

Humboldt Economic Index

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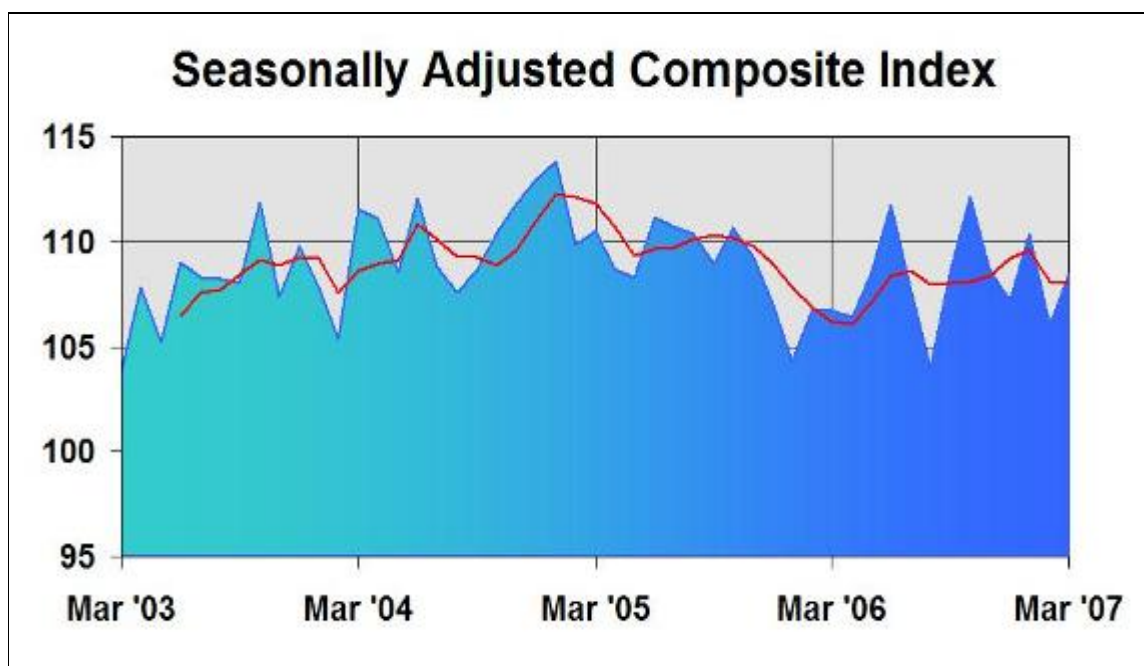
Humboldt Economic Index

April 2007

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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 Humboldt Economic Index increased 2.3 percent this month to 109.6. The increase was driven most significantly by a 22.4 percent increase in the Home Sales Index. Retail Sales and Manufacturing were also up markedly this month with a negligible increase in the Total County Employment Index and a decline in the Hospitality Index. The median house lost almost \$25,000 in value over the last year.

Composite & Sectors

Index	Value*	Percent Change From:			
		Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	108.5	2.3	1.6	2.2	4.8
Home Sales	136.5	22.4	6.5	6.5	98.3
Retail Sales	156.3	1.8	14.3	10.5	47.9
Hospitality	78.3	-2.4	-3.7	-12.1	-19.3
Electricity Consumption	118.2	0.0	-13.5	10.2	13.1
Total County Employment	106.6	0.4	1.1	3.8	3.4
Manufacturing	64.0	4.9	5.4	-19.4	-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‡
\$325,000	6.00%	5.1%

* 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*	15.4	1.4	130.8	not available

* All values are seasonally adjusted.

