The Index of Economic Activity for Humboldt County

Key Statistics

<table>
<thead>
<tr>
<th>Humboldt County:</th>
<th>Leading Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seasonally Adjusted</td>
<td>%Change</td>
</tr>
<tr>
<td>Median Home Price (August)*</td>
<td>$121,000</td>
</tr>
<tr>
<td>30 Yr. Mortgage Rate (09/28)</td>
<td>8.00%</td>
</tr>
<tr>
<td>Prime Rate (09/28)</td>
<td>8.25%</td>
</tr>
<tr>
<td>Unemployment Rate (August)</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

*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 declined 2.3 percent from a revised 121.0 for the month of July to 118.2 for the month of August. In the month-over-month comparison with September reports from the recent past, however, the seasonally adjusted Index was up 9.14 percent over...
September 1998, up 10.99 percent over September 1997, and up 11.93 percent over 1996. The trend toward decelerating growth in the Index observed throughout the summer appears to be continuing.

While there was some variability in the performance of the sectors measured by the Index during August, attention should be paid to the excellent labor market conditions in Humboldt County and the nation -- specifically, low claims for unemployment insurance, growth in help wanted advertising, and the lowest unemployment rate in Humboldt County since 1983.

Monthly Sectoral Analysis:

Employment: In their preliminary report for August 1999, the Employment Development Department (EDD) reported that 58,000 people were employed in Humboldt County, up by 400 from the revised July 1999 report. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various services industries remained unchanged at 40,800 in July and August of 1999. The retail subsector of services also remained unchanged at 10,500 in June, July, and August of 1999.
- Total county employment in manufacturing increased in August 1999 over July, from a revised 6,500 to 6,600 (1.5%).

In a month-over-month comparison, seasonally adjusted county employment was up 1.21 percent over August 1998, up 2.85 percent relative to August 1997, and up 5.04 percent relative to August 1996. As has been discussed throughout the summer, employment has been rising, but at a continually slower pace.

The most important development reported by the EDD was the unemployment rate in Humboldt County for the month of August, which reached its lowest point since 1983. The diagram below illustrates county unemployment rates since 1990. While there is considerable annual variation in county unemployment rates (peaking each year in the winter rainy season), you can see the trend of rising unemployment during the recession years of the early 1990's, and a general falling trend in unemployment rates since that time:

![Unemployment Rates in Humboldt County](image)

Source: Employment Development Department

Humboldt County was ranked 29th in unemployment rates out of the 58 California counties, according to Anita Alexander at the EDD. She believes that September unemployment rates will also be quite low, due in part to the fact that local schools and colleges have reopened.

Leading indicators are a source used to track changes 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. Both of these indicators were strong during the month of August.
Help wanted ads indicate increases and decreases in the number of new job openings. While decreasing 4.6 percent over the previous month, help wanted ads are up 17.11 percent over August 1998, up 20.00 percent over August 1997, and up 15.71 percent over August 1996. Nationally, the demand for labor continues to be strong relative to the readily available supply of labor. This would indicate that unemployment rates should continue to remain low through the coming month.

Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. The number of claims locally for unemployment insurance were down again, declining 6.52 percent over revised July reports. In a month-over-month comparison, claims were up 7.74 percent over August 1998, down 9.85 percent over 1997, and down 1.01 percent over 1996.

Home Sales: The Humboldt County Board of Realtors reported 117 residential home sales during August 1999, a decrease in sales of 10.43 percent over the previous month. It should be noted that the revised home sales sector for the month of July reached an all time high due to a phenomenal number of home sales. The decline in the home sales sector for the month of August, therefore, could merely be a correction back to the "normal" trend. In the month-over-month comparison, the seasonally-adjusted home sales sector was up 23.34 percent over August 1998, up 39.26 percent over August 1997, and up 58.36 percent over August 1996.

Home sales in Humboldt County, as well as throughout the nation, remain elevated over previous years. Some slowing in home sales, building permits, and construction has been reported, however, in parts of the country. The Federal Reserve indicates in its Beige Book that, "just about all districts cite higher mortgage rates as a primary reason for the recent slowing."

Retail Sales: Seasonally-adjusted retail sales are down 2.23 percent from last month. The month-over-month comparison with August 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 up a seasonally-adjusted 7.41 percent over the September 1998 report, up 11.73 percent over 1997, and up 48.04 percent over 1996 figures. A strong, but slowing, retail sales sector is consistent with national trends. While sales in the county were down slightly over the previous month, retailers nationally experienced back-to-school sales that met or exceeded their expectations. This, combined with strong auto sales nationally, results in a robust national retail sales sector.

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 declined a seasonally-adjusted 5.76 percent over the previous month. A month-over-month comparison shows similar declines. For example, seasonally-adjusted manufacturing decreased 8.14 percent over August 1998, decreased 9.21 percent over August 1997, and decreased 2.78 percent over August 1996. Manufacturing orders, a leading indicator of activity and employment in the County, increased 6.93 percent this month over the previous month. Orders are down substantially, however, in the month-over-month comparison. August 1999 orders are down 29.95 percent over August 1998, down 37.35 percent over 1997, and down 30.29 percent over 1996. A similar trend was noted in last month's Index report. While there has not been a clear trend in month-over-month comparisons of the manufacturing sector in the recent past, a decline in next month's manufacturing sector would be sufficient to warrant concern.

In contrast, nation-wide manufacturing activity has continued to accelerate in the wake of a strong economy. Specifically, the San Francisco district of the Federal Reserve reported that an increased demand from East Asian markets has boosted lumber orders and sales.

Hospitality: We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. Seasonally-adjusted occupancy rates were up 2.35 percent over the last report. The month-over-month comparison with September reports from the recent past shows mixed results in the hospitality sector. The sesonally-adjusted occupancy rates were down 3.12 percent over August 1998, up 4.74 percent over 1997,
The Index of Economic Activity for Humboldt County

and down 6.05 percent over August 1996.

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 July report is down 4.05 percent over the previous month.

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 "September 1999" report reflects data from August 1999. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

It is usual, as evident in the diagram below, for the nonseasonally-adjusted values of the Index of Economic Activity to follow a pattern of rising to a peak during July or August and then hitting a trough in January. Seasonal adjustment is designed to remove most of this seasonal variation. This year both indices have leveled-off at an all time high.

![Index of Economic Activity](chart.png)

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 August. In the manufacturing sector, orders at local mills, while up over last month, are down considerably over September reports in previous years. Building permit data were unavailable at the time this report was produced.

The Federal Reserve Bank increased interest rates one quarter point at their August meeting in an attempt to reign in the booming economy. This was the second time rates have been raised this summer. By increasing rates, the Federal Reserve board hopes to discourage borrowing. Higher interest rates slow down consumer spending and economic growth.

Some analysts argue that the actions of the Federal Reserve have not been enough to cool the economy. They
cite the strong housing market in the face of increasing mortgage rates as an example. Some believe that the stock market is the ultimate indicator of economy -- as long as the stock market continues to rise, consumers will continue to spend, and the economy will expand. Many of these same analysts argue that the Fed needs to be concerned with inflation in asset prices such as housing and stocks, not just in consumer prices. Evidence that the higher interest rates have been successful in slowing down the torrid pace of economic activity will be seen first in building permits, home construction employment, and home sales. Next month we will examine September's housing and labor markets for signs of cooling.

Back to Main Index Page

Copyright © 2003 Erick Eschker. All Rights Reserved.