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# The Index of Economic Activity for Humboldt County

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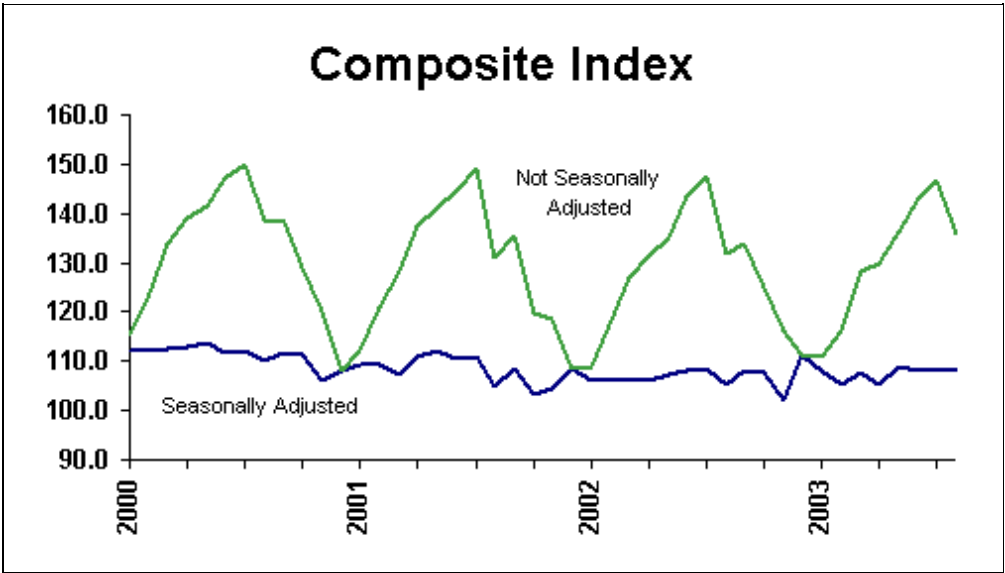
## INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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October 2003

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 2002	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998
COMPOSITE	107.9	-0.6	2.4	2.8	-2.1	-4.1	-1.8
Sector							
Home Sales	142.71	21.7	21.2	62.5	33.6	26.5	26.5
Retail Sales	139.3	-7.3	-0.2	12.1	16.9	6.9	9.4
Hospitality	94.6	-5.4	4.0	-2.5	-10.1	-12.1	-10.9
Electricity Consumption	100.4	-6.6	0.1	-26.2	-22.1	-20.2	--
Total County Employment	103.8	1.0	0.5	1.8	-0.2	-1.2	-0.3
Manufacturing	85.2	4.0	1.2	7.8	-22.2	-21.1	-28.0



Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$221,000	Help Wanted Advertising	5.9
30 Yr. Mortgage Rate as of 9/30	6.000%	Building Permits	39.7
Average Hotel Occupancy Rate	65.5%	Unemployment Claims	22.3
Unemployment Rate**	5.1%	Manufacturing Orders	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.			
** Preliminary EDD data (not seasonally adjusted). See the <a href="#">EDD Website</a> for updates.			

## Discussion

### 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.

Economic activity in Humboldt County stagnated this month. The composite index value dropped 0.6 percent to 107.9. Booming home sales were a bright spot in this month's economic activity. Fueled by low interest rates, the home sales index jumped 21.7 percent to 142.71. With the back to school rush apparently over, retail sales dropped 7.3 percent to an index value of 139.3. Beautiful fall weather was not enough to spark local tourism. The hospitality index was also down 5.4 percent to 94.6. Electricity consumption fell by 6.6 percent to an index value of 100.4. The employment index rose for the third consecutive month. This month's 1.0 percent increase raised the index to a level of 103.8. The unemployment rate also fell for the third consecutive month, and remains below the state and national rates. Humboldt County's manufacturing sector rebounded with a 4.0 percent increase to stand at 85.2.

