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The Index of Economic Activity for Humboldt County

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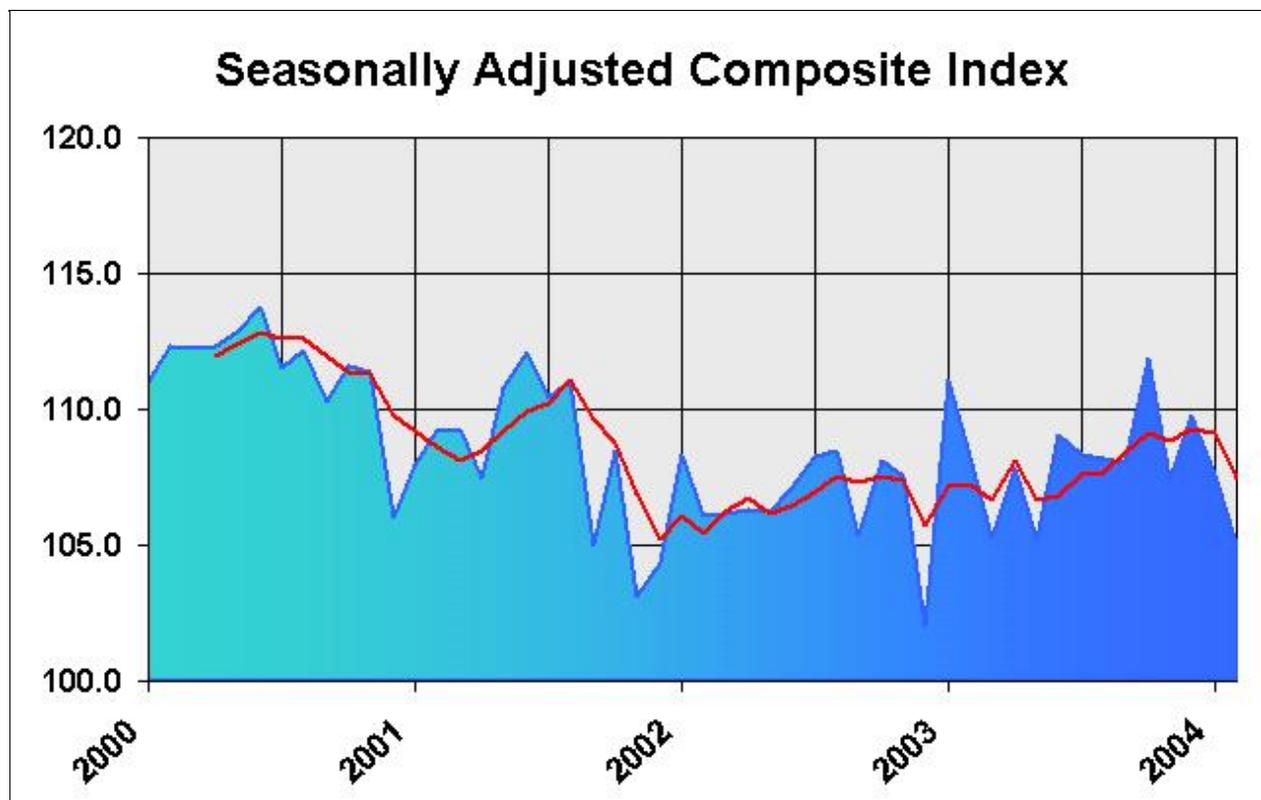
INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

Assistant District Attorney Tim Stoen is interviewed in the Local Spotlight section

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

This month's report is sponsored by
[Coast Central Credit Union](#)

March 2004



Graphic description: 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 has not been feeling the impact of the national level economic recovery. We have

