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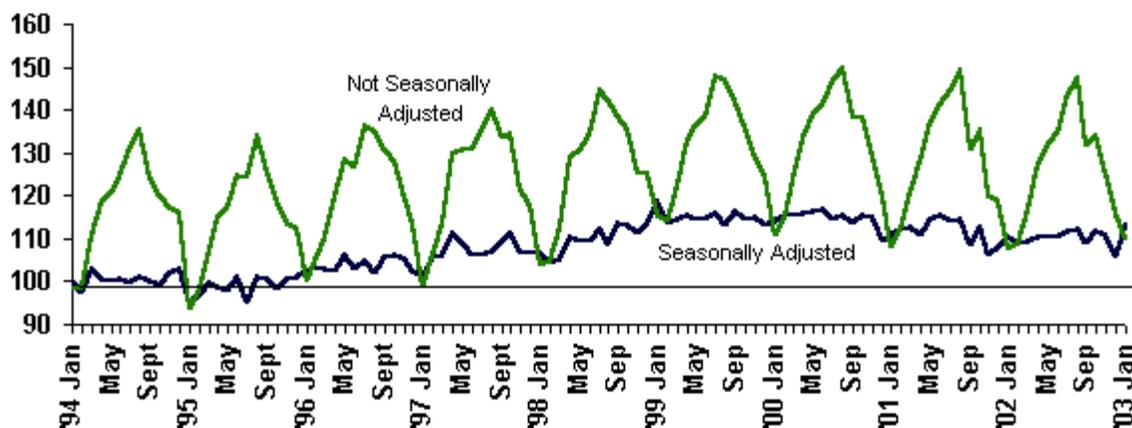
[HSU Economics Department](#)

**Professor Steven Hackett, Executive Director
John Manning, Managing Director**

February 2003

This month's report is sponsored by Six Rivers Bank

Composite Index



**The seasonally adjusted composite index value for January is a preliminary 113.1.
This is 6.8 percent higher than December's downwardly revised 105.9.
In January 2002, the composite index value was 110.6**

Key Statistics	Leading Indicators	
Humboldt County	<i>Seasonally Adjusted</i>	% Change From Previous Month

Median Home Price*	\$185,000	Help Wanted Advertising	+7.4
30 Yr. Mortgage Rate (2/25)	5.875%	Building Permits	+14.9
Average Hotel Occupancy Rate	29.7%	Unemployment Claims	-8.0
Unemployment Rate**	7.6%	Manufacturing Orders	-21.7

* 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. See the [EDD Website](#) for updates.

Sectoral Performance, *Index of Economic Activity for Humboldt County*

* * *		Percent Change From:					
Sector	Seasonally Adjusted Sectoral Index Value (1994=100)	Previous Month	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
Home Sales	139.7	+19.8	+1.1	+17.3	+31.9	+11.8	+63.8
Retail Sales	161.2	-4.5	+1.3	+5.8	-0.2	-0.4	+26.1
Hospitality	98.7	+21.2	+8.0	+5.8	+12.1	+3.6	-6.2
Electricity Consumption	108.8	+23.0	-4.4	+4.8	-15.3	-14.3	--
Total County Employment	104.5	+2.8	+3.5	0	+1.1	-1.2	+0.9
Lumber Manufacturing	87.6	+7.4	+1.7	-15.1	-21.6	-28.5	-15.0

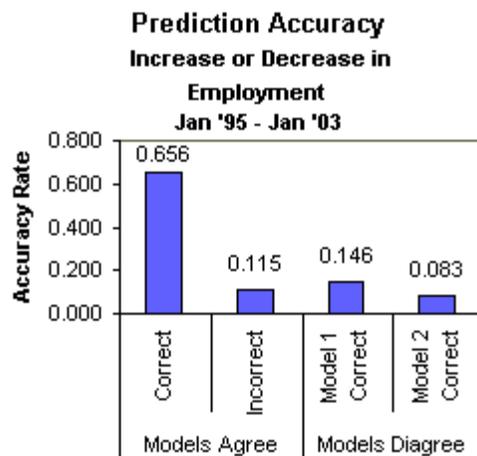
Humboldt County Employment Estimate

February 2003	M/M Change*	Accuracy**
Model 1	+300	80.2%
Model 2	-500	73.9%

* Estimated level of total county employment in the current month relative to the previous month's EDD preliminary estimate.