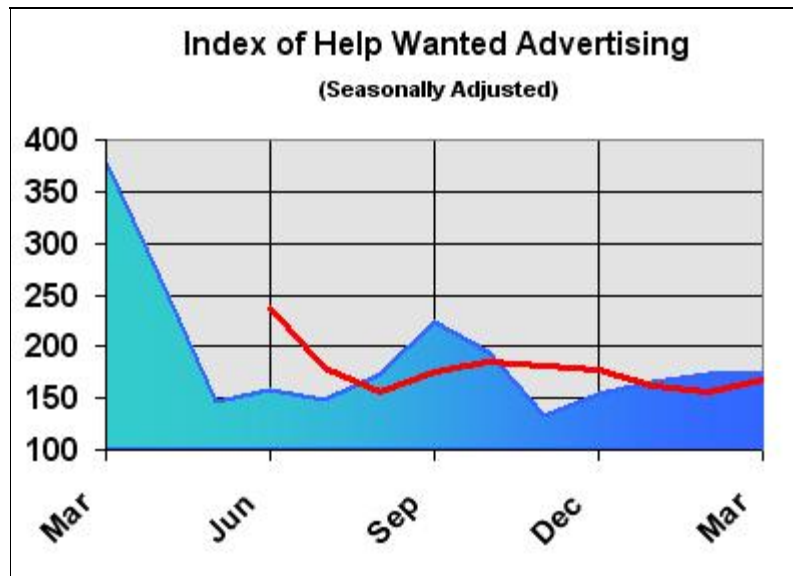
The Index tracks four leading indicators to get a sense of the direction that the county economy may take in the near future. The four leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) expected manufacturing orders. The 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

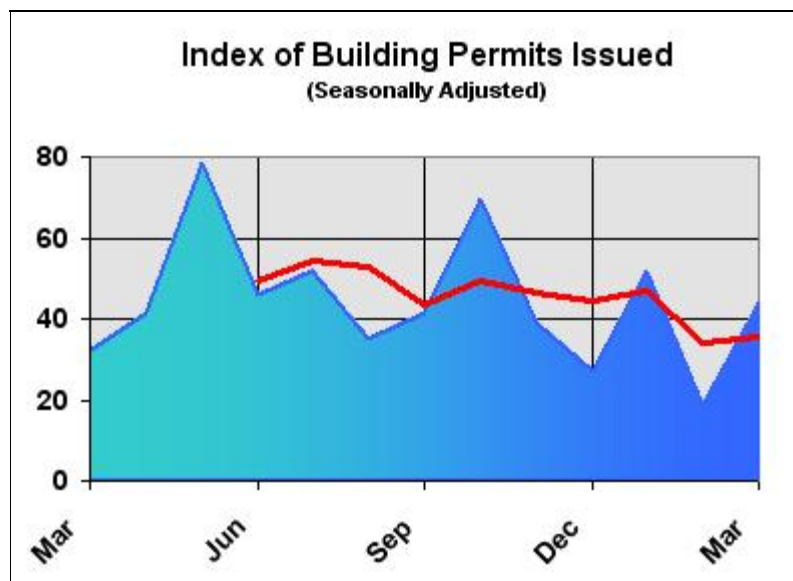
shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment Claims rose 15.4 percent this month, which may presage a decline in economic activity in the county in coming months. This is also indicated by the fact that this indicator has been trending upward, although this month's increase is surprising in light of the slight decrease in total unemployment this month and the large increase in total employment, as well as the slight increase in help wanted advertising and the slight decrease in the seasonally adjusted Humboldt County unemployment rate.



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 is up this month a slight 1.5 percent. The trend in this Index is still distorted by the data collection error we experienced several months ago. When this drops off the chart in coming months, the trend in this Index will be more appreciable. Currently, the long run trend is slightly downward, indicating a weakening in coming months in the Humboldt County labor market. The increase this month will only be significant if it is sustained in coming months and the Index acquires an upward rather than downward trend.



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 jumped a dramatic 120 percent this month, but they were so extremely low that even with this gain, the Index is low and the long run trend is still appreciably negative. If sustained, growth in this Index will indicate strengthening in the future for the local economy, particularly building, but right now this Index is quite low.



