

# Humboldt Economic Index

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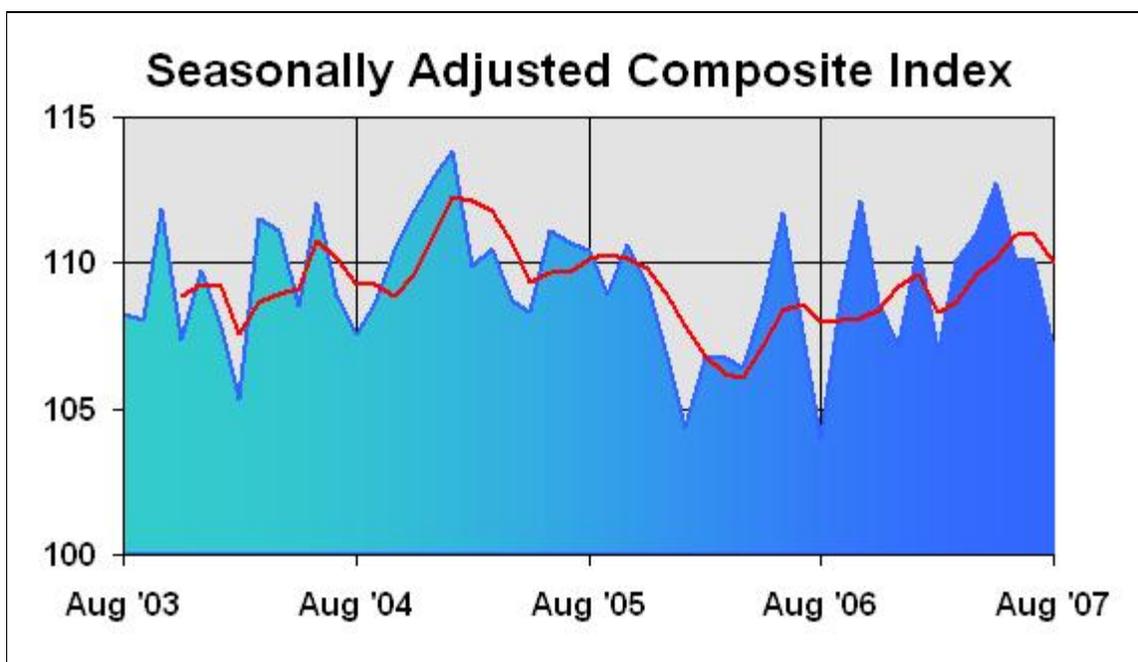
## Humboldt Economic Index

September 2007

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 This month's report is sponsored by:

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The seasonally adjusted composite Index is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

### Composite Index and Overall Performance

The Humboldt Economic Index 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.

The Composite Index, reflecting the performance of the total economy in Humboldt County fell 2.2 percent this month to 107.8. Leading the decline was Home Sales which fell a dramatic 23.7 percent. Lumber Manufacturing also fell by 10.4 percent. Hospitality was largely unchanged, while Retail Sales added 2 percent.

Composite & Sectors					
			Percent Change From:		

Index	Value*	Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	107.8	-2.2	3.7	-0.6	3.6
Home Sales	88.0	-23.7	-9.4	-43.9	12.9
Retail Sales	160.3	2.0	10.0	12.8	39.8
Hospitality	97.8	0.8	13.9	-0.8	-2.7
Electricity Consumption	127.5	0.0	11.7	27.7	25.1
Total County Employment	104.2	- 0.6	1.2	1.8	2.0
Manufacturing	59.6	-10.4	-17.0	-25.4	-50.2

\* These values are adjusted to remove seasonal fluctuation. The base month is Jan. of 1994, with an Index value of 100.  
\*\* The percent change from the same month one, five and ten years ago.

Key Statistics		
Median Home Price*	Mortgage Rate†	Unemployment Rate‡
<b>\$ 315,000</b>	<b>6.25 %</b>	<b>6.5 %</b>

\* 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.  
† 30 year owner occupied conforming conventional fixed rate provided by Umpqua Bank.  
‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

