Key Statistics

<table>
<thead>
<tr>
<th>Humboldt County</th>
<th>Seasonally Adjusted</th>
<th>% Change From Previous Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Home Price*</td>
<td>$145,000</td>
<td>17.5</td>
</tr>
</tbody>
</table>

Leading Indicators

| Help Wanted Advertising | +17.5 |

March 2002

This month's report is sponsored by Humboldt Bank
## Sectoral Performance, Index of Economic Activity for Humboldt County

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sectoral Index Value (1994=100)</th>
<th>Previous Month</th>
<th>Same Month 2001</th>
<th>Same Month 2000</th>
<th>Same Month 1999</th>
<th>Same Month 1998</th>
<th>Same Month 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Sales</td>
<td>121.5</td>
<td>-12.1</td>
<td>-5.6</td>
<td>-8.7</td>
<td>+18.3</td>
<td>+71.4</td>
<td>+71.4</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>146.3</td>
<td>-3.6</td>
<td>-1.6</td>
<td>-4.2</td>
<td>+2.9</td>
<td>+14.6</td>
<td>+13.9</td>
</tr>
<tr>
<td>Hospitality</td>
<td>86.7</td>
<td>-5.1</td>
<td>-7.1</td>
<td>+1.5</td>
<td>-4.5</td>
<td>-6.0</td>
<td>+1.5</td>
</tr>
<tr>
<td>Electricity Consumption</td>
<td>122.2</td>
<td>+2.1</td>
<td>+9.6</td>
<td>-4.7</td>
<td>-3.8</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total County Employment</td>
<td>102.2</td>
<td>+1.5</td>
<td>-1.4</td>
<td>-2.0</td>
<td>-3.4</td>
<td>-2.0</td>
<td>-1.8</td>
</tr>
<tr>
<td>Lumber Manufacturing</td>
<td>95.3</td>
<td>+2.9</td>
<td>-4.4</td>
<td>-11.7</td>
<td>-20.9</td>
<td>-10.2</td>
<td>-25.3</td>
</tr>
</tbody>
</table>

### Discussion

#### Composite Index and Overall Performance

The Index of Economic Activity's seasonally adjusted composite value, which now stands at 109.5, fell 1.4 percent from last month's downwardly revised figure, suggesting that the recovery that seems to be under way will not be without a few hiccups.

A look at the sectoral performance table shows that three of our six sectors declined by fairly large amounts in February. Two of these sectors, home sales and retail, have been the Index's most consistently strong performers over the past couple of years. The third, hospitality, probably is continuing to feel the effects of a general downturn in the travel and tourism industries. The biggest gainer this month was lumber based manufacturing, where the surviving local mills are gearing up to supply the spring/summer construction season. The local labor market showed improvement with a strong increase in the employment sector. The figure for electricity consumption is up for the fourth consecutive month. However, since it is based on an estimate, one should not read too much into it just yet. Hard data for this sector will be available next month.

The Leading Indicators are mixed once again this month, but interestingly the positive performers last month are negative this month, and vice versa. Help wanted advertising and unemployment insurance claims suggest that the recent gains made in employment are likely to continue. In light of the improvement in lumber based manufacturing, the decrease in manufacturing orders is likely indicative of a contracting pool of suppliers. Finally, building permits are down sharply, probably in response to the recent wet weather. We've made some
changes in how we report these indicators in the hope of more accurately indentifying likely future activity.

Home Sales

This sector fell a sharp 12.1 percent in February from the previous month. It is also down when compared to the same month performance for the past two years. Despite the poor showing, it's too soon to say whether or not the local housing market might be cooling off. Activity in this sector typical picks up in the spring, though rising interest rates may dampen the usual seasonal gains. Comparisons to the same months for 1999 and years farther back are up by huge percentages.

February's median home price decreased 8.4 percent to $145,000 from the previous month's $158,250. This measure is up 6.2 percent from February 2001. The current statewide median sale price rose 1.3 percent to $289,550, while nationally the figure for existing homes fell 0.7 percent to $150,000 (The California Association of Realtors and the National Association of Realtors). The national median price of new homes dropped 2.1 percent to $179,600 (www.census.gov).

According to the latest data released by the National Association of Realtors, the annualized sales rate of existing homes in February slid 2.6 percent from a record breaking January to 5.88 million, still well above the previous record of 5.49 million. The figure is up 11.6 percent over February 2001. The NAR's chief economists predicts that this pace will slow as mortgage interest rates climb. The national average for a 30 year, fixed rate mortgage in February was 6.89 percent. As of March 29, the number was 7.18 percent. Many analysts are forecasting rates to go as high as 7.5 percent by the end of the year. Inventories of unsold homes remain tight with enough existing homes presently on the market to last a little over 4 months at the current sales pace. Sales of new homes improved over the previous month by 5.3 percent to an annualized pace of 875,000. This figure is 8.8 percent lower than it was in February of last year. The inventory of available new homes will last over four months at this pace (www.census.gov). This figure should improve in the coming months. According to the Commerce Department, housing starts climbed to an annualized rate of 1.77 million units , the highest amount recorded since December 1998 (www.nytimes.com).

