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# The Index of Economic Activity for Humboldt County

## INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

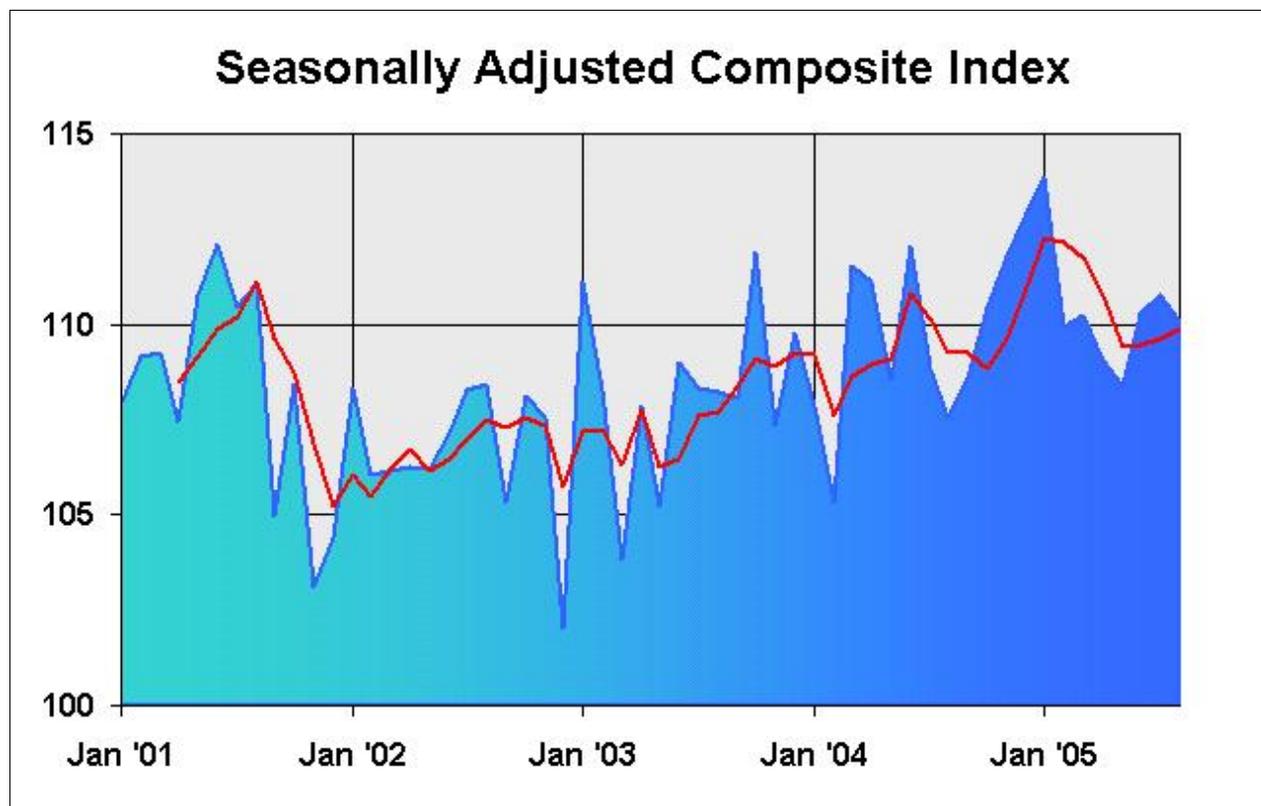
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Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red trendline shows the four-month moving average of the *Index* which smooths month-to-month volatility to show the long run trend.

### Composite Index and Overall Performance

The *Index of Economic Activity for Humboldt County* measures changes in the local economy using

data from local businesses and organizations. The data are compiled into a seasonally adjusted *Index* that shows changes relative to the base month (January 1994). The composite *Index* is a weighted combination of six individual sectors of the local economy. The current *Index* is based on the most recently available data, which is generally data from the previous month.

