INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

Professor Erick Eschker, Director
Andrea Walters, Assistant Editor
Laura Lampley, Assistant Analyst

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May 2005

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.

Humboldt County's economy contracted slightly in April, pulled primarily by lost momentum in the hospitality and manufacturing sectors. The composite Index currently stands at 109.3 (100 = January 1994). This represents a 0.8 percent decline from March and a 1.6 percent decline from April of 2004. This dip continues the downward trend we saw in January to a lesser degree; contractions in hospitality and manufacturing were tempered by substantial growth in home sales and slight growth in retail sales. The employment sector posted no change this month, holding at an Index value of 107.1, 4.0 percent higher than the same period last year. The unemployment rate for Humboldt County decreased 5.8 percent. Hospitality decreased 6.9 percent to a seasonally adjusted Index value of 85.7 percent, following three months of growth. The hospitality sector is based on occupancy rates at local hotels, motels and inns and represents a diversity of types of establishments, both locally owned and nationwide chains. Manufacturing also lost momentum, dropping 5.4 percent to an Index value of 83.1. This is the fourth consecutive month of decline in the manufacturing sector. The retail sales sector posted marginal growth, increasing only 0.8 percent in April. The Index of retail sales performance now stands at 137.7. Home sales saw the most substantial increase of any sector, growing 4.7 percent to a seasonally adjusted Index value of 131.2. The home sales sector sees a lot of month-to-month variability, and often experiences a twenty or thirty percent change each month in either direction. Finally, figures for electricity consumption for the month of April were estimated at 122.1.

<table>
<thead>
<tr>
<th>* * *</th>
<th>Percent Change From:</th>
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<tbody>
<tr>
<td></td>
<td>1994=100</td>
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<tr>
<td>COMPOSITE</td>
<td>109.3</td>
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<tr>
<td>Sector</td>
<td></td>
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<tr>
<td>Home Sales</td>
<td>131.2</td>
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<td>Retail Sales</td>
<td>137.7</td>
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<td>Hospitality</td>
<td>85.7</td>
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<tr>
<td>Electricity Consumption</td>
<td>122.1</td>
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<tr>
<td>Total County Employment</td>
<td>107.1</td>
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<tr>
<td>Manufacturing</td>
<td>83.1</td>
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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.

The Index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator increased by 21.4 percent in April. This suggests a strong increase in unemployment in the future. The Index of claims for unemployment insurance now stands at 70.4. This is only slightly higher than the unemployment insurance leading indicator value of 70.2 for April of 2004. The four month moving average 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 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 March the number of help wanted advertisements decreased by 15.9 percent to an Index value of 143.1. Despite this drop, the four month moving average continued to exhibit a steady upward trend with an average value of 151.9. This could indicate a softening of the labor market in Humboldt County.

Nationally, the Conference Board’s help wanted advertising Index reported no change from last month, following three months of gradual decline. April’s Index value of 39 represents an increase from April of 2004, when the conference board reported a help wanted advertising Index value of 38. Says Conference Board Economist Ken Goldstein: “The labor market indicators were soft in April. Want-ad volume was flat while the data on initial unemployment claims was essentially unchanged. These are indications that hiring intentions again turned cautious in April. Other economy-wide data were pointing to the possibility of the economy falling into a soft-patch this summer, for the second year in a row. If that were to develop, it would be enough under ordinary conditions to make businesses cautious with respect to adding expensive labor over the next few months.”

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 April the Index of building permits continued to drop, declining 19.6 percent to an Index value of 39.8. 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 has begun to reflect the three months of decline seen in actual Index values. The four month moving average currently stands at 61.0.
The Index of Economic Activity for Humboldt County

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 contracted slightly, following a surge in March. The April value stands at 66.2, a 12.1 percent decrease from last month's value. 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 69.6, down from last month.

Nationally, the U.S. Census Bureau reports a 1.9 percent increase in manufacturing orders for durable goods and a 0.9 percent increase in new orders for general manufactured goods. (census.gov)

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<th>Key Statistics</th>
<th>Leading Indicators</th>
<th>% Change From Previous Month</th>
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<tr>
<td>Median Home Price*</td>
<td>$295,000</td>
<td>Unemployment Claims</td>
</tr>
<tr>
<td>30 Yr. Mortgage Rate as of 5/25</td>
<td>5.750%</td>
<td>Help Wanted</td>
</tr>
<tr>
<td>Unemployment Rate**</td>
<td>5.8%</td>
<td>Building Permit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manufacturing Orders</td>
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* 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.

