

Humboldt Economic Index

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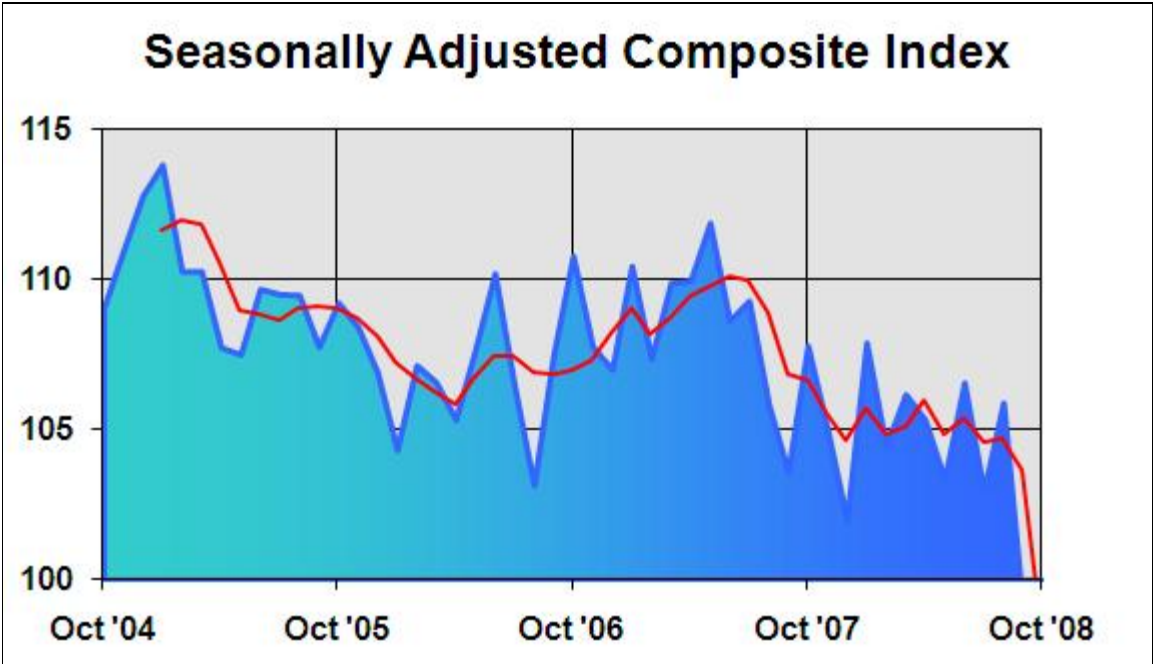
Humboldt Economic Index

November 2008

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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.

Overall economic activity in Humboldt County grew slightly by 0.4% from last month to an index value of 99.4. Contractions in manufacturing due to current market conditions have driven it under the 40 level, the first time since December 2007. County employment also declined in October by 2.2%, mostly due to the closing of the Pulp Mill in Mid October. The Unemployment Rate nearly reached record levels (going back to Jan 1994). Hospitality experienced a decline in activity mostly attributed to consumer's desire to cut spending while economic conditions remain uncertain. Retail sales rebounded 9.9% as buyers continue to consume local goods and services, possibly from lack of out migration as locals stay home to curtail spending. Home sales also expanded to an index value of 76.9, a 7.0% increase from last month. Overall, future economic conditions remain uncertain; however, leading indicators suggest a

rise in unemployment, slower home and retail sales, and continued weakness in manufactured goods.

Click [here](#) for a PowerPoint Presentation on the 2009 Economic Outlook for Humboldt County.

| Composite & Sectors | | | | | |
|---|--------|----------------------|----------------|------------------|-----------------|
| | | Percent Change From: | | | |
| Index | Value* | Last Month | One Year Ago** | Five Years Ago** | Ten Years Ago** |
| Composite | 99.4 | 0.4 | -7.8 | -10.1 | -7.6 |
| Home Sales | 76.9 | 7.0 | -19.8 | -47.9 | -8.8 |
| Retail Sales | 151.1 | 9.9 | -11.9 | 6.5 | 13.9 |
| Hospitality | 81.7 | -6.4 | -9.1 | -8.4 | -14.7 |
| Electricity Consumption | 122.1 | 0.0 | -5.4 | 7.1 | 18.6 |
| Total County Employment | 101.3 | -2.2 | -2.2 | -2.9 | -2.4 |
| Manufacturing | 39.6 | -5.7 | -19.2 | -56.9 | -67.2 |
| * 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‡ |
| \$280,000 | 5.290% | 9.0% |
| * 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. | | |