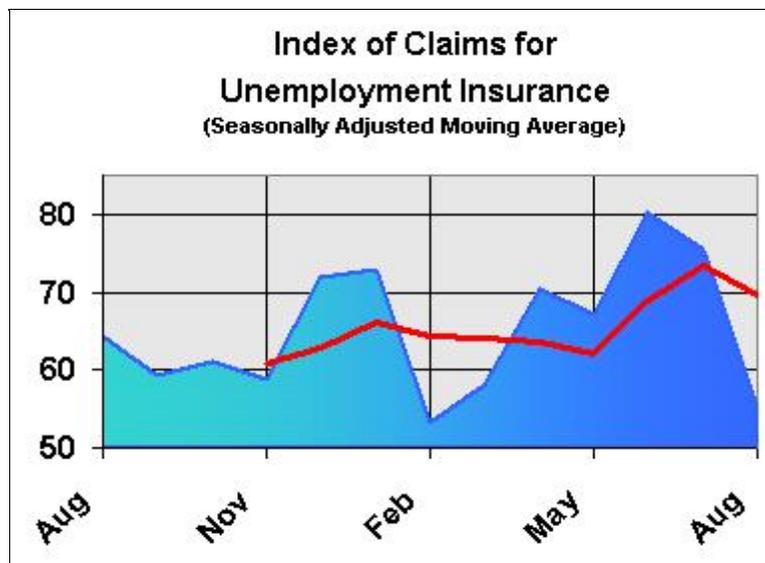
August saw a slight decrease in the composite Index, contrasting last month's growth. The composite Index fell 0.6 percent and currently stands at 110.1 (100 = January 1994). The Index was pulled down by a decrease in the manufacturing, hospitality and home sales. The economic contraction was tempered by growth in retail sales and employment. Seasonally adjusted home sales in Humboldt County fell for the first time in six months, dropping 6.8 percent to an Index value of 138.7. This still represents a 15.6 percent increase from the same point last year. Hospitality also decreased, falling 4.4 percent to 92.4 in August. The hospitality sector experiences a lot of month to month variability, and a change of this magnitude does not represent a significant trend for Humboldt County. Manufacturing fell more sharply, dropping 9.4 percent to an Index value of 76.5. This is the lowest Index value the manufacturing sector has registered since September 2004. Contrarily, the retail sector continued the growth we saw last month, increasing 3.1 percent to an Index value of 138.7. The retail sector has struggled consistently since February, but has grown more than 4.0 percent since June. The employment sector also grew after months of floundering, increasing 2.0 percent to an Index value of 106.1. Finally, the electricity consumption Index was estimated at 124.8, unchanged from last month.

<b>Composite &amp; Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i></b>							
***		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2004	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000
<b>COMPOSITE</b>	110.1	-0.6	2.3	1.7	1.5	-0.9	-1.9
<i>Sector</i>							
Home Sales	138.7	-6.8	15.6	18.3	-11.5	3.0	0.9
Retail Sales	138.7	3.1	-5.8	-7.8	-1.6	0.7	14.2
Hospitality	92.4	-4.4	-2.5	-4.9	-6.3	-6.6	-5.4
Electricity Consumption	124.8	0.0	12.6	16.2	25.0	-3.0	-3.5
Total County Employment	106.1	2.0	2.9	3.3	3.6	3.5	0.4
Manufacturing	76.5	-9.4	-0.6	-6.7	-4.3	-13.7	-28.6

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## Leading Indicators

The Index tracks 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 (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to "smooth" ordinary month-to-month volatility and reveal underlying trends.



Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The Index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator fell by 26.9 percent this month, suggesting an increase in economic activity in general and employment in specific in the future. This follows last month's decrease in initial claims for unemployment insurance of 6 percent. The Index of claims for unemployment insurance now stands at 55.2, 14.4 percent lower than the same period last year. The four month moving average now stands at 69.5, indicating a more measured decline in future unemployment.

