Professor Steven Hackett, Executive Director
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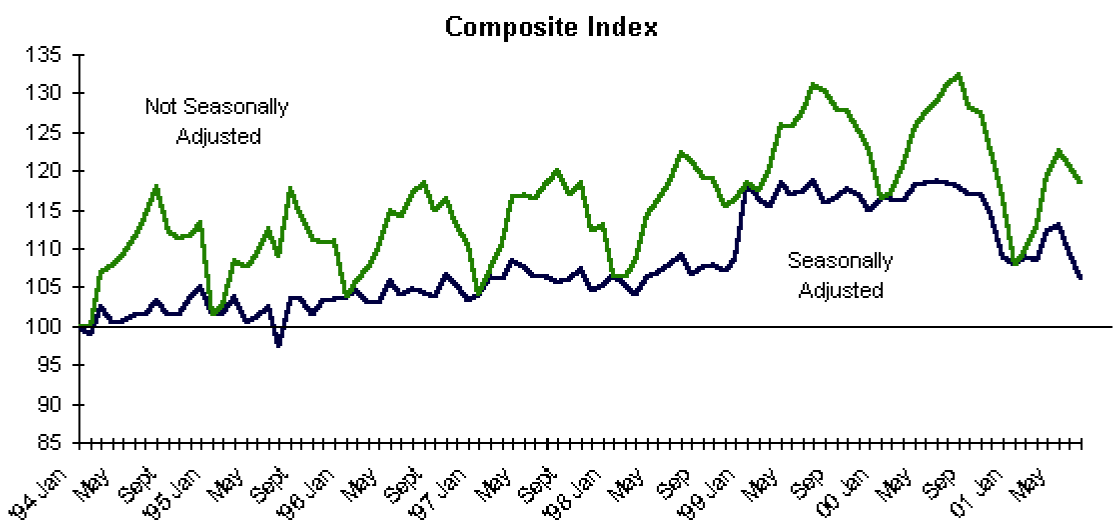
August 2001



Key Statistics		Leading Indicators	
Humboldt County		***Seasonally Adjusted***	**% Change From Previous Month**
Median Home Price*	$152,000	Help Wanted Advertising	-13.0
30 Yr. Mortgage Rate (8/23)	6.875%	Building Permits	+38.7
Prime Rate (8/23)	6.5%	Unemployment Claims	+12.6

Unemployment Rate**	5.3%	Manufacturing Orders	-3.6

* Home price data are provided by the Humboldt County Board 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. See the EDD Website for updates.

Sectoral Performance, *Index of Economic Activity for Humboldt County*

* * *		Percent Change From:					
Sector	**Sectoral Index Value (1994=100)**	**Previous Month**	**Same Month 2000**	**Same Month 1999**	**Same Month 1998**	**Same Month 1997**	**Same Month 1996**
Lumber Manufacturing	95.3	-4.7	-11.5	-14.9	-19.7	-23.4	-18.4
Home Sales	122.9	-8.9	+5.8	+0.1	+4.9	+50.8	+39.5
Hospitality	103.9	-10.4	-9.2	-1.9	-3.8	+3.4	-6.4
Electricity Consumption	105.1	-3.7	-22.1	-26.9	-0.7	-0.7	-1.6
Retail Sales	147.3	-6.1	+9.0	+2.8	+6.6	+0.2	+44.3
Total County Employment	103.0	-0.8	-1.2	-2.6	-1.9	+1.1	+2.8

Discussion

Composite Index and Overall Performance

There is little positive news to report this month. The seasonally-adjusted *Index of Economic Activity for Humboldt County*, which now stands at 106.1, fell 3.4 percent from July's 109.7. The figure is also down in the year-over-year comparisons by 3.4 percent from 2000, 10.5 percent from 1999, and 10.7 percent from 1998. All of the sectors we track showed negative growth when compared to last month's figures. Two of our strongest performing sectors thus far this year, Home Sales and Hospitality, both registered sharp drops. While the former measure remains high by historical standards, the latter fell across nearly all comparisons. The decreases in Retail Sales and Total County Employment both more or less mirror the fall-off seen nationally in these sectors. Addtionally, three of the four Leading Indicators we track show negative performance when compared to last month's numbers. Even the increase in the fourth, Building Permits, partial indicates deteriorating conditions in other aspects of the economy according to analysts (see below). The Electricity Consumption figure, which indicates ongoing conservation, and interest rates that continue to fall seem to be the only causes of hope for a turn around any time soon.

Lumber Manufacturing

We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about two-thirds of total county manufacturing employment.

This month's preliminary figure declined 4.7 percent after experiencing two months of growth. It is also down

sharply when compared to same month activity of years past.

