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The Index of Economic Activity for Humboldt County

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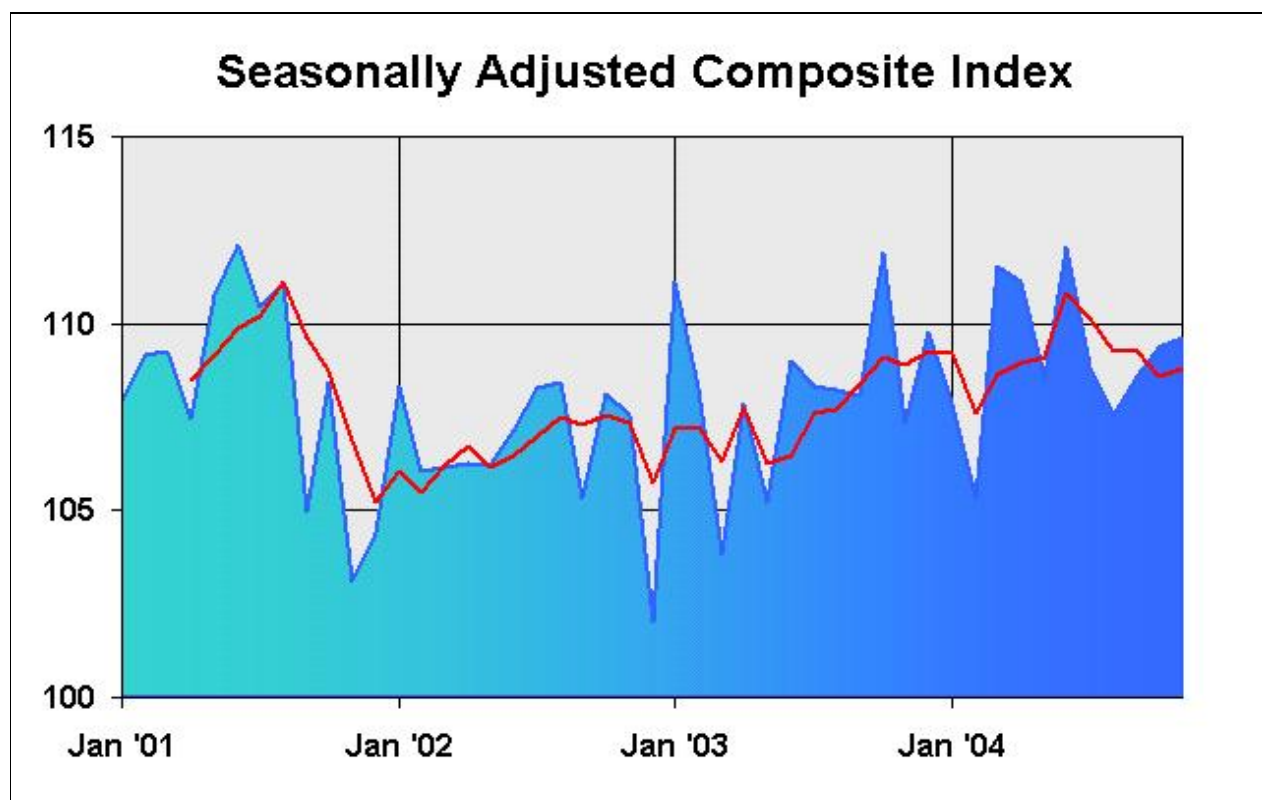
[HSU Economics Department](#)

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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This month's report is sponsored by
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December 2004



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 smoothes 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.