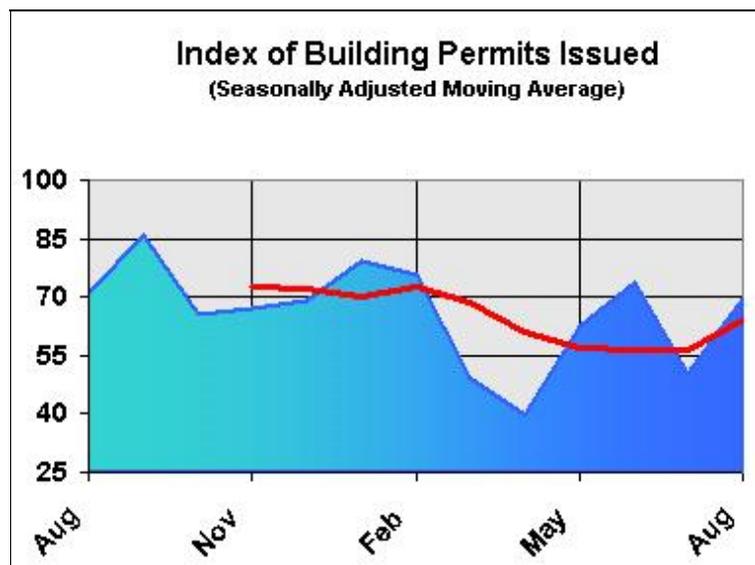


Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The Index of help wanted advertising is an indicator of labor market conditions and job creation. This

Index is based on help wanted advertisements posted in the *Times Standard*. In August the number of help wanted advertisements did not meet seasonal expectations, and the index decreased 7.7 percent an Index value of 140.5. This is a 14 percent increase in help wanted advertising from August of 2004. The four month moving average for this indicator was higher than the actual Index with a value of 150.8. This average is still reflecting May's high number, and has yet to fully depict the last three months' measured decline. Combined with the decrease in the unemployment leading indicator, the future of employment in Humboldt County is still unclear.

Nationally, the Conference Board's help wanted advertising Index fell sharply after two months of growth. Before June the help wanted advertising Index reported stagnation and decline since January. The Index now stands at 35, down from 39 in July and 37 in August of 2004. Says Ken Goldstein, Labor Economist at The Conference Board: "Key market indicators gave ground just before the storms and flooding. While print want-ad volume rose a bit in June and July, it sagged to May levels in August. Consumers' concerns about finding a new job were also essentially the same in August as in May, but declined noticeably in September, after the hurricanes and flooding. Latest readings show that job growth has been downsized significantly. Before the storms, there was a chance for 150,000 to 175,000 jobs per month over the near term. However, prospects may now be reduced by as much as half of that." (conference board.org)



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The Index of building permits issued gives insight to future home sales and construction. In August the Index of building permits rose sharply to a value of 69.3. This is a 37.8 percent increase from last month and a 2.3 percent decrease from the same period last year. As you can clearly see from this indicator's recent activity, this measure experiences a great amount of month to month variability. The four month moving average, used to determine longer term trends, rose to 63.9 this month, reflecting both the size of this month's increase and the strength the indicator showed in May and June.



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The Index of manufacturing orders shows expectations for future manufacturing sales. This leading indicator shrank 0.5 percent in August and now stands at 75.2. The represents a 6.5 percent decrease from the same period last year. Because manufacturing orders are subject to dramatic shifts, the four month moving average helps to illustrate the larger trend. The average of the last four months of manufacturing orders now stands at 72.5, up July's average of 70.3.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$315,000	Unemployment Claims	-26.9
30 Yr. Mortgage Rate as of 6/28	---	Help Wanted	-7.7
Unemployment Rate**	5.6%	Building Permit	37.8
		Manufacturing Orders	-0.5
<p>* 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.</p>			
<p>** Preliminary EDD data (not seasonally adjusted). See the <a href="#">EDD Website</a> for updates.</p>			

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## Individual Sectors

### Home Sales

The Index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

In August the home sales sector contracted for the first time since February. The home sales Index decreased 6.8 percent to a seasonally adjusted value of 138.7. This is a 15.6 percent increase from August of 2004. The home sales Index value decreased in response to a drop in the raw number of homes sold and higher seasonal expectations. The median selling price for a home in Humboldt County remained fell as well, dropping just \$5,000 to \$315,000. The median selling price does not affect the Index.

California's median selling price, as reported by the California Association of Realtors, increased 5.2 percent from last month to \$568,890. This is a 20.1 percent increase over the home selling price for August of 2004. The state sales Index also grew, increasing 7.0 percent when compared with the same period last year. "While fixed mortgage interest rates have not increased, adjustable rates have risen in reaction to the Federal Reserve and a more general increase in short-term rates," said C.A.R. President Jim Hamilton. "Since more buyers are relying on adjustable-rate mortgages to finance the purchase of their homes, buyers may be moving more quickly to make the home purchase decision in anticipation of future rate increases. This is adding more pressure to the price of a home." (car.org)