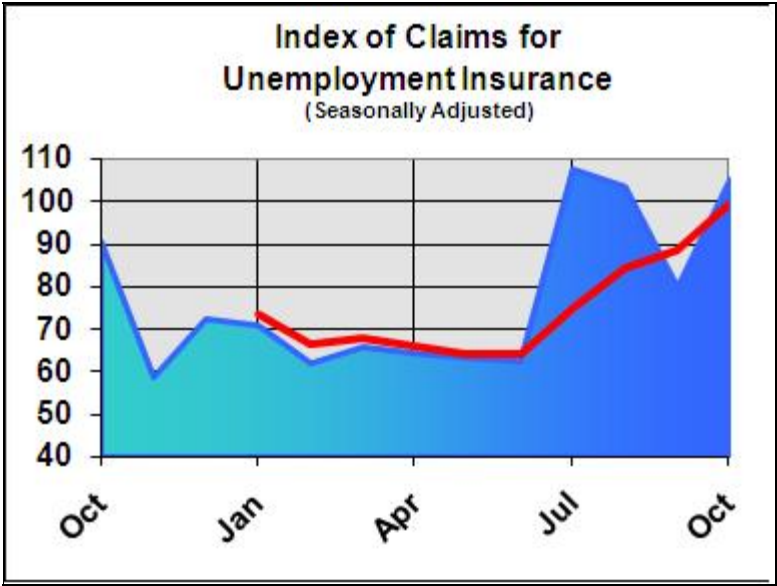
Leading Indicators | Individual Sectors | Home Sales | Gasoline

Leading Indicators

| Leading Indicators | | | | |
|---------------------------------------|---------------------|-------------------------|------------------|----------------------|
| | Unemployment Claims | Help Wanted Advertising | Building Permits | Manufacturing Orders |
| Change from Prior Month* | 31.8% | -1.8% | n/a | n/a |
| * 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 Insurance Claims skyrocketed 31.8% in October. The index stands at 105.4 well over the long run average for Humboldt County which averaged 83.3. The rise in Unemployment Claims was heavily affected by the increase of unemployed after the Pulp Mill closed. While an increase in this index predicts future softness in labor markets, coupled with the decline in Help wanted could result in further unemployment increases in the future.



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 Advertising declined slightly by 1.8% in October when compared to September 2008. When compared to the same period over the last two years we see that the current level 14.3% below the 2007 and 46.2% below the 2006 levels. A decline in this index results in a reduction of local labor markets, as producers scale back production this may put more upward pressure on unemployment levels in the coming months.

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 rose to a seasonally adjusted value of 76.9, a 7.0% increase from last month but down 19.8% from the October 2007. Median home prices in Humboldt County have fallen \$20,000 when compared to twelve months ago and \$10,000 from last month. Median prices have fallen roughly 19.88% from its peak in March 2006. Mortgage rates have fallen considerably in Humboldt County to 5.29%, a 0.96% decline from September to October. Current local conditions in the labor market may cause sales to level off or decline as buyers put off making big purchases during uncertain times.

CAR's report on housing activity throughout October recorded a 9.5% increase in sales while median home prices for the state declined 1.9% from last month. When compared year over year there has been an 117.1% increase in sales and a 39.9% decline in the median home value. Interest rates have also been on the decline dropping 0.18% to 6.20% in October 2008 as reported by **Freddie Mac**. Housing activity rose in October due to favorable market conditions allowing qualified buyer to enter the market at an affordable mortgage.

The S&P/Case-Shiller house price index reports a 16% drop from the third quarter of 2007 to the third quarter of 2008. From the peak in the second quarter of 2006, prices are down 21% nationally.

The National Association of Realtors also recorded that single-family home sales eased 3.3%, when compared to September, to a seasonally adjusted rate of 4.43 million. National median home prices also contracted in October to \$181,800, an 11.2% decline from the same time a year ago. Lawrence Yun, NAR chief economist commented that, "Many potential home buyers appear to have withdrawn from the market due to the stock market collapse and deteriorating economic conditions." Volatile stock markets causes changes in consumer expectations and increases uncertainty.

According to **TransUnion LLC**, a credit reporting agency, third quarter delinquencies rose to 3.96 of people with a mortgage compared to 2.56% from the third quarter of last year. They also project this gap to grow at an accelerated pace in the future. The top five states with the highest delinquency rates were Florida, Nevada, California, Arizona, and Mississippi.