Retail Sales

The Index value for the local retail sector dropped 3.6 percent in February from the prior month. A drop in sales at this time of year is typical, though this year the decline is larger than normal. Since the local economy remained relatively strong while most other areas began suffering last fall, it may take a few months for the recovery, which is taking hold elsewhere, to gain traction here. The current figure is also off from the same month performance of the two previous years.

Nationally, retail sales fell by 0.3 percent in February. As was the case in January most of the decline can be attributed to falling automobile sales. The sector rose a healthy 2.8 percent when vehicles sales are excluded. Other promising data was recently released by the Commerce Department. Both consumer spending and personal income rose in February, each by 0.6 percent. In addition, the Conference Board's Consumer Confidence Index soared 16 percent for March. All of this information lends credence to the view that the recovery is gaining a surprising amount of momentum. Analysts point at an improving employment outlook as the most probable cause (www.nytimes.com and www.salon.com).

Perhaps immunity to blind, or even near-sighted optimism is a personal flaw, however we are not ready to admit that the worst is behind us. There are two primary concerns to be reckoned with. The first is that the unexpectedly strong surge in retail activity could fuel inflation. Just as the apparent strenth of the recovery has caught many by surprise, an unexpected jump in inflation is not out of the question according to some economists. After several months of deep discounting, retailers will likely attempt to recoup some of their losses from last year by raising prices now that the recovery seems to be under way. Furthermore, the cost of necessities like energy and medical care have been increasing for some time now. Given that over the past year, the Consumer Price Index rose by just 1.1 percent, the lowest 12 month increase in 38 years, there is a lot of room for prices to rise. Should inflation occur, the Federal Reserve will undoubtedly raise interest rates in
response. As a result, housing, which has been the most consistently strong sector of the economy lately, will undoubtedly be affected negatively. One estimate has the federal funds rate, currently at 1.75 percent, reaching 5 percent by mid-2003 (www.sfgate.com).

The other concern regards recent record high levels of personal debt, while at the same time personal savings are at near historic lows (encouragingly, the savings rate, though still very low, has risen in each of the past two months). This behavior is not sustainable over the long run and eventually the bill will come due, likely causing some economic pain. Bankruptcy data for 2001 may be an omen of things to come. Nationwide, a record 1.45 million individuals filed for bankruptcy protection last year. Because bankruptcies generally lag general economic conditions by six to eight months, the number of filings will probably be high in 2002 as well (www.sfgate.com).

**Hospitality**

We use occupancy rates at participating county hotels, motels, and inns as the indicator of this sector's performance. The hospitality sector registered a 5.1 percent decline In February. Nevertheless, this month's average occupancy rate of 33.2 percent compares favorably with the Index's lifetime February average of 33.6 percent. Unfortunately, any future improvement in conditions will probably not be very large. According to the California Division of Tourism, travel throughout the state is projected to fall by 9.1 percent this spring and by 5.9 percent this summer from last year's figures (www.sfgate.com).

**Gasoline Prices**

Humboldt County gas prices are soaring once again. The price (as of 3/26) of a gallon of self-serve regular unleaded jumped about 25 cents, to around $1.80. According to the California State Automobile Association, the statewide average price is $1.57. The Lundberg Survey, a bi-weekly survey of 8,000 gas stations nationwide, cited a record increase in its latest report. The national average price surged over 14 cents, to $1.38, since March 8. Increased demand due to economic recovery and decreased supply due to OPEC production cutbacks and annual emission reduction requirements at refineries are among the major factors behind the rise (www.nytimes.com).

Governor Gray Davis recently announced that a ban on the oxygenate MTBE will be delayed for one year. Despite a Congressional study that found there is an adequate supply of ethanol available to replace the suspected carcinogen, concerns linger over the infrastructure upgrades needed to bring the corn-based additive to California from the Midwest. The governor is also concerned that one firm, Archer Daniels Midland Co., controls 41 percent of the ethanol market, and just eight companies have a 71 percent share of the market. Referring to the recent electricity crisis, Davis said "I am not going to allow Californians to be held hostage by another out-of-state energy cartel." Environmentalists responded angrily to the move. They cited state records that document about 1,200 underground tank sites leaking MTBE lying within 1,000 feet of public supply wells or drinking water aquifers. The vulnerable water sources serve millions of people (www.sfgate.com). Click here for a brief description of the MTBE issue.