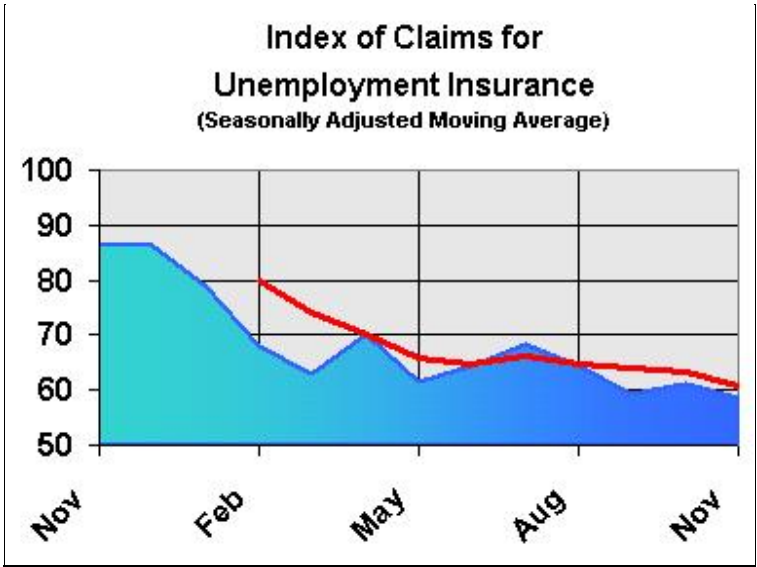
Humboldt County's economy continued steady but mild growth in November. The composite Index of Economic Activity rose 0.7 percent to 110.3. November's growth was fueled by strong index values in the retail and manufacturing sectors, and balanced by contractions in the hospitality and home sales

sectors. The home sales index declined for the first time in months, due to a decline in the number of homes sold. November's median selling price fell to \$269,500 while the average selling price rose to \$308,272. The home sales index, though down from last month, are still higher than the index value one year ago. The retail sector grew by 7.0 percent from last month, surpassing seasonal expectations, to an Index value of 148.7. The hospitality sector declined by 8.8 percent to an index value of 90.54. This month saw a rise in the county unemployment rate to 5.3 percent, which is still lower than the state average. The Employment index for the county increased by 1.1 percent to a value of 103.9. This gain in the employment index is due in part to an increase in the number of jobs provided in both the retail and manufacturing sectors. Manufacturing grew again this month, rising by 6.6 percent to an index value of 86.99. This growth is consistent with growth in manufacturing across the nation. Electricity consumption remains unchanged at an estimated 113.49.

Composite & Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
* * *		Percent Change From:					
Index	Seasonally Adjusted Index Value (1994=100)	Previous Month	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000	Same Month 1999
COMPOSITE	110.1	0.7	2.6	2.4	6.8	-1.1	-1.3
Sector							
Home Sales	136.09	-5.6	4.8	-3.7	25.2	11.2	12.1
Retail Sales	148.7	7.0	5.5	10.3	22.5	6.2	12.9
Hospitality	90.54	-8.8	-1.3	0.7	-6.1	-5.1	-4.3
Electricity Consumption	113.6	0.0	1.0	0.3	4.6	-7.5	-
Total County Employment	103.9	1.1	0.3	0.0	2.9	-0.6	0.0
Manufacturing	86.99	6.6	11.1	7.5	0.2	-12.0	-20.3

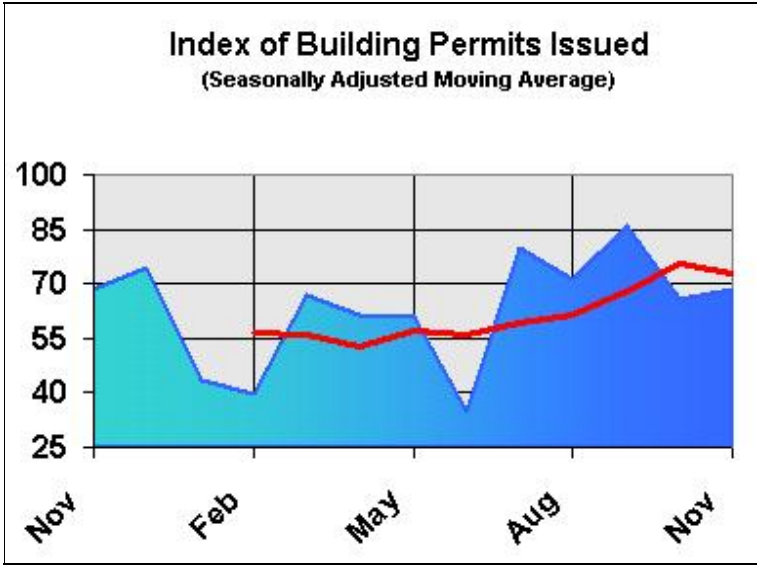
Leading Indicators

The Index tracks three leading indicators to get a sense of the direction of change in the county economy in the near future. The three leading indicators are (1) number of claims for unemployment insurance, (2) building permits, and (3) 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.