For a local perspective on the possibility of a housing bubble, visit our Special Projects page for a study of the Humboldt County housing market. Also, visit the **Humboldt Real Estate Economics Page**.

Retail Sales

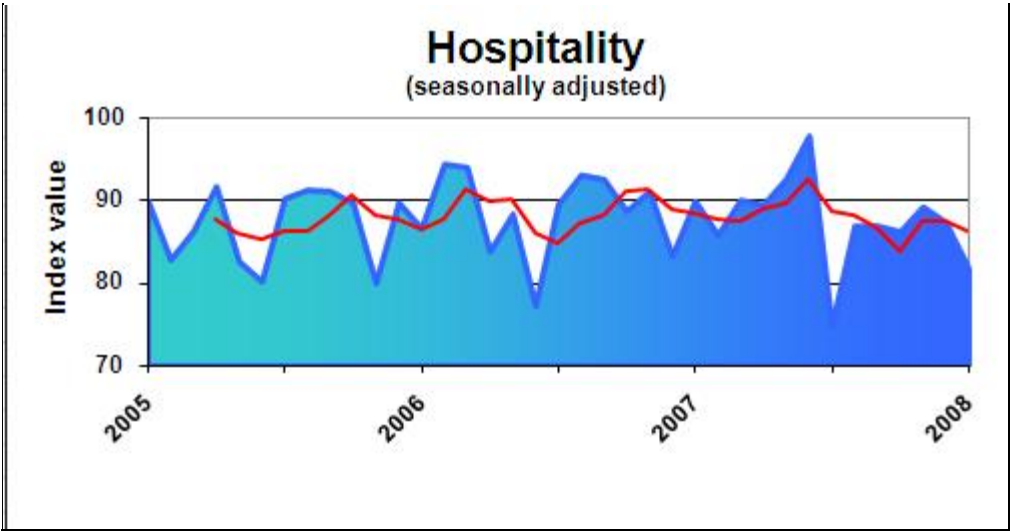
The Index value for the retail sales sector is based on the seasonally adjusted dollar value of sales each month from a cross section of local retail businesses.

Retail sales expanded throughout October up to 151.1, a 9.9% increase from last month. While retail sales across the board remained relatively unchanged from the previous month; however October is a weaker month so when correcting for seasonal variation the relatively constant retail activity had a positive affect on the overall index value.

The U.S. Department of Commerce's Advanced Monthly Sales for Retail Trade and Food Services reported a decline in nominal sales by 2.8% when compared to the previous month and 4.1% below the October 2007 level. However, future strength in sales leading in to the holiday season does not look positive. Unemployment is on the rise and consumers are spending less while the recession wears on the world economy. Future retail sales also have downward pressure as manufactured goods continue to experience low new orders and declining exports.

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.

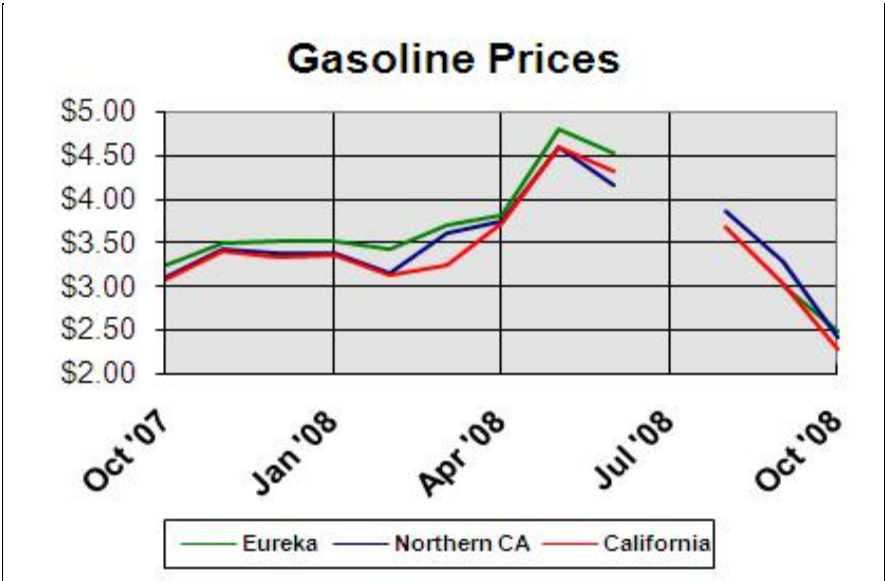
Hospitality contracted 6.4% in October to 81.7. While activity in Humboldt County did not change much from the previous month; the change came more from the seasonally adjusting. October is typically a stronger month for Hospitality than September. Hospitality may foresee a decline in activity as consumers decide not to travel to preserve wealth during these uncertain times.