**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 Index values for the first two months of each quarter are estimated. Revised data for the first quarter will be provided in our April report.

We're Speechless

One day after PG&E requested $4 billion in taxpayer funds from the California Victims Compensation and Government Claims Board (the same body that is compensating the victims of September 11) to recover money lost due to failed deregulation of the electricity market, its parent company, PG&E Corp., announced $1.1 billion in net income for 2001. Fourth quarter earnings by the bankrupt utility accounted for half of the total. As a result, more than 6,000 of PG&E's administrative employees will split $64 million in bonuses. This includes
a reported $1.2 million to PG&E Corp.'s Chairman, $460,000 to PG&E's CEO and $300,000 to the CFO. Shareholders paid for approximately 75 percent of the total with customers providing the other 25 percent. PG&E distributed $50 million in bonuses last year the day before filing for bankruptcy (www.sfgate.com). Perhaps, running a business into the ground is more difficult than one would think. The contract employees who actually keep the lights on and the natural gas flowing did not share in the largesse. If it's any consolation, the victim's compensation board unanimously denied PG&E's request.

The next step in PG&E's bankruptcy case will be a vote by the firm's creditors to determine which of the rival reorganization plans they prefer. PG&E's proposal would transfer many of its most valuable assets to new sister companies that would not be subject to California Public Utilities Commission regulation. This would allow for the market rate pricing of retail electricity, which would, in turn, allow PG&E to borrow enough money to pay off the thousands of firms it owes. The PUC proposes that the creditors be paid off with cash PG&E Corp. has on hand. The vote will take place in June (www.sfgate.com).

Total County Employment

In their preliminary report for February, the Employment Development Department (EDD) reported that 54,700 people were employed in Humboldt County, up 800 jobs, or 1.5 percent from January's revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries increased 1.7 percent from a revised 41,200 in the month of January to a preliminary 41,900 for the month of February. This sector is up 1.0 percent over last year's figure. The Hotels and Other Lodging and Finance classifications each added around 100 jobs in February, which represents gains of 14.3 percent and 9.1 percent, respectively. The largest loss was in the State Education classification, where roughly 100 jobs were lost, a decline of 4.8 percent. The preliminary figure for the retail subsector in January shows 10,800 jobs, up 1.9 percent from January's revised 10,600.

- Total county manufacturing employment came in at 4,700. This is unchanged from January's revised figure. The 100 new jobs added in the Other Nondurable Goods classification (a 20.0 percent gain) were offset by losses in Sawmills, where employment fell by 100 positions or 4.3 percent. Total manufacturing employment is down 13.0 percent from February 2001.

The net gain is reflected in the county unemployment rate. The measure fell by more than a full percentage point from January's revised 7.9 to February's preliminary 6.8. The large improvement is even more impressive considering the local labor force grew by 200 people during this time period. The current number ranks Humboldt County 26th out of California's 58 counties. For the sake of comparison, the corresponding unemployment rates for the four neighboring counties are 9.2 percent in Del Norte, 13.0 percent in Siskiyou, 13.8 percent in Trinity, and 8.5 percent in Mendocino. The statewide rate fell from January's revised 6.8 percent to a preliminary 6.4 percent.

The national jobless rate fell for the second straight month. The 0.1 percentage point drop in February caught economic forecasters napping once again. The consensus prediction was for a 0.2 percentage point increase. While news of the 66,000 new jobs supports those analysts who feel a recovery is well under way, many of them still warn that there is no guarantee of a return to the low unemployment levels seen in recent years. Other economists point out areas of sustained weakness in the national labor market. The private sector added 42,000 jobs in February, which falls short of the 44,000 positions cut in January. Additionally, 217,000 more people were forced to work less than full-time last month. The Labor Department notes that statistical anomaly may be skewing the data in a positive direction. Because fewer temporary workers were hired during the last holiday season, fewer than normal layoffs were recorded in January and February. This shows up in the February data as an unusually high gain in the Retail sector. As a result, the unemployment rate may have been distorted downwards in the seasonal adjustment process (www.sfgate.com).

Proponents of "living wage" laws received a boost with the recent release of a study that examined the effects of
such laws in 36 cities. The author of the study, a Michigan State University economist who is characterized as "a noted minimum wage critic," found that living wage laws result in a net reduction of poverty in the areas affected. One of the major criticisms of the living wage is that it leads to increased unemployment. The study found that while this is generally true, the gains to those receiving the higher wage more than offset the losses to those who lose or are unable to find jobs (www.commondreams.org).

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 preliminary Index value for this sector rose for a second consecutive month in February. The current figure is 2.9 percent higher than it was in January. The graph below illustrates that increased activity is not unusual this time of year as producers seek to meet rising demand from the construction industry. One local industry source cited mild weather, low interest rates and low field inventories as the primary causes behind increased demand for, and rising prices of redwood and douglas fir, this area's two main lumber species. Unfortunately, the Index number remains down, in most cases by double-digit percentages, in all of the year-over-year comparisons.

