Professor Steven Hackett, Executive Director
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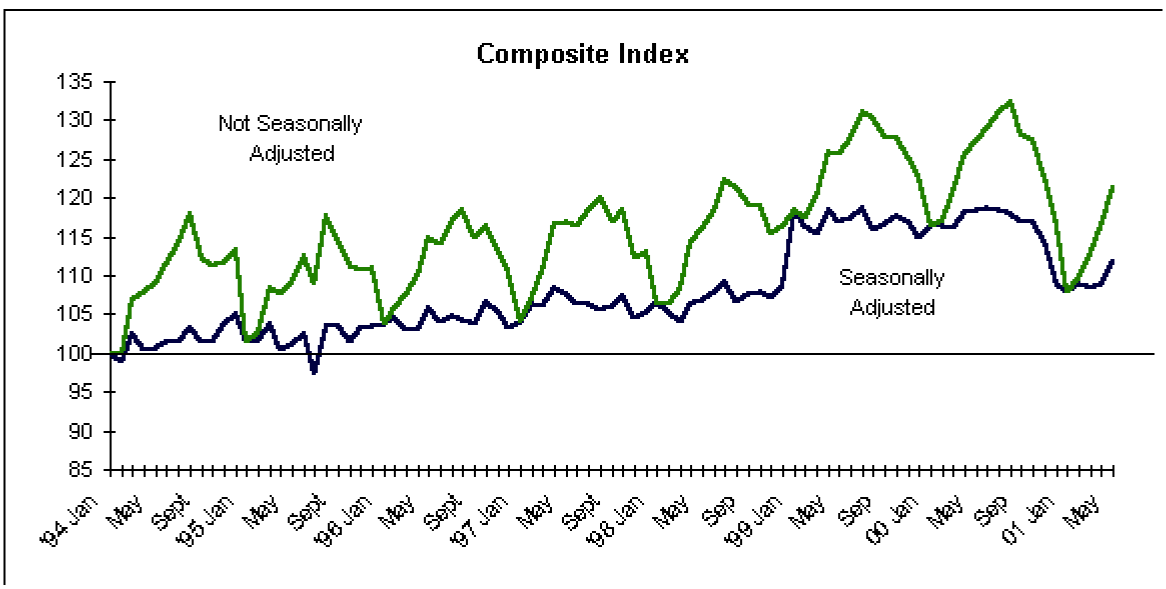
June 2001



Key Statistics		Leading Indicators	
Humboldt County		***Seasonally Adjusted***	**% Change From Previous Month**
Median Home Price*	$132,900	Help Wanted Advertising	-4.1%
30 Yr. Mortgage Rate (6/18)	7.125%	Building Permits	+8.3%
Prime Rate (6/18)	7.0%	Unemployment Claims	-19.5%

Unemployment Rate**	5.2%	Manufacturing Orders	+4.0%
* 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
Retail Sales	154.1	+13.9	+7.1	+6.3	+10.1	+18.9	+51.7
Hotel/Motel Occupancy Rates	111.3	+3.1	+3.3	+6.9	+0.3	-2.9	-0.6
Home Sales	12.7	+9.7	-5.1	+18.2	+23.8	+71.0	+41.3
Total County Employment	104.1	+0.9	-1.1	-1.1	+0.8	+0.4	+2.2
Lumber Manufacturing	101.9	+12.0	-4.6	-2.5	-2.9	-18.1	-13.5
Electricity Consumption	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Discussion

Composite Index and Overall Performance

The seasonally-adjusted *Index of Economic Activity for Humboldt County* is up once again from the previous month. This is the fourth cosecutive month of improvement. While the seasonally adjusted *Index* value increased 2.5 percent over the April report, it remains 5.8 percent below the same month in 2000 and 4.5 percent below the same month in 1999. All of the sectors we track showed positive growth when compared to last month's figures. Retail sales led all sectors, as consumers express confidence about the local economy through their spending. Hotel/motel occupancy rates and home sales continued their consistently strong showing, and manufacturing registered a welcome 12.0 percent increase based on the preliminary data. While the leading indicators are generally positive, they do not suggest that any sharp changes are in store for the next few months. Recent performance of the *Index* suggests that the local economy, which appears to have peaked during the two-year period of 1999-2000, struggles to recover from weak performance earlier this year.