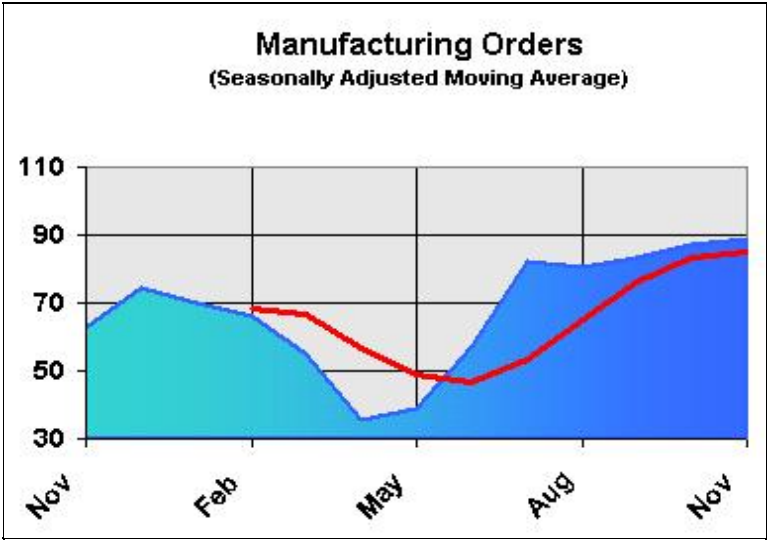
Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

The index of claims for unemployment insurance is an indicator of negative economic activity. This leading indicator decreased by 3.8 percent in November, dragging the four month moving average down. Even though the actual number of unemployment claims rose this month, the data did not match what is usually a season of high unemployment. An decrease in the number of claims for seasonally adjusted unemployment insurance may indicate improving labor market conditions in the future.



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 into future home sales and construction. The Index of Building Permits increased this month. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above, the moving average leveled off in November.



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 index increased 1.6 percent in November, to stand at 88.69. The moving average for this indicator shows a strong upward trend since the summer.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$269,500	Manufacturing Orders	1.5%
30 Yr. Mortgage Rate as of 12/6	5.750%	Building Permits	4.6%
Unemployment Rate**	5.3%	Unemployment Claims	-3.7%
* 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.			
** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.			

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.

November saw a decline in home sales in Humboldt County. The home sales index is down 5.7 percent and now stands at 136.09. The local median home price is down further this month from September's record high, though still twenty-one percent higher than the median home price one year ago. A median priced home in Humboldt County now costs \$269,500. Increased purchasing power from low interest rates as well as investor's weariness about the stock market are contributing to the recent price increases.

Statewide median home prices exhibited growth from November 2003 and home sales increased by 4 percent. The median home price in California is now \$473,260, up 2.9 percent from the revised October median, and up 23.1 percent from November 2003. "While the inventory of homes for sale has increased to more than a three-months' supply, consumer demand and the low mortgage interest rate environment are still driving the market," said Leslie Appleton-Young, C.A.R.'s vice president and chief economist. "Time on the market has trended up to 40 days, an indication that buyers are taking more time prior to making the purchase decision compared with the frenzied pace we witnessed most of this year." (www.car.org)

Nationwide, this month set the highest monthly sales pace on record for November. David Lereah, NAR's chief economist, said low interest rates get much of the credit. "Mortgage interest rates dropped a quarter of a percentage point in late summer and then stabilized," he said. "Coupled with a growing labor market and a rising economy, this created optimal conditions for the housing sector." (www.realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of December 29th, was 5.81 percent with an average 0.6 points. Amy Crews Cutts, Freddie Mac deputy chief economist said, "Although mortgage rates are expected to rise in 2005, it will not be to a big enough degree to take much of the steam out of the housing industry. Next year sales may drop off slightly from this year's banner pace, but the industry will continue to be healthy and robust well into the future." (www.freddiemac.com)