** Accuracy of model in correctly predicting an increase or decrease in the level of total county employment from the previous month. Accuracy does not apply to the magnitude of any change.

Both models are regression-based estimators of employment in the current month. Model 1 uses lagged employment, retail, manufacturing, and help-wanted advertising data, while Model 2 uses lagged employment, help-wanted advertising and unemployment insurance claims data. Click [here](#) for a detailed explanation.



Accuracy applies only to the direction of movement,
and not to the magnitude of any change.

Discussion

Composite Index and Overall Performance

The *Index of Economic Activity* was revised this month to reflect the annual updating of the seasonal adjustment factors. As a result, the various *Index* levels may, in some cases, be different from those appearing in recent monthly reports. The retail and employment sectors underwent additional revisions that are explained in their respective sections below.

That said, a look at the composite index graph above shows that the local economy recovered nicely from the severe effect of December's storms. January's preliminary level is the highest reached since August 2001.

Five of the *Index's* six sectors registered positive growth relative to December's revised numbers. Home sales, hospitality and electricity consumption all experienced double-digit month-over-month increases. Lumber-based manufacturing also showed some significant growth. Though employment's month-over-month increase was not as impressive as some of the others, this sector is at its highest seasonally adjusted level since January 2001. Only retail sales declined from the previous month's level of activity.

The leading indicators are also mostly positive. Building permits are up strongly and claims for unemployment insurance are down. Both are trending positive, though the rate of growth for the former indicator seems to be slowing somewhat. Help-wanted advertising also grew by a healthy amount in January, but activity for February appears to be declining. As a result, the negative trend of this indicator is not likely to change in the near future. The *Humboldt County Employment Estimate* does not clearly indicate whether the labor market will expand or contract in February. Manufacturing orders are down by a large enough margin to have turned its four-month trend mildly negative. Brisk residential construction activity in the western region of the country and a shifting regulatory atmosphere may lead to improving conditions for the local lumber-producing industry. Countervailing factors to be watched include the availability of imported lumber and recent litigation affecting local firms.

Despite the generally positive conditions reported above, it seems reasonable to refrain from expressing outright optimism for the local economy just yet. Sharply rising energy costs and plummeting consumer confidence are the primary causes for concern. The added expenses that result from the former have the potential to adversely affect virtually every aspect of economic activity. Bear in mind that every significant economic downturn over the last 40 years has been strongly associated with spiking energy costs. In addition, consumer uncertainty is playing a huge role in the hesitancy of businesses to ramp up production and investment spending even though the national economy has been slowly growing for several quarters now. Until the situation in Iraq is resolved

(peacefully, it is hoped) and the national labor market sees sustained improvement, the lack of consumer confidence will remain a substantial drag on the economy.

A retrospective look at local economic activity in 2002 is now available [here](#).

Home Sales

The *Index* value of this sector is based on the number of homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

Local real estate market activity in January nearly erased the huge December decline. The seasonally adjusted *Index* value rose 19.8 percent from December's storm-affected level. The current figure is up slightly from January 2002.

January's median home price climbed 2.8 percent from December's \$180,000. This sometimes-volatile measure is 16.9 percent higher than it was in January 2002. The current statewide median sale price for existing homes fell 0.4 percent to \$336,740 from December's number. This figure is 17.3 percent higher than in January 2002, when it was \$287,080 (www.car.org). January's national median price for existing homes is down 2.4 percent from December's level to \$160,040, but is 6.5 percent higher than it was in January 2002 (www.realtor.org). The similar figure for new homes fell 2.2 percent to \$182,300. This measure is down 2.6 percent when compared to January 2002 (www.census.gov).