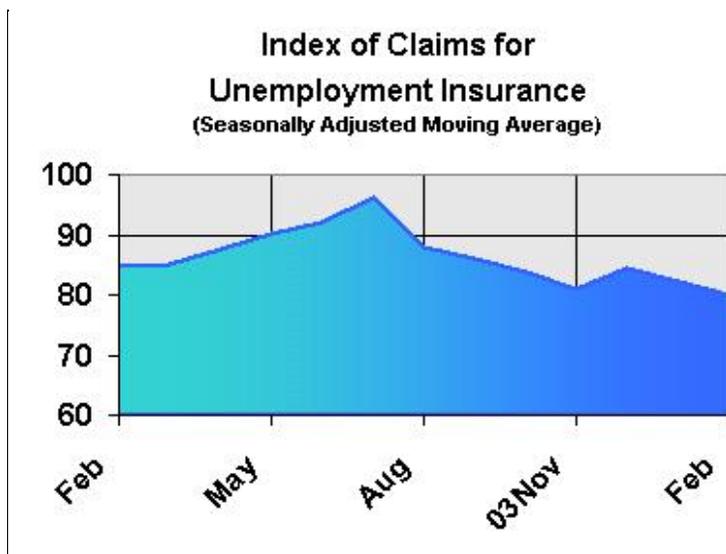
not seen economic growth yet, in 2004. February's composite Index declined 2.4 percent, and now stands at 105.0. Virtually all sectors of the Index declined this month. The estimated electricity consumption index showed a meager 0.5 percent increase. However, other sectors are down. Home sales took another big hit this month. After losing ground last month, the home sales index dropped again. The 13.8 percent decline leaves the index standing at 115.9. The retail sector experienced it's third consecutive monthly decline. The retail sales index decreased 3.7 percent from last month's value, and now stands at 129.8. The hospitality sector index decreased 1.8 percent to 87.2. Employment also declined, even though many people left the job market. The employment index dropped 0.7 percent to 104.6. Manufacturing posted another loss this month. The lumber-based manufacturing index declined 0.8 percent to 83.6

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	105.0	-2.4	-3.0	-1.0	-3.8	-6.5	-5.3
<i>Sector</i>							
Home Sales	115.9	-13.8	-21.0	-6.0	-11.2	-14.1	11.3
Retail Sales	129.8	-3.7	-7.7	-2.9	-6.4	-9.1	1.1
Hospitality	87.2	-1.8	8.3	-2.4	-9.3	-0.8	-6.8
Electricity Consumption	111.1	0.5	-5.3	0.5	-0.7	-13.6	--
Total County Employment	104.6	-0.7	-0.4	2.2	1.3	0.7	-0.7
Manufacturing	83.6	-0.8	4.9	-5.8	-9.0	-17.3	-27.1

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.

The Help Wanted leading indicator is not available for this month.



The index of claims for unemployment insurance is an indicator of negative economic activity. In February, the total number of new claims for unemployment insurance fell. The seasonally adjusted moving average also fell. Though the unemployment rate jumped during the last two months, a reduction in new claims may indicate better labor market conditions in the future.

Home Sales Economic Indicator:



The index of building permits issued gives insight to future home sales and construction. While the total number of building permits issued remained the same in February, the seasonally adjusted moving average for this indicator fell. Since there is a lag time between the issuance of a permit and construction or sale of a home this months decline in the indicator may indicate lower home sales later in the year.

Key Statistics	Leading Indicators
	% Change From

		Previous Month	
Median Home Price*	\$225,000	Help Wanted Advertising	-
30 Yr. Mortgage Rate as of 12/31	5.652%	Building Permits	-9.1%
Unemployment Rate**	7.0%	Unemployment Claims	-13.5%
* 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.			