Retail Sales

The retail sales sector bounced back in May after a relatively weak showing in April. The numbers are up strongly across all comparisons.

This stands in sharp contrast to the national situation where retail sales were unchanged from April. This is bad news for an economy whose health is increasingly dependent on consumer spending. While there were small gains in food and food services spending, and an 1.2 percent increase in furniture and home furnishings

purchases, all other sectors of national retail sales performed poorly last month. Since consumer spending accounts for around two-thirds of total economic activity in the United States, and because retail sales account for a significant portion of consumer spending, economists cite weak performance in this sector this month as a reason for concern. Comparatively low levels of personal savings and high levels of consumer debt are also causes of concern. As long as employment figures hold up, lenders will likely continue to extend credit to consumers, which will, in turn, continue to fuel spending. If, however, unemployment rates rise, credit will probably become less available and as a consequence consumer spending will fall. A recent report from the Dismal Scientist claims that because of uncertainty over how consumers will respond to mixed economic signals, there remains a 50-50 probability of recession (www.dismal.com).

An anticipated bright spot on the horizon is the federal tax rebate, which taxpayers will begin seeing in late July. This will pump around $40 billion into the economy by the end of September. Economists claim that if one-third to one-half of this money is spent during this two month period, retail sales will grow by between 2 and 3 percent per month, providing a much needed bridge to the end of the year when sales typically pick up (www.dismal.com).

Hotel/Motel Occupancy Rates

We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The hospitality sector continued its strong performance this month. Thus far, high gasoline prices have not had much of a dampening effect on travel to our area.

According to an article in the San Francisco Chronicle, most other destinations in the country did not fare as well. National demand for lodging in the first quarter of 2001 fell 0.7 percent, hitting a ten-year low. The drop was led by, but not limited to, large cities. San Francisco's occupancy rate fell 11.4 percent from the fourth quarter of last year, and New York's figure declined by 7.5 percent over the same period. Large hotel chains, which rely heavily on business travel, were among those hit hardest as corporate travel spending plummeted due to the weakening economy.

Home Sales

The Home Sales sector continued to perform well this month. May's figure is up across all comparisons except for that with May 2000. 130 units were sold this month.

One factor having a benign effect on buyers in the northern California real estate market may be falling prices. The median home price in the Bay Area fell 1.5 percent from April to $476,820. The median home price in Humboldt Countyfell nearly 9 percent over the same period to $132,900. It should be noted, however, that this measure normally experiences month-to-month volatility.

The national numbers are up as well, but not nearly as much. After a brief one-month decline, sales of new and existing homes rose 0.8 percent and 2.9 percent, respectively. A rise in consumer confidence and low mortgage interest rates seem to be offsetting any concerns over job security, as people continue to purchase homes.

Our May quote shows the 30-year fixed mortgage rate (zero points) in Humboldt County fell one-eighth percent to 7.125 percent over the previous month.

Total County Employment

In their preliminary report for May, the Employment Development Department (EDD) reported that 57,200 people were employed in Humboldt county, up 1,100, or 0.9 percent from April's revised figure. May's employment figures are down 1.1 percent over the previous year.