Housing became slightly more affordable locally according to the latest release of the Humboldt Association of Realtors' Housing Affordability Index. The affordability index, which represents the percentage of Humboldt County households that can afford to purchase a median priced home, rose one percentage point in December to 36 percent. This number has decreased 10 percentage points since December 2001. The California Association of Realtors' statewide Housing Affordability Index dropped two percentage points to 28 percent in December. It is 5 percentage points lower than it was in December 2001. The figure for Northern California, not including the Bay Area, Sacramento or the Wine Country, rose to 35 percent from November's 34 percent. It is down 6 percentage points from one year earlier (www.car.org).

The Humboldt Association of the Realtors, the Northern California Association of Homebuilders, and the County of Humboldt are putting up a total of \$9,000 to pay for a survey of land available for residential construction in the county's unincorporated areas. Last year, county planners reported that around 10,000 acres of vacant land is zoned residential. Realtors and developers dispute the accuracy of that assessment. The survey, which will provide a more concrete number, will also look at what role, if any, local regulations play in discouraging residential development (www.times-standard.com).

The nationwide average for a 30-year fixed rate mortgage (as of 2/20) dropped to 5.84 percent with an average 0.6 points according to the country's largest mortgage company, Freddie Mac. This is not only the lowest level since Freddie Mac began keeping track in 1971, it is believed mortgage rates have not been as low since 1965. Last year at this time, the average rate was 6.81 percent with an average 0.7 points (www.freddiemac.com and nytimes.com).

Low mortgage rates continue to fuel a nationwide boom in housing construction. According to the Commerce Department, the seasonally adjusted annualized rate of construction of new homes and apartments in January reached the highest level since 1986. At the current pace, 1,850,000 units will be built in 2003. This figure is up 0.2 percent over December 2002 (nytimes.com).

Retail Sales

The retail sales sector was revised this month to adjust for changes in participation in this *Index* sector by some area retailers. As a result, the entire data series for this sector moved upwards in terms of its monthly *Index* levels. The revised data appear in the graph below.

Revised Retail Sales (seasonally adjusted)



Seasonally adjusted January sales at participating retailers fell 4.5 percent from the previous month's revised level. Only the grocery store segment of the local retail sector was up over December 2002; all other segments reported declining activity.

The Commerce Department reports that national January retail sales were 0.9 percent lower than in December. The decrease was led by declining activity at auto and other motor vehicle dealers (down 8.2 percent). Other sub-sectors with reduced sales include electronics and appliance stores (down 1.4 percent) and furniture and home furnishing stores (down 1.3 percent). Total retail sales excluding auto sales rose 1.3 percent. Sub-sectors gaining ground since December include grocery stores (up 3.0 percent), building material and garden supply dealers (up 2.9 percent) and gasoline stations (up 2.7 percent). Total retail sales were 3.9 percent higher than in January 2002 (www.census.gov).

A recent action by the California Coastal Commission has put plans to build a Target store in Eureka on hold. Responding to an appeal filed by the Garberville-based Environmental Protection Information Center shortly after the city ok'd a permit, the commission announced that it would hold a separate hearing on the matter. At issue is the proposed buffer between the yet to be constructed building and Humboldt Bay. The commission generally requires a minimum of 100 feet between new developments and public waterways within its jurisdiction. Plans for the Target facility call for a buffer ranging from 40 to 250 feet (www.times-standard.com).

The Eureka Planning Commission recently approved a retail ordinance that it hopes will mitigate the potentially negative economic impacts that are sometimes associated with "big box" retailers. Under the ordinance, projects of more than 40,000 square feet or on parcels larger than 10 acres would require a conditional use permit. Developers seeking such a permit would have to do an environmental review, an economic impact study and observe several guidelines affecting parking, signage and lighting. The issue now goes before the city council for final approval (www.times-standard.com)>

The Conference Board's Consumer Confidence Index plunged 15 points in February to its lowest level in nine years. The measure, which now stands at 64.0, has fallen in each of the last three months, and in eight of the past nine months. Analysts had been expecting a decrease to 77.0. A weak labor market, rising fuel costs, and the increasing threat of war and terrorism seem to be behind the pessimism. The Conference Board's head of consumer research said "this month's confidence readings paint a gloomy picture of current economic conditions, with no apparent rebound on the short-term horizon." (www.conference-board.org and www.nytimes.com).