Gasoline Prices

Gas Prices continue to decline throughout October statewide. Eureka, which is usually in the top three for the most expensive gas, fell \$0.53 to \$2.49, closing the gap with the rest of Northern California that is experiencing on average \$2.41 a gallon. The inflation adjusted price in Eureka is \$2.11 which is a \$0.42 drop from last month and \$0.73 below the same time last year. Cynthia Harris, **AAA** Northern California spokesperson, "The crude oil price is simply a response to a lack of demand and the economic trouble being felt around the world." **MSNBC** reports that the price of oil fell to \$43.67 on December 4, 2008 due mostly to lack of demand from major oil consuming countries. In the US consumers are driving less either due to a lack of employment or curtailing transportation costs by using alternative means other than personal vehicles. Rapidly declining gas prices has helped many US residents in curtailing spending; however, such a drastic drop has created negative affects in national employment as energy companies scale back their renewable projects.

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 11/19/2008 | Average Price* | Change from Previous Month |
| Eureka | \$2.49 | \$- 0.53 |
| Northern CA | \$2.41 | \$- 0.87 |
| California | \$2.28 | \$- 0.73 |
| * Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (www.csaa.com). | | |



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 frequently estimated, and are revised when the quarterly data are received.

Energy consumption remains unchanged from last month due to quarterly data collections. The seasonally adjusted index value for October stands at 122.1.

The Department of Energy announced that it was investing 14.55 million dollars in Projects, Development, and Demonstration of Alternative Vehicle Technology. The six projects would also be privately funded bringing the total toward 29.3 million dollars. The three main categories include Battery Materials and Manufacturing, Thermoelectric Systems, and Aerodynamic Trailers.

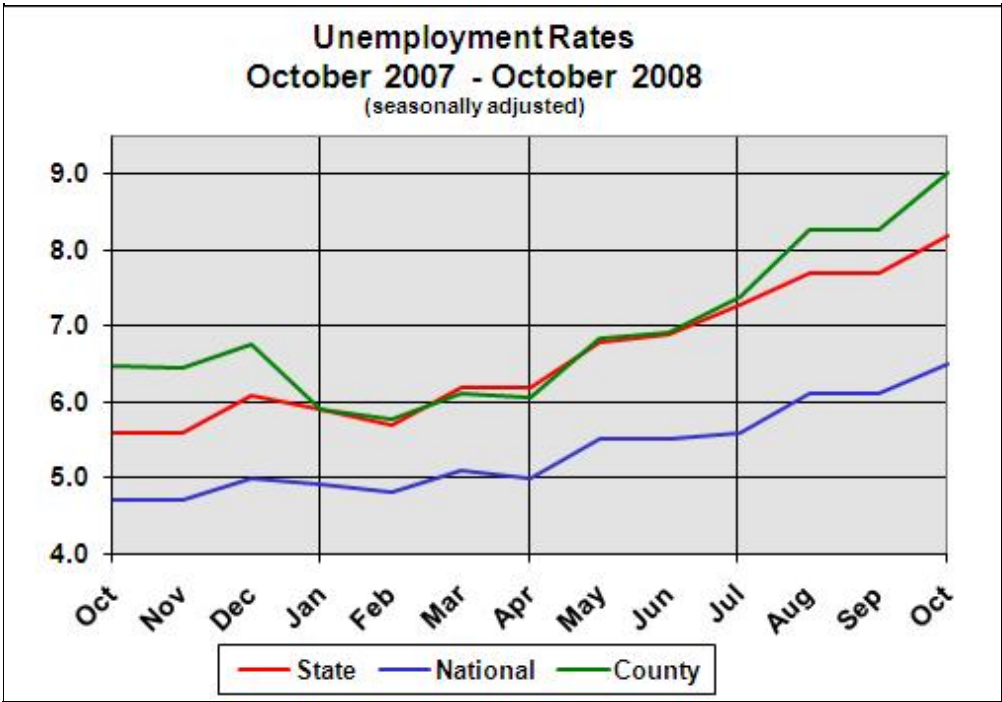
However, other renewable projects around the United States have been put on hold or canceled all together as gas prices plummeted in recent months as reported by **Time**. Falling gas prices removes incentives to find alternative energy sources as they become less valuable. Investment in new energy has a high capital start up cost and if the stream of income begins to devalue, most industries will cancel or put off such projects until they become profitable.