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

- **Total county employment in the various service industries increased from a revised 42,700 during the month of April to a preliminary 43,300 for the month of May, or a strong 1.4 percent. This sector is also up 1.4 percent over last year's figures. The increase was led by added jobs in the financial services, state and local government, hotel and lodging, and transportation subsectors. The preliminary figure for May shows 10,800 jobs in the retail subsector of services, which is unchanged from the revised April figure.**
- **Total county employment in manufacturing remained constant in May at approximately 5,800 jobs. While the recent closing of Pacific Lumber's Mill B in Scotia has obviously impacted the workers affected (most of whom were reassigned to other positions within the company), it seems to not have had an effect on overall employment in this subsector. Manufacturing employment is down 1.7 pecent from May 2000.**

Nationally, the employment situation for April was not as bleak as reported last month. The initial figure for April of 223,000 net jobs lost was revised to 182,000. May's performance is a marked improvement over April's huge losses, though approximately 19,000 net jobs were still lost. Once again, reports indicate manufacturing led layoffs with 124,000 jobs shed in May, the tenth consecutive monthly decrease. Most other industries are contracting as well. Industries bucking the trend, and greatly helping to limit the damage, include financial services, construction, and mining (www.dismal.com). A report in the San Francisco Chronicle states that a total of 70,000 new jobs were created across all sectors in May.

The county unemployment rate decreased from a revised 6.4 percent for the month of April to a preliminary 5.2 percent for the month of May. This indicates a closing of the gap between the local job market and those of the state as a whole and the nation. The unemployment rate in the state decreased 0.2 percent from a revised 4.7 percent for April to a preliminary 4.5 percent for May. This marks the fourth consecutive month of falling unemployment rates in California, indicating that the state economy is still sufficiently strong that people who are laid off are usually able to find other work. As noted last month, one source of state economic growth is growing export sales to rebounding Asian economies. The national unemployment rate fell 0.1 percent to 4.4 percent in May. While this represents a small but welcome turnaround from last month, when a 0.2 percent increase from March was the largest one month climb since the last recession (www.dismal.com), many economists are not feeling optimistic. A report in the San Francisco Chronicle cites an informal survey of private economists that predicts the national unemployment rate will reach 5 percent by the end of the year.

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 75 percent of total county manufacturing income.

The lumber manufacturing sector rose for the first time since January 2001, increasing an impressive 12.0 percent from April. The May number is down relative to Mays from years in the recent past, however. Since some of our respondants had not reported by our deadline, these figures are preliminary, and will be updated as soon as possible.

Nationally, the timber industry continues to struggle. Major markets for U.S. lumber, such as Japan, have shrunk significantly. Additionally, dwindling supplies of old growth timber and increasing political opposition from environmentalists have led to higher production costs. The domestic industry is also facing stiff competition from Canadian companies that have a comparative advantage in producing lumber. Because of Canada's economic situation regarding available labor and capital, its relative resource abundance, and oftentimes lower regulatory costs, Canadian firms generally are able to produce lumber more cheaply than their U.S. counterparts. A bit of good news for American companies comes from steadily rising prices that are not completely attributable to rising costs. There is an emerging market for lumber from certified sustainably managed forests that allows for higher prices (www.dismal.com).

The overall manufacturing picture remains bleak. As noted above, this sector experienced some 124,000 layoffs in May, and the numbers reflecting industrial production, which fell for the eighth consecutive month, make clear why economics is known as the dismal science. The ongoing contraction is affecting nearly every industry.

According to analysts at the Dismal Scientist, modest gains made earlier this year have since been erroded, and if the current rate of decline continues, GDP growth for the second quarter will likely be negative (www.dismal.com).

Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Energy has been one of the most stable of the sectors that we track, usually varying by no more than a few percentage points from month to month. This has changed dramatically in recent months as California continues to experience the fallout from the restructure electricity market.

Because we collect our data for this sector on a quarterly basis, current data for May are not yet available.

According to a statement issued by the Governor's office, Californians consumed 11 percent less electricity this month than in May 2000. This exceeded the conservation goal of 10 percent set by Governor Gray Davis for the month. We expect local consumption figures, once they are available, will mirror this performance.