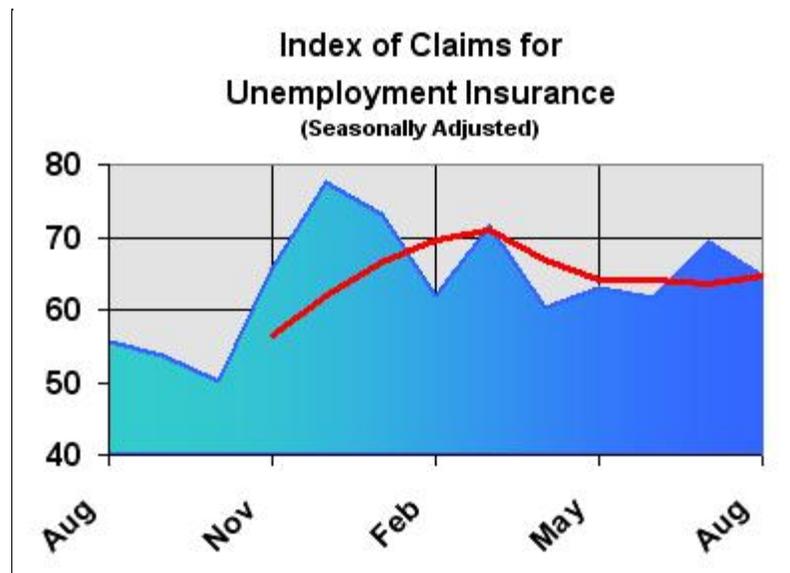
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## Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	<b>- 6.5 %</b>	<b>- 13.9 %</b>	<b>- 22.2 %</b>	Not Available

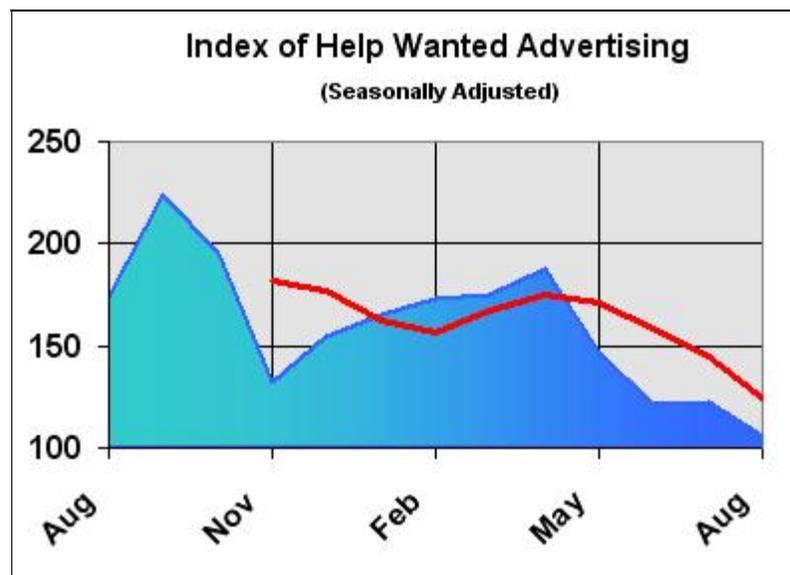
\* All values are seasonally adjusted.

The Index tracks four leading indicators to get a sense of the direction that the county economy may take 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) expected manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.



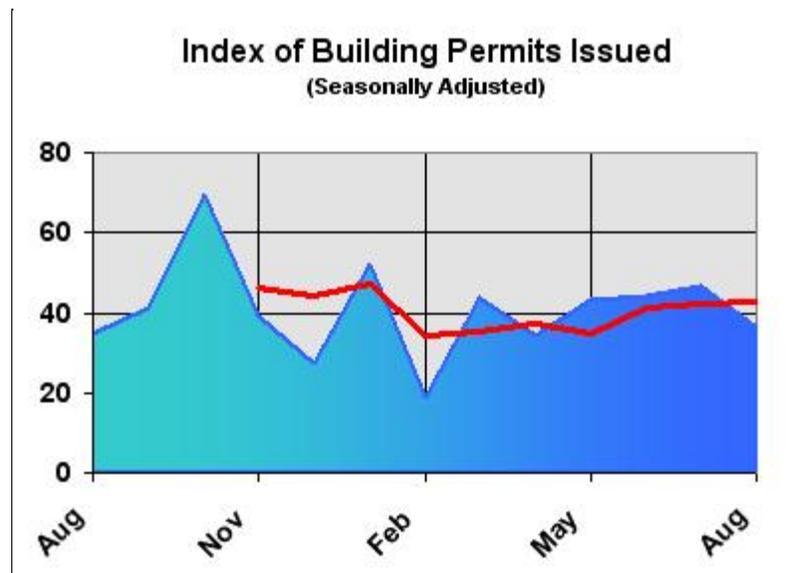
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment Claims fell this month by 6.5 percent bringing this Index to 64.8. This is a low value for this Index, down from its most recent high at the end of last year. This reflects the recent strength of the local labor market and considered alone it suggests strength ahead in that portion of the economy. Unfortunately the possibility of recession in the national economy and the weakness in housing locally as well as nationally may lead to weaker economic conditions ahead and consequent weakness in employment.