The seasonally adjusted Index of Manufacturing Orders 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.

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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.

If you missed Dr. Christopher Thornberg's recent lecture on "Real Estate and the California Economy," you can watch all three parts from <http://www.humboldt.edu/~econ/program/lectures.html>.

The seasonally adjusted Index of Home Sales rose sharply this month as home sales continued to increase. The Index added 22.4 percent to a value of 136.5. This is still well off from the peak this Index reached back in June of 2004 when it stood at 157.0, although that month was something of an aberration. The Index has never sustained a value much over 145 in two consecutive months.

The median sales price of a home in the County this month was \$325,000, which is down \$24,500 compared to twelve months ago. In inflation-adjusted terms, this is a 9.5 percent real loss. March is the eleventh straight month in which inflation adjusted housing prices were lower than a year earlier. Before 2001, it was common to have inflation-adjusted housing losses year on year. It remains to be seen how this decline in wealth to Humboldt County homeowners will show up in their spending.

Interestingly, some media reported this decline in house prices in the accurate albeit less than straightforward terms of an *increase in affordability*. It is important to note that housing affordability is affected by two factors: house prices and incomes. When reporting an increase in affordability it is helpful to identify which factor is driving the change. When falling housing prices are the critical factor potential buyers may want to be more wary of entering the market.

The **California Association of Realtors** reported in March that housing affordability declined in the last quarter of 2006 as the state's housing affordability index fell. The income now required to buy an entry-level home in California is now \$96,760 and the price of an entry-level home is now \$447,400. C.A.R. also reports that the number of homes sold in the state is 20.8 percent lower than a year ago as prices are up 3.2 percent. After adjusting for inflation the increase is less than 1.5 percent on the year.

The **National Association of Realtors** predicts that house prices will fall over 2007, which will be the first yearly decline since they started keeping statistics. David Lereah, the chief economist at NAR, noted a few days ago that tightening lending standards in response to the sub-prime lending crisis will forestall recovery in the housing market. This is without a doubt true, but it remains to be seen whether in addition to forestalling recovery, this development also exacerbates the slump. In this connection, note that the Association also published its Pending Home Sales Index earlier this month, which measures the number of sales in progress in the nation. This Index gives insight into the strength of the national housing market in the coming month. This Index is down 10.5 percent on the year and at its weakest level in over four years with a current value of 104.3.

The NAR also reports that the median sales price of a home in the US was up over last month by \$4,200, but virtually unchanged on the year at \$217,000 from \$217,600 a year ago. In real terms this represents a 3.5 percent price decline on the year, or a loss of about \$7,500. Home sales also declined on the national level, dropping 8.4 percent from March a year ago. In one of its more perplexing announcements, the NAR proclaimed that quote "David Lereah, NAR's chief economist, expected the drop. 'For the last couple months we've been expecting a weather 'hit' on home sales finalized in March.'" It is implausible that an economist foresaw unseasonable weather two months off. It seems more appropriate to attribute weak sales to the first effects of the sub-prime lending fallout. To his credit Lereah also mentions this sub-prime lending issue as a secondary effect.

It would be interesting to know if current Humboldt County buyers are predominantly local, or from out of the area. Some suggest that current home buyers in Humboldt County may be coming here from even more expensive markets outside the county. Compared to local incomes and local rents, Humboldt County housing is overpriced, but compared to housing prices in many other California communities Humboldt County homes are still fairly cheap. It would take only a handful of the folks who are leaving expensive markets in the Bay, Sacramento or other areas coming here to make a significant impact. The

difference between a weak month and an average month for home sales in Humboldt County is only around a dozen home purchases a month. On the other hand, foreclosures have skyrocketed to record levels around the state within a few months.