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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 to increase in April, growing to a seasonally adjusted Index value of 131.2. This represents a 4.7 percent increase from March's value, and a 1.9 percent decrease from April of 2004. The home sales Index value was pushed up this month the number of homes sold increasing beyond seasonal expectations. The median selling price for a home in Humboldt County remained high at $295,000. The median selling price does not affect the Index.

Statewide home prices are also on the rise, increasing beyond $500,000 for the first time. The median price of a home sold in California reached $509,230 in April. This represents a 12.5 percent increase in the median home price for the same period last year and a 2.6 percent increase over March's revised median selling price. The state sales index increased 2.7 percent when compared to April of 2004. This indicates another strong year for the California housing market, in part dependant on California growing as a state. “Year-to-date sales are up 5.1 percent compared to a year ago” said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. “Although interest rates remain near their historical lows, consumers are clearly concerned about the impact rising rates will have on their ability to purchase a home.” (car.org)

Existing home sales, a measure of the housing market produced by the National Association of Realtors (NAR), also reached a record high in April. The seasonally adjusted number of single family homes sold increased to 6.28 million this month. This represents a 4.5 percent increase from March and a 5.0 percent increase from April of 2004. David Lereah, NAR's chief economist, said sales had been expected to hold at high levels. “A new record is a bit unexpected, but so is the performance of mortgage interest rates which have been lower than forecast,” he said. “When we look at recent job gains, we see all the positive factors coming together to coincide with a powerful demographic demand for housing.” The national median selling price of a home reached $206,000 in April, 15.1 percent higher than the same period last year. (realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of June 2nd was 5.62 percent with an average 0.6 points. This is down from last month's mortgage rate of 5.78 percent. Low mortgage rates and brisk home sales led to an annualized 9.6 percent rate of house price appreciation in the first quarter," said Frank Nothaft, Freddie Mac vice president and chief economist, "As strong as home sales and new home construction were last year, this year is off to an even stronger start," said Nothaft. "Sales of new and existing houses and pre-owned condominiums averaged an annualized total of 8.1 million units sold in the first quarter. National annual home price growth is likely to slow in 2005. Our best estimate is that house price growth will moderate to between six percent and nine percent as interest rates climb higher. We are already seeing some slowing in the quarterly growth rates relative to autumn of last year when home prices were growing at nearly double the current 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 grew this month to a value of 137.7. This is a 0.8 percent increase from March, and a 2.0 percent decline from April of 2004. Retail sales is consistently one of the strongest economic sectors of the Index. This month's relatively small increase does not correct last month's dip in retail sales, as indicated by a slight decline in the four-month moving average. The four-month
moving average now stands at 140.6.

National retail sales, as reported by U.S. Census Bureau, increased slightly in April. Seasonally adjusted sales were $344.9 billion, an increase of 1.4 percent (±0.7%) from the previous month and up 8.6 percent (±0.8%) from April 2004. Total sales for the February through April 2005 period were up 7.5 percent (±0.5%) from the same period a year ago. (census.gov)

The Federal Reserve Board reported relatively flat retail sales in most of its districts. Federal Reserve districts that saw an increase in retail sales included Boston, Kansas City, and San Francisco. The San Francisco district specifically reported "robust" automobile sales. (federalreserve.gov)

Nationally, many retailers counted on increased spending from teenagers to boost sluggish sales. According to a Wall Street Journal article teen shoppers are "going wild". Retail clothing stores catering specifically to younger consumers consistently fared better this month than their more mature counterparts. Companies like Abercrombie & Fitch Co. and American Eagle Outfitters Inc. posted double-digit sales increases in May while Gap Inc. saw sales decrease. (wsj.com)

Looking to the future, the Conference Board's Consumer Confidence Index increased, following three months of decline. The Index, which is a national measure of consumer expectations, now stands at 102.2 (1985=100). “Consumer confidence improved in May, gaining back nearly all of the ground it lost in April,” says Lynn Franco, Director of The Conference Board’s Consumer Research Center. The Conference Board’s other indicators of future economic conditions also reported higher expectations, including a decrease in consumer concerns about the economy and jobs. (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 shrank in April, decreasing 6.9 percent from March to an Index value of 85.7. This is a 20.0 percent decrease from April of 2004 and a 7.5 percent decrease from April of 2003. This seems to imply that occupancy rates this month did not meet seasonal expectations. 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.

