

# Humboldt Economic Index

May 2011

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## Falling Housing and Gas Prices, Mixed Growth

This month we say goodbye to Cody Tescher, who was our Assistant Analyst the past semester. Cody did a great job in his short time here but is transferring to University of San Diego. Best wishes Cody!

We also welcome this month Catherine Carter as our new Assistant Analyst. Catherine is a very bright economic major who has learned a lot about the Index in a very short amount of time. Welcome Catherine!

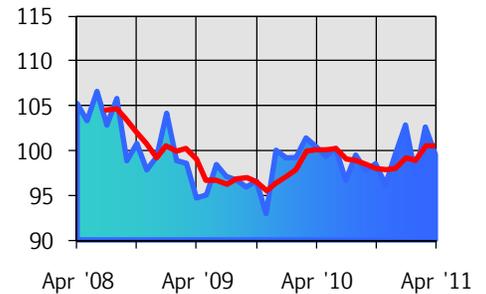
May was an odd month for the Humboldt County economy. Many sectors declined, but a number of positive factors are also present.

The Composite Index fell 3.2% from last month to a value of 99.5, the first time since January that the Index has been under 100. This also represents a decline of just under 1 percentage point from this time last year.

Leading indicators are mixed, with building permits rising, but unemployment claims also rising, and help wanted advertising falling.

Home sales increased, although the

Composite Index



median price of a home hit a record low since the peak of the housing bubble. Employment expanded, but not as quickly as expected. Gas prices also declined for the first time in months.

Hospitality and Retail sales both declined in April, but Lumber Manufacturing increased.

Over all, the economy appears to be off to a sluggish start with the typically more active summer season coming on, but the slowly dropping price of gas may encourage some quickening of economic recovery and falling housing prices show signs of eliminating bubble-inflated price

The Humboldt Economic Index is produced by the Economics Department at Humboldt State University. It 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.

## Composite & Sectors

Index	Value*	Percent change from			
		Last Month	One Year ago**	Five Years ago**	Ten Years ago**
<b>Composite</b>	<b>99.5</b>	<b>-3.0</b>	<b>-0.9</b>	<b>-5.5</b>	<b>-6.4</b>
Home Sales	82.4	5.2	-4.2	-26.6	-28.9
Retail Sales	136.7	-14.1	-1.1	6.0	10.2
Hospitality	82.7	-7.0	-8.3	-8.4	-11.9
Electricity	147.5	0.0	5.1	7.7	19.7
Employment	98.2	0.0	-1.3	-6.3	-4.6
Manufacturing	39.0	24.0	6.2	-34.1	-55.2

\* These values are adjusted to remove seasonal fluctuation. The base month is Jan. of 1994, with an Index value of 100.

\*\* The percent change from the same month one, five and ten years ago.

# The Index – Leading Indicators

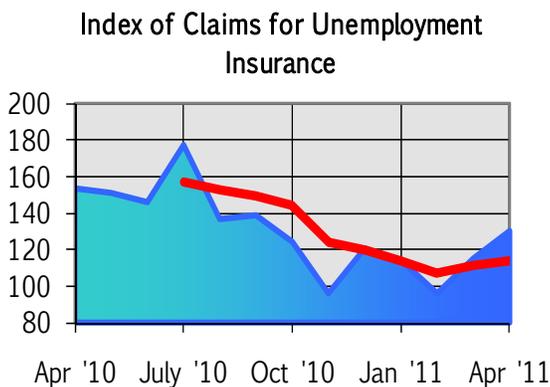
## Leading Indicators

The Index tracks three leading indicators to get a sense of the direction that the county economy may take in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) building permits, and (3) help wanted advertising.

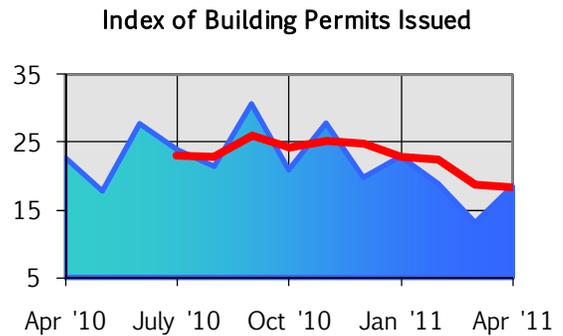
Leading Indicators			
	Unemployment Claims	Building Permits	Help Wanted Advertising
Change from prior month*	<b>13.0%</b>	<b>41.0%</b>	<b>-10.3%</b>
* All values are seasonally adjusted.			

Key Statistics			
Median Home Price*	Monthly Rent**	Mortgage Rate†	Unemployment Rate‡
\$225,000	\$1,323	4.63%	10.5%
* The Humboldt Association of Realtors provides home price data. 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. ** Average rent on 2, 3 and 4 bedroom houses listed in the Times Standard. † 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.			

**Unemployment claims** rose last month. While raw employment increased in May, the number of new claims for unemployment insurance also rose by about 100. Together with seasonal expectations of a better employment situation, this drove the Claims Index up by 13% to a value of 130.1. It should be noted, however, that this is a significant drop in the number of unemployment claims from last year at this time, when the Index stood at 153.5.



**Building Permits**, by contrast, surged ahead last month. The volatile Building Permits Index rose by 40.9% to a value of 18.49, almost entirely erasing last month's decline.



**Help wanted advertising** fell again in May. Last month's precipitate decline was followed by a somewhat mellow drop last month as the Help Wanted Index fell 10.3% to a current value of 40.4. The decline was the result of a drop in the raw number of help wanted ads, somewhat amplified by seasonal adjustment, and may indicate a contracting labor market.



**Graphs Explanation:** The blue area represents the seasonally adjusted Index of Unemployment Claims above. The red line shows the four-month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

# The Index – 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.

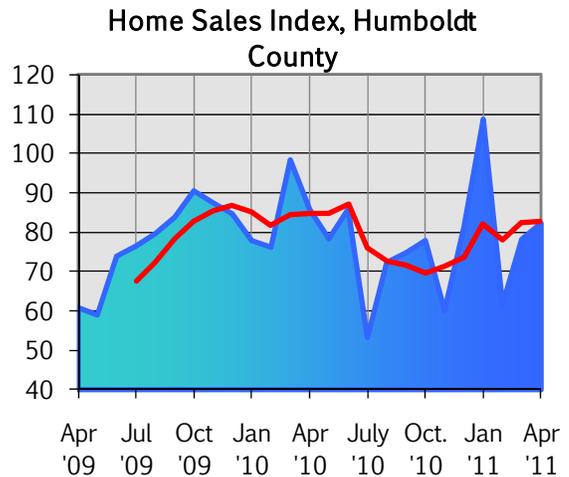
Continuing last month's recovery, home sales crept up again in April. The rise was modest, at 5.2%, and brought the Home Sales Index up to a current value of 82.4. This still represents a significant decline from January, however, when the Index stood at 108.8, and is just slightly down from the Index's value last April of 86.0. The rise was due to a small increase in the number of homes sold, and was largely unaffected by seasonal adjustment.

At the same time, the median home price dropped to \$225,000. This represents the lowest value since February of 2004, and may indicate that prices, which peaked at \$349,500 in March of 2006 at the height of the housing bubble, are returning to a more stable equilibrium. The mortgage rate also continued to fall, reaching a value of 4.63%, down from 4.88% in March. Median monthly rent declined by about \$50 to \$1,275, possibly due to decreasing demand as University students return home for the summer.

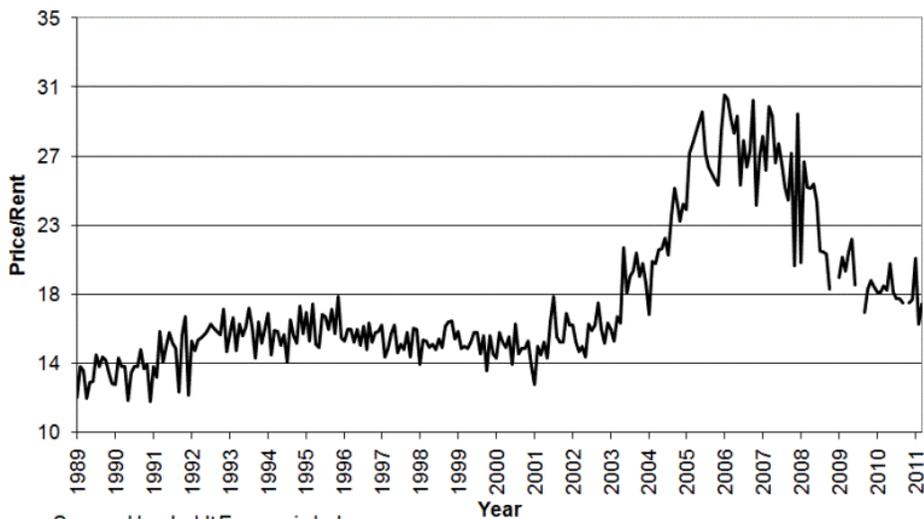
At the state level, home sales dropped and median price increased. The median price for April climbed \$7,000 to \$293,570. Home sales, seasonally adjusted and annualized, fell 2.9% to 499,830. This represents an increase from last year, however. Nationally, Case-Schiller, using data through March of this year, reported that its 10- and 20-city composites fell by 0.6% and 0.8%, respectively, over the last month, bringing the National Index back to mid-2002 levels and providing further evidence of recovery from the inflated prices of

the recent bubble.

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](#).



**Humboldt County Housing Price to Rent Ratio, 1989-2010**  
(medium home price/mean rent, adjusted for expenses)



Source: Humboldt Economic Index

# The Index – Individual Sectors

## Total County Employment

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

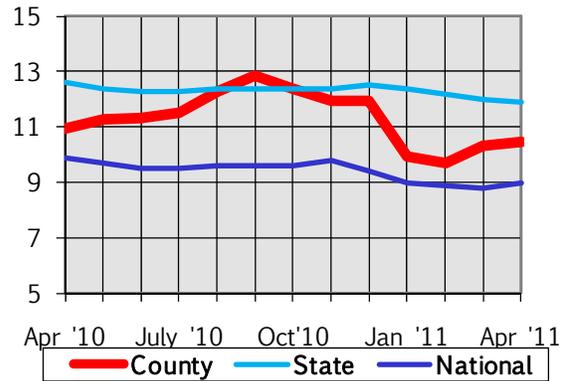
Raw employment increased in April, as 300 jobs were added to the county economy. This increase was not of the magnitude expected, however, and seasonal adjustment led to a slight decline in the Employment Index from 98.3 in March to a value of 98.2. This also represents a drop of 1.3 percentage points from this time last year. The county's seasonally adjusted unemployment rate likewise rose slightly in April, increasing by 0.2 percentage points to a value of 10.5.

Statewide, the California EDD reported that the labor force grew very slightly, and the economy added 36,000 jobs, leading to a decrease in the seasonally adjusted

unemployment rate from 12.0 to 11.9. Growth was mixed, with many sectors expanding and many contracting.

At 9.0%, the national unemployment rate is still well below California's rate. It does represent an increase of 0.1 percentage points from last month, but a decrease of 0.9 percentage points from last year. Of some concern, it is the first increase in the US seasonally adjusted unemployment rate in five months.

Unemployment Percentage Rates



## 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 declined slightly in April. Average occupancy rates actually rose significantly, but seasonal expectations of better performance led to a decrease in the Hospitality Index of 7.0% to a value of 82.7. This may be tied to the recent high gas prices reported in previous issues of the index, as people react to those prices by traveling less.

## Gasoline Prices

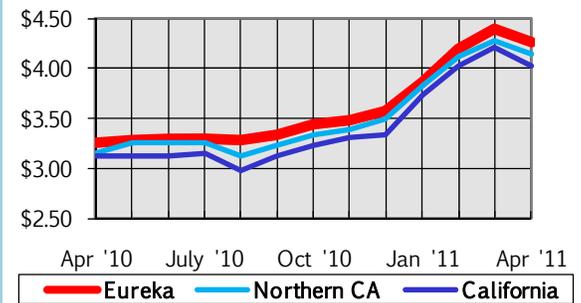
After steadily rising since August of last year, real gasoline prices finally began to fall in May. The real price, using the Consumer Price Index, dropped by 13 cents last month to a price of \$3.54 per gallon (nominally \$4.26 per gallon), with oil prices hovering around \$100 per barrel.

At the same time, the CPI posted another abnormally large rise of 0.64% (annualizing to an inflation rate of 8.0%) in its April report. The rising CPI captured continued rises in the price of energy, food, new and used vehicles, medicine, and shelter.

Gas Prices		
Prices as of 5/31/2011	Average price*	Change from previous month
Eureka	\$4.26	-\$0.13
Northern California	\$4.14	-\$0.14
California	\$4.03	-\$0.18

\* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey ([www.csa.com](http://www.csa.com)).

Gasoline Prices



# The Index – Individual Sectors

## 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 plummeted in April, the seasonally adjusted Index reaching a value of 36.7. This represents a decline of 14.1% from last month in a sector that is generally relatively stable. The current value is the lowest since November of 2009. It is worth noting, however, that it is only 1.1% below the value of April of last year. The decline is perhaps related to the high, and until-recently rising, price of gas.

The Consumer Confidence Index substantiated the county findings on a national level. The Index fell 5.2 percentage points to a value of 60.8. The survey also showed an increase in consumer pessimism with regard to the present economic situation, and future expectations.

## 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.

Energy usage rose in the latest information available. The quarterly update revealed a slump in energy use after last December when it stood at 151.4. The Index fell to 126.6 in January, again fell to 122.9 in February, and then rose to 147.5 in March. That number remains the estimate for April, as well, until the next update becomes available.

## 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.

Lumber manufacturing increased significantly in April. The seasonally adjusted Lumber Manufacturing Index rose 24% last month from a value of 31.5 to a current value of 39.0. This is the largest increase in the Index since January of 2010, and is the highest value of the Index in almost a year. The change was caused by a large increase in the number of board feet produced, plus a smaller increase in payroll.

Nationally, the Institute for Supply Management reported that manufacturing expanded, as did the economy in general. Nevertheless, the PMI fell 6.9 percentage points from 60.4 to 53.5, lower than it has at any point in the past year. The Purchasing Managers Index (PMI) is based on the number of manufacturing supply managers who expect business conditions to improve in the near future.

**Explanatory Note:** We have been tracking economic activity since January 1994. The Composite Index at the beginning of this report is a weighted average of each of the six sectors described 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 the most recent data available, which is usually from the previous month. For example, the "August 2006" report reflects mostly data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

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**Frequently Cited References:**

California Association of Realtors - Case-Shiller Home Price Indices

Consumer Confidence - The Institute of Supply Management

National Association of Realtors

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