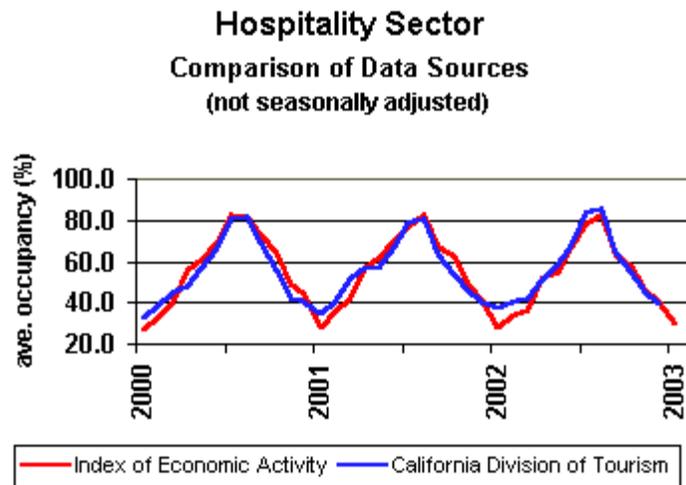
Hospitality

We use average occupancy at a cross section of local hotels, motels and inns as our indicator of economic

activity in the hospitality sector.

Average occupancy at the participating hotels, motels and inns dropped once again in January from the previous month's level. Due to seasonal adjusting for "normally" weak January occupancy rates, however, the seasonally adjusted *Index* level for this sector increased over December's upwardly revised 81.5.

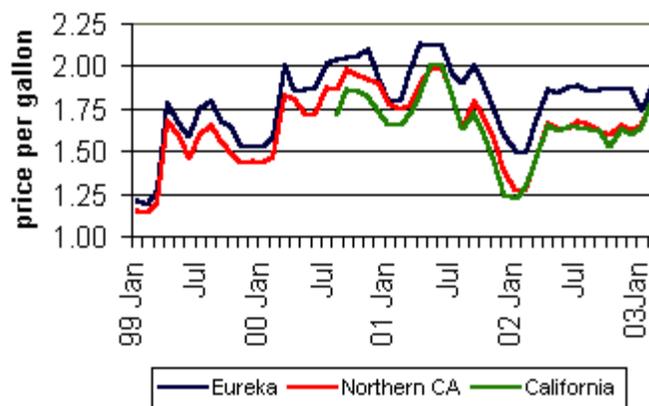
A comparison of the data collected by the *Index of Economic Activity* from participating lodging establishments with similar data compiled by a private research company for the California Division of Tourism shows that the *Index* does a good job of capturing activity in the local hospitality industry. The *Index* uses information from a relatively small number of businesses located throughout the county along the Highway 101 corridor. The state's numbers come from a monthly poll conducted by Smith Travel Research of around 30 establishments located in Humboldt and Del Norte Counties. The two data series, shown below, correlate at a 95.9 percent level over the last three years. You will notice in the diagram below that one key difference is that our participating hotels, motels, and inns tend to have lower occupancy rates than the county average reported by the Division of Tourism.



Gasoline Prices:

Average Price*		Change From Prev. Month
(as of 2/11)		(cents/gal.)
Eureka	\$1.88	+14
Northern CA	\$1.80	+14
California	\$1.79	+15

* 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).



Gasoline prices have risen sharply all over the state according to the latest release of the American Automobile Association's monthly survey. In the two weeks since the survey was released, prices continued to climb as the price of crude oil reached its highest level since the Gulf War in 1991 (www.nytimes.com). Self-serve regular unleaded gasoline now costs more than two dollars per gallon at most local locations.