The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Help Wanted has fallen since the brief spike in the last few months of 2006 and trailed off more sharply since Spring. This likely implies a weakening of labor markets in months ahead. This month the Index fell 13.9 percent to 105.7.



The seasonally adjusted Index of Building Permits is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Building Permits have been stable for most of the year around a level of 40. This month it fell 22.2 percent from over 40 to 36.2. This is a sizable drop but the current level is not extreme. If declines continue, it may imply a weakening in building and in the local economy as a whole.

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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.

Home Sales fell dramatically this month, dropping 23.7 percent to 88. This is the lowest level this Index has reached since the artificial level reached by the collapse in September 2001 as the nation responded to 9-11. Sales in that month rebounded immediately in the following month. Discounting this collapse, the home Sales Index hasn't been as low as it is now since 1998.

In the last 18 months prices have fallen 15.5 percent in inflation-adjusted terms from their high of \$349,500 in March of 2006. This decline may be somewhat deceptive and may be more dramatic than the data reflect. Since lending standards have been tightening and in general the subprime lending crisis has had a more dramatic effect on the lower end of housing markets, it is likely that this has artificially been inflating median prices since it decreases the proportion of lower priced homes that are able to be sold. This can apply upward pressure on the median sale price without any actual increase in the value of homes, or even as that value falls.

The take-away here is that in current conditions at the local, national and state level, median price changes are overstating the value of homes and prices have in all likelihood fared worse than those data seem to indicate. Further, even at the local level, ongoing price declines are likely. Home ownership remains disproportionately expensive in comparison to renting in spite of price declines. The current median sales price in the county is \$315,000, down from \$316,000 last month.

We present evidence that suggests prices must fall by as much as 40 percent in order for prices to return to historic levels in "It's a National Housing Market" on our [Humboldt Real Estate Economics Page](#).

Statewide, the median price in August rose 0.5 percent over July's price from \$586,030 to \$577,300 as reported by the [California Association of Realtors](#). This is a 2 percent increase on the year. At the same time, sales fell 27.8 percent from August 2006 to August of 2007. Nationally, Sales fell 4.3 percent during the month of August while the median price fell \$5,700 to \$224,500 as reported by the [National Association of Realtors](#).

The interest rate on a 30 year fixed rate mortgage, as reported by [Freddie Mac](#), the nation's largest mortgage lender, eased in August from 6.45 percent to 6.37 percent. Average points remained at 0.5.

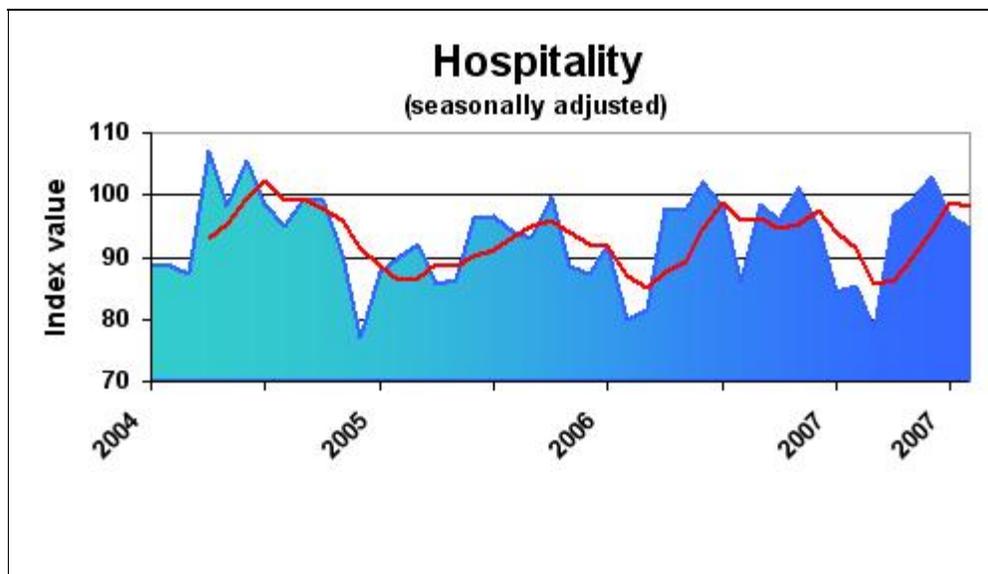
## Retail Sales

Retail Sales were the strongest sector in this month's report, adding 2.0 percent to 160.3. This sector has long been the strongest in the Index and continues to sustain levels well above all the other indices. As retailers begin to gear up for the holiday shopping season, it will be interesting to note the performance of local businesses. In recent years this Index has performed weakly over the holidays, perhaps weakened by increased online shopping.