Pacific Lumber Co. announced the closure of its Carlotta mill earlier this month. Some 100 workers are expected to be effected. A company spokesperson blamed the move on seasonal restrictions intended to protect endangered wildlife and ongoing environmental protests. Environmenalists counter that most of the recent protests affected the supply of old-growth Douglas fir logs, not the redwood logs that the Carlotta facility is tooled to process. They claim the closure is the result of fifteen years of harvesting at unsustainable rates (www.times-standard.com).

As we reported two months ago, Canadian competition is also having an adverse effect on domestic lumber production. About one-third of America's lumber supply comes from north of the border. The U.S. Commerce Department responded to allegations that the Canadian government is unfairly subsidizing its timber industry by recently imposing a 19.3 percent tariff on Canadian softwood lumber. A spokesperson for a British Columbia lumber manufacturer called the tariff "a punitive, arbitrary and purely protectionist measure" (www.nytimes.com). Apparently "free trade" is not always free.

While the overall manufacturing picture remains bleak, at least the rate of job loss in this sector slowed considerably in July (see Total County Employment below). Advance orders for durable goods, a key measure of manufacturing activity, registered a 0.6 percent monthly decrease. Weak demand for computer equipment accounted for most of the decline (www.dismal.com). Despite consistent demand for automobiles, the Ford Motor Company recently announced plans to eliminate 5,000 jobs and to curtail production this fall. One of the factors motivating the move is the continuing strength of the dollar. Among other things, a strong dollar makes imported products (like Japanese and German cars) more competitve in domestic markets and attracts foreign investment in the United States. The Treasury Department has favored keeping the dollar strong for nearly a decade now in order to help keep inflation and interest rates relatively low (www.nytimes.com).

The Good News
Industrial production fell for the tenth consecutive month, though the 0.1 percent drop can be viewed positively since it is much lower than in recent months and may represent a turn around. Another bit of light in the dark are falling inventories that have inhibited production (www.nytimes.com).

An interesting development has begun to appear in the business press regarding so called "inventory corrections." The claims of many CEOs at manufacturing and technology firms that the current slide in these sectors is due to excess inventories have generally been taken at face value. Business writers are beginning to question why these inventories have accumulated and who should be held responsible. One writer cites the example of Cisco Systems, where CEO John Chambers supervised a team that recently overcalculated demand for their products by a hard to believe $2.25 *billion*. Chamber's compensation for the period in which the mistake occurred was a staggering $157.3 million. The writer wonders how an executive can make an error of this magnitude and still be employed, let alone take home a nine figure pay package (www.sfgate.com). Unfortunately, Mr. Chambers is not alone. During the 1990s, annual compensation for American CEOs rose 535 percent, nearly five times the rate at which corporate profits increased (www.ufenet.org).

Home Sales

Home Sales,which has been our most consistently strong sector in recent months, cooled a bit in July. The figure in August's report is down 8.9 percent over the previous month's number. It remains up, however, when compared to the same month's performance for the past five years. 127 units were sold in July. The current quote (8/23) shows the 30-year fixed mortgage rate (zero points) in Humboldt County dropped one-eighth percent to 6.875 percent.

The national numbers, showed mixed performance in July. Sales of new homes rose 4.9 percent, while sales of existing homes fell 3.0 percent when compared to the previous month's figures. July's sales are up 11.0 percent and 7.3 percent, respectively July 2000. The western region of the U.S. saw the sharpest monthly decline in home resales, where the number dropped 8.9 percent from June.

Despite the slowing economy, home prices here and elsewhere across the California remain relatively high. According to an article in the San Francisco Chronicle, the median home price in the Bay Area in July was $382,000. This figure is up 7.9 percent from July 2000. Locally, the median price rose 15.6 percent over the same period. One possible explanation for the Bay Area increase is that even though the regional economy has slowed considerably, sellers are generally reluctant to accept less money than they paid for their homes. Since home prices rose dramatically during the past several years, many people prefer to not to sell at all under such conditions. As a result prices stay high even while the rest of the economy falters. The number of homes sold in the Bay Area seems to corroborate this. The current figure, which is 4.4 pecent lower than it was in July 2000, has declined on a year-over-year basis for eleven consecutive months (www.sfgate.com). A likely explanation of the local increase may be that buyers new to this area, who have experienced huge equity gains in real estate markets elsewhere, are easily able to pay top dollar for homes here. In Humboldt County, over the same eleven month period, monthly home sales increased seven times in the year-over-year comparison.

Rents, meanwhile, are falling across the nation. A recent survey of 65 U.S. markets found rents of all types have fallen between the first and second quarters of 2001 as a result of the ailing economy. In California, residential rents fell between one and two percent (www.sfgate.com). Local data are not readily available, though anecdotal evidence suggests that residential rents in the Eureka-Arcata-McKinleyville area have fallen by a smaller amount, if at all.

Hospitality

We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. The Hospitality sector also lost ground in July after experiencing a particularly active spring and