The Index of Economic Activity for Humboldt County

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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This month’s report is sponsored by
North Coast Small Business Development Center

June 2004

Seasonally Adjusted Composite Index

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 May, Humboldt County's economy dipped downward slightly, with four of the six sectors in the red. The composite Index dropped 1.5 percent to stand at 108.9. The home sales index dropped sharply for the second consecutive month, losing 12.5 percent to stand at 117.07. With interest rates beginning to tick upward, some economists believe that we may have seen the peak of the housing market boom. The hospitality sector also declined this month. However it managed to hang on to much of the gains from last month's record breaking increase. After dropping 8.4 percent the hospitality index now stands at 98.1. This level is still significantly higher than the index levels for the first quarter of the year. This shows a strong start for the tourist season, and could indicate the start of an upward trend in this industry. The lumber manufacturing sector declined in May. After dropping 1.5 percent, the index for this sector registers 84.6. A number of less than 100 indicates negative growth relative to the base month of January 1994. The employment sector stagnated this month. After shedding 0.1 percent, this index now stands at 102.9. The estimated electricity consumption index was unchanged this month. Retail was the only sector to post gains in May, with an increase of 4.5 percent pushing the retail sales index up to 146.9. The retail sector has experienced strong sales for the past three months, priming the second quarter figures to be some of the best on record.

### Composite & Sectoral Performance, Index of Economic Activity for Humboldt County

<table>
<thead>
<tr>
<th>Index</th>
<th>Seasonally Adjusted Index Value (1994=100)</th>
<th>Previous Month</th>
<th>Same Month 2003</th>
<th>Same Month 2002</th>
<th>Same Month 2001</th>
<th>Same Month 2000</th>
<th>Same Month 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPOSITE</td>
<td>108.9</td>
<td>-1.5</td>
<td>3.5</td>
<td>2.5</td>
<td>-1.7</td>
<td>-3.5</td>
<td>-1.7</td>
</tr>
<tr>
<td>Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Sales</td>
<td>117.07</td>
<td>-12.5</td>
<td>-10.4</td>
<td>-10.4</td>
<td>-6.9</td>
<td>-11.7</td>
<td>10.0</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>146.9</td>
<td>4.5</td>
<td>12.1</td>
<td>4.7</td>
<td>6.0</td>
<td>13.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Hospitality</td>
<td>98.1</td>
<td>-8.4</td>
<td>9.1</td>
<td>8.8</td>
<td>-2.8</td>
<td>-1.3</td>
<td>-2.0</td>
</tr>
<tr>
<td>Electricity Consumption</td>
<td>113.6</td>
<td>0.0</td>
<td>-2.1</td>
<td>13.1</td>
<td>-5.1</td>
<td>-14.2</td>
<td>--</td>
</tr>
<tr>
<td>Total County Employment</td>
<td>102.9</td>
<td>-0.1</td>
<td>0.5</td>
<td>0.7</td>
<td>-0.7</td>
<td>-2.1</td>
<td>-2.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>84.6</td>
<td>-1.5</td>
<td>13.4</td>
<td>-3.3</td>
<td>-9.6</td>
<td>-17.4</td>
<td>-16.5</td>
</tr>
</tbody>
</table>

### 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 three leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) manufacturing orders, and (4) building permits. 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 Leading Indicators:
The Index of Economic Activity for Humboldt County

Index of Claims for
Unemployment Insurance
(Seasonally Adjusted Moving Average)

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. In May the number of new claims for unemployment insurance decreased. The four month moving average of the index also declined, indicating a long run downward trend in new claims.

Index of Help Wanted Advertising
(Seasonally Adjusted Moving Average)

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 May the number of help wanted advertisements increased, the four month moving average also moved upward. Both employment leading indicators are signalling strong employment in the near future.
The Index of Building Permits Issued
(Seasonally Adjusted Moving Average)

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. The number of building permits (seasonally adjusted) issued in May declined. The four month moving average of the Building Permits Index leveled off after steadily declining over the previous six months.

Key Statistics

<table>
<thead>
<tr>
<th>Leading Indicators</th>
<th>% Change From Previous Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Home Price* $239,900</td>
<td>Help Wanted Advertising</td>
</tr>
<tr>
<td>30 Yr. Mortgage Rate as of 6/30 6.375%</td>
<td>Building Permits</td>
</tr>
<tr>
<td>Unemployment Rate** 5.6%</td>
<td>Unemployment Claims</td>
</tr>
</tbody>
</table>

* 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 EDD Website 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.

Home sales dropped for the second consecutive month. After decreasing 12.5 percent from the previous month, the home sales index stands at 117.1. Home sales this May were lower than May sales for the previous four years. This may indicate that the housing market boom which began in 2000 is beginning to level off. Home prices also dipped down slightly in May. The median home price in Humboldt County dropped to $239,900.