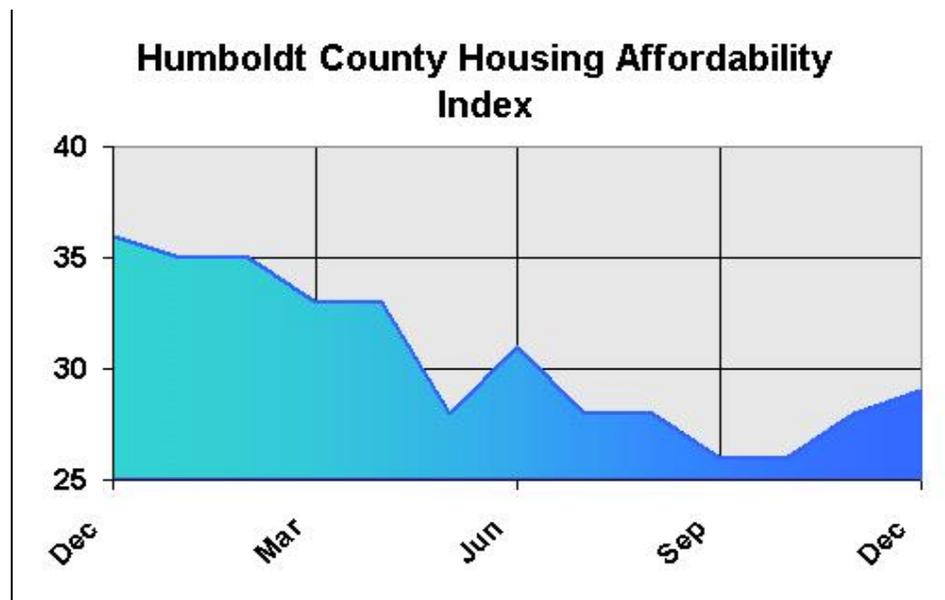
Individual Sectors

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.

Despite the low interest rates, and the strong state and national housing markets, local home sales are down. The seasonally adjusted home sales index dropped 13.8 percent to 115.9. Just two months ago the home sales index was at 144.16, one of the highest levels ever. Now, only two months later the index is down more than 28 percentage-points. This is the lowest level for the home sales index since November 2001.

The median home price in Humboldt County shot upward, after falling below the \$200,000 level in January. A median priced home in Humboldt County cost \$225,000 in February. Statewide home prices leveled off, but remain historically high. The median home price in California dipped back below \$400,000, but not by much. February's median home price declined 2.9 percent from last month's revised figure, to stand at \$394,300. "While demand for housing gives no indication of slowing down, the inventory of homes for sale continues to decline," said C.A.R. President Ann Pettijohn. "This dynamic is a key constraint in the housing market and why we're experiencing such dramatic price appreciation." (www.car.org) Nationwide home sales increased 2.0 percent in February, with the median price of an existing home dropping to \$168,700. David Lereah, NAR's chief economist, said the housing market could defy expectations this year. "Currently, we are projecting that home sales will decline slightly, but they remain at exceptionally high levels," Lereah said. "With a strong underlying demand for housing from a growing population in a recovering economy, we could be flirting with another record this year." (www.realtor.org)



Graphic Description: The Humboldt County Housing Affordability Index is compiled by the Humboldt Association of Realtors, and shows the percentage of households that can afford a median priced home in Humboldt County. Data for 2004 is not yet available.

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of April 1st, was 5.52 percent with an average 0.6 point. "In advance of what is hoped will be a strong jobs report tomorrow, bond yields rose this week and, predictably, so did mortgage rates," said Frank Nothaft, Freddie Mac chief economist. "The economy has been conducive to job gains for several months, but we have yet to see any significant rise in employment. "But even with rates slightly higher, the housing industry will continue to be an active, solid sector of the economy going into the spring buying season. We don't foresee any major slowdown in the housing market this year. Quite the contrary, we are confident 2004 will be another banner year for home sales." (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 first quarter of 2004 has been a rocky one for local retailers, with retail sales dropping for the second consecutive month. The index for this sector declined 3.7 percent in February, and now stands at 129.8.

Nationwide retail sales, as reported by The Commerce Department, edged upward in February. Seasonally adjusted sales were \$327.2 billion, an increase of 0.6 percent ($\pm 0.8\%$) from the previous month and up 7.9 percent ($\pm 1.0\%$) from February 2003. The increase was led by building material and garden equipment suppliers which increased 14.7 percent from February 2003. Electronics and appliance stores also posted gains, with a 12.3 percent increase in sales over February 2003.

The Conference Board's Consumer Confidence Index stagnated in March. The measure, which now stands at 88.3, is down 0.2 percentage points from the previous month's revised number. "While consumers claimed business conditions were more favorable in March than last month, they also claimed jobs were less readily available," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The labor market not only continues to dampen consumers' present-day spirits, but it is also making them less optimistic about the short-term outlook." (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.

