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November 1999

Key Statistics		Leading Indicators	
Humboldt County:		<i>Seasonally Adjusted</i>	%Change in November
Median Home Price (November)*	\$120,500	Help Wanted Advertising	-9.68
30 Yr. Mortgage Rate (11/23)	8.25%	Building Permits	**
Prime Rate (11/26)	8.5%	Unemployment Claims	-2.13
Unemployment Rate (November)	4.6%	Manufacturing Orders	-5.39

*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.

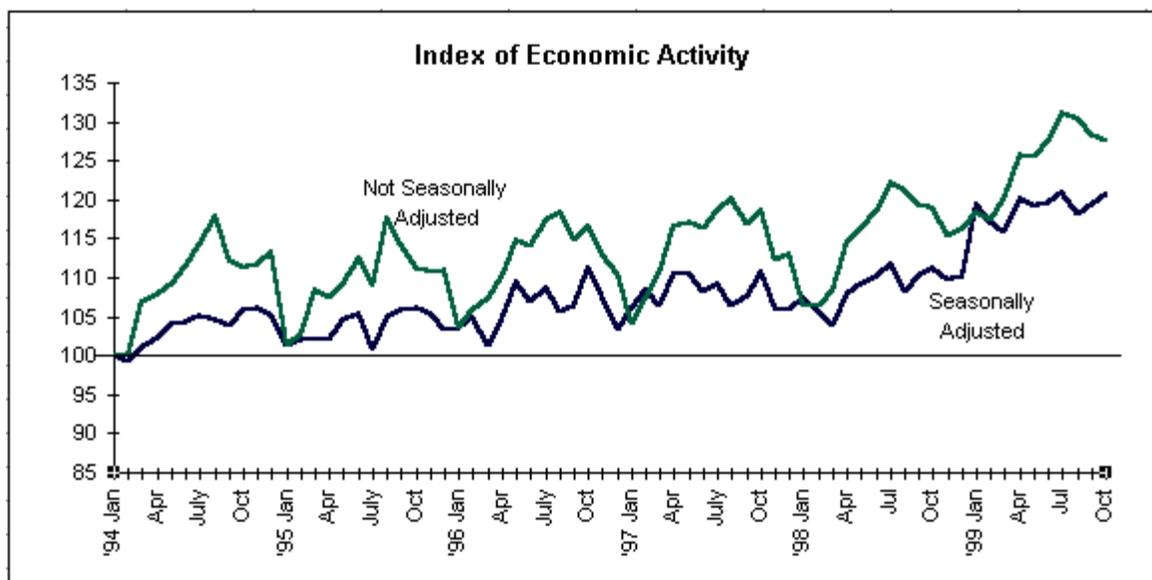
**Data were not available at the time the report was produced.

Monthly Change

The seasonally adjusted *Index of Economic Activity for Humboldt County* increased 1.01 percent from a revised 119.4 for the month of September to a preliminary 120.6 for the month of October. A month-over-month comparison with November reports from the recent past indicates that the trend toward slowing growth

observed over the past several months is continuing. The seasonally adjusted *Index* was up 8.36 percent over November 1998, up 8.94 percent over November 1997, and up 8.26 percent over 1996.

For those of you who are new or less familiar with the *Index*, we have been tracking seasonally-adjusted economic activity since January 1994. Each sector of the seasonally-adjusted series is weighted to correct for "normal" monthly variation in the data, and so trends in the seasonally-adjusted index provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so the "November 1999" report reflects data from October 1999. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.



While there was some variability in the performance of the sectors measured by the *Index* during October, it is worth noting the continued strong performance of both the employment sector and the help wanted and unemployment claims leading indicators.

Monthly Sectoral Analysis:

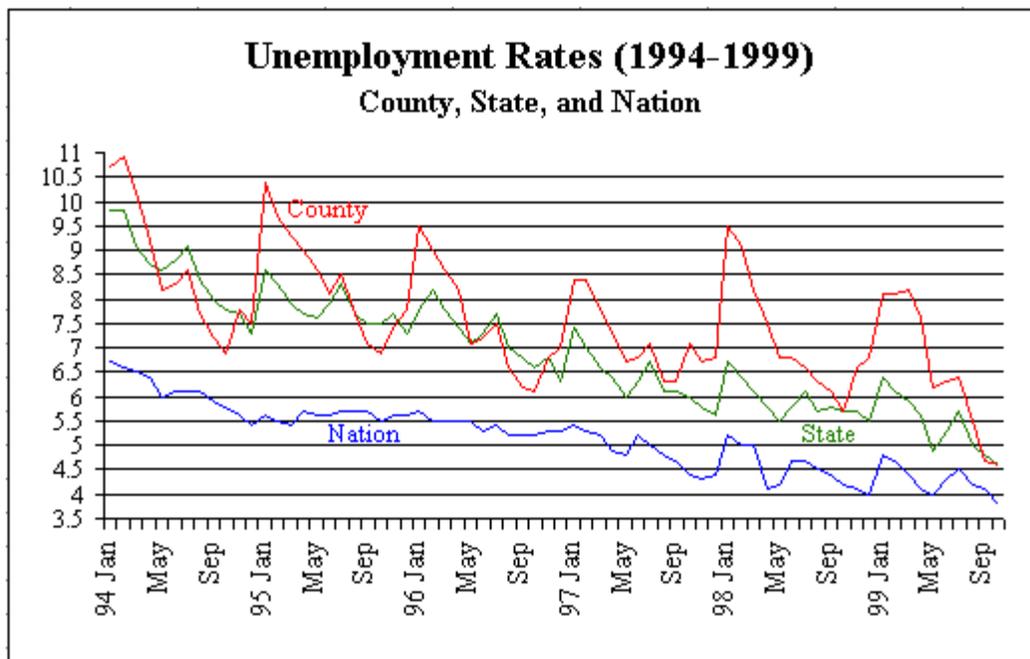
Employment: In their preliminary report for October 1999, the Employment Development Department (EDD) reported that 59,100 people were employed in Humboldt county, up by 700 from the revised September 1999 report. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various services industries increased from a revised 41,700 for the month of September to 42,600 for the month of October (2.2%). The retail subsector of services increased from a revised 10,600 in September of 1999 to 10,700 in October (0.9%).
- Total county employment in manufacturing declined 200 jobs for the month, from 6,600 in September to 6,400 in October (-3.0%).

Similar to the previous month, the employment rate in Humboldt county shows slowing growth in the month-over-month comparison. For example, seasonally adjusted county employment was up 0.91 percent over October 1998, up 2.31 percent relative to October 1997, and up 3.37 percent relative to October 1996.

The unemployment rate in Humboldt County continued its decline this month, reaching a low 4.6 percent. This is the third month in a row that the EDD has reported record low unemployment rates in the County. This trend is consistent with low unemployment rates in California and across the country. For example, unemployment rates in the San Francisco Bay area were reported to be as low as 2.1 percent for the month of October, driven in large part by continued growth in the technology sector.

The graph below illustrates national, state, and county unemployment rates since 1994.



According to the Federal Reserve's *Beige Book*, low unemployment rates are causing retailers to have difficulty finding and retaining qualified workers. The relationship between low unemployment, higher wages and inflation is discussed below.

Employment-Based Economic Indicators:

Leading indicators are used to forecast the direction of change in the Humboldt County economy. Two of the four leading indicators that we track are related to employment--help wanted ads and claims for unemployment insurance.

A count of help-wanted ads indicates the number of new job openings. Help wanted advertising, while down over the previous month, was up in the month over month comparisons. Specifically, the number of help-wanted advertisements was down 9.68 percent over the previous month. In the month-over-month comparisons, however, the help wanted sector was up 30.86 percent over October 1998, up 12.50 percent over October 1997, and up 1.96 percent over October 1996.

Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the quantity of new unemployment claims are a negative indicator of economic activity. Unemployment claims in Humboldt County have been following a downward trend over the past few months and were especially low for the month of October. For example, claims were down 2.13 percent over the previous month, down 11.68 percent over October 1998, down 48.28 percent over 1997, and down 36.91 percent over 1996.

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

The manufacturing sector for the month of October shows mixed results. While the sector increased a seasonally-adjusted 3.24 percent over the previous month, a month-over-month comparison of November reports from the recent past shows declines in the sector. Specifically, manufacturing is down 10.63 percent over October 1998 and down 9.73 percent over October 1997.

Manufacturing-Based Economic Indicators:

Manufacturing orders, a leading indicator of activity and employment in the County, shows a downward trend in all comparisons. This month's seasonally-adjusted orders are down 5.39 percent over the previous month.