Total County Employment

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

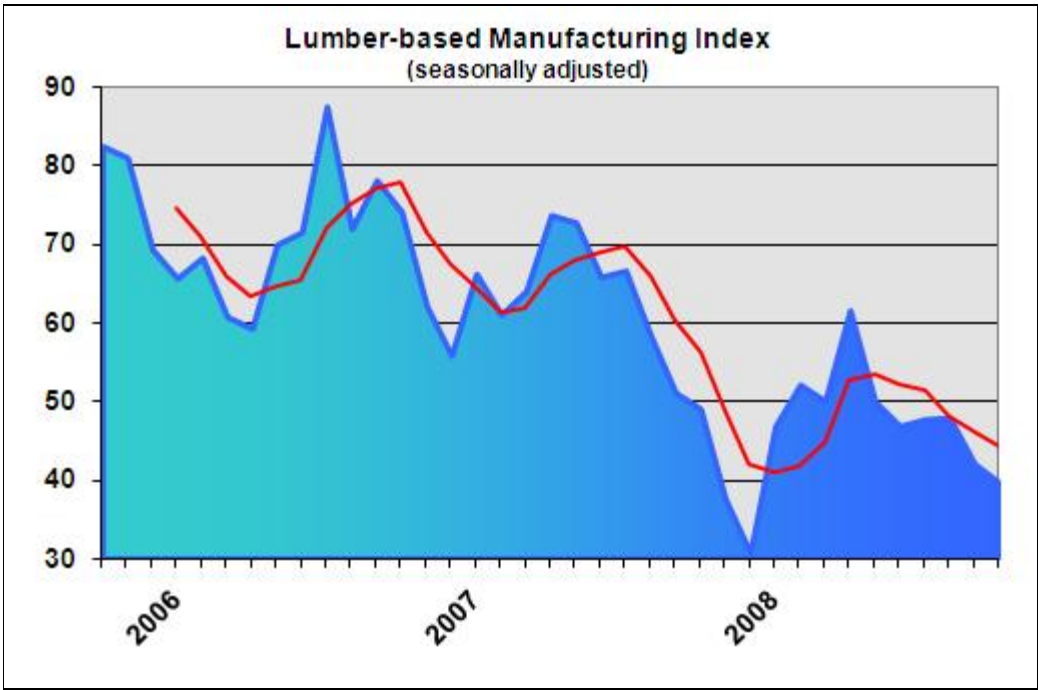
Total County employment decline 2.2% in October to a seasonally adjusted index value of 101.3. Humboldt Country's labor force contracted by 100 in October, meanwhile the number of employed fell by 500 while the number of unemployed rose by 400 persons. September and October are the strongest months of the year for Humboldt County. The seasonally adjusted unemployment rate jumped to 9.0% due to a weakening of employment during typically one of the strongest employment months. This level of unemployment is the third highest in the history of the Index (Jan. 1994). The closing of the Pulp Mill in mid-October accounted for over 200 newly unemployed persons. With unemployment claims up while the **Times-Standard** reports that the Mill may not reopen as soon as some had predicted. Furthermore, the leading help wanted index fell, giving rise to future softness in the labor markets for Humboldt County.

National unemployment is also on the rise. As some manufacturing sectors begin to scale back production and as the energy industry also removes investments in alternative energy as gas prices are more affordable. Moreover, if the Big Three automakers can not weather current economic conditions it will displace thousands of workers in the future.



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.

The Manufacturing Index fell 5.7% in October to a seasonally adjusted value of 39.6. October is usually a stronger month for manufacturing throughout the year; however, this month's decline is more attributed to a constant level of production throughout October. Lumber-based Manufacturing continues to go through stronger busts than booms. As shown above in the table, this month's activity is 19.2% below that of October 2007; 56.9% below the 2003 level; and 67.2% below the 1998 level.

Nationally, **The Institute of Supply Management** reports another decline in the manufacturing sector for the fourth consecutive month while the overall economy continues to contract for the second month.

ISM's manufacturing index declined 2.7 points to 36.2%. This value is the lowest since May 1982, a 26-year low. Further declines were reported in New orders and Export orders fell as the world-wide recession continues to affect consumers' spending habits. With current market conditions the manufacturing sector throughout the United States will contract further as uncertainty in the economy continues to circulate.

[Leading Indicators](#) | [Individual Sectors](#) | [Home Sales](#) | [Gasoline](#)

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:

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- The Department of Energy
- Freddie Mac
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- The National Association of Realtors
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- TransUnion LLC.
- The U.S. Department of Commerce

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