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**Professor Steven Hackett, Director**

**August 1998**

Key Statistics		Leading Indicators	
County:		<i>Seasonally Adjusted</i>	% Change in July
Median Home Price (July)*	\$120,000	Help Wanted Advertising	16.33
30 Yr. Mortgage Rate (08/25)	7.15%	Building Permits	-0.91
Prime Rate (08/25)	8.25%	Unemployment Claims	16.66
Unemployment Rate (July)	6.6%	Manufacturing Orders	-14.85

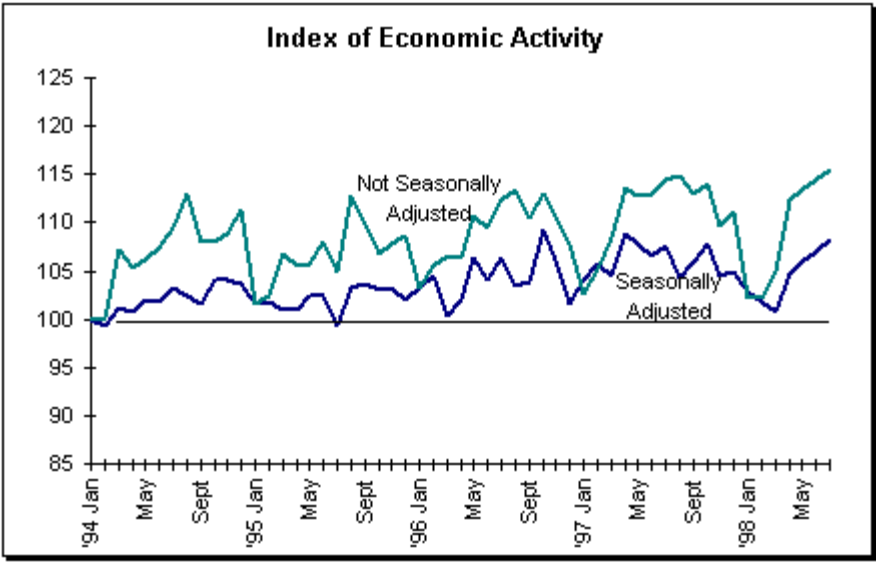
\*Home price data are provided by the Humboldt County Board of Realtors.

**Monthly Change**

The seasonally adjusted *Index of Economic Activity for Humboldt County* increased during the month of July from 106.9 to 108.2, or 1.2 percent. The raw or non-seasonally adjusted *Index* reached its highest point for 1998 at 115.4. By way of contrast, last year at this time the seasonally adjusted *Index* was at 107.7, and two years ago the seasonally adjusted *Index* was 106.4. July is usually a peak month for economic activity in Humboldt County--lumber production and payroll usually peaks in July, retail sales are generally strong in July, and hotel/motel occupancy rates (an indicator of tourism) are at or near their annual peak. The year-on-year comparison of economic activity in July indicates slow but steady growth in economic activity in Humboldt County. Interestingly, while our *Index of Economic Activity* for July 1998 shows a slight increase over July 1997, this overall increase masks an approximately 13 percent dropoff in County lumber production and payroll, likely a result of falling lumber prices. The "Asian Contagion" has softened demand for lumber exports, resulting in a glut of lumber in the domestic US market. This dropoff in lumber production has been offset in part by steady growth in County retail sales.

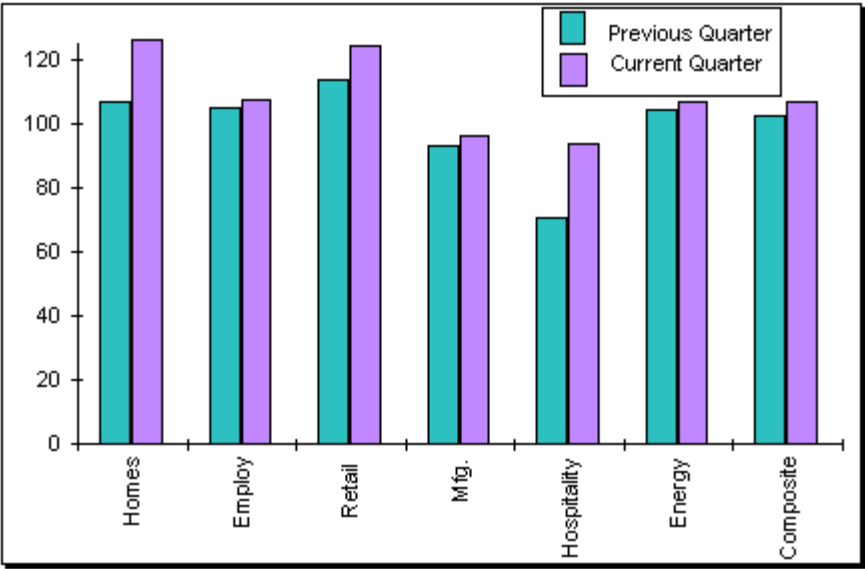
A major reason for the 1.2 percent increase in seasonally adjusted economic activity for July this year was a sharp rise in home sales--our home sales index rose by a bit more than 37 percent during July. According to data provided to us from the Humboldt County Board of Realtors, 125 homes were sold in July 1998, the largest monthly total since we began tracking the Humboldt County economy in January 1994. Interestingly, both the average and the median price of homes sold during July 1998 were down slightly from July 1997. The retail and manufacturing sectors of the County economy also experienced increases during July. While hotel/motel occupancy rates reached their 1998 peak during July, they were a bit lower than would "normally" be expected for a July, and so the seasonally adjusted hospitality sector was actually down a bit for July.

For those of you who are new or less familiar with the *Index*, the chart below plots both the seasonally adjusted and the raw or non-seasonally adjusted *Index* values from January 1994 to June 1998. The seasonally adjusted values are found by assigning weights to the raw *Index* values to account for "normal" monthly seasonal variation in the data. For example, hotel/motel occupancy rates normally show a peak in the summer months and a trough or minimum in the winter months. Thus seasonal adjustment tells us whether occupancy rates are higher *than we would "normally" expect given the season*. Trends in the seasonally-adjusted *Index* provide a better indication of underlying growth and fundamental change in the economy.



Quarterly Change

We also look at the performance of the county economy over a longer period of time by comparing the current and previous rolling quarters of seasonally adjusted data. The quarterly index value for the current rolling quarter (May through July) is 107, up by 4.6 percent from the previous rolling quarter (February through April). From a seasonally adjusted perspective, the current rolling quarter experienced growth in all sectors, particularly in the hospitality and the home-sales sectors.



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 is frequently the case in the County economy, the leading indicators are mixed. As the table at the top shows, help wanted advertising increased sharply this month, yet initial claims for unemployment insurance also rose. County-wide building permits decreased a modest 0.91 percent, and manufacturing orders showed a rather sharp 14.5 percent decline. Thus three of our four leading indicators suggest a dropoff in future economic activity.

The recent and rather dramatic decline in U.S. equity markets points to growing concerns with the stability of the global economy. The "Asian Contagion" of steep declines in currency and equity values in the formerly rapidly growing east Asian economies has contributed to a sharp deflation in commodity prices (due to decreased Asian demand for commodities), which in turn has put downward pressure on currency and equity values for commodity-exporting developing countries, particularly in Latin America. Combined with the continuing slump in Japan and the meltdown of the Russian currency and economy, there are growing concern for a deflationary global recession.

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