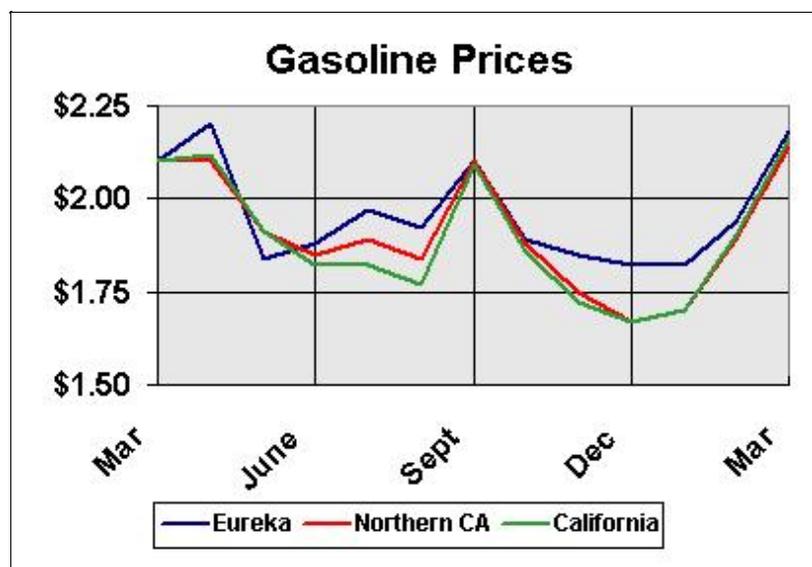
The hospitality sector decreased slightly in February. The seasonally adjusted index value for this sector dropped 1.8 percent to 87.2.

Gasoline Prices

The price of gasoline is on the rise, locally and throughout the nation. "One of the reasons California has such high gas prices is because demand is regularly higher than available supply," said AAA of Northern California spokeswoman Jenny Mack. "Reducing consumption could eventually result in lower prices. It's a way for consumers to exercise some control as prices skyrocket." (www.csaa.com)

Average Price* (as of 3/16)		Change From Prev. Month (cents/gal.)
Eureka	\$2.18	24¢
Northern CA	\$2.14	25¢
California	\$2.16	26¢

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 March the estimated electricity consumption index rose 0.5 percent to 111.1

Total County Employment

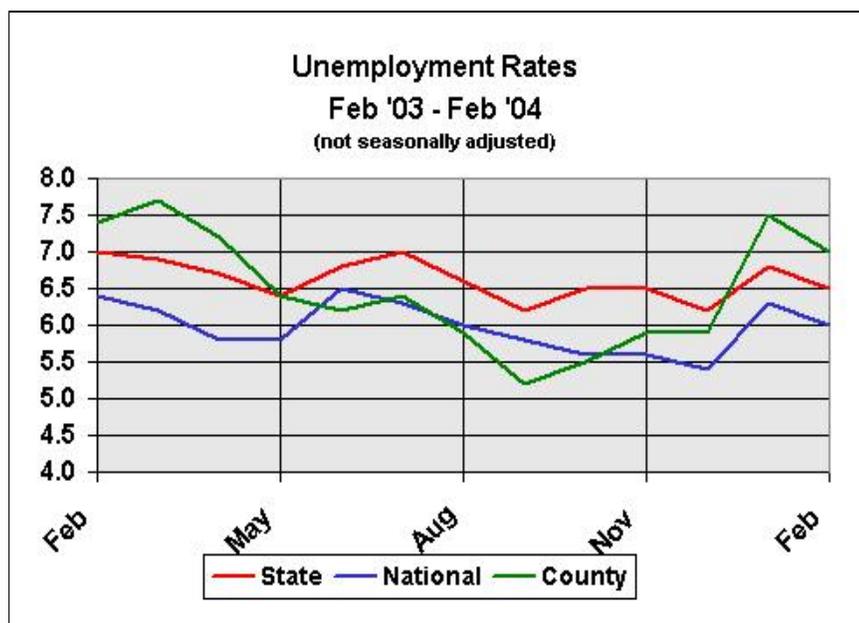
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

In the preliminary report for November, the EDD reported that 56,200 people were employed in Humboldt County. This is down from January's revised figure, indicating a net loss of 200 jobs. The total civilian labor force decreased by 500 people to 60,400. The seasonally adjusted total county employment index fell in February by 0.7 percent, and now stands at 104.6.