Congressman Mike Thompson has introduced a bill that seeks to increase competition in the gasoline industry. The legislation would prohibit wholesale price discrimination, a practice where refineries sell gas to stations they own at a lower price than that offered to competing stations. It is not immediately clear how the move would impact the local market. It is generally thought that the higher price of gas in Humboldt County, compared to the rest of the state, is due to transportation costs and a relative lack of competition among local distributors (www.sfgate.com).

Higher fuel costs will eventually be spread throughout the economy as the transportation industry passes the added expense onto its customers. Virtually everything that is shipped by truck, rail or ship will be affected. Most freight companies have added fuel surcharges to their bills, in some cases as high as 10 percent, to cover rising fuel costs. Airlines will be hit even harder since they use proportionately more fuel than surface travel, and aviation fuel is more expensive than standard gasoline or diesel fuel. As a result, almost all of the major carriers recently have added at least \$20 to the price of their tickets (www.sfgate.com).

Electricity Consumption

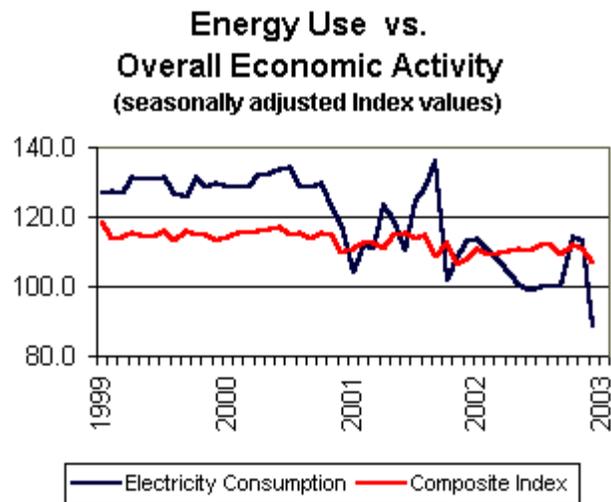
We use kilowatts-hours of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, beneficial increases in energy efficiency and conservation reduce 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.

Estimated January consumption of electricity rose a seasonally adjusted 23.0 percent from December's downwardly revised level.

With the actual fourth quarter 2002 consumption data in hand, our previous estimations, which were based on prior years' consumption, have been revised as follows:

- October's *Index* level was 114.3, up from an estimated 104.0.
- November's *Index* level was 113.2, up from an estimated 108.2.
- December's *Index* level was 88.4, down from an estimated 106.7.

The huge impact of the severe storms that occurred late in the year clearly shows up in the following graph.



The March contract price for natural gas soared 38 percent due to concerns over cold weather and potentially short supply. Most traders don't believe the high price is sustainable however, and natural gas futures for April closed at a sharply lower price (www.nytimes.com).

State investigators recently filed an extensive report with the Federal Energy Regulatory Commission that claims to provide evidence of widespread market manipulation by dozens of energy firms over the course of 2000 and 2001. The report, which is based on unprecedented access to internal company documents, claims that as much as 85 percent of the state's energy costs during the 18-month energy crisis were due to market misconduct. As a result, the named firms allegedly made at least an additional \$7.5 billion in profits over what normally would be expected. Generally, the manipulation is alleged to have taken one of two forms. In the first, generators allegedly took their plants offline periodically in order to reduce the supply of electricity and drive up the price. California Public Utilities Commissioner Loretta Lynch claims that Reliant Resources, Williams/AES, Dynegy, Mirant Corp. and Duke Energy all participated in this behavior. Some of these companies have claimed in the past that the shutdowns were needed for maintenance. In the second, firms are alleged to have used a trading strategy in which they provided false information to the state's power grid operator, resulting in price spikes. Lynch said these firms include Sempra Energy, Mirant, Dynegy, Reliant, Williams and PowerEx. The report also alleges that a number of municipally-owned utilities unfairly profited during the crisis due by gaming the system. It is not yet clear how FERC will handle the report. The affected firms have until March 20 to submit rebuttals (www.sfgate.com).

