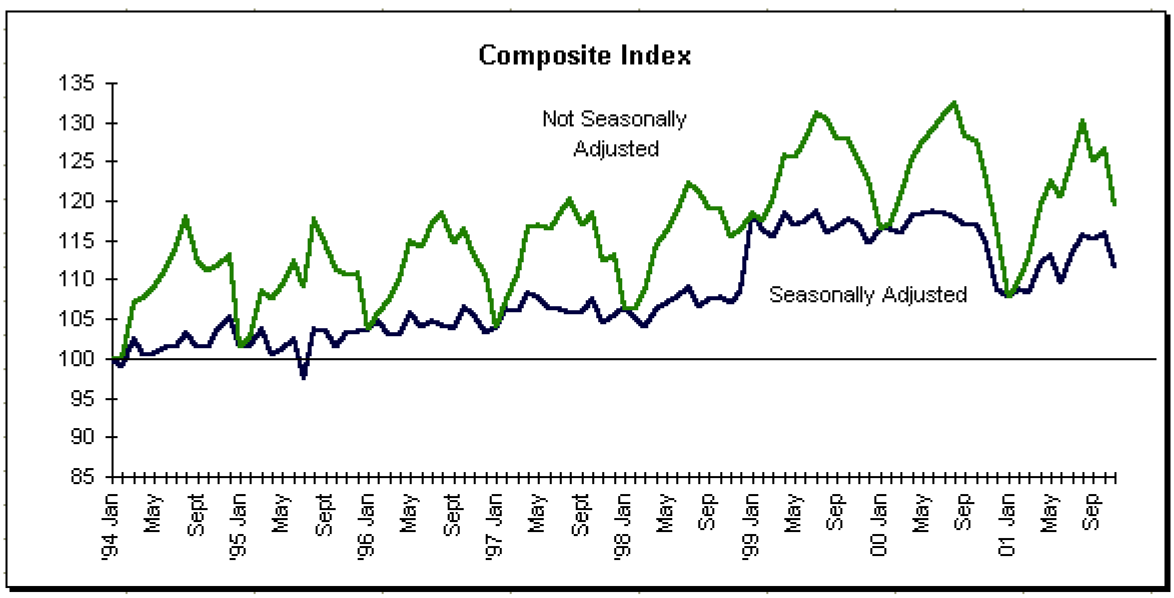
Professor Steven Hackett, Executive Director
John Manning, Managing Director
Don Son, Assistant

December 2001



Key Statistics		Leading Indicators	
Humboldt County		***Seasonally Adjusted***	**% Change From Previous Month**
Median Home Price*	$155,000	Help Wanted Advertising	-3.8
30 Yr. Mortgage Rate	n/a	Building Permits	-35.9

Average Hotel Occupancy Rate	47.8%	Unemployment Claims	-9.0
Unemployment Rate**	5.9%	Manufacturing Orders	-2.1

* 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.

Sectoral Performance, *Index of Economic Activity for Humboldt County*							
* * *		Percent Change From:					
Sector	**Sectoral Index Value (1994=100)**	**Previous Month**	**Same Month 2000**	**Same Month 1999**	**Same Month 1998**	**Same Month 1997**	**Same Month 1996**
Home Sales	107.7	-19.7	-11.2	-10.4	+6.2	+58.2	+27.2
Retail Sales	139.1	-10.4	-9.8	-3.5	-2.0	+12.6	+35.6
Hospitality	105.5	-6.5	+2.4	-3.8	-4.2	-5.6	-2.3
Electricity Consumption	126.3	-3.3	+2.3	-2.2	--	--	--
Total County Employment	100.6	-0.1	-3.7	-3.1	-2.4	-0.4	-0.7
Lumber Manufacturing	89.5	-9.0	-11.8	-19.0	-19.9	-25.4	-19.0

Discussion

Composite Index and Overall Performance

It seems Humboldt County's economy is beginning reflect many of the deteriorating conditions that have been affecting the national economy for several months. The *Index of Economic Activity*'s seasonally adjusted composite value fell a sharp 3.7 percent to 111.7 from the October report's upwardly revised 116.1. The current figure is also down in same month comparisons for the past two years, but is up by healthy margins when compared with the same month of 1996-1998.

The seasonally adjusted *Index* value of every sector declined this month. Those sectors losing the most ground are home sales, retail and manufacturing. The latter sector has been contracting for some time, but home sales and, to a lesser extent, retail have been the most consistently strong performers in our economy. A dropoff in the hospitality sector is not uncommon for the month of November, however the size of the current decrease is worrisome in light of the steep nationwide decline affecting this industry. Countywide employment is down very slightly, but the unemployment rate jumped a startling 1.0 percent due to the continuing expansion of the labor force. As a result, we're back in our familiar position of exceeding the state and national unemployment rates. Finally, the preliminary data on electricity consumption indicate less power was used for the second consecutive month. This is probably due to a combination of less economic activity and ongoing conservation.