Statewide home prices continued to rise in May. "The real estate market has kicked into high gear with the prime summer selling season underway," said California Association of Realtors President, Ann Pettijohn. "The up-tick in mortgage interest rates has only accelerated the demand for housing in California," she said. "The median price posted the greatest percentage increase on record, pushing the median price to a new high of $465,160." (www.car.org)

David Lereah, chief economist for the National Association of Realtors commented on the strength of home sales nationwide. "Fundamentals are still very favorable for a vibrant market. In part, the record results from a natural 'fence-jumping' by buyers getting into the market after mortgage interest rates began to rise at a sharper clip in April," he said. "This may be the last peak in home sales for a while and existing-home sales are likely to be slower during the second half of the year. Even so, they will remain at strong levels and 2004 is on track to be a record." (www.realtor.org)
expected, short-term mortgage rates moved upward in response to those same actions." He added that, "although we anticipate a moderation in the housing sector at some future point, with the economy picking up steam and mortgage rates still low by historical standards, the housing market will remain buoyant for at least the rest of the 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 retail sector reached its fourth highest level ever, and experienced the best May sales on record. Strong sales pushed the retail index up 4.5 percent to 146.9. The local retail sector has been strong for the past three months, hitting some of its highest levels ever. This upward trend should continue as consumer confidence builds and the unemployment rate drops.

Nationwide retail sales, as reported by The Commerce Department, increased in May. Seasonally adjusted sales were $335.8 billion, up 1.2 percent (±0.8%) from the previous month and up 8.9 percent (±1.0%) from May 2003. The increase was led by retail gasoline sales and building material and garden equipment sales. (census.gov)

The latest release from the Conference Board shows that consumer confidence rose sharply in June. The Consumer Confidence Index, which now stands at 101.9 (100=1985), is up 8.8 percentage points from last month's figure. (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.

The hospitality index dropped in May erasing about half of the previous month's gains. Though the hospitality index decreased 8.4 percent from the previous month, the May index is higher than it was in May of 2003 and 2002. This could indicate the beginnings of a turnaround in the hospitality industry which has suffered low levels of tourism since September 11, 2001.

**Gasoline Prices**

Consumers continue to pay big at the pump, as gasoline prices remain at summer season highs. While gasoline prices recently fell in some parts of the state, local prices continued to trend upward. The Automobile Association of America notes that changes in crude oil prices along with domestic refinery production should be helping to lower prices. (www.csaa.com)

<table>
<thead>
<tr>
<th>Average Price* (as of 6/15)</th>
<th>Change From Prev. Month (cents/gal.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eagle Bay $2.40</td>
<td>4¢</td>
</tr>
<tr>
<td>Northern CA $2.32</td>
<td>3¢</td>
</tr>
<tr>
<td>California $2.32</td>
<td>1¢</td>
</tr>
</tbody>
</table>

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 electricity consumption index for May is 113.6, unchanged from the previous 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.

In the preliminary report for May, the EDD reported that 56,700 people were employed in Humboldt County. This number is up from April's revised figure, indicating a net gain of 400 jobs. The total civilian labor force decreased by 200 people to 60,100. The seasonally adjusted total county employment index fell in May by 0.1 percent, and now stands at 102.9.

Sectoral changes in Humboldt County employment:

- The service sector made slight gains in employment this month. General merchandise, food service, and entertainment each gained 100 jobs.
- Local government gained 100 jobs.
- Wood product manufacturing lost 200 jobs, while other manufacturing gained 100 jobs.
- The agricultural sector gained 100 jobs.

May's unemployment rate dropped significantly, and is now lower than the statewide rate. A decrease in the size of the labor force coupled with an increase in total employment lead to the drop in unemployment. Humboldt County's unemployment rate now stands at 5.6 percent.
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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.

In May the lumber-manufacturing index dropped 1.5 percent to 84.6. The index for this sector has not reached above the 100 level since January 2001. This shows a long run decline in the local lumber industry.

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.
Economic activity in the manufacturing sector, as measured by the Institute of Supply Management, registered the 13th consecutive month of growth in June. ISM's PMI decreased 1.7 percentage points in June to stand at 61.1 percent. Though the PMI decreased, an number greater than 50 still indicates growth. "The manufacturing sector grew at a slightly slower, but still aggressive, rate in June," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. "The rate of growth in New Orders and Production remained encouraging as we head into the third quarter." (www.ism.ws.cfm)

The Bigger Picture

National Economic News

Crude oil prices are now above $39 per barrel, and this jump in prices is resonating through the financial markets and producer expectations. As reported by CNN, "financial markets are highly wary of rising oil prices, fearing the cost could undermine the strength of the world economy and drive up inflation, prompting higher interest rates." In addition to strong demand for oil as the U.S. economic recovery continues, supply side factors are also contributing to the high price. Attacks on the Iraqi strategic pipeline have cut off some of the oil supply flowing from Iraq. In addition Russian oil producer Yukos may cut production due to financial problems. (cnn.com)

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

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The San Francisco Chronicle web site
The New York Times web site
California Association of Realtors web site
National Association of Realtors web site
Freddie Mac web site
American Automobile Association web site
The Conference Board web site
Institute of Supply Management web page
U.S. Bureau of the Census's home page
U.S. Bureau of Economic Analysis' web page
U.S. Bureau of the Census's Economic Briefing Room web page
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