The California Public Utilities Commission will be voting soon on a proposal to charge exit fees on electricity consumers who leave the grid by producing their own power. The proposed fees are intended to help cover the huge costs incurred by the state when it started buying electricity for cash strapped utilities two years ago. The rationale behind the move is that consumers who now choose to provide their own power will be able to avoid paying their fair share of the costs of the energy crisis through higher utility rates. Opponents contend that while the proposal makes sense for large industrial consumers, it will effectively make most residential alternatives, such as solar, unaffordable. They argue that this is contrary to state supported goals to reduce energy use (www.sfgate.com).

The California Independent System Operator recently suspended Enron's right to trade energy in the state's markets. The agency, which oversees the operation of the power grid, claimed that the Houston-based firm under-reported power use by its customers, then failed to provide the estimated \$15 million to \$50 million it may owe the ISO as a result. The company had posted \$18 million in collateral, but the ISO insisted on more cash (www.sfgate.com).

Total County Employment

In February 2003, the Employment Development Department (EDD) changed the manner in which they track

employment by industry. In addition, they adjusted the employment estimates to reflect changes made in their annually updated benchmark. As a result, some of the specific industry classifications and numbers may have undergone significant change. Frequent readers of the *Index* will notice that the reported level of local retail employment has been particularly affected by these changes.

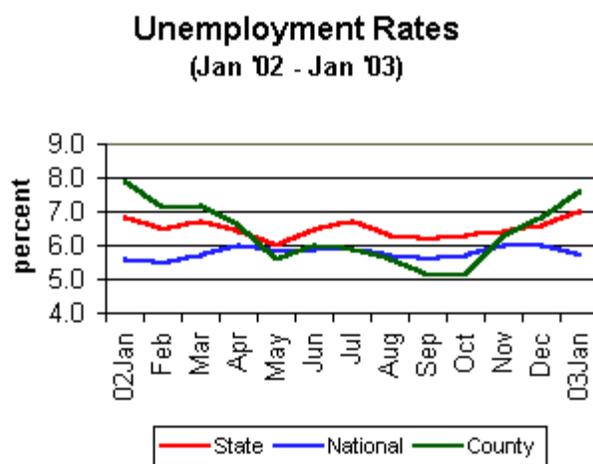
In their preliminary report for January, the EDD reported that 55,800 people were employed in Humboldt County. This is a 1.4 percent decrease over December's downwardly revised figure, and it indicates a net loss of 800 jobs during the month. After the seasonally adjustment is made to adjust the data for "normal" January performance, however, the *Index* value for the sector rose 2.8 percent. This measure is also up in all but one of the year-over-year comparisons.

Both models of our employment estimator correctly predicted the direction of change last month, but over-estimated the magnitude of the loss by around a factor of two.

Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries decreased 2.8 percent from 43,400 in the month of December to a preliminary 42,200 for the month of January. This sector is up 1.9 percent over last year's figure. Jobs were lost in several classifications, and were added only in *Transportation*. The preliminary figure for the retail sub-sector shows 7,400 jobs, which is 3.9 percent higher than December's downward revised figure. This number is 2.8 percent higher than it was in January 2002.
- Total county manufacturing employment came in at a preliminary 3,600. This is 5.3 percent lower than December's downwardly revised 3,800. Approximately 100 jobs each were lost in the *Wood Product Manufacturing* and *Textile Mills* classifications. Total manufacturing employment is also down 12.2 percent from January 2002.

January's unemployment rate for Humboldt County soared eight-tenths of a percentage point from December's upwardly revised 6.8 percent according to the preliminary EDD report. Meanwhile, the national rate dropped unexpectedly three-tenths of a percentage point to 5.7 percent and the state rate rose four-tenths of a percentage point from December's upwardly revised figure to 6.6 percent.