The Leading Indicators,while mixed, are generally negative once again. The number of building permits issued in November plummeted for the second straight month. Manufacturing orders are down slightly from the previous month and are significantly lower in all of the year-over-year comparisons. Help wanted advertising declined for the third consecutive month, indicating weakness in the labor market. The one positive indicator in

this month's report is the number of new unemployment insurance claims, which fell by an impressive 9.0 percent. Unfortunately, as explained below, the decrease may merely be the result of an impending change in unemployment benefits.

Home Sales

Recent performance of the home sales sector has been extremely volatile. The 40.8 percent decline in September was most likely due to the uncertainty caused by the 9/11 bombings. The 61.7 percent increase in October is understandable as the local market apparently returned to its pre-attack level. November's nearly 20 percent fall is harder to read. Weather during the month was relatively dry and mild and mortgage interest rates remained near historic lows. This leaves continuing uncertainty over deteriorating economic conditions as the likely cause for the dropoff. The measure is also down by double-digit percentages in the year-over-year comparisons going back to November 1999.

Nevertheless, the median price of North Coast homes continues to rise. The current median home price of $155,000 is 7.0 percent higher than October's figure and 11.3 percent higher than it was in November 2000. This could be an indication that the consensus view of a general economic recovery early next year is valid. The statewide median price is $236,000 (www.dataquick.com)

Nationally, the number of existing home sold in November rose 0.6 percent from the previous month. This puts current activity on an annualized pace of 5.21 million units. New home sales shot up 6.4 percent to an annualized pace of 934,000 (www.sfgate.com and www.nytimes.com). The national median price for new homes now stands at $155,400 (www.census.gov). A rising morgage delinquency rate is cause for concern among the nations lenders. The third quarter figure of 4.9 percent is up more than 1 percent from the previous quarter and is as high as its been since the recession in 1991 (www.contracostatimes.com).

Retail Sales

The *Index* value for the local retail sector fell 10.4 percent in November from the prior month. It also down in the year-over-year comparisons for the past three years. It is not yet known how this sector fared during the holiday shopping season, though, as reported last month, preliminary accounts indicated that sales were off to a strong start.

Nationally, retail sales dropped by 3.7 percent in November, one of the largest one month delines in nearly a decade according to the Department of Commerce. Analysts claim that most of the decline is due to an 11.9 percent fall in automobile sales. Same store sales at the nation's largest retailers rose just 2 percent over last November's figure, much lower than was expected. Many industry watchers fear the lackluster performance will lead into the weakest holiday season since the last recession (www.nytimes.com and www.sfgate.com).

Hospitality

We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The hospitality sector fell 6.5 percent in the month-to-month comparison in November.

Nationally, this sector continued its poor performance. While the latest available occupancy figures showed a slight month-to-month improvement in October (September's numbers reflected the largest one-month decrease in 34 years), they were 18 percent lower than in October 2000. The situation in Northern California is even worse, where average occupancy fell 26.6 percent from a year ago to 61.5 percent. Anecdotal evidence indicates that there are far fewer holiday travelers than in past years. In an effort to attract business, the industry has been offering steeply discounted rates. According to a monthly survey conducted by industry analysts, the average cost for a room in Northern California is 13.2 percent lower than last year. The same analysts predict improving conditions as the economy emerges from the current recession, but the recovery will likely be a weak one. Average occupancy for San Francisco hotels in 2001 is forecasted to be 66-68 percent with

an average room rate of $160-165 per night. For 2002, occupancy is expected to improve slightly to 68-70 percent, but rates are likely to fall slightly to $155-165. This is less than good news for an industry that experienced 82.7 percent occupancy in 2000 with an average nightly rate of $173.93 (www.sfgate.com).

The Good News
Gasoline prices continued to fall over the past month according to the latest poll released by the California State Automobile Association (12/11). The average price of a gallon of self-serve regular unleaded gas in Eureka dropped 15 cents to $1.60 since mid-November. The average Northern California price for the same gallon of gas was $1.38. The statewide average was even lower at $1.24 per gallon. Since then, prices have fallen farther. As of December 23, the average California price, as tracked by the same source, was $1.17. The national average was $1.09. The decline is largely due to supplies within the state that are nearly 17 percent higher than a year ago. However, a number of factors indicate that the downward trend may be reaching its end. California refiners are producing 3 percent less gasoline than they did during the same period in 2000. U.S. refiners are currently producing at only 89 percent of capacity. As the excess inventory is used, prices will rise. Additionally, OPEC has apparently persuaded many nonmember oil-producing countries to join it in reducing the production of crude oil. The effect of this agreement on worldwide supply depends on how closely the participants adhere to the goals. If it is successful, supplies will tighten significantly by early February according to industry analysts, and retail prices will undoubtedly rise in response (www.mercurycenter.com and www.nytimes.com).

Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Because we collect our data for this sector quarterly, the figure in this month's report is estimated and will be revised in the January edition of the *Index*.

The preliminary numbers indicate that electricity consumption fell in November from the previous month.

According to PG&E, the retail price for natural gas this winter will be about 60 percent lower than it was a year ago. This means northern California customers will pay an average of $48.38 per month compared with last year's average of $121.92. Increased production, low demand due to the slowing economy and unseasonably mild weather across the nation are cited as the primary causes for the price decrease. Since the high price of gas was one of the reasons behind the large rate increases instituted earlier this year, one might expect the retail price of electricity to also decrease because of lower production costs. Roughly one-half of the electricity generated in California comes from natural gas fired plants. Consumer advocates are petitioning the California Public utilities Commission for rate reductions, but thus far the PUC has refused to comment and the power companies are pocketing the savings (www.sfgate.com).

PG&E has filed a statement required by the Federal Bankruptcy Court claiming that its reorganization plan could conflict with as many as 37 state laws and regulations. A major sticking point is a law passed last January prohibiting any transfer of a utility's generating assets until 2006. PG&E, which is seeking to transfer 30 percent of its assets to its unregulated parent company PG&E Corp, claims its right to reorganize under federal bankruptcy law supersedes the state law. The PUC is opposed to the plan and has characterized it as a "regulatory jailbreak." According to the PUC, the transfer could lead to higher rates. PG&E hopes to emerge from bankruptcy by the second quarter of 2002 (www.sfgate.com).

Total County Employment

In their preliminary report for September, the Employment Development Department (EDD) reported that 56,900 people were employed in Humboldt county, down 100 jobs, or 0.2 percent from October's revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- **Total county employment in the various service industries increased 1.2 percent from a revised 42,700 in the month of October to a preliminary 43,200 for the month of November. This sector is also up 1.4**

percent over last year's figure. The increase was spread across several subsectors with Local Government leading the way. The preliminary figure for the retail subsector in November shows 11,000 jobs, which is unchanged for the third consecutive month. The precipitous two-month decline in the Hotel and Other Lodging subsector seems to have leveled off with the number of people employed there unchanged from October.

- **Total county manufacturing employment decreased by 3.5 percent from last month's revised figure. The Logging and Sawmills subsectors lost approximately 200 and 100 jobs, respectively, while the Other Nondurable Goods (this excludes food and kindred products) subsector added 100 jobs. The number of people currently employed in this sector stands at approximately 5500. Total manufacturing employment is down 8.3 percent from November 2000.**

It seems Humboldt County's labor market is no longer insulated from state and national conditions. The County's unemployment rate jumped a full 1.0 percent from October's revised 4.9 percent to November's preliminary 5.9 percent. Much of the increase is due to an 1.0 percent increase in the labor force. There were some 600 more people working or actively seeking work in November than in October. The national jobless rate surged an additional 0.3 percent to 5.7 percent. California's rate rose 0.2 percent and now stands at 6.0 percent (www.nytimes.com and www.sfgate.com).

The national employment picture continues to be grim. Some 331,000 people lost their jobs in November. This follows an upwardly revised 468,000 positions lost in October. The cuts spanned many industries, but manufacturing, yet again, was particularly hard hit. This sector experienced its sixteenth consecutive monthly decline with 163,000 jobs lost. There are now roughly 1.2 million fewer manufacturing jobs than there were at the beginning of the year. The service sector, after experiencing the largest one month drop in the history of its data series last month, lost an additional 70,000 positions in November. Not surprisingly, one sector showing strong gains is security, which has added nearly 30,000 jobs since September 11th (www.nytimes.com).

California is faring even worse. While the state's working population comprises 11 percent of the national total, the 53,000 net jobs lost here in November represent 16 percent of the 331,000 figure cited above. For the first time in nearly five years, there are more than one million unemployed Californians (www.sfgate.com).

Because employment tends to be a lagging indicator, these conditions are causing economists to revise their estimations of how high the unemployment rate will rise before the recovery kicks in. Many analysts are now projecting a peak of around 6.5 percent in 2002. This is 0.5 percent higher than the previous consensus figure (www.nytimes.com).