Retail Sales

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

Humboldt County's retail sector experienced a slight drop in November. The retail sales index, which now stands at 138.9, is down 3.0 percent from the previous month. "The continuing economic expansion, combined with job growth, has consumers ending the year on a high note," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The most significant contributor to the rebound in confidence has been the overall improvement in current conditions over the past twelve months. And consumers' outlook suggests that the economy will continue to expand in the first half of the new year." US households are expected to spend more this holiday season than last year. (www.conference-board.org)

Nationally, retail sales figures varied among Federal Reserve Districts. Overall consumer spending was uneven since October, with few increases in the retail sales and many sectors of the nation noting mixed, flat or slower sales. Automobile sales were flat to down across most Districts, and several Districts reported higher dealer inventories than desired. Energy-related activities remained strong. (www.federalreserve.gov)

The Conference Board's Consumer Confidence Index, which had been on the decline since August, rebounded in December. The Index now stands at 102.3 (1985=100), up from 92.6 in November. The Expectations Index rose to 99.9 from 90.2. The Present Situation Index increased to 105.9 from 96.3 (www.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.

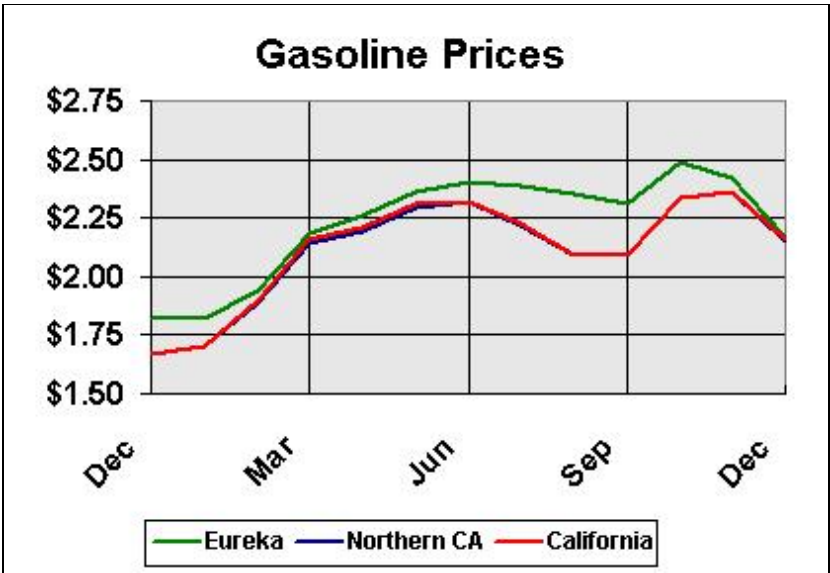
The hospitality index fell 8.8 percent in November to an index value of 90.54. The index numbers are seasonally adjusted and relate back to the base month of January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately. This month's low index value indicates lower than expected occupancy rates for the winter.

Gasoline Prices

Gas Prices dropped dramatically throughout California in December. Eureka, though still slightly higher than state averages, showed the most dramatic decline, falling to \$2.17 per gallon. "We're seeing some gas stations where gas now sells for less than \$2 a gallon," said Sean Comey, spokesman for AAA of Northern California. "In most communities, the average cost of fuel is still higher than that, but at least we've seen prices falling steadily for more than a month." The drop in the retail price of gasoline is largely due to the drop in the price of crude oil. However, the reduced crude oil prices are not expected to endure as the members of OPEC (Organization of Petroleum Exporting Countries) voted recently to reduce production and subsequently raise prices. (www.csaa.com)

Average Price* (as of 12/16)		Change From Prev. Month (cents/gal.)
Eureka	\$2.17	-25¢
Northern CA	\$2.15	-21¢
California	\$2.16	-20¢

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.

The estimated electricity consumption index for November is 113.49, unchanged from last month's figure.