The local timber industry will likely be helped by recent changes in national trade policy. The Commerce Department took further restrictive action against Canadian softwood lumber producers. A yearlong investigation by the agency concluded that Canada unfairly subsidizes its timber industry by charging low fees for logging public land and by allowing the illegal dumping of lumber in the United States at artificially low prices. U.S. producers have long claimed that the Canadian policy encourages overproduction north of the border, which ultimately leads to prices too low to sustain a healthy domestic industry. The Western Council of Industrial Workers estimates that 5,000 jobs have lost due to the dumping. As a result, the department set a 19.3 duty to offset the subsidies. It also set an additional duty, ranging from 2.3 percent to 15.8 percent, against specific companies suspected of dumping. These permanent duties follow two temporary tariffs imposed late last year. Not surprisingly, Canadian officials argue the move is nothing more than protectionism being used to curry favor in the western states during an election year. The Canadians claim that their cheap prices are due to resource availability and production efficiency. If so, then perhaps there is a simple comparative advantage at work. Furthermore, they claim their product is distinct from many of the U.S. softwood species, and so can't be compared directly. The United States imported $5.7 billion worth of lumber from Canada in 2001, amounting to one-third of the U.S. supply. U.S. home builders, who also oppose the action, claim the duties will add $1,500 to the cost of a new home, locking around 450,000 potential buyers out of the market (www.times-standard.com).

The prospective buyer of Eel River Sawmills presented a $38 million proposal to the Fortuna company's shareholders earlier this month. If the deal is accepted, the buyer, Eel River Acquisition Corp., says it has
The Index of Economic Activity for Humboldt County

The Good News
After eighteen consecutive months of contraction, the Institute of Supply Management (formerly known as the National Association of Purchasing Management) Index climbed above 50, indicating expansion. The ISM figure rose a strong 9.6 percent from January and now stands at 54.7 (www.dismal.com). Meanwhile, national manufacturing activity improved for a second consecutive month for the first time since August and September 2000. The measure, which rose by 0.4 percent in February, had declined in all but one of the months between September 2000 and January 2002 (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. Our graphs in this section use a four-month moving average 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. February's Index figure rose an impressive 17.5 percent from the previous month. The graph below, taken together with the one for unemployment insurance claims, indicates that the local labor market may be poised for a sustained turnaround from the downward trend that began in the wake of September 11.

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. New claims plunged 33.8 percent in February. This is not too surprising since the spike in January was primarily due to changes in benefits that gave people who became unemployed at the end of 2001 incentive to hold off filing until after the first of the year. As mentioned above, the current performance bodes well for the local labor market in the near future.
Manufacturing Economic Indicator:

Manufacturing orders are a leading indicator of activity and employment in the County. The trends in this leading indicator seem to be running counter to prevailing sense that the economy is beginning a recovery.

Home Sales Economic Indicator:

The building permits indicator dropped 7.2 percent in February from the previous month. This volatile sector, while also down from February 2001, is up by large double digits in all of the other year-over-year comparisons.

The Bigger Picture

In the latest release of the Federal Reserve's Beige Book, covering economic activity for late January and
February, seven of the Fed's twelve districts, including San Francisco, reported improved and/or stabilized conditions. As a result, in testimony before the Senate Banking Committee on March 7, Fed Chairman Alan Greenspan offered his most optimistic assessment of the economy since early 2001, citing increases, albeit small, in manufacturing activity and consumer spending.

The rosier outlook was probably behind the central bank's decision to forgo further cuts in interest rates. At the most recent meeting of the Open Market Committee (3/19), the federal funds rate was left unchanged at 1.75 percent for the second consecutive time (www.sfgate.com).

Further corroboration of improving conditions came with the final revision to the fourth quarter 2001 GDP figure. The number was revised upwards to 1.7 percent from 1.4 percent. The increase was due to more complete information on foreign trade, which was not as much of a drag on the economy as was first suspected. Although the new figure is lackluster at best, it indicates how quickly the economy recovered from the devastation of September 11. Growth for the current quarter, which ends March 31, is projected to be in the 4 to 6 percent range (www.sfgate.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 "March 2002" report reflects data from February 2002. 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 Northcoast Journal webpage

The San Francisco Chronicle webpage

The New York Times webpage

The Common Dreams News Center webpage

Salon Magazine webpage

California Association of Realtors webpage

National Association of Realtors webpage

The Dismal Scientist webpage

U.S. Bureau of the Census webpage

The Federal Reserve Bank's Beige Book webpage

Index of Economic Activity: 2001 Retrospective

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