Current hiring prospects are being characterized as the worst in 20 years. According to Department of Labor statistics, the national economy has shed more than two million jobs since March 2001. Conditions are such that approximately one million people appear to have dropped out of the labor force, meaning they are no longer working or actively seeking work. The situation probably will not improve any time soon. An informal survey of business executives revealed a pronounced reluctance to hire new workers under current economic conditions. Many executives are not convinced that the business cycle has bottomed out, and some cited the possibility of war in Iraq, rising energy prices and increased productivity--the ability to produce more with fewer workers--as additional reasons for hesitation (www.nytimes.com).

According to the latest edition of a biennial report issued by the Economic Policy Institute, a liberal research organization based in Washington D.C., much of the wage gains realized by workers in the late 1990's are now being erased. While inflation was about 2.2 percent over 2002, wages of workers in the bottom 20th percent of earners rose just 1.1 percent for the year. Similarly, the median worker's wages increased by only 2.1 percent. Wage increases for the top third of workers also slowed since the nineties, but at an average 2.7 percent improvement, they outpaced inflation (www.nytimes.com). Additional information can be found in [*The State of Working America, 2002/2003*](#).

Though it's small consolation to women who are currently paid, on average, only 77.5 percent of what their male counterparts earn, the gap between male and female pay is now the smallest on record. This measure rose from 2001's 76 percent, and the previous high was 77.1 percent in 1993. In countries such as Australia, Denmark and Spain, women typically make around 90 percent of what men do (www.sfgate.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 60 percent of total county manufacturing employment.

The preliminary January *Index* value for this sector rose 7.4 percent from December's level.

Production at the nation's factories, mines and utilities rose 0.7 percent in January. The improvement is due to increased activity in the military and space industries, and among producers of durable consumer goods. Substantially higher output by utilities in the Northeast because of unusually cold weather also contributed (www.nytimes.com).

National manufacturing output in January, as measured by the Institute of Supply Management, grew for a third consecutive month, but the rate of growth slowed from December. The current ISM Index level of 53.9 is down 2.4 percent from December's upwardly revised 55.2 (a number higher than 50 indicates growth). According to the chair of ISM's Manufacturing Business Survey Committee, "it is encouraging that new orders continued strong in January. Production also fared well, providing cause for optimism for an improving economy in the first quarter." Some of the purchasing and supply executives surveyed expressed concerns over the possibility of war with Iraq and rising energy costs (www.ism.ws).

Contraction in nationwide manufacturing employment slowed considerably in January when around 16,000 people lost their jobs. This was roughly 64,000 fewer than were put out of work in December. This sector has now reduced employment for a staggering 30 consecutive months, (www.nytimes.com).

Leading Indicators

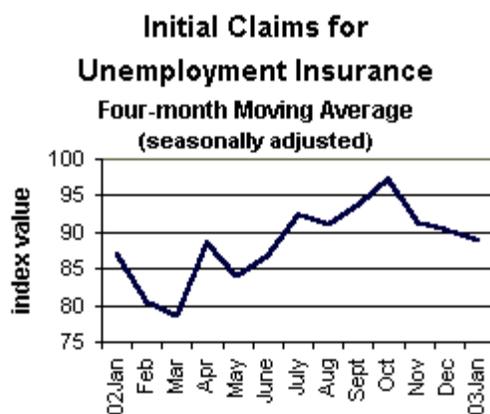
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Eureka Times-Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued. Our graphs in this section use a four-month moving average of seasonally adjusted *Index* values in order to "smooth" ordinary month-to-month volatility. In this way, any underlying trends present in the series become more apparent.

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings.



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.



Manufacturing Economic Indicator:

Manufacturing orders, are a leading indicator of activity and employment in the County.



Home Sales Economic Indicator:

Building permits are an indicator of both construction activity and the availability of new housing stock.



The Bigger Picture

The Commerce Department released a revision of fourth quarter 2002 gross domestic product that shows the economy grew twice as fast as first thought. GDP growth for the October to December period is now estimated to have been 1.4 percent. Nearly all of the revision resulted from a stronger buildup of inventories by businesses than was originally estimated. While this is good news, this rate of expansion is considerably lower than what most economists think is needed to support an increased level of employment. A final revision to the fourth quarter GDP figure will be released after the Commerce Department collects and analyzes additional data (www.nytimes.com).