Total County Employment

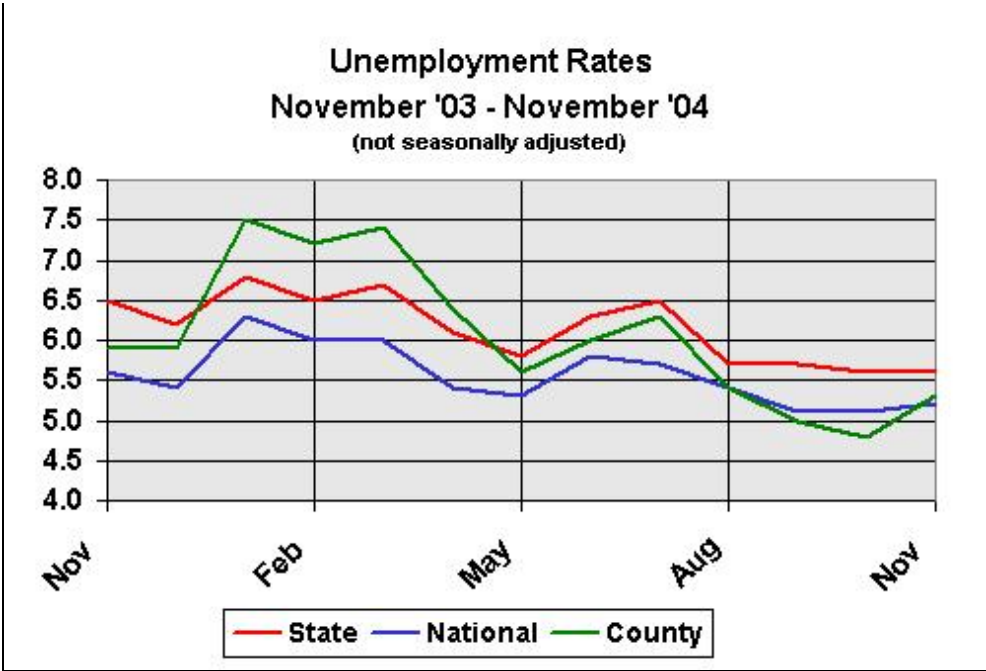
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

EDD reported 58,700 people were employed in Humboldt County in their preliminary figures for November. This figure demonstrates growth of 400 jobs from October's revised figure. The total civilian labor force also increased by 500 people, to total 61,900. The seasonally adjusted total county employment index rose 1.1 percent, and now stands at 103.9.

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net gain of 400 jobs in November.
 - Food and Beverage Stores lost 100 jobs.
 - Education and Health Services gained 100 jobs.
 - Retail Trade gained 200 jobs.
 - Trade, Transportation and Utilities gained 200 jobs.
- Overall goods production employment was unchanged in October.
 - Wood Product Manufacturing gained 100 jobs.
 - Natural Resources and Mining lost 100 jobs.

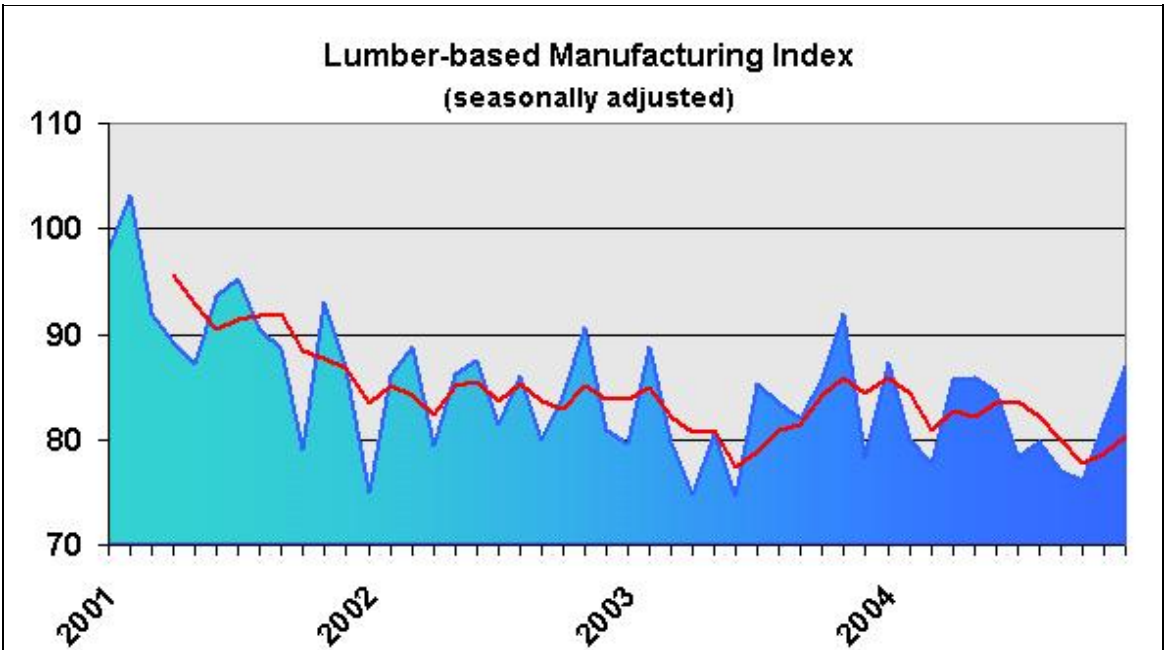
The Humboldt County unemployment rate increased 3 percent in November. The measure, which now stands at 5.3 percent, is still lower than the state average, while the national average dipped to a slightly lower 5.2 percent. The increase in the Unemployment rate is due in part to the increase in the size of the labor force, which grew by more than the number of employed people.



