0 percent. Though spending disposable income on consumer goods has recently led to increases in income and employment, many economists worry that a shift from saving money to spending money can indicate or predict a persistent downward trend. Others argue the current personal savings rate is no cause for concern and is actually under-estimated because the Commerce Department's calculation of personal savings does not include real estate, equities, or other investments as savings. Considering long term investments such as real estate as a form of household savings makes sense, especially while the U.S. is experiencing a persistent real estate boom and low interest rates continue to favor buying property as a way to sock away for the future as opposed to saving traditionally. "It's perfectly rational for people to not be saving when interest rates are as low as they are," said Ted Wieseman, an economist for Morgan Stanley. (wsj.com)

Looking to the future, consumer confidence as measured by The Conference Board is down after last month's high. The consumer confidence Index now stands at 103.2 (1985=100), down from 106.2 in June. Says Lynn Franco, Director of The Conference Board's Consumer Research Center: "This month's decline in Consumer Confidence is no cause for concern. The overall state of the economy remains healthy and consumers' outlook suggests no storm clouds on the short-term horizon. Even the steady upward tick of fuel prices at the pump has done relatively little to dampen consumers' spirits. Yet, while there is little to suggest a downturn in activity, there is also little to suggest a pickup." (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.



Graphic description: The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the twelve-month moving average of the hospitality index which smoothes month-to-month volatility to show the long run trend.

The hospitality sector expanded in June, increasing 11.5 percent from May to an Index value of 96.2. This is an 8.7 percent decrease from June of 2004 but a 0.5 percent increase from June of 2003. The four-month moving average responded to May and June's growth this month, settling at a value of 90.1. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. The twelve-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 one of consistency. The twelve-month moving average has not dropped below 90.0 or reached above 100.0 in four years.

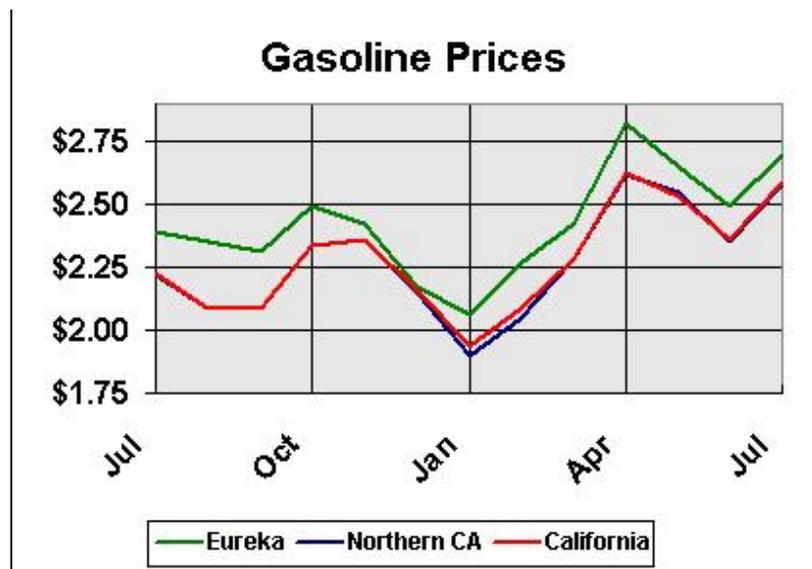
Gasoline Prices

The price of gasoline continued to rise across the state in July. In Eureka the average gas price gained 21 cents, while the national average increased 18 cents per gallon of regular gasoline. State-wide, California saw gas prices increase 23 cents, as did Northern California in specific. The increase in retail gasoline prices is attributed to both the persistently high price of crude oil, and the increased gasoline consumption associated with the summer. According to the California State Automotive Association, a one dollar change in the price of a barrel of crude oil usually translates to a 2.5 cent change in the retail price of a gallon of regular gasoline. "It's tough to know how much to budget for fuel," said Sean Comey, spokesman for AAA of Northern California. "We see significant changes in relatively short periods of time. Between May and June, prices fell by nearly 30 cents per gallon. A month later that decline has disappeared." Currently, South Lake Tahoe has the highest average gas price in the state at \$2.76 for a gallon of regular unleaded gasoline. In the Bay Area the average price of gasoline is \$2.61. (csaa.com)

For a local perspective, visit our [Special Projects page](#) for Dr. Eschker's 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 7/19)		Change From Prev. Month (cents/gal.)
Eureka	\$2.70	21¢
Northern Ca	\$2.58	23¢
California	\$2.59	23¢

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 value of the electricity Index is 122.0 in June, 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.