Existing home sales, a measure of the United States housing market produced by the National Association of Realtors (NAR), reported an increase in selling price and in sales rate this month. The national median selling price of a home reached \$220,000 in August, up from \$218,000 in July and 15.8 percent higher than in August of 2004 when the national median selling price was \$190,000. The seasonally adjusted number of homes sold increased 2.0 percent to 7.29 million this month. This represents a 7.8 percent increase from August of 2004, when the sales level reached 6.76 million homes. In June the home sales pace was 7.35 million, the highest rate on record. David Lereah, NAR's chief economist, said the fundamental factors for housing remain positive. "With a general background of growing population and favorable affordability conditions, home sales are staying at very healthy levels," he said. "Housing inventory improved in August but remains tight, and we have some way to go before we get into a range of balance between home buyers and sellers. As a result, we'll continue to see above-normal home price appreciation for the foreseeable future." (realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of September 29th ticked upward to 5.9 percent with an average 0.5 points. The 30-year fixed mortgage rate averaged 5.72 percent the same time last year. Freddie Mac chief economist Frank Nothaft said "this past week's increase in mortgage rates reflects market anxieties over inflationary pressures, energy price increases, and slipping consumer confidence. Taken together these developments suggest less personal spending during the last quarter of the year and additional upward pressure on mortgage rates. Looking ahead, next week's employment report for September will provide a critical indicator of the economic effects of the recent hurricanes. If that report confirms the market's expectation for only a slight bump in the unemployment rate and overall job losses of around 200,000 personnel, mortgage rates may not rise much more through the end of the year." (freddiemac.com)

### Retail Sales

The Index value for the retail sales sector is based on the seasonally adjusted dollar value of sales each month from a cross section of local retail businesses.

The retail sales sector grew again in August, increasing 3.1 percent to a seasonally adjusted Index value of 138.7. This is a 5.8 percent decrease from the same period last year. Retail sales have been consistently low this year, after reaching a high point in January, when it reached 149.0. This

month's increase, coupled with the growth we saw in July, have pushed the retail sector up, and it is now comparable with February's Index value, when the retail sector first experienced contractions. The four month moving average, which reflects the recent trend of the sector, also rose this month and now stands at 134.9.

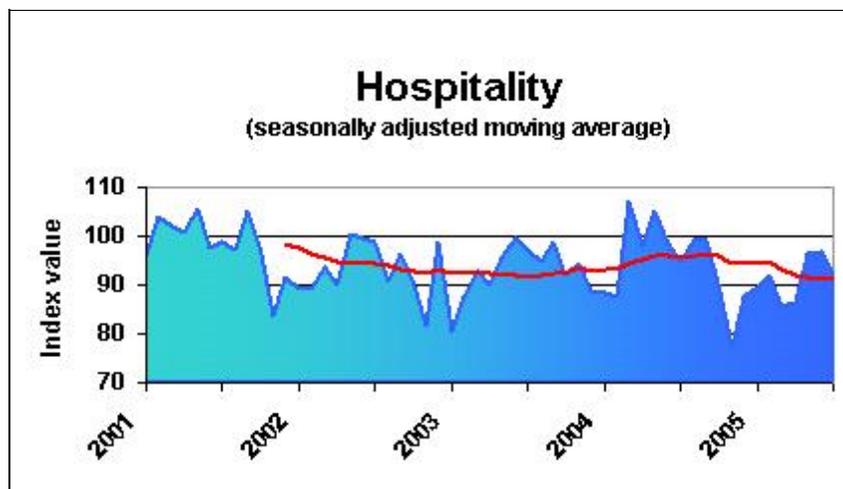
National retail sales, as reported by U.S. Census Bureau, decreased slightly in August. Seasonally adjusted sales were \$350.1 billion, down 2.1 percent ( $\pm 0.7\%$ ) from the previous month but up 7.9 percent ( $\pm 0.8\%$ ) from August 2004. Total sales for the June through August 2005 period were up 9.4 percent ( $\pm 0.5\%$ ) from the same period a year ago. (census.gov)

According to the Federal Reserve Board's Beige Book, economic activity in general and consumer spending in specific were strong in August. Several districts, including the West Coast, described retail sales as "expanded, brisk, or solid". Vehicle sales in particular were strong, although many retailers reportedly fear high fuel prices will adversely affect retail sales in general. (federalreserve.gov)