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.

In November the lumber-based manufacturing index increased 6.6 percent from last month's revised figure and now stands at 86.99. Although this is the third consecutive month of growth in the lumber-based manufacturing index, the index for this sector has not reached above the 100 level since January 2001.



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.

At the national level, the manufacturing sector continued to show economic growth for the eighteenth consecutive month. The PMI registered 57.8 percent most recently, indicating continued growth. "November reverses three consecutive months in which the rate of growth had slowed. The manufacturing sector appears poised to end the year on a strong note as the New Orders Index made its way back above the 60 percent mark, and the Employment Index picked up significant momentum. There is still significant upward pressure on prices as commodity price increases are common," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (www.ism.ws.cfm)

National Spotlight

Andrea Walters
January 4, 2005

On December 30, 2004, the US dollar hit a record low in value against the Euro. Economists across the nation and around the world have watched the value of the dollar slip from its former strength, despite increases in American interest rates. Early in 2004, one Euro cost \$1.25; the exchange rate now stands at \$1.37 to one Euro.

The dollar has also fallen against other European currencies, and is nearly half the value of one British Pound. According to The Economist Global Agenda (www.economist.com), the dollar's decline is due to private investors reluctance to finance America's huge current-account deficit. The American practice of importing more goods than we export further contributes to our current-account deficit by creating a trade deficit. A weak dollar exacerbates our trade deficit.

The deficit widened slightly in the third quarter of 2004, to a record \$165 billion, or 5.6% of GDP. As domestic interest rates rise, refinancing our National debt will become more and more costly. Without an increase in public and private savings, the net payments required for our foreign debt will reach 4 percent of GDP by 2020. The economic benefit of a weak U.S. dollar is the increased purchasing power other nations gain. Our weakened currency means foreign currencies are more valuable, making out export goods comparatively cheaper. The increase in demand for American goods will pressure American producers to increase production.

Another side effect of a weak dollar is increased foreign tourism. The Travel Industry Association of America (www.tia.org) reported the first increase in inbound travel since September 11, 2004. Currently, Ski Resorts and other winter holiday destinations are seeing the biggest change, but European travel agents report an increase in bookings to the United States up to 18 months in advance. Whether or not Humboldt County will see a tourism boost as a result remains to be seen .

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.

Cited References

[The Eureka Times-Standard web site](#)

[The North Coast Journal web site](#)

[The New York Times web site](#)

[The Economist](#)

[California Association of Realtors web site](#)

[National Association of Realtors web site](#)

[Employment Development Department web site](#)

[Freddie Mac web site](#)

[American Automobile Association web site](#)

[Travel Industry Association of America](#)

[The Conference Board web site](#)

[Institute of Supply Management web page](#)

[U.S. Bureau of Economic Analysis' web page](#)

[U.S. Bureau of the Census's Economic Briefing Room web page](#)

[U.S. Bureau of Labor Statistic's web page](#)

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