The month-over-month comparison also shows declines. Manufacturing orders are down 14.6 percent over October 1998, down 2.1 percent over 1997, and down 19.6 percent over 1996.

As discussed in last month's *Index*, the manufacturing sector of the report has traditionally been somewhat volatile, and it is unwise to use activity in one month as representative of a long-term trend. In contrast to local lumber-based manufacturing, manufacturing activity throughout the nation continues to advance, according to the Federal Reserve. In one example, the paper products industry, demand for year-end publications and reports has led to an increase in orders and activity for the sector.

Home Sales: The Humboldt County Board of Realtors reported 90 residential home sales during October 1999, a decrease in sales of 20.4 percent over the previous month. In the month-over-month comparison, the seasonally adjusted home sales sector was up 17.4 percent over October 1998, down 21.8 percent over October 1997, and down 14.6 percent over 1996. While the local home sales sector is down for the month of October, real estate and construction throughout the rest of the nation are generally robust. There has been some slowing in activity, however. Some economists believe that the most recent interest rate hike by the Fed, the third this year, will have little effect on housing activity until later in 2000. We will monitor local home sales in 2000 to see what effect the series of interest rate hikes will have here in Humboldt County.

Retail Sales: Seasonally-adjusted retail sales are up a slight 0.84 percent over the previous month. The month-over-month comparison with November reports from the recent past continues to suggest that retail sales are flattening out after a number of years of strong growth. In particular, county retail sales were down a seasonally-adjusted 0.55 percent over the November 1998 report, up 10.60 percent over 1997, and up an incredible 34.08 percent over 1996 figures.

While national retail sales show mixed results from region to region, California's retail sales are strong, likely driven by the rapid pace of economic growth and wealth creation associated with the state's technology sector. Most state economists and retailers believe that the upcoming holiday sales will be extremely strong in California. The chief economist at the state Department of Finance calculates retail sales (excluding autos) in the state growing at 7 percent for the fourth quarter, compared to the previous year.

Hospitality: We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. Seasonally-adjusted occupancy rates were down 6.67 percent over the last report. The month-over-month comparison with November reports from the recent past shows mixed results in the hospitality sector. The seasonally-adjusted occupancy rates were down 5.43 percent over October 1998, up a slim 0.94 percent over 1997, and down 5.16 percent over October 1996. This pattern is similar to last month's hospitality sector report.

Energy: We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Energy and employment have been the most stable of the sectors that we track, usually varying by no more than a few percentage points from month to month. The energy sector in the October report is up 1.95 percent over the revised report from the previous month.

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 building permits issued, (iii) volume of manufacturing orders, and (iv) number of claims for unemployment insurance.

As was discussed above in the employment section, both help wanted advertising and claims for unemployment insurance were strong in the month of October. In the manufacturing sector, orders at local mills are down considerably from November reports in previous years. Building permit data have not been reported for several months because data from a major source have not been available since June.

As discussed above, unemployment rates throughout the nation are dropping. This leads to two issues for employers and the Federal Reserve. The first is that as more and more people become employed, employers are having a harder time finding and retaining qualified employees. The second issue is that high demand for workers generally leads to increases in wages. Employers must offer better salaries and benefits in order to attract and keep qualified employees. While a general rise in wages has been modest, growing only 0.1 percent for the month of October, the Federal Reserve is still concerned. Increases in average hourly earnings, over and above what is justified by increases in worker productivity, is a key indicator of inflationary pressure that the Fed monitors.

The Fed is continuing to try and slow down the longest economic expansion in peacetime history. Fed Chairman Alan Greenspan is concerned that increases in productivity can only grow for so long before inflation reappears. In order to slow down the torrid pace of economic growth, the Fed raised interest rates at their November meeting for the third time since June, fully cancelling out the series of three rate decreases designed to soften the effects of the Asian financial crisis in 1997 and 1998. Higher interest rates push up the cost of borrowing, reduce corporate profits, and ultimately slow economic activity. Many key policy makers believe the stock market is the ultimate indicator of the health of the economy. The Chairman has made comments that he believes stock prices are inflated. This fear was probably a major factor in the Board decision to raise interest rates in November. The continued strength of the U.S. stock markets indicates that investors are pleased with the Fed's recent anti-inflation policy. Evidently investors are confident about corporate earnings despite rising interest rates.

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