Humboldt Economic Index

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This month’s report is sponsored by:

Redwood Capital Bank

Leading Indicators | Individual Sectors | Home Sales | Gasoline

Composite Index and Overall Performance

The Humboldt Economic Index 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 Humboldt Economic Index contracted further from the revised March 2009 value to 97.8, a 0.7 percent decline and 7.0 percent lower than the April 2008 level. Each sector that we monitor experienced either little growth or contracted. Home sales and retail activity cooled throughout April as unemployment continues to rise creating uncertainty in local markets. With Leading Indicators suggesting further weakness in labor markets there will be increasing contractionary pressure on each sector of the economy.
## Key Statistics

<table>
<thead>
<tr>
<th>Median Home Price*</th>
<th>Mortgage Rate†</th>
<th>Unemployment Rate‡</th>
</tr>
</thead>
<tbody>
<tr>
<td>$274,900</td>
<td>4.375%</td>
<td>11.6%</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.

† 30 year owner occupied conforming conventional fixed rate provided by Umpqua Bank.

‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

## Leading Indicators

### Leading Indicators

<table>
<thead>
<tr>
<th>Unemployment Claims</th>
<th>Help Wanted Advertising</th>
<th>Building Permits</th>
<th>Manufacturing Orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change from Prior Month*</td>
<td>3.9%</td>
<td>58.6%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Change from Prior Month**

- Unemployment Claims: 3.9%
- Help Wanted Advertising: -29.0%
- Building Permits: 58.6%
- Manufacturing Orders: N/A

* All values are seasonally adjusted.

The Index tracks four leading indicators to get a sense of the direction that the county economy may take 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) expected manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment Claims rose 3.9 percent from March to an index value of 131.1. The upward trend of this index supports a cooling of labor markets and rising unemployment. Supported by the Help wanted advertising index we may experience continued declines in employment as employers wait to hire new workers.

The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Help wanted advertising took a dive in April, contracting 29 percent to a seasonally adjusted index value of 54.9. Employers are cautious to hire new employees due to uncertainty in future demand for products. As long as uncertainty remains high and demand for goods and services remains deteriorated employers will hold off on hiring more employees which will put upward pressure on unemployment rates in the coming months.
The seasonally adjusted Index of Building Permits is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Building Permits rebounded slightly from the previous month to 18.5. However is well below the running average of the index at 52.2. This index remains historically low and symbolizes the contraction of overall economic activity as businesses do not expand which has negative implications for employment and retail.

**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 activity cooled throughout April as the seasonally adjusted index value declined 8.4 percent to 60.9. This decline in activity could be the result of an increasing median home price, which rose $9900, and condition of current local labor markets. As unemployment continues to rise potential home buyers are unable to enter the market as job security continues to deteriorate through this recession. The interest rate remains unchanged form the previous month at 4.375%, while this is 1.250% below the April 2008 level, it still not adequate to spur on sales. A necessary step to recovery in the local housing market lies within the recovery of local labor markets and job security on the north coast. Leading indicators suggest that home sales activity will remain weak in coming months as unemployment continues to rise and help wanted advertising has a strong downward trend since December.

**Standard and Poor's Case-Shiller Home Price Indices** publishes a 10 and 20-city composite of home prices. In the most recent edition of the Case-Shiller Home Price Index, home prices continued to decline and show little to no evidence that prices have bottomed out and a recovery is foreseeable. The national housing crisis will correct itself, but prices must continue to fall, allowing for more buyer to enter the market to reduce the supply of housing. This however, is still unclear as we continue to head through the recession.

**The California Realtors Association** reported the home sales increased 49.2 percent from the same period last year while median home prices have declined 36.5 percent from April 2008. **The National Association of Realtors** also reported that sales activity for all housing types is down 3.5 percent from April 2008. The median home price has declined by 15.4 percent since April 2008 to $170,200. Freddie Mac reported that the average 30-year conventional fixed rate mortgage fell to an all time low of 4.81 percent from March's 5.00 percent. Continued declines in mortgage interest rates will allow greater affordability in the housing market, but prices of housing still needs to contract further.

For a local perspective on the possibility of a housing bubble, visit our **Special Projects** page for a study of the Humboldt County housing market. Also, visit the **Humboldt Real Estate Economics Page.**
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.