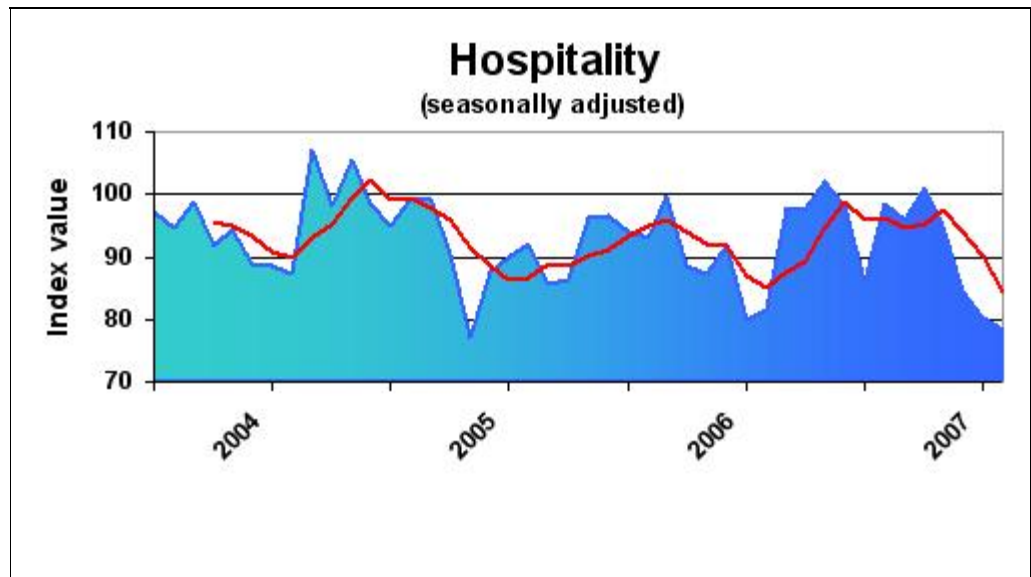
For a local perspective on the possibility of a housing bubble, visit the [Humboldt Real Estate Economics Page](#).

Retail Sales

Retail Sales made up for some lost ground last month, adding 1.8 percent. The Retail Sales Index is down from its January level. This is not terribly concerning, as January represented a new record for this Index and the current lower value is still among the very highest this Index has ever reached. Retail Sales have long been one of the strongest sectors of the local economy.

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 this month is the only sector in the red. This Index declined 2.4 percent on the month to a value of 78.3. This is definitely in the bottom of the Index's usual range. It tends to fluctuate between about 80 and 110. Hospitality was also weak last month, declining an additional 5.0 percent. This is beginning to look like a weak spell for this industry as the Index declines and the four month moving average takes on a decidedly negative slope.

Gasoline Prices

As AAA spokesperson Sean Comey wryly noted this month, "If only your paycheck kept pace with the price at the pump, you'd be having a great time." Prices at the pump continued to rise this month statewide. In a rather atypical arrangement, Humboldt County has not caught the worst of gas prices, as the Northern California price rose a whopping 64 cents a gallon, while prices in Eureka rose a relatively meager 22 cents. California as a whole saw an increase of 23 cents.

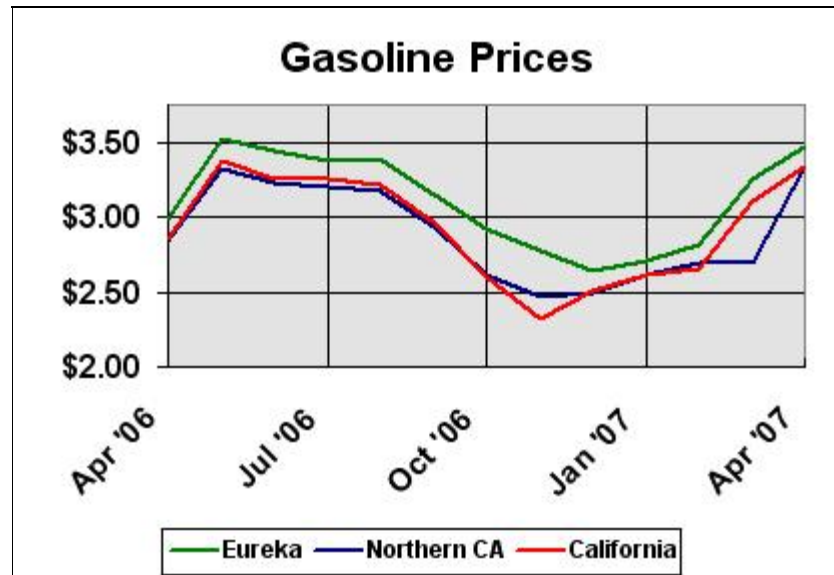
Eureka typically has the highest, or at least second or third highest gas prices each month in AAA's monthly gas price survey, however this month many communities experienced higher prices including Stockton, San Francisco and Santa Barbara. Considered as a whole, prices in the Bay Area were comparable to those in Eureka at \$3.47 per gallon.