Sectoral changes in Humboldt County employment:

- The service sector continued to lose jobs in February. General merchandise and miscellaneous retail each lost 100 jobs. Employment in educational and health services also declined by 100 jobs. Along with a loss of 200 jobs in food services.
- Government employment was mostly stable except for a decrease of 100 state education jobs.
- Employment in wood product manufacturing and employment in construction each increased by 100 jobs.
- Employment in the agricultural sector did not change.

February's unemployment rate declined somewhat, but still remains above the state and national rates. This is the second straight month that the county unemployment rate is above the state rate. The decline can be attributed to a decrease in the size of the labor force, rather than an increase in total employment.

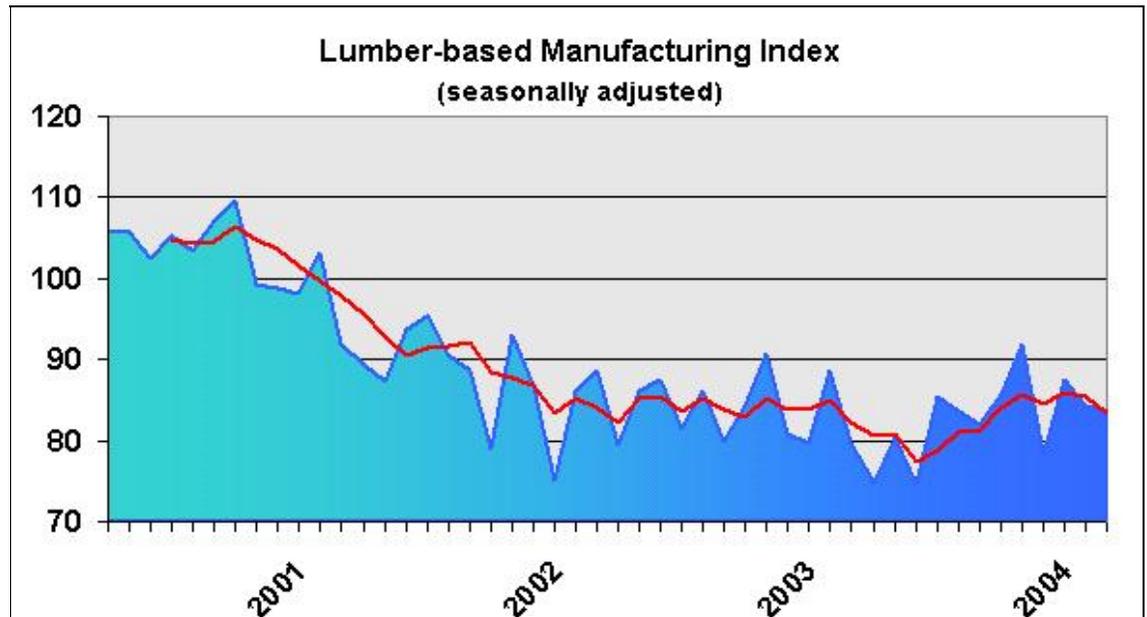


Lumber Manufacturing

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 lumber-manufacturing industry had little change this month. The index for this sector declined 0.8 percent to 83.6.



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.

National manufacturing output, as measured by the Institute of Supply Management, grew modestly in March. The ISM Index level rose 1.1 percentage points to register 62.5 percent in March (a number higher than 50 indicates growth). "The first quarter was very strong for the manufacturing sector and the economy overall. Our survey respondents generally indicate that business is quite strong," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management (www.ism.ws.cfm)

The Bigger Picture

National Economic News

Revised U.S. Gross Domestic Product (GDP) figures were released on March 25th by the Bureau of Economic Analysis. The GDP growth rate was revised upward slightly to 4.1 percent for the fourth quarter of 2003. Real GDP growth for the third quarter of 2003 was 8.2 percent. The major contributors to the increase in real GDP in the fourth quarter were personal consumption expenditures, exports, equipment and software, private inventory investment, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased. (www.bea.gov)