Lumber 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 two-thirds of total county manufacturing employment.

The timber industry continues to struggle in Humboldt County as it does elsewhere across the country. The November report's impressive seasonally adjusted *Index* figure of 116.9 has been revised significantly downwards to 98.3, erasing one of the bright spots of this sector's recent performance. The current figure is 9.0 percent lower at 89.5. It is also down by double-digit percentages in all of the year-over-year comparisons for the second straight month.

Despite the huge loss of jobs in the national manufacturing sector this month, optimists are pointing to two indications of a turnaround. The first is the rebounding NAPM Index. This measure rose 11.8 percent, recovering most of the ground lost in last month's plunge. The other bit of promising information is orders for durable goods. Overall orders actually fell 4.8 percent from the previous month, but the decline was caused by a whopping 57.9 percent drop in orders for new aircraft. Vitually every other category of durable goods saw orders increase over the month (www.nytimes.com).

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. November's *Index* figure continued a downward trend, dropping 3.8 percent from the previous month. It is also off in most of the year-over-year comparisons. The measure fell 33.6 percent, 31.2 percent, and 3.4 percent from the same month in 2000 back through 1998, respectively. It is up 4.9 percent from November 1997, but down 19.6 percent from November of 1996.

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. After a huge monthly increase in October, this measure fell 9.0 percent in November. While this is good news, one should not read too much into it just yet. As noted above, the local unemployment rate jumped a full percentage point from the previous month. Furthermore, the newly unemployed have an incentive to hold off filing for benefits until after January 6th. At that time the maximum allowance increases from $230 to $330 per week. Those who file before this date are not eligible for the increase. As such, we'll have a more accurate assessment of this indicator next month. This measure is higher than it was in the same month for the previous two years, by 6.9 percent, 2.1 percent, respectively. For the years 1998 back through 1996, it is down by 10.8 percent, 5.8 percent and 10.0 percent, respectively.

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, decreased 2.1 percent in November and are down across all other comparisons as well. The current figure fell 4.7 percent from November 2000, 11.0 percent from November 1999, 30.0 percent from November 1998, 31.2 percent from November 1997, and 46.5 percent from November 1996. If this performance isn't poor enough, the current preliminary figure is expected to be revised downwards.

Home Sales Economic Indicator:

The number of building permits issued in November fell by 35.9 percent over the previous month. This follows October's 22.6 percent decline. The figure is up 26.3 percent from November 2000, but is down sharply in all of the other year-over-year comparisons: 25.0 percent from November 1999, 11.1 percent from November 1998, 7.7 percent from November 1997, and 36.8 percent from November 1996.

The Bigger Picture

Third quarter GDP declined even more than was previously reported. The Commerce Department's latest revision (12/21) indicates that the national economy shrank by 1.3 percent during July-September 2001. This is the measure's worst showing since the first quarter of 1991 (www.sfgate.com). Projections for fourth quarter GDP growth are even more pronounced with some analysts forecasting an aditional fall of 2 percent or more (www.nytimes.com).

As reported last month, the latest release of the Federal Reserve's Beige Book, covering economic activity for late October and early November, reflects that despite some positive indications in a few of its twelve districts, the overall outlook is not good for the near term. (www.federalreserve.gov). In response to these conditions, the Fed lowered interest rates for the eleventh time this year in early December. The quarter percent drop brings the Federal Funds rate to 1.75 percent.

The Conference Board's Consumer Confidence Index rose 10.4 percent in November after falling a net 38 percent over the past year. Analysts had forecasted a decrease of more than 2 percent. The unexpectedly strong increase is cited as evidence that the worst of this recession is past (www.sfgate.com).

As was mentioned in last month's report, many economists share this view and expect a recovery in the first half of 2002. They believe that much of the revision in GDP growth can be accounted for by lower business inventories, which fell $60.1 billion in the third quarter. As such, it is a positive indicator. Once inventory levels have bottomed out, businesses will be poised to ramp up production. If consumers continue to spend, an imminent recovery is much more likely.

Less optimistic economists claim that maintaining the consumption levels seen during the recent boom is a big "if." According to their argument high levels of indebtedness, along with stagnating consumer incomes, makes a strong surge in consumption unlikely (www.tompaine.com).

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. This month's report reflects data gathered from the previous month, and so the "December 2001" report reflects data from November 2001. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

The Eureka Times-Standard webpage

The San Francisco Chronicle webpage

The San Jose Mercury News webpage

The Contra Costa Times webpage

The New York Times webpage

DataQuick Information Systems webpage

U.S. Bureau of the Census webpage

The Federal Reserve Bank's Beige Book webpage

TomPaine.com webpage

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