Nationally, the **Federal Reserve Board Beige Book** reports that retail sales were strong in August. Most Federal Reserve Districts reported growth as moderate to strong. The report was cautious about the potential outfall of tighter lending standards, but reported that concerns among the districts that turmoil in financial markets was as yet affecting the broader economy were limited.

## 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.



The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Hospitality moved slowly this month, adding 0.8 percent. It is traditionally a fairly stable Index. It tends to fluctuate between slightly over 100 and 80. It's current value of 97.8 is well within this range.

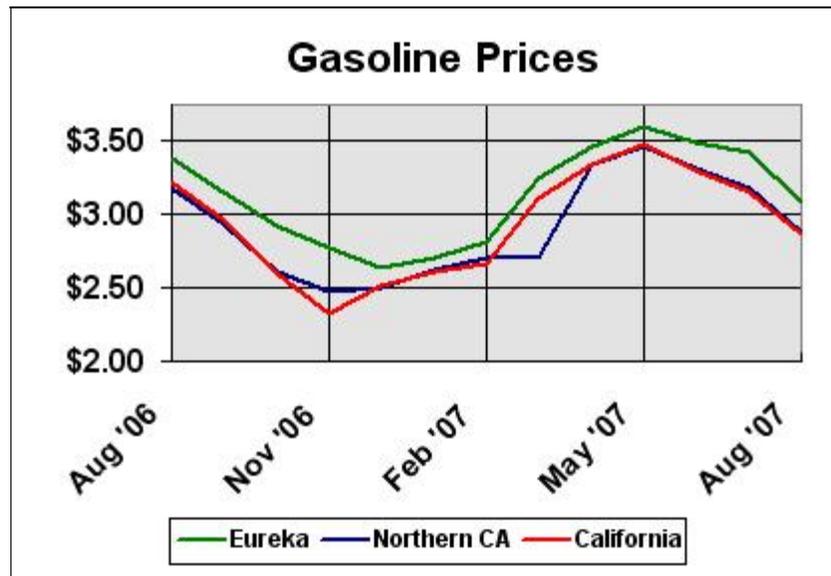
## Gasoline Prices

Gas Prices declined this month across the board according to the **American Automobile Association**. Eureka prices are back down near three dollars at \$3.08, down 34 cents, a greater decline than Northern California or the state as a whole. In spite of this Eureka prices are still higher than those of the state and Northern California region. Also, Eureka prices are the second highest of all communities in AAA's monthly gas price survey. Only Tahoe City exceeded Eureka's prices.

For a local perspective on gasoline prices, visit our **Special Projects page** for our 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.

Gas Prices		
Prices as of 8/14/2007	Average Price*	Change from Previous Month
<b>Eureka</b>	<b>\$ 3.08</b>	<b>-\$0.34</b>
<b>Northern CA</b>	<b>\$ 2.88</b>	<b>-\$0.30</b>

<b>California</b>	<b>\$ 2.87</b>	<b>-\$0.28</b>
<p>* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (<a href="http://www.csaa.com">www.csaa.com</a>).</p>		



## Electricity Consumption

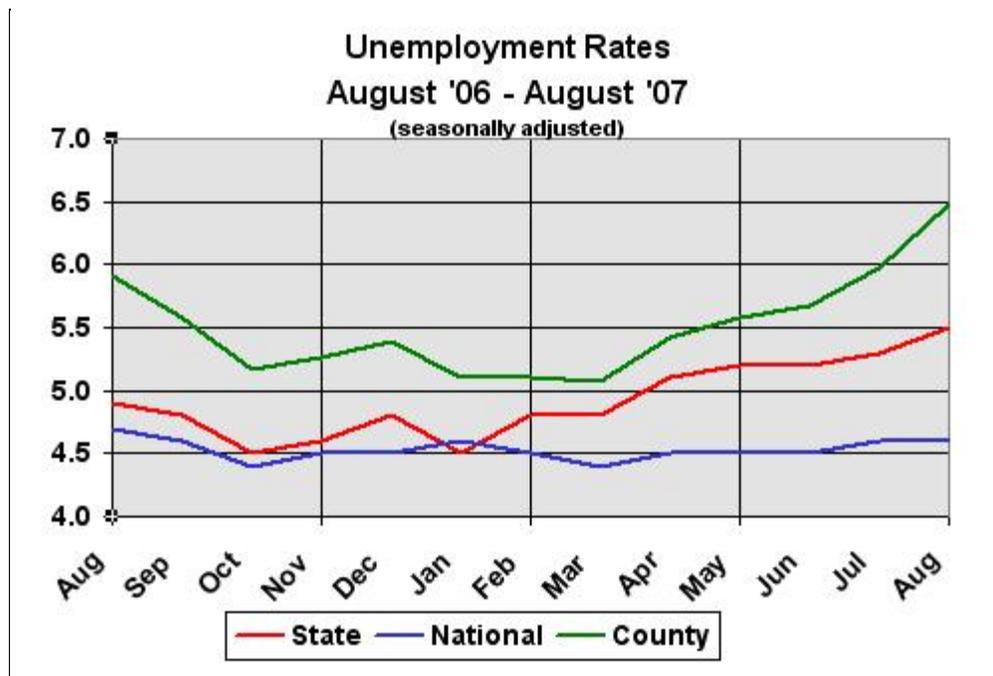
The Index value of this sector is based on seasonally adjusted kilowatt-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation reduce the sector's index value, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