### Home Sales

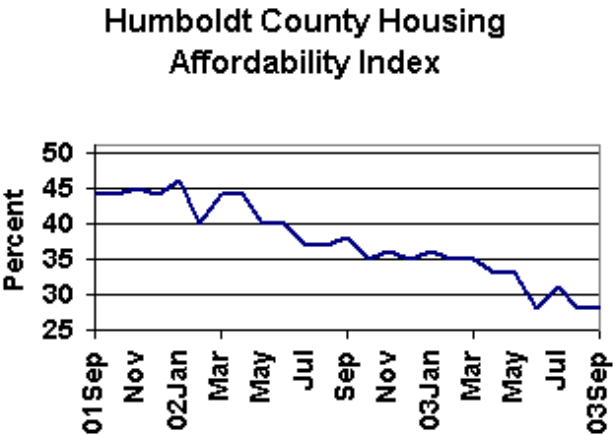
The index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

The seasonally adjusted home sales index skyrocketed to 142.71 in September. This is a 21.7 percent increase from August and is the fourth highest index level ever. Still being fueled by low interest rates, home sales continue to be the strongest sector of the local economy.

The median home price in Humboldt County jumped to \$221,000 in September. This is a 4 percent increase over August's price of \$212,450. Statewide home prices continued to rise, with the median price of existing homes increasing 17.9 percent to \$380,040. "We're continuing to experience the impact of the recent rise in mortgage interest rates on home sales in California," said C.A.R. President Toby Bradley. "Although interest rates are still near their historic lows, the psychological

impact of rising rates has created a heightened sense of urgency in the housing market." (www.car.org) Nationally, home sales were record breaking for the third consecutive month. Existing home sales are up 20.8 percent from September 2002. The national median existing home price rose 9.1 percent to \$172,300. (www.realtor.org)

The Humboldt Association of Realtors' Housing Affordability Index represents the percentage of Humboldt County households that could afford to purchase a median priced home. In the most recent release the affordability index remained unchanged at 28 percent.



According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of October 30th, was 5.94 percent with an average 0.6 points. This is a slight increase over last month's rate of 5.77 percent. With interest rates expected to stay low, home sales should remain strong. According to Frank Nothaft, chief economist at Freddie Mac, "Worry about disinflation should now be tempered somewhat, but fear of inflation is still unwarranted. And that should keep mortgage rates from rising too quickly or steeply anytime in the near future." (www.freddie.mac.com)

## Retail Sales

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

The retail sector slumped in September. Seasonally adjusted sales at participating retailers fell to 139.3, which is a 7.3 percent decrease from August's index level. The current level is 0.2 percent lower than September of 2002.

The Commerce Department reports that national September retail sales were down 0.2 percent from the previous month's level, yet up 7.5 percent from September 2002. While overall retail sales stagnated, there were sizable gains in building material and garden equipment which is up 11.4 percent from September 2002. The Commerce Department revised the retail sales figures for the July to August 2003 period from a 0.6 percent increase to 1.2 percent increase.

The Conference Board's Consumer Confidence Index, which had dropped in August, rebounded in September. The measure, which now stands at 81.1, is up 4.1 points from the previous month. "A more favorable job market was a major factor in the turnaround. And, the belief that this trend will continue has boosted expectations," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "With the holiday season around the corner, this improvement in consumers' spirits is a good omen for upcoming retail sales." (www.conference-board.org)

The Federal Reserve Bank's Beige Book notes an improvement in sales in the western region of the country. Strong back-to-school sales lowered department store inventories and prompted new orders

from manufacturers. Despite attractive financing offers, automobile sales dropped slightly. The service sectors showed strong improvement. An increase in demand for efficiency enhancing technologies lead the IT and media industry. Regional travel and tourism also picked up. ([www.federalreserve.gov](http://www.federalreserve.gov)).

Hospitality

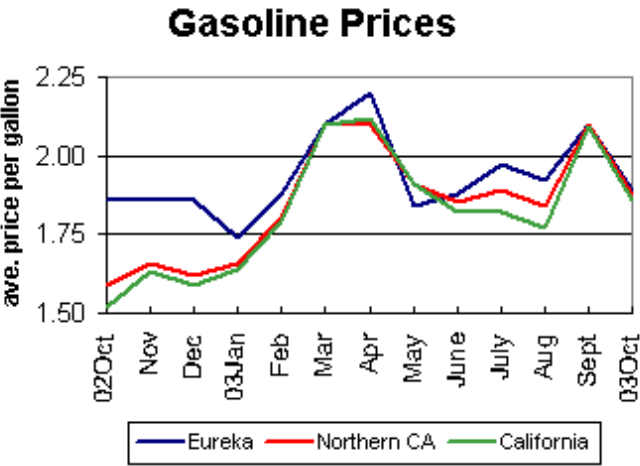
The index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.