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 April 2007	Average Price*	Change from Previous Month
Eureka	3.47	0.22
Northern CA	3.34	0.64
California	3.34	0.23

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

The Electricity Consumption Index declined to a value of 118.2 as of December. This was the most recent month in which data was available and continues a slide begun in February when the Index was at a peak of 140.1. 2006 was a year of declining consumption, as 2005 ended with an Index value of 148.4. Electricity consumption is a somewhat mixed indicator of economic activity. Increased consumption is generally consistent with expanding economic activity, but decreased consumption may be a result of conservation rather than decreased economic activity. Since energy prices were high for much of the year, conservation may be a large part of the explanation for the decline in consumption during 2006.

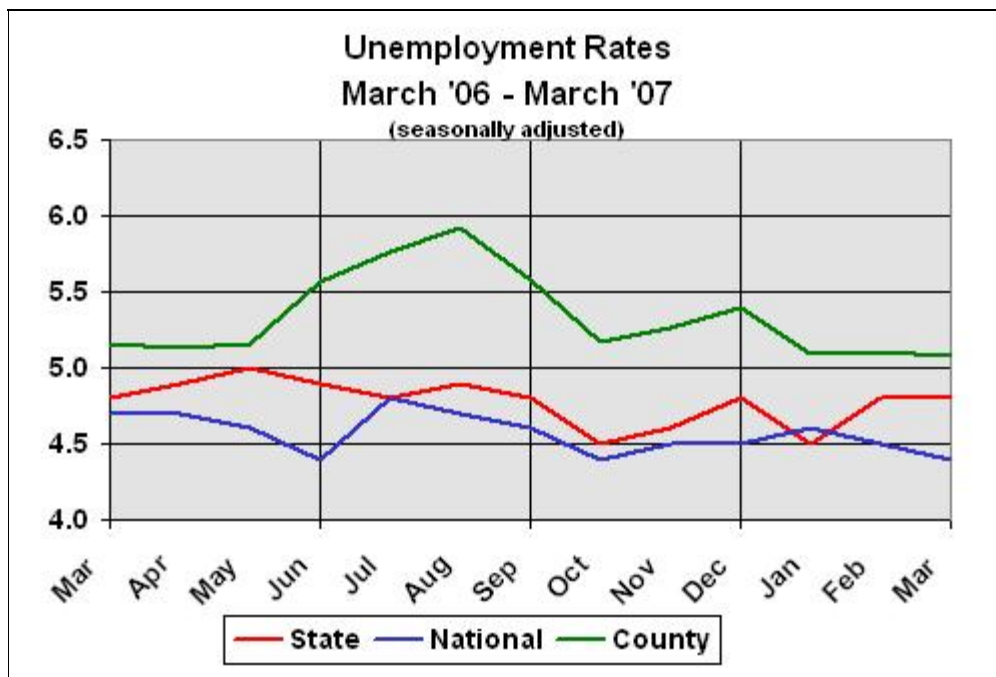
Total County Employment

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

The seasonally adjusted Humboldt County unemployment rate remained at 5.1 percent for the third consecutive month. This is a fairly favorable level, historically for Humboldt County. The seasonally adjusted Humboldt County Employment Index rose slightly this month because it is based on total employment rather than on the unemployment rate. The county added jobs this month as new workers flowed into the county workforce. While the total number of the unemployed remained fairly stable, 700 jobs were created in the county this month.