Many economists have been trying to explain America's jobless economic recovery. Though some March employment figures may signal a turnaround in the poor labor market conditions, one economist has another explanation. Jan Hatzius, an economist at Goldman Sachs is arguing that the weak labor market is linked to a weak economic recovery. He claims that the GDP statistics which show strong economic growth may be wrong. For evidence of this, Hatzius points to a divergence in the growth rates of GDP in the industrial production sector and the goods sector. During the past two years, the goods sector has reported significantly higher GDP growth than the industrial production sector. The problem with this is that the data for the goods sector is estimated, while the data for the industrial production sector comes directly from industry reports. It is possible, Hatzius claims, that the

GDP growth rate in the industrial production sector is a more accurate reflection of the total GDP growth rate. If this is the case, then current GDP statistics may be overstating the economic recovery. Another piece of evidence that GDP is being overstated can be found in data on aggregate income. GDP which is the measure of aggregate expenditures in our national economy should in theory be equal to aggregate income. However, aggregate income data shows a 2.8 percent rate of growth since the end of 2001. This figure stands in contrast to the 3.6 percent growth rate indicated by the GDP data. (www.economist.com)

State Economic News

Citizens of Inglewood, a Los Angeles suburb, said no thanks to an offer put on their local ballot by Wal-Mart Corporation. Last year the Inglewood City Council blocked a proposal by Wal-Mart to build a shopping center with a Wal-Mart Supercenter and other stores. After being denied by the City Council, Wal-Mart collected over 10,000 signatures and organized a ballot initiative for the proposal. In the vote on April 6th, citizens voted down Wal-Mart's offer, with 65.7 percent voting against the measure, and only 34.2 voting in favor. According to campaign-finance records, Wal-Mart spent over \$1 million on the Inglewood campaign. Opponents of the measure are hailing the vote as a victory against corporate giants. (www.cnn.com)

Local Spotlight

Economic and Social Costs of Economic Crimes

By: Jessica Digiambattista, Assistant Editor

In the wake of recent white-collar scandals involving high profile people and businesses, more attention is being focused on the impact and seriousness of economic crimes. Though they don't result in bloodshed or violent mayhem, these crimes cause serious harm to the victims, and society at large. Assistant District Attorney, and economic crimes prosecutor, Tim Stoen defines an economic crime as "a violation of law that results in an economic loss to somebody." The loss however, is not merely financial. "It harms the spirit that's required for a democracy to function," says Stoen. Economic crimes can break down the social capital, and the trust needed for the marketplace to function properly. Social capital can be defined as the institutions, relationships, and trust that shape the quality and functioning of a society. Stoen suggests, the community divide resulting from the District Attorney's case against the Pacific Lumber Company represents a degradation of our social capital.

Ultimately economic crimes can result in the loss of jobs and the stifling of economic growth. According to Stoen, prosecuting these crimes is necessary to keep the economic system "viable and respected." A fair and just environment is necessary for our economy to flourish. Individuals, small businesses, and large corporations can all be victims or perpetrators of an economic crime. Prosecuting and hopefully preventing these crimes is important for the livelihoods of all people.

A specific area of concern for local consumers has been the higher than average cost of gasoline in Humboldt County. When asked about this Stoen said that the issue had been examined under the previous District Attorney. At that time there was insufficient evidence to prove collusion among local retailers. Due to the isolated nature of the retail gasoline market in Humboldt County, competition is limited. The lack of competition could lead to local retailers being able to command a higher price at the pump. According to Stoen the only recourse against this type of legal price increase "would be consumers refusing to buy, or bringing in competitors like Costco." It is interesting to note that when Costco began selling gasoline in the area, prices declined significantly.

There are many types of economic crimes and many ways in which the victims and society bear the costs. Whether it taps our individual pocketbooks or segregates our community, we all feel the effects. An important element in combating the costs of economic crimes is maintaining and fostering our social capital. The diversity of ideas in our community is an asset necessary to having a vibrant economy. Though we all have different values and livelihoods, we also have common ground. The trust, honesty, partnerships, and friendships which exist in our community can be damaged, and no dollar value can be placed on the loss of these.

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

[The Eureka Times-Standard web site](#)

[The San Francisco Chronicle web site](#)

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

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