Humboldt County's hospitality sector declined in September which is traditionally a strong month for tourism. Average occupancy at local hotels, motels and inns, dropped to 65.5 percent. The seasonally adjusted index number for the sector decreased 5.4 percent to stand at 94.6.

Gasoline Prices

Average Price* (as of 9/16)		Change From Prev. Month (cents/gal.)
Eureka	\$1.89	-21
Northern CA	\$1.88	-22
California	\$1.86	-23

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](http://www.csaa.com)).



Gas prices have finally come back down after the Labor Day price hike. Decreasing demand and steady production in California refineries have contributed to the recent price drop. "After digging deep into their wallets to pay for gas that was often over \$2.00 a gallon during late summer, motorists are finally getting some well-earned relief," said AAA of Northern California spokeswoman Jenny Mack. "But prices remain higher than usual for this time of year. We should continue to see prices drop for at least the next few weeks." ([www.csaa.com](http://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.

In September seasonally adjusted consumption of electricity fell 6.6 percent to 100.4.

Third quarter revised electricity consumption index:

- July's actual index level was 111.35, down 4.6 percent from the estimated level of 116.7.
- August's actual index level was 107.42, down 11.3 percent from the estimated level of 121.17.

### Total County Employment

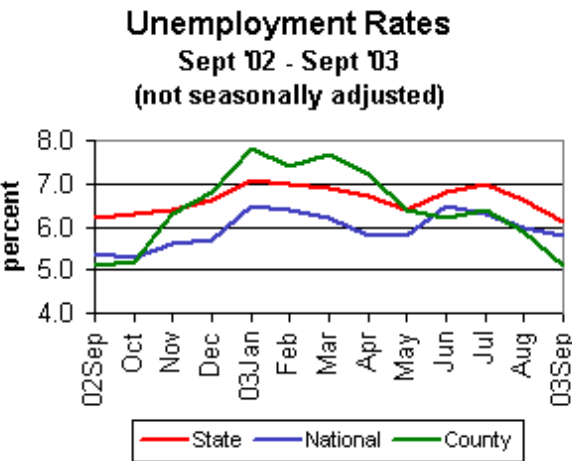
The index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

In the preliminary report for September, the EDD reported that 57,700 people were employed in Humboldt County. This is a 1.8 percent increase over August's revised figure, indicating a net gain of 1,000 jobs. This jump in employment pushed the seasonally adjusted employment index up 1.0 percent to 103.8.

Sectoral changes in Humboldt County employment:

- The service sector lead the county in new job creation. Local government was the driving force behind the increase, with 700 new jobs created. State government education also created 200 new jobs. Retail trade and food services each added 200 new jobs.
- A loss of 100 jobs in wood product manufacturing was mitigated by an increase of 100 jobs in other manufacturing. Overall manufacturing employment was unchanged.
- Employment in the agricultural, construction, and natural resources & mining sectors remained unchanged.

Humboldt County's unemployment rate hits it's lowest level in the past twelve months and remains well below the state and national rates. September's unemployment rate for Humboldt County (not seasonally adjusted) decreased five-tenths of a point from August's figure of 5.6 percent to a preliminary 5.1 percent. Meanwhile, the state and national rates (not seasonally adjusted) also dropped to 6.1 percent and 5.8 percent respectively.