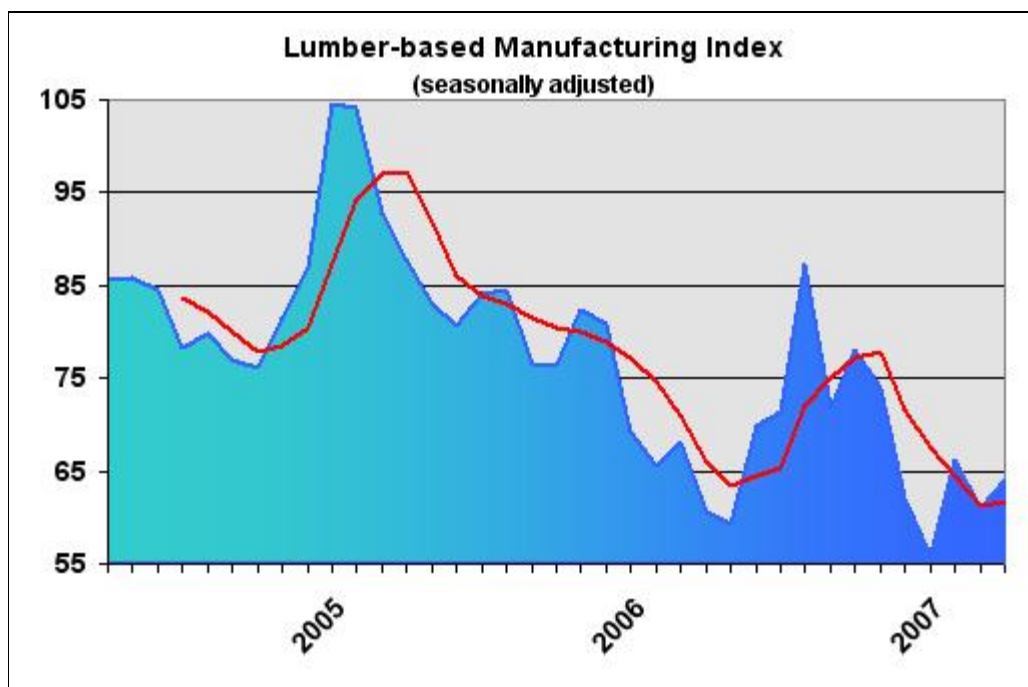
According to the **California Employment Development Department**, or EDD, the seasonally adjusted

state unemployment rate also remained stable at 4.8 percent in March and the US **Bureau of Labor Statistics** reports that the seasonally adjusted national unemployment rate ticked downward as the US economy continued to experience a strong labor market. The national rate is now 4.4 percent, down from 4.5 in February. It is interesting to note that the current national rate of 4.4 percent is quite low. The US hasn't experienced lower unemployment in almost 6 years, since May of 2001 when the halcyon days of what was then thought by some to be the "new economy" wound to an end.



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.

Humboldt County lumber-based manufacturing was strong this month, adding 4.9 percent over last month's level, however this did not come even close to recouping last month's decline. Last month this

Index lost 9.2 percent. In spite of this month's gain, this Index has the appearance of a structural or static decline, having generally lost ground over the past decade and even before. A considerable period of consistent gains would be required to return this Index to an appearance of strength. This Index reflects only the performance of lumber-based manufacturing in the County. Other facets of Humboldt County manufacturing may be examined by The Index in the future if interest in the community exists for this research to be done.

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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:

[Bureau of Labor Statistics](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[National Association of Realtors](#)

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