Nationally, The Federal Reserve Board indicated an increase in tourism spending reported by several financial districts. San Francisco specifically noted an increase in hotel occupancy and "strong forward bookings for summer tourist destinations". (federalreserve.gov)

**Gasoline Prices**

Consumers finally found relief in May as prices across the nation decreased an average 2.8 cents per gallon of regular gasoline. State-wide, California saw gas prices decrease 10 cents, while Eureka enjoyed a 17 cent decline. The drop in the retail price of gasoline is attributed to a sharp drop in the price of crude oil. According to the California State Automotive Association, San Francisco has the highest average gas price in the state at $2.68 for a gallon of regular unleaded gasoline, while Eureka's average gas price shrank to $2.65. The least expensive gasoline is found in Springfield, Missouri where the average price is $1.92 per gallon. "It's not a big decline, but at least prices are moving downward," said Sean Comey, spokesman for AAA of Northern California. "To put it in perspective, even if this trend continues-and that's a really big 'if'- it would be another three months at this rate before we'd see prices fall below two dollars a gallon again." (csaa.com)

Looking to the future, gas prices may increase through the summer as demand for and consumption of gasoline increase, driving the price at the pump up.

For a local perspective, visit our [Special Projects page](http://www.csaa.com) 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.

<table>
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<tr>
<th>Average Price* (as of 5/17)</th>
<th>Change From Prev. Month (cents/gal.)</th>
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<tbody>
<tr>
<td>Eureka</td>
<td>$2.65</td>
</tr>
<tr>
<td>Northern Ca</td>
<td>$2.55</td>
</tr>
<tr>
<td>California</td>
<td>$2.53</td>
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</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).
The Index of Economic Activity for Humboldt County

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 April, 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.

In April's preliminary employment and labor force report, the EDD reported 57,900 people employed in Humboldt County. This is a net gain of 200 jobs from March's revised number. The total civilian labor force decreased by 200 people to 61,500. After adjusting for seasonal variation, the employment sector's Index value remains unchanged from last month at 107.1. This is a 4.0 percent increase from the same period last year.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 400 jobs in April.
  - Retail Trade gained 100 jobs.
  - Real Estate, Rental, and Leasing Services lost 100 jobs.
  - Professional and Business Services gained 100 jobs.
  - Transportation, Warehousing, and Utilities gained 100 jobs.
  - Leisure and Hospitality gained 100 jobs.
  - Local Government gained 100 jobs.

- Net employment in the manufacturing sector was unchanged in April.
The revised county unemployment rate continued its decline, dropping from 6.3 percent in March to 5.8 percent this month. Both the State and National remain below the county level at 5.2 percent and 4.9 percent respectively.

**Unemployment Rates**  
April '04 - April '05  
(not seasonally adjusted)

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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 April lumber based manufacturing continued its decline, dropping 5.4 percent to a seasonally adjusted Index value of 83.1. This represents a 3.2 percent contraction from April of 2004's figure and a 20.5 percent contraction total since the manufacturing sector's spike in December. The four month moving average has also dropped to 91.9.

National economic activity in the manufacturing sector, as measured by the Institute of Supply Management, registered 51.4 percent on June 1st. A number over 50 indicates growth. This is the 24th consecutive month of growth, although this month's figures are a continuation of the slowing trend that began five months ago. "While this represents the longest period of growth in the last 16 years, the data also indicates that the sector is losing momentum, as this month's PMI is at the lowest level since June 2003 when it registered 50.4 percent. The rate of growth in New Orders continues to decline, and this month only 11 of 20 industries are reporting improvement when comparing May to April. The Employment Index failed to grow, ending 18 months of employment growth. The manufacturing sector is definitely slowing, and the question is whether a somewhat stronger dollar and the burden of high energy costs are slowly bringing this manufacturing growth cycle to end." said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (ism.ws.cfm)

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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.
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U.S. Bureau of the Census's Economic Briefing Room
U.S. Bureau of Labor Statistic

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