The seasonally adjusted Index of Electricity Consumption declined slightly in June, moving to 127.5 from 129.5 in May. The Energy Index was 132.5 in April. The Index is well below the prior peak of 148 in December of 2005. The Energy index has been declining steadily for three months. This June data reflects the most recent information available.

## Total County Employment

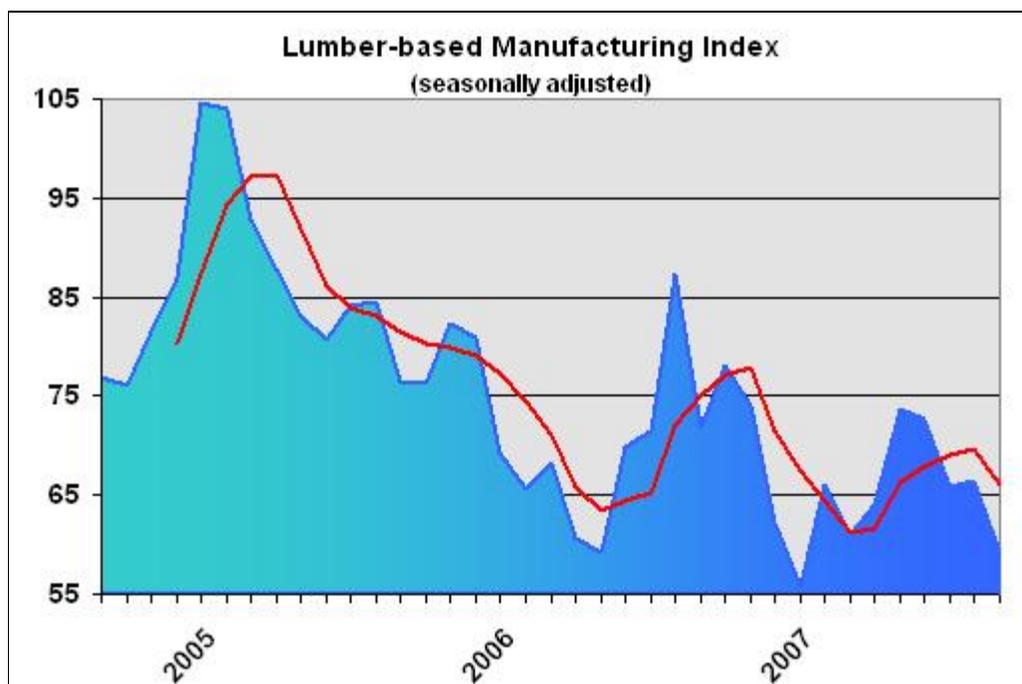
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Employment in the County declined slightly this month, shedding 0.6 percent to come to 104.2. This occurred as total employment actually increased by 100 jobs but seasonally this was below average. The result was a seasonally adjusted increase of 0.5 percent in the seasonally adjusted unemployment rate and a 0.6 percent decline in the Employment Index. The sharp decline in help wanted advertising and the fact that the decline has continued since late last year may indicate a weakening in coming months in the employment sector of the local economy.



## 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 55 percent of total county manufacturing employment.



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 which attempts to demonstrate the overall trend in the data with less monthly volatility.

Lumber-Based Manufacturing in the county has declined by 10.4 percent, making it the second weakest sector and a significant contributor to this month's weak composite performance. This Index now stands at 59.6. This is down from over 100 early in 2005. This represents a dramatic decline, one of the most sustained and substantial on record in the history of the Index.

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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 2006" report reflects data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

## Cited References:

[American Automobile Association](#)

[California Association of Realtors](#)

[Federal Reserve Board Beige Book](#)

[Freddie Mac](#)

[National Association of Realtors](#)

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