Looking to the future, consumer confidence as measured by The Conference Board fell sharply in September. The consumer confidence Index now stands at 86.6 (1985=100), down from 105.5 last month. "Hurricane Katrina, coupled with soaring gasoline prices and a less optimistic job outlook, has pushed consumer confidence to its lowest level in nearly two years (81.7 in October 2003) and created a degree of uncertainty and concern about the short-term future," says Lynn Franco, Director of The Conference Board Consumer Research Center. "Historically, shocks have had a short-term impact on consumer confidence, especially on consumers' expectations. Fuel prices remain high, though they have retreated in recent days, and when combined with a weaker job market outlook, will likely curb both confidence and spending for the short-run. As rebuilding efforts take hold and job growth gains momentum, consumers' confidence should rebound and return to more positive levels by year-end or early 2006." (conference board.org)

## Hospitality

The Index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.



Graphic description: The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the twelve-month moving average of the hospitality index which smoothes month-to-month volatility to show the long run trend.

The hospitality sector declined this month, decreasing 4.4 percent from July to an Index value of 92.4. This is a 2.5 percent decrease from August of 2004 and a 4.9 percent decrease from August of

2003. Contrarily, the four-month moving average increased 1.7 percent, moving up 92.9. The four month moving average is bolstered by June and July's higher than expected values as well as August's Index value, which is much higher than April's value of 85.7. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. The twelve-month moving average, indicated by the red trend line, shows that while the hospitality sector fluctuates from month to month beyond seasonal variability, the overall trend is one of consistency. The twelve-month moving average has not dropped below 90.0 or reached above 100.0 in four years.

According to a study recently released by the California's tourism department, the state's domestic tourism increase for the first time since 2001 in 2004. The growth was measured, just 0.1 percent more than in 2003, but the number of people visiting California in 2004 exceed the national average by increasing 4.8 percent. Business travel to and through California grew 12.5 percent in 2004.

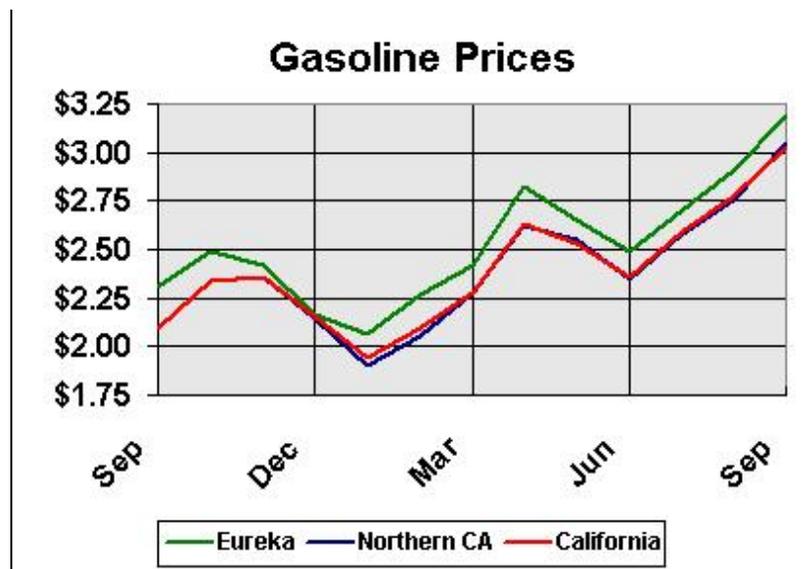
## Gasoline Prices

According to the California State Automotive Association (CSAA) gas prices have dropped from the towering heights we saw weeks ago. In the wake of Hurricane Katrina gas prices soared well over \$3.00 and moved closer to \$4.00 in many areas, but as refineries, petroleum exporters, consumers, and the government cope with the destroyed gas and oil producing facilities, the price of retail gas has moved back down. As of September 13, 2005 the average gas price in California stood at \$3.03, 26 cents higher than last month and \$1.08 higher than at the beginning of the year. In Eureka, the average price of a gallon of regular gasoline stood at \$3.19, and in Yreka consumers bought the most expensive gas in California, paying \$3.30 per gallon. The expectation is that as the damaged facilities on the Gulf Coast are repaired, gas prices will continue to fall back to normal.