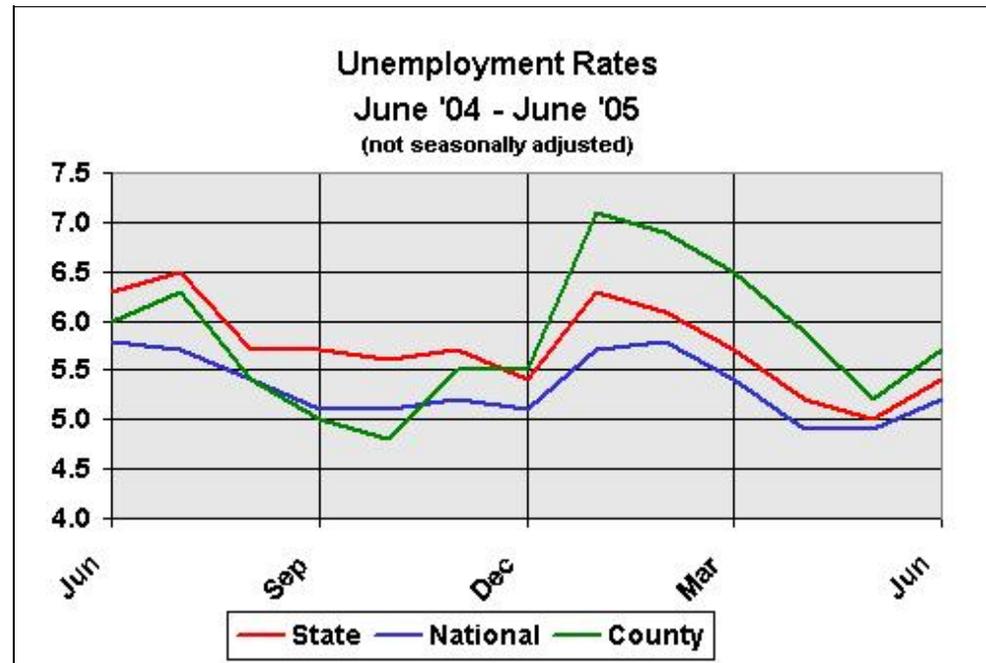
June's preliminary employment and labor force reported 58,600 people employed in Humboldt County. This is a net gain of 300 jobs from May's revised number. The total civilian labor force also increased by 500 people to 62,100. After adjusting for seasonal variation, the employment sector's Index value decreased 0.6 percent to 106.5. This is a 3.7 percent increase from the same period last year. Employment in Humboldt County has contracted slightly since March.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 100 jobs in June.
 - Wholesale Trade gained 100 jobs.
 - Transportation, Warehousing and Utilities gained 100 jobs.
 - Professional and Business Services gained 100 jobs.
 - Leisure and Hospitality gained 100 jobs.
 - Local Government lost 200 jobs.
 - State Government Education lost 100 jobs.

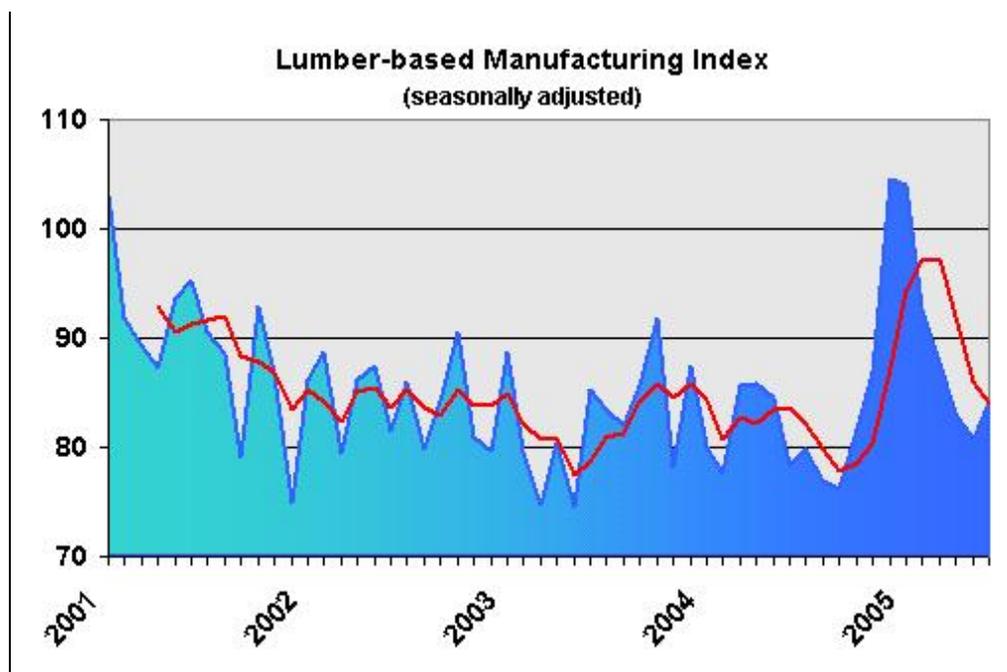
- Net employment in the manufacturing sector posted a net loss of 100 jobs in June.
 - Textile Mills lost 100 jobs.

The revised county unemployment rate rebounded this month, increasing to 5.7 percent in June. The unemployment rate for California and the nation also rose this month, though to a lesser degree. Both the State and National remain below the county level at 5.4 percent and 5.2 percent respectively.



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 of the lumber-based manufacturing index which smoothes month-to-month volatility to show the long run trend.

In June lumber based manufacturing rebounded, rising 4.4 percent to a seasonally adjusted Index value of 84.2. This represents a 7.5 percent increase from June of 2004's figure. This growth in the manufacturing sector we've seen since December of 2004. The four month moving average has yet to respond to the up-tick, settling at 70.1.

Nationally manufacturing continued to grow in general. According to the Institute of Supply Management (ISM) the manufacturing sector grew for the 26th consecutive month, registering 56.6 percent on August 1st. A number over 50 indicates growth. This is a stronger growth trend than we saw last month, when the ISM reported growth at 53.8 percent. "An improved rate of growth in New Orders and Production continues to drive improvement in the sector. It appears that the sector hit a low point in May, and has rebounded nicely in June and July." said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (ism.ws.cfm)

Twelve individual industry sectors reported growth in July, including wood and wood products, furniture, electronic components and equipment and fabricated metals. Various manufacturing sectors' growth may be attributed to the still growing housing market and a recent increase in auto sales due to a glut of employee-pricing promotions. An increase in these industries led to increased demand for components for both homes and cars. (wsj.com)

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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](#)

[The Conference Board](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

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