President Bush recently expressed his confidence that Congress will pass his \$670 billion plan to cut taxes and stimulate the economy. He added that his administration "is firmly committed to the principle that if people have more of their own money, they're likely to spend it on a good or a service, which means somebody is more likely to be able to find work" (www.nytimes.com). See [last month's report](#) for more detailed information on this issue.

Ten Nobel Laureates and more than 450 other economists, including the *Index of Economic Activity's* Executive Director, have signed a statement advising against the adoption of the Bush Administration's stimulus plan. "Regardless of how one views the specifics of the Bush plan, there is widespread agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term," the statement reads. "The permanent dividend tax cut, in particular, is not credible as a short-term stimulus." The economists warn that the tax cuts, if passed as written, will result in fiscal deterioration that will reduce the government's ability to finance Social Security and Medicare, and invest in education, health, public infrastructure, and basic research. They suggest a combination of immediate but temporary spending and tax measures as a more effective way to stimulate the economy. The statement and a list of the signers can be found [here](#).

Although he didn't sign the statement, the chair of the Federal Reserve Bank apparently agrees with one of its basic conclusions. In his semi-annual testimony before Congress, Alan Greenspan said, "We ought to be ... very careful not to allow deficits to get out of hand." He further questioned whether active fiscal stimulus is needed at all in the short-term given that he feels economic conditions will improve on their own once the Iraq issue is resolved. Many Fed watchers were surprised at the forcefulness with which Greenspan made his case. It is unusual, they say, for the head of the country's monetary policy-setting institution to be actively involved in a fiscal debate. Addressing projected long-term deficits on the second day of his testimony, Greenspan said, "Faster economic growth alone is not likely to be the full solution" He hinted that further spending cuts or even future tax increases might be necessary to rein in growing deficits (www.nytimes.com and www.sfgate.com).

According to the National Governors Association, 47 of the 50 states are facing budget deficits this year. The organization recently met in Washington D.C. to lobby the federal government for assistance in meeting state

fiscal obligations. California's projected shortfall--estimated to be between \$25 billion and \$35 billion--accounts for the largest share of the combined \$82 billion total. Meanwhile, Governor Davis has proposed \$20 billion in spending cuts and a tax increase of over \$8 billion to balance the budget. State Republicans offered a counter proposal with \$25 billion in decreased spending and no tax increase. However much money is ultimately cut from the budget, it is expected that social and health programs for the poor will be hit hardest (www.sfgate.com).

Given these budget difficulties and the likelihood of federal tax cuts, many states will be forced to raise their taxes to make up the difference. A new study by the non-partisan Institute on Taxation and Economic Policy suggests that the impact of such a move will fall disproportionately on lower- and middle-income taxpayers. On average, total state and local taxes consume 11.4 percent of earnings for families in the lowest 20 percent of income nationwide after allowing for federal deductions. The similar rate for families in the middle 20 percent is 9.6 percent. The top one percent of earners pays an average 5.2 percent of its annual income in state and local taxes. In California, the same three tax rates are 11.3 percent, 9.2 percent and 7.2 percent, respectively. Since 1989, these taxes have risen for lower- and middle-income taxpayers and have fallen for the very wealthiest. See the full report [here](#).

Various Bush Administration officials have estimated the dollar costs of a war with Iraq to be anywhere between \$50 billion and \$200 billion. For the most part, these are just the direct costs to the United States. New analysis done by researchers at the Reserve Bank of Australia and the Center for International Economics suggests that even a short war could cost the worldwide economy more than \$1 trillion by 2010. A longer war could triple the costs. These figures do not, of course, include the human costs typically associated with war. Read the story [here](#).

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 "February 2003" report reflects data from January 2003. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Eureka Times-Standard web site](#)

[The San Francisco Chronicle web site](#)

[The New York Times web site](#)

[California Association of Realtors web site](#)

[National Association of Realtors web site](#)

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