Retail Sales declined 2.2 percent from March 2009 to a seasonally adjusted index value of 143.0. While sales across the board expanded, the seasonally adjusting of the data still lead to a decline in overall activity. Sales are 7.6 percent below the April 2008 levels. The highest grow in sales are seen at grocery stores as consumer continue to reduce discretionary spending as the recession takes it toll on the local work force. Retail sales will experiences some downward pressure as unemployment continues rise and the help-wanted advertising is down. Luxury items will experience more contractionary pressure as consumers begin to shop for necessary goods during times of uncertainty.

The Federal Reserve's Beige Book reports that consumer spending remains weak or sluggish throughout the United States. The rising unemployment rates has lead consumers to shop at discount stores and private labels as discretionary spending dwindles. This also affects manufacturing as retailers keep inventories sparse to avoid having a surplus of goods. Restaurant sales showed considerable declines due to higher sales in food markets as consumers opt to save money and dine at home. Auto sales reported sluggish activity partly due to uncertainty in the stability of the auto industry, but more importantly potential car buyers are seeking better deals, which has lead to an increase in used car sales.

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.

![Hospitality index graph](image)

The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Hospitality rose 1.5 percent from the previous month to a seasonally adjusted index value of 88.8, which is 19 percent higher than the same period twelve months ago. As seen in the four month moving average hospitality remains fairly constant throughout the months while oscillating around the high 80's and low 90's.

Gasoline Prices

Gas prices have steadily risen since bottoming out in November 2008. While this is still far below the price of gasoline from the previous year, consumers should expect gasoline prices to continue to rise throughout the years. Oil producers may raise prices of crude oil or keep production at a steady level in order to prolong their own fixed resources. As demand continues to increase while output does not, this will cause the price of crude oil to rise in the coming years. If the price of gasoline and other natural fuels continue to rise it will put overall pressure on Humboldt County to grow seeing as how it is a rural community.

For a local perspective on gasoline prices, visit our Special Projects page for our study of the Eureka gasoline market and an examination of why Humboldt County gas prices tend to be higher than the rest.
Gas Prices

<table>
<thead>
<tr>
<th></th>
<th>Average Price*</th>
<th>Change from Previous Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eureka</td>
<td>$2.96</td>
<td>$.30</td>
</tr>
<tr>
<td>Northern CA</td>
<td>$2.86</td>
<td>$.44</td>
</tr>
<tr>
<td>California</td>
<td>$2.20</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (www.csaa.com).

Electricity Consumption

The Index value of this sector is based on seasonally adjusted kilowatt-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, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are frequently estimated, and are revised when the quarterly data are received.

Electricity Consumption remained unchanged from the previous month at an index value of 130.5 due to quarterly data collections.

Total County Employment

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

The seasonally adjusted Employment Index stands at 99.7, a slight decline from the previous month. This drop was attributed to a reduction of the work force by 100 individuals. Unemployment rates continue to rise on the County and National level while California as a whole experienced a slight decline in unemployment rates. Leading Indicators suggest further weakness in labor markets as Unemployment insurance is on the rise while help-wanted advertising is down.
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 55 percent of total county manufacturing employment.

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 which attempts to demonstrate the overall trend in the data with less monthly volatility.

Lumber-based Manufacturing has plummeted 43.8 percent since April 2008. This industry continues to experience short periods of accelerated activity followed by a bust period. Compared to the previous month, the Lumber-based Manufacturing index rose 4.5 percent since March 2009. Continued growth in the Building Permits Index could support increased activity in the Lumber-based Manufacturing sector.

According to the Institute of Supply Management manufacturing continued to decline for the sixteenth consecutive month in May. The ISM also reported that fuel and natural gas were the only commodities up in price. If prices of fuels continues to increase it may cause a slower recovery of the
manufacturing sector throughout the United States and Humboldt County.

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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 2006" report reflects data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

**Cited References:**

Beige Book  
The California Realtors Association  
The Institute of Supply Management  
The National Association of Realtors  
Standard and Poor's Case-Shiller Home Price Indices

**Send us your comments.** Comments will be posted on our Reader Comments page unless otherwise requested.

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