"It's been brutal," said Sean Comey, spokesman for AAA of Northern California. "We saw an unprecedented increase in the cost of gasoline, pushing past the \$3 per gallon level, but we are starting to see prices creeping back down again. What we're hearing from our members is that they are very concerned about this situation," said Comey. "When the cost of a basic commodity people rely on rises by more than 50 percent in less than a year, it puts a significant strain on consumers." (csaa.com)

For a local perspective on gasoline prices, visit our [Special Projects page](#) for Dr. Eschker's Study of the Eureka Gasoline Market and an examination of why Humboldt County gas prices tend to be higher than the rest of California's.

Average Price* (as of 9/13)		Change From Prev. Month (cents/gal.)
<b>Eureka</b>	<b>\$3.19</b>	<b>28¢</b>
<b>Northern Ca</b>	<b>\$3.05</b>	<b>30¢</b>
<b>California</b>	<b>\$3.03</b>	<b>26¢</b>
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).		



## Electricity Consumption

The Index value of this sector is based on seasonally adjusted kilowatts-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, 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.

August's electricity consumption Index is estimated at 124.8, unchanged from last month.

## Total County Employment

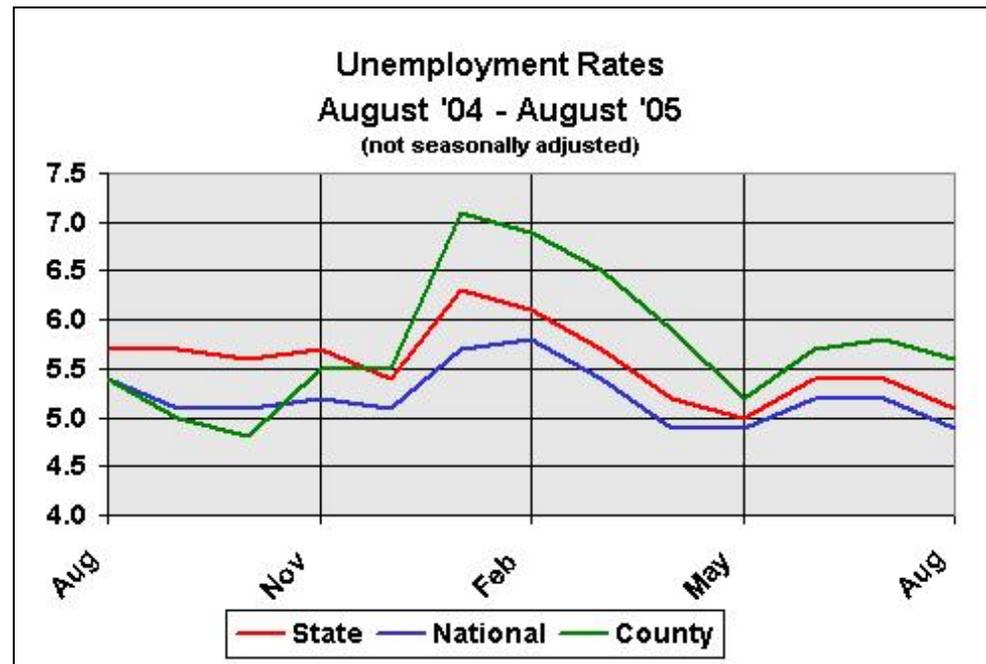
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Preliminary employment and labor force data for August reported 57,900 people employed in Humboldt County. This is a net gain of 500 jobs from July's revised figure. The majority of the jobs gained were within the local government. The total civilian labor force also increased by 500 people to 61,400. After adjusting for seasonal variation, the employment sector's Index value increased 2.0 percent to 106.1. This represents a 2.9 percent increase from the same period last year. This is the first increase in the employment sector since March.

Sectoral changes in Humboldt County employment:

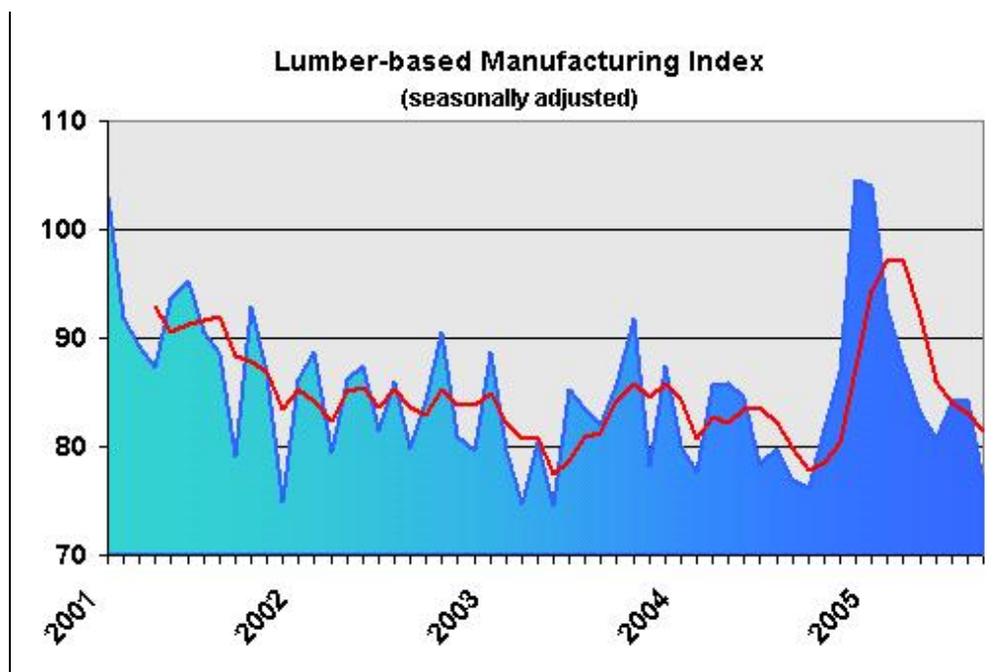
- Overall the service sector posted a net loss of 500 jobs in August.
  - Retail Trade gained 100 jobs.
  - Financial and Insurance Services lost 100 jobs.
  - Local Government gained 500 jobs.
  
- Net employment in the manufacturing sector posted a net loss of 200 jobs in August.
  - Wood Product Manufacturing lost 200 jobs.

The revised county unemployment rate remained dropped down 0.1 percent in August, as did the state and national rates. Humboldt County's unemployment rate remains above California and the United States at 5.6 percent. California's unemployment rate dropped to 5.1 percent and the national unemployment rate remains lowest at 4.9 percent.



## Lumber Manufacturing

The index value of this sector is based on a combination of payroll employment and board feet of lumber production at major county lumber companies and is adjusted to account for normal seasonal variations. Lumber-based manufacturing generates about 60 percent of total county manufacturing employment.



Graphic description: The seasonally adjusted lumber-based manufacturing index is represented by the blue area in the graph above. The red line shows the four-month moving average of the lumber-based manufacturing index which smoothes month-to-month volatility to show the long run trend.

In August lumber based manufacturing fell, decreasing 9.4 percent to an Index value of 76.5. This represents a 0.6 percent decrease over August of 2004's figure. The four month moving average, balanced by this month's drop and June and July's relatively high numbers, remained somewhat stable. The four month moving average now stands at 81.4, a 1.7 percent decrease from last month.

Nationally manufacturing grew at an increased rate when compared with July. According to the Institute of Supply Management (ISM) the manufacturing sector grew for the 28th consecutive month, registering 59.4 percent on August 3rd. A number over 50 indicates growth. Though still a strong value, this month's growth is less robust that the growth we saw last month, when ISM reported a value of 56.6 percent. "The PMI made a strong move to the upside as New Orders and Production rose significantly. This move was supported by slower deliveries and growing order backlogs. While energy prices and the impact from Hurricane Katrina are major concerns, the manufacturing sector has regained significant momentum." said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management.

Twelve industry sectors reported growth in August, including paper, electronic components and equipment, apparel, tobacco, wood and wood products, furniture, and chemicals. Within the manufacturing sector, industry representatives voiced mixed responses to Hurricane Katrina. Some complained that decreased supply of raw materials either produced in the affected areas or transported through the port of New Orleans diminished production, respondents in instruments and photographic equipment reported that clean-up and reconstructions efforts in the affected area have substantially increased orders for goods. (ism.ws.cfm)

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**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 red 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 provide a better indication of underlying growth and fundamental change in the economy. Each month's report reflects data gathered from the previous month. For example, the "August 2003" report reflects data from July 2003. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

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## Cited References

[American Automobile Association](#)

[California Association of Realtors](#)

[The Conference Board](#)

[Freddie Mac](#)

[Institute of Supply Management](#)

[National Association of Realtors](#)

[U.S. Bureau of the Census's home page](#)

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