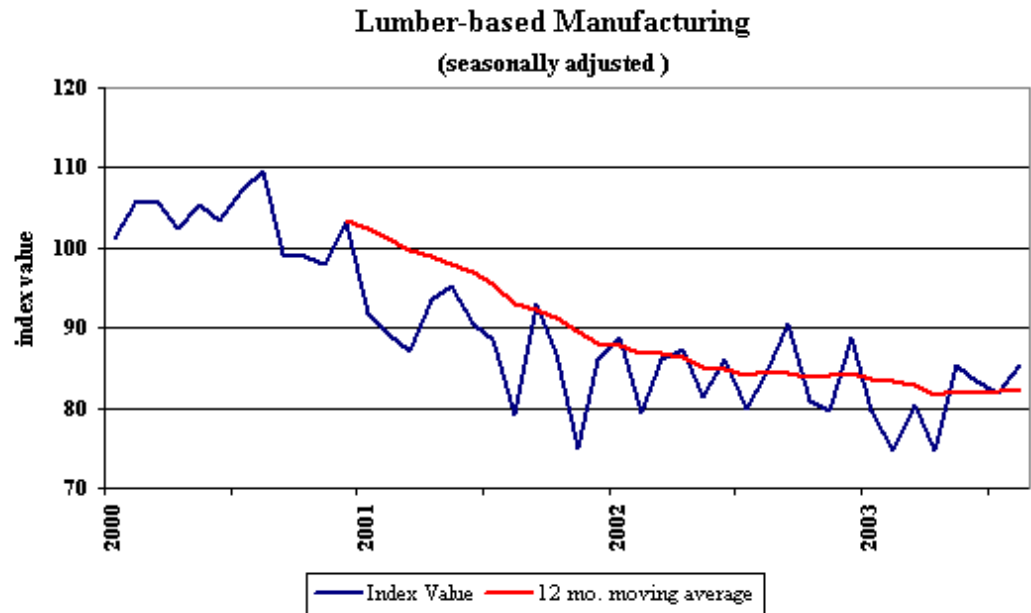


### Lumber Manufacturing

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. Lumber-based manufacturing generates about

60 percent of total county manufacturing employment.

The preliminary August index value for this sector is up 4.0 percent from the previous month to stand at 85.2. This increase may be signalling a recovery in this sector.



National manufacturing output in October, as measured by the Institute of Supply Management, grew for the fourth consecutive month. The current ISM Index level of 57.0 percent is an increase of 3.3 percentage points when compared to September's PMI of 53.7 (a number higher than 50 indicates growth). Norbert J. Ore, C.P.M., chair of the Institute for Supply Management says "The manufacturing sector enjoyed its fourth consecutive month of growth as new orders continue to lead the recovery. Production made a sharp swing upward during October, signifying growth for the sixth consecutive month." ([www.ism.ws.cfm](http://www.ism.ws.cfm))

## 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 help-wanted advertisements in the *Eureka Times-Standard*, (2) number of claims for unemployment insurance, (3) volume of manufacturing orders, and (4) number of building permits issued. 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.

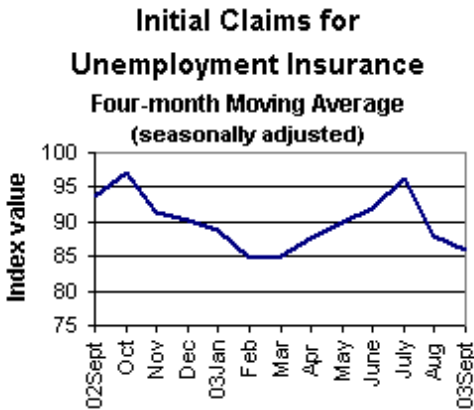
## Employment-Based Economic Indicators:

The leading indicators for Humboldt County's economy are giving positive signals for future economic growth. Seasonally adjusted help wanted advertising increased by 5.9 percent in September signaling a continued increase in producer confidence. Despite the gains in the labor market this month, initial unemployment claims rose 22.3 percent. However, there are large swings in claims from month to month. When smoothed with a four month moving average, initial unemployment claims are trending downward. Building permits jumped 39.7 percent indicating a continuation of the upward trend in the housing market. The manufacturing industry leading indicator remained unchanged.

A count of help-wanted ads indicates the number of new job openings.



Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the number of new unemployment claims is a negative indicator of economic activity.



