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August 2000

Key Statistics		Leading Indicators	
Humboldt County:		<i>Seasonally Adjusted</i>	%Change in August
Median Home Price*	\$131,500	Help Wanted Advertising	-17.72
30 Yr. Mortgage Rate (8/24)	8.125%	Building Permits	30.55
Prime Rate (8/24)	9.5%	Unemployment Claims	-13.91
Unemployment Rate**	6.3%	Manufacturing Orders	9.13

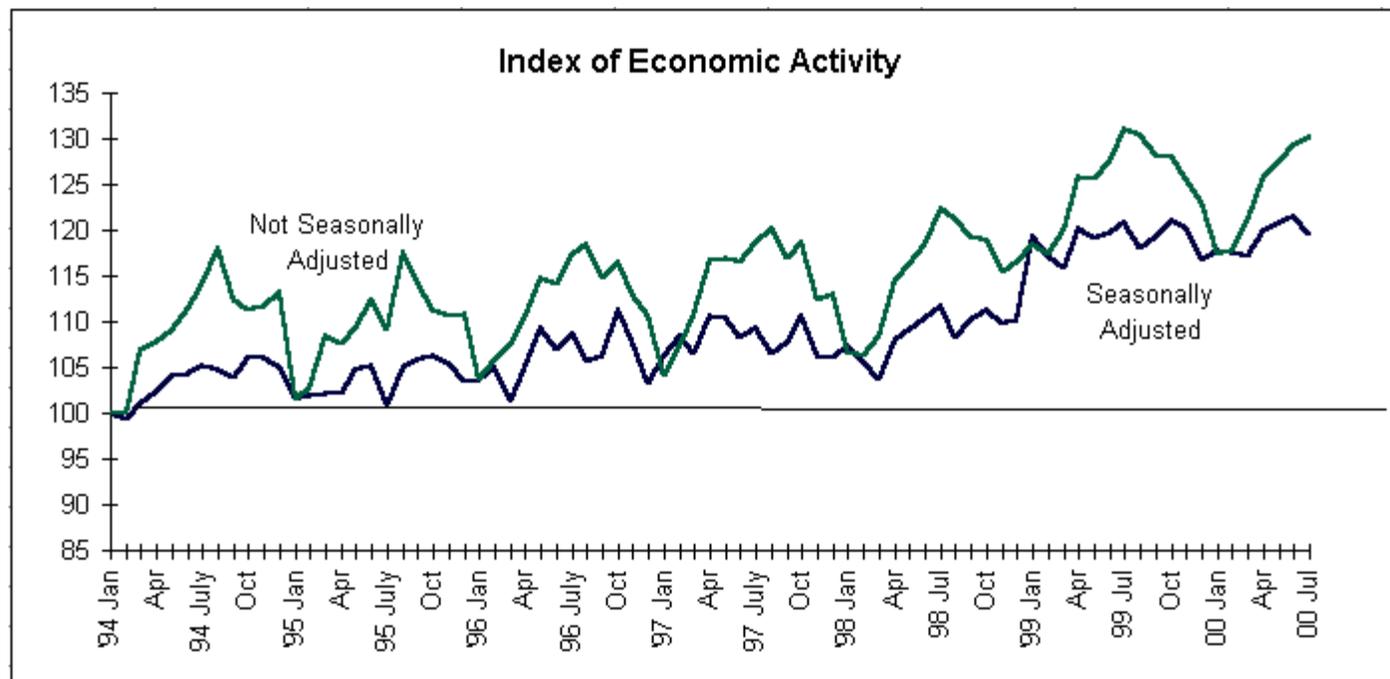
* Home price data are provided by the Humboldt County Board of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does 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. See the [EDD Website](#) for updates.

Monthly Change

The seasonally adjusted *Index of Economic Activity for Humboldt County* dipped 1.55 percent during the month of July to a value of 119.5. In the month-over-month comparison, the seasonally adjusted *Index* was down 1.13 percent over August 1999, up 7.01 percent over August 1998, and up 9.36 percent over 1997.