A recent policy turnaround at the federal level brings more good news to Californians. Regulators at the Federal Energy Regulatory Commisssion (FERC) reluctantly placed a maximum limit on the wholesale price of electricity. While this cap remains relatively high, it marks an abrupt about-face in Bush Administration policy. Additionally, the recent restructuring of the United States Senate, with the Democratic Party now in the majority, makes the possibility of substantial refunds to California for overcharges on electricity purchases made since January 2001 a little more likely.

Nonetheless, as reported last month, episodic power shortages and rising electricity prices will continue to affect the state's economy into the near future. According to a report at the Dismal Scientist, the manufacturing sector will bear the brunt of the effects, and the added costs will surely be passed onto consumers. For instance, Chevron has told the state's power authorities that if its plants are not exempted from rolling blackouts, it will curtail production of gasoline, leading to even higher prices at the pump. Also, rate increases, which average 50 percent for businesses, will likely cause a number of small, marginally profitable companies to shut down (www.dismal.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. The May figure was down 4.1 percent from the previous month, and down 3.7 percent from May 2000. This month's performance remains impressive when compared to those of the same month in the years 1999 back to 1996. The sector is up 7.5 percent from May 1999, 17.2 percent from 1998, 19.2 percent from 1997, and 13.9 percent from 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. The number of claims fell sharply in May, providing some of the most dramatic numbers in this month's report. The sector was down 19.5 percent from April, and it declined 25.7 percent, 20.8 percent, 28.7 percent, 19.0 percent, and 21.2 percent when compared to May performance for the years 2000, 1999, 1998, 1997, and 1996, respectively. Employment Development Department officials were not available by our deadline to explain the drop. One likely reason for fewer claims is an unemployment rate that fell 1.2 percentage points this month to 5.2 percent, the fourth lowest figure since the *Index* began seven years ago.

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, are up 4.0 percent in May, based on preliminary data. This sector is down across all other comparisons: 7.0 percent for May 2000, and 2.6 percent for May 1999. As noted in the past several reports, the relative lack of new orders nation-wide remains a significant drag on the economy.

Home Sales Economic Indicator:

The Building permits indicator was positive across all comparisons in May. It increased 8.3 percent over April. The year-over-year figure is up 5.6 percent from 2000, 8.9 percent from 1999, 5.7 percent from 1998, and 18.7 percent from both 1997 and 1996.

The Bigger Picture

Economists are characterizing the Federal Reserve's report on economic activity for late April and May as the most bleak in recent memory. All of the Fed's twelve districts reported weakening or unchanged conditions across nearly every aspect of the economy. If this report accurately reflects the current nature of the economy, second quarter growth will likely be zero or negative (www.dismal.com). The Federal Reserve responded to these conditions by lowering interest rates for the sixth time this year at its most recent meeting (6/27). The one-quarter percent drop brought the federal funds rate to 3.75 percent, down from the 6.5 percent level where it stood at the beginning of the year.

A poll published June 1, 2001 in the San Francisco Chronicle lends credence to the accuracy of the Fed's report. Half of all Californians believe quality of life in the Golden State will weaken appreciably over the next few years. Also, the number of Californians who think the state is experiencing bad economic times more than doubled from just four months ago. The figure jumped from 25 percent to 59 percent.

These findings fly in the face of May's Consumer Confidence Index, which rose 5.1 percent to 115.5. One explanation may be that the rest of the nation has not felt the shock of higher energy prices to the same extent as has California. Rising wages are also a likely cause of increased confidence. Although the employment sector is standing on shaky legs, over the last three months average hourly wages rose an inflation adjusted 1.5 percent (www.dismal.com). For the sake of comparison, median income grew at an annual, inflation adjusted rate of 0.8 percent from 1980 to 2000. The same measure grew 2.1 percent from 1960 to 1980 (www.cepr.net).

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 "June 2001" report reflects data from May 2001. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Dismal Scientist webpage]

[Center for Economic and Policy Research webpage]

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