Manufacturing Economic Indicator:

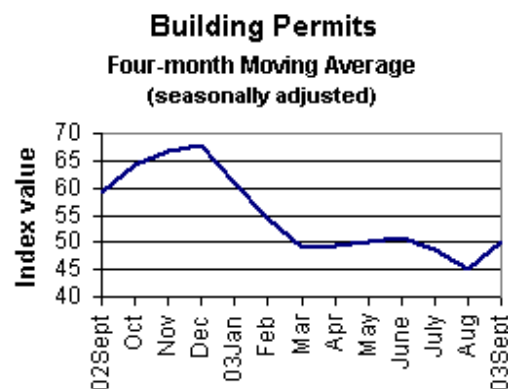
Manufacturing orders are a leading indicator of activity and employment in the County.



Home Sales Economic Indicator:

Single and multiple unit residential and commercial **building permits** from municipalities and unincorporated county areas are a leading indicator of future home sales.





## The Bigger Picture

Third quarter U.S. GDP growth soared to its highest level since 1984. The gross domestic product (GDP), which measures the total value of the nation's output of goods and services, grew at a seasonally adjusted annual rate of 7.2 percent during the third quarter. The GDP growth was led by strong increases in personal consumption expenditures, residential fixed investment, equipment and software, and exports. Personal consumption expenditures experienced real (seasonally adjusted annualized) growth of 6.6 percent in the third quarter. This was lead by tremendous growth in durable goods consumption. Equipment and software grew at a real (seasonally adjusted annualized) rate of 15.4 percent. Residential fixed investment experienced real (seasonally adjusted annualized) growth of 20.4 percent. Exports grew at a real (seasonally adjusted annualized) rate of 9.3 percent. (bea.doc.gov)

GDP isn't the only economic indicator that is soaring. The federal government budget deficit has also hit a record high. The Department of Treasury announced on October 20th, there was a \$374.22 billion budget deficit for the fiscal year 2003 which ended on September 30th. (www.ustreas.gov) This is larger than the previous record high of \$290 billion posted by the first Bush Administration in 1992. (www.cnn.com) In a statement released by the White House Office of Management and Budget, Director Joushua Bolten said, "Although the deficit is still projected to increase in 2004, and will likely exceed \$500 billion even with a strengthening economy, we can put the deficit on a responsible downward path if we continue pro-growth economic policies and exercise responsible spending restraint." (www.whitehouse.gov)

Around the world nations are seeking bilateral trade agreements and special free trade zones in the wake of the failed WTO conference in Cancun. An earlier proposal that is getting revived attention is the Free Trade of the Americas Accord. The proposed agreement would create a free trade zone from the tip of South America to the top of Alaska. Many Latin Americans however are reluctant to enter into the hemisphere wide trade argeement. Most noticably, Brazil insists on an end to agricultural subsidies in the United States. This is the same point of contention that lead to the collapse of the WTO trade talks. Even the European Union, who also came under fire at the WTO conference, is fed up with what it considers unfair American subsidies. EU Trade Commissioner Pascal Lamy threatened \$4 billion in sanctions against the U.S. for violating WTO trade rules. The Europeans argue that U.S. tax rules give American steel exporters an unfair subsidy. The U.S. House of Representatives recently approved a bill to repeal the export-tax break. The repealed law will however be replaced with a corporate tax cut for top U.S. manufacturing firms. (online.wsj.com)

In local news, the Port of Oakland is seeking a partnership with Humboldt Bay. Jerry Bridges, Maritime Director for the Port of Oakland expects shipping on the west coast to triple within 15 to 20 years. Unable to handle such huge increases in volume, the Port of Oakland hopes to use the deep water port in Humboldt Bay to ship cargo to and from the west coast. There is one logistical difficulty with the proposal, namely how to get cargo between Oakland and Humboldt Bay. Local harbor commissioners note that restoring rail service would solve the problem. However, this would be costly and Port of Oakland officials are reluctant to support the endeavor. (Times Standard)



**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 green 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 (the blue line in the diagram above) provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so 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 San Francisco Chronicle web site](#)  
[The New York Times web site](#)  
[California Association of Realtors web site](#)  
[National Association of Realtors web site](#)  
[Freddie Mac web site](#)  
[American Automobile Association web site](#)  
[The Conference Board web site](#)  
[Institute of Supply Management web page](#)  
[U.S. Bureau of the Census's home page](#)  
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