For those of you who are new or less familiar with the *Index*, we have been tracking seasonally-adjusted economic activity since January 1994, at which time the *Index* began at a value of 100. Each sector of the seasonally-adjusted series is weighted to correct for "normal" monthly variation in the data, and so trends in the seasonally-adjusted index provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so the "August 2000" report reflects data from July 2000. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.



While the seasonally-adjusted *Index of Economic Activity* experienced a period of growth during 1998, it has been on a plateau since January of 1999, and has experienced only relatively minor month-to-month variation since that time. The *Index* value of 119.5 for August 2000 indicates that the weighted average of the various sectors of the Humboldt County economy that we track has increased by 19.5 percent since we started the *Index* in January 1994. Since we do not survey the entire Humboldt County economy, and since we assign weights to the various sectors that we do track, growth in the *Index* will only provide an approximate indication of economic growth in Humboldt County. The non-seasonally adjusted *Index* reveals the remarkable seasonal fluctuation in the Humboldt County economy. Each year the non-seasonally adjusted *Index* declines in the winter and peaks in the summer, reflecting the impact of the natural cycle of rainy and dry seasons on our economy. It is likely that the non-seasonally-adjusted *Index* will begin its decline in the next few months.

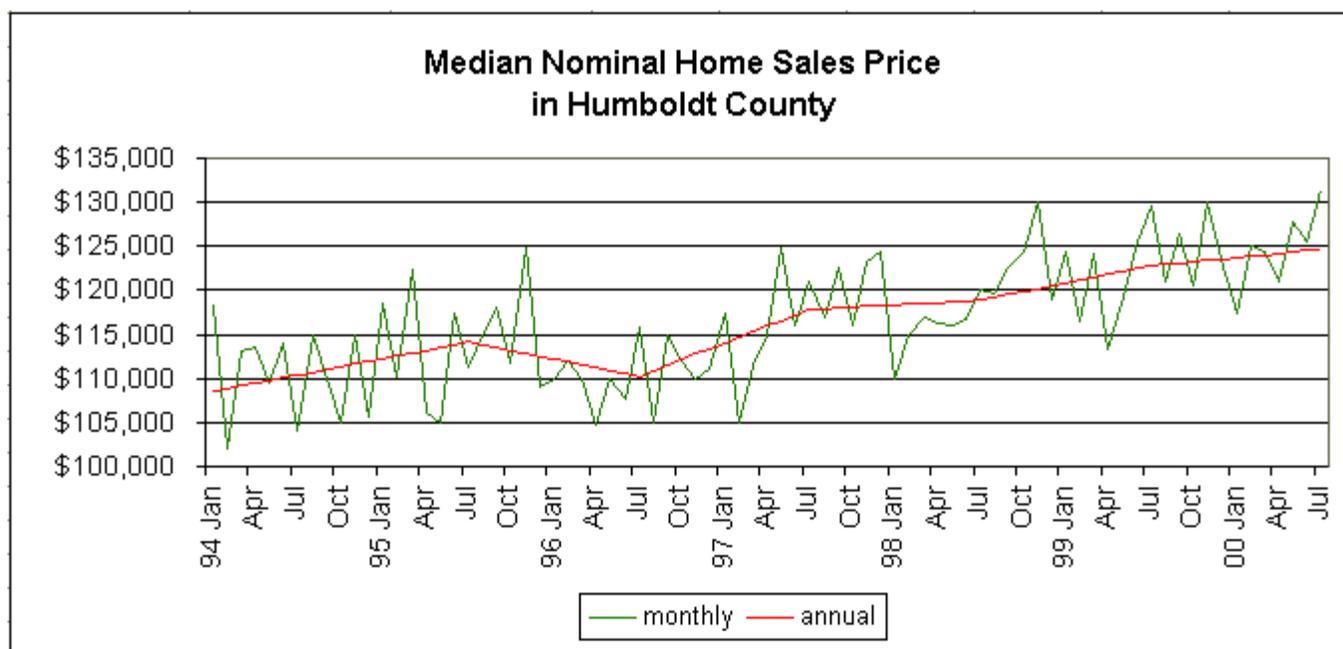
Monthly Sectoral Analysis:

Home Sales: The Home Sales sector of this month's *Index* increased 5.68 percent over the previous month. The month-over-month comparison of home sales from August reports from the recent past shows mixed results. Specifically, the sector decreased 11.11 percent over 1999, decreased 12.32 percent over 1998, and increased 18.08 percent over 1997.

In the Bay Area, home sales markedly declined in July. Home sales there showed a 14 percent drop over the previous month and a 22 percent decline over the previous year. The 22 percent drop was the steepest year-over-year decline in the Bay Area in over five years. Nationally, home sales have shown mixed results. Sales of existing homes have climbed for the last few months, while new home sales have declined.

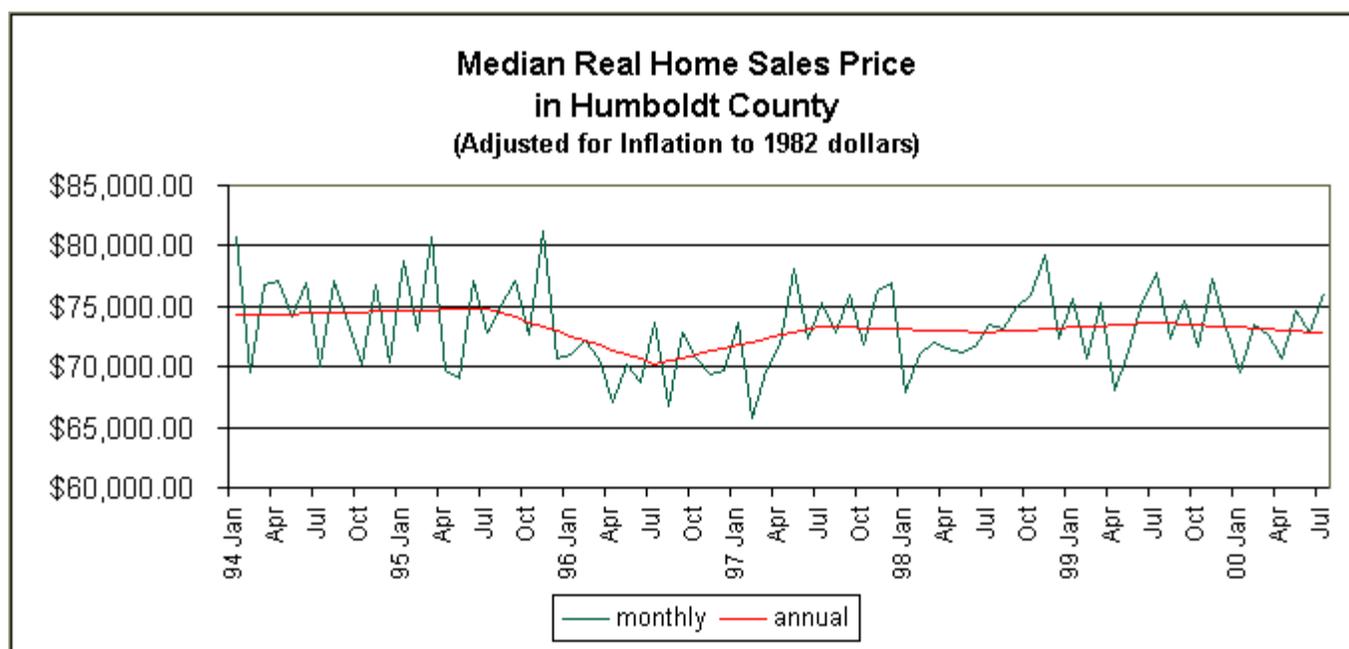
We track two types of home prices through the *Index* -- median home sales price and average home sales price. The median home sales price is the midpoint in the home price range, where half of the homes sold for more

and half of the homes sold for less. The median home sales price in Humboldt County for the month of July was \$131,500. In comparison, the median home sales price in the Bay Area was \$372,000, and was \$159,000 across the nation. While our median price is lower than both the Bay Area and the nation, reflecting our lower income and slower pace of growth, some might wonder whether home prices are rising or falling in Humboldt County. To answer that question, the graph below depicts the nominal median home sales price in Humboldt County from 1994 through the present (nominal simply means the price actually paid, unadjusted for inflation).



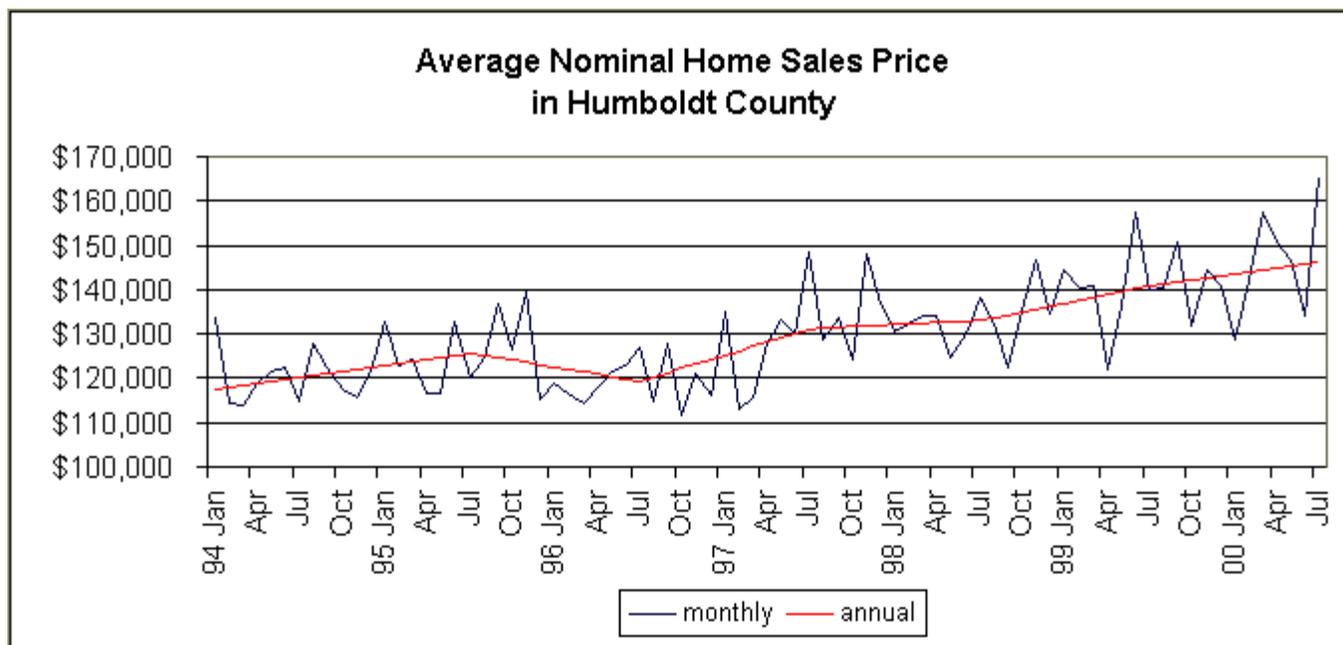
As the diagram above illustrates, while the monthly median home sales price has fluctuated, on an annualized basis there has been a clear upward trend since 1996.

The nominal home sales price diagram above tracks sales prices at current prices, and does not consider inflation. It is important to factor in the effect of inflation, however, to get a sense of how real home sales prices have changed. For many homeowners their home is their most important financial investment, and it is important to know whether the value of their investment is keeping pace with inflation. The graph below depicts the real (inflation-adjusted) median home sales price in Humboldt County in constant 1982 dollars.

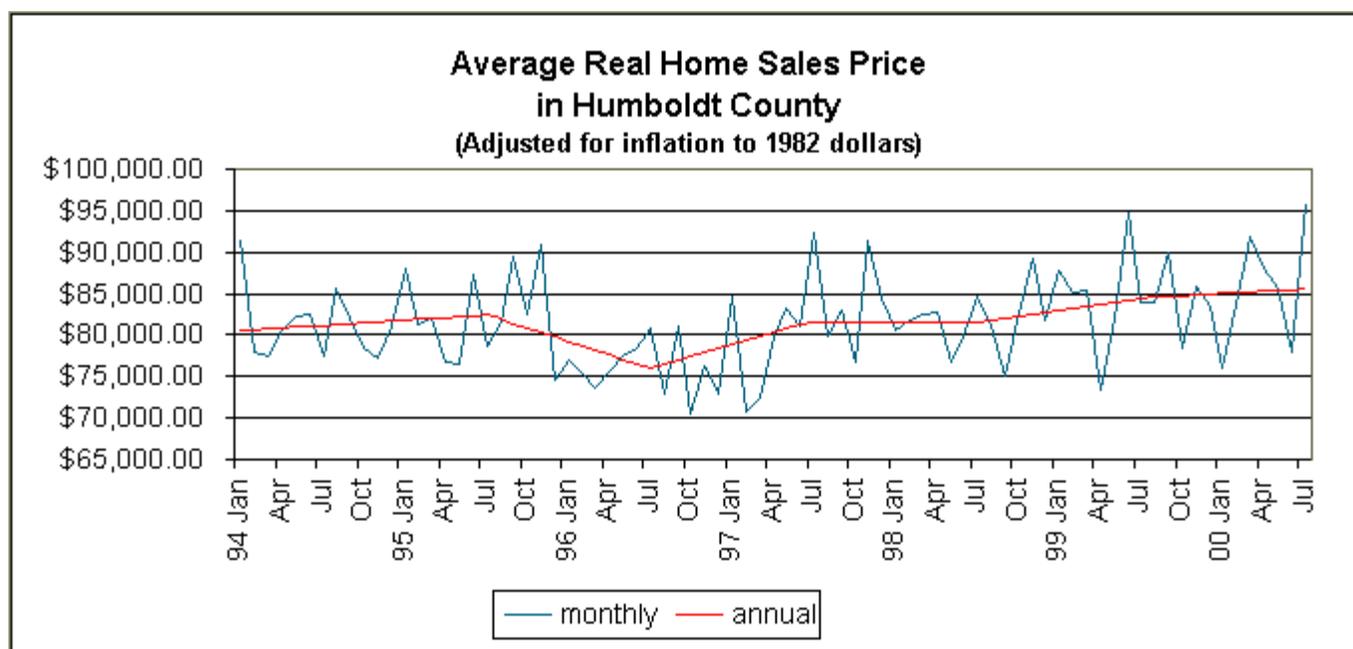


What's important to note about this graph is that when inflation is factored in to the sales price, median real home prices in our region have remained fairly flat over the last six years. Therefore the modest growth in the price of the median Humboldt County home since 1996 has just kept pace with inflation.

The average home sales price is determined by adding the prices of all homes sold and then dividing by the total number of homes sold. Rising prices for a relatively small number of expensive homes may not show up in the median home price, but will show up in the average home price. The average home sales price in Humboldt County was \$165,460 for the month of July (compare to the \$131,500 median sales price). The graph below depicts the average home sales price in Humboldt County from 1994 through the present.



Average home prices in Humboldt County have grown more rapidly than median home prices since 1994. This becomes apparent when we calculate the real average home price by adjusting for inflation.



As the diagram above illustrates, the real or inflation-adjusted average home price has increased modestly (by approximately \$5000) since 1996. Since the median price of a house in Humboldt County has not grown after adjusting for inflation, it is likely that the growth in average home prices is driven by high-end home sales.

Retail Sales: The retail sales sector of the *Index* declined 13.32 percent over last month. In the month-over-month comparison with August reports from the recent past, retail sales were down 4.20 percent over 1999, down 1.51 percent over 1998, and up 10.93 percent over 1997.

Nationally, the retail sales sector in July bounced back from four sluggish months, climbing 0.7 percent over the previous month. Although consumers are still spending, they are spending at a much slower pace than in the first quarter of the year.

Employment: In their preliminary report for July 2000, the Employment Development Department (EDD) reported that 56,900 people were employed in Humboldt county, down by 1,100 from the revised figure for June 2000 (-1.9%). Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various services industries decreased from a revised 43,300 during the month of June to 41,400 for the month of July (-4.4%). While down over the previous month, this sector is up 2.7 percent over the previous year's figures. The retail subsector of services decreased from a revised 10,900 for the month of June to a preliminary 10,800 for the month of July (-0.9%). This subsector, while also down over the previous month, is up 2.9 percent over the previous year.
- Total county employment in manufacturing increased from 6,100 to 6,200 during the month of July (1.6%). This is consistent with the previous year.

The employment sector of the *Index* shows mixed results for the month of July. Specifically, the sector decreased 1.85 percent over the previous month's report. In the month-over-month comparison, the sector decreased 1.21 percent over 1999, decreased 0.47 percent over the 1998 report, and increased 2.60 percent over 1997.

In the national employment scene, layoffs by the Census Bureau pulled down gains in the employment sector for the second month in a row. The layoff of 290,000 workers more than offset the gain of 138,000 workers by private industry. The modest gains in private industry employment were weaker than most economists had expected. The majority of the modest growth came from the manufacturing industry, which experienced fewer seasonal shutdowns than in previous years.

The unemployment rate in Humboldt County declined 0.1 percent from a revised 6.4 percent for the month of June to a preliminary 6.3 percent for the month of July. The national unemployment rate remained unchanged at 4.0 percent. The national unemployment rate has stayed within 0.1 percentage point of this rate since October 1999.

Manufacturing: We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about 75 percent of total county manufacturing income.

The manufacturing sector is down in all comparisons for the month of July. Specifically, the sector decreased 1.52 percent over the previous month. In the month-over-month comparison of August reports from the recent past manufacturing is down 3.44 percent over 1999, down 9.64 percent over 1998, and down 17.79 percent over 1997.

The Federal Reserve reported slow manufacturing activity throughout the nation for the month of July. The one exception to the sluggish activity was strong sales of wood pulp and paper products in the San Francisco District.

Hospitality: We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. Seasonally-adjusted occupancy rates showed increases in all comparisons during the month of July. The sector increased 3.92 percent over last month's report. In the month-over-month comparison with August reports from the recent past seasonally-adjusted occupancy rates were up 7.38 percent over 1999, up 4.67 percent over 1998, and up 19.16 percent over 1997. It appears that July was a good month for tourism in

Humboldt County.

Energy: We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Energy and employment have been the most stable of the sectors that we track, usually varying by no more than a few percentage points from month to month. The seasonally-adjusted energy sector in the August report is down a very slight 0.15 percent over last month's revised report and down 0.47 percent over the August 1999 report. Higher electricity prices may be responsible for this slight decline in electricity consumption.

Leading Indicators

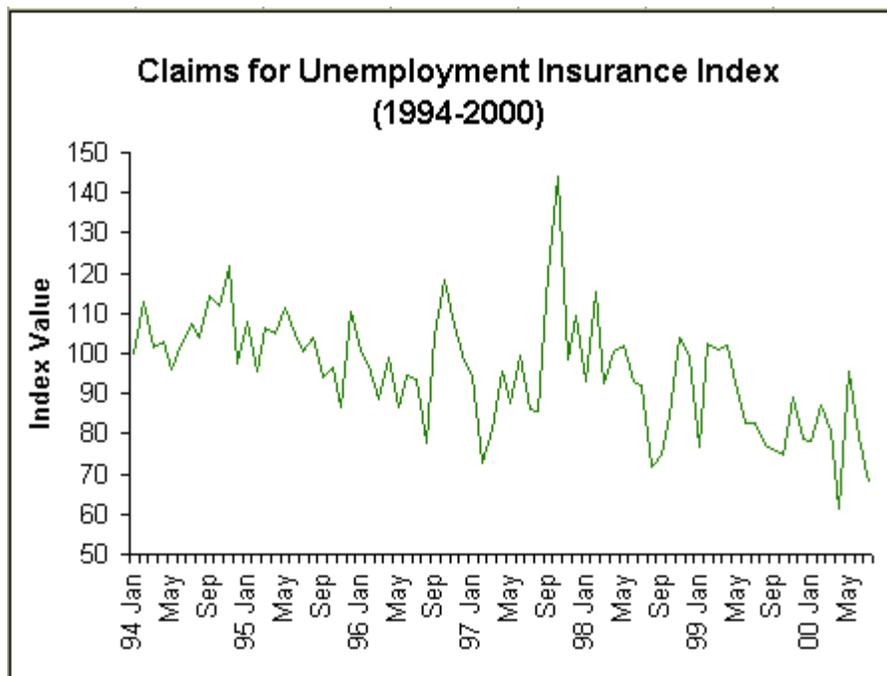
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Times Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued.

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. Help-wanted advertising in the county declined 17.72 percent over the previous month. In the month-over-month comparison, help wanted advertising was down 8.30 percent over 1999, down 3.4 percent over 1998 and down 12.62 percent over 1997. National help-wanted advertising was also down in the last few months. Economists caution that the help-wanted report is not without flaws, however, and it may underestimate the number of employers seeking employees. For example, employers discouraged by the low number of responses they are receiving to ads placed in newspapers may discontinue advertising even though they still have positions to fill. Additionally, other means of attracting workers, such as Internet advertising, may shift a portion of the advertisements from the newspaper to other methods.

Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the number of new unemployment claims is a negative indicator of economic activity.

Repeating June's feat of exceptionally low unemployment claims for that month, July's claims for unemployment insurance reached the lowest July value since we've been tracking the county economy in 1994. Reaching a low of 67.99, the claims are remarkably close to April's all-time low of 61.62. The unemployment sector of the *Index* declined 13.91 percent. In the month-over-month comparison claims were down 17.62 percent over July 1999, down 26.27 percent over July 1998, and down 21.12 percent over 1997. The graph below depicts changes in the unemployment claims indicator over the last four years.



In contrast to Humboldt County's strong performance, national unemployment claims rose over the last few weeks and indicate an increasing number of layoffs. Some economists believe that the number of national claims will continue to rise in the near future.

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, showed mixed results in July. Specifically, while the sector was up 9.13 percent over the previous month, in the month-over-month comparison manufacturing orders were up 16.60 percent over 1999, down 19.93 percent over 1998, and down 20.64 percent over 1997.

Orders for durable goods across the nation took a dive in July. The 12.4 percent decline was the largest-ever recorded decline in national manufacturing orders. Economists believe the dip is a clear indication that the economy is slowing, which has been the intention of the Federal Reserve Bank. The report should not be read as a reverse or even a stop in growth, however. It is more likely a shift toward more manageable growth.

Home Sales Economic Indicator:

The Building permit leading indicator increased by 30.55 percent over the previous month's revised report. In the month-over-month comparison, building permits were down 18.66 percent over 1999, up 12.82 percent over 1998, and up 20.88 percent over 1997.

The national home building market appears to finally be cooling. Building permits across the nation have fallen 15 percent since the beginning of the year. The effects of the interest rate hikes may finally be catching up with the market.

While it appears that Humboldt County has begun to experience a slowing of growth in the last few months, some economists warn that the economy as a whole may have only just begun to feel the effect of the Federal Reserve's interest rate hikes. Though the Federal Reserve voted to not raise rates at their August 22 meeting, there are still the previous six rate hikes which must work their way through the economy. Economists estimate that it takes between five and eight quarters for a rate hike to be fully felt. Using that estimation, the economy has probably only felt the effects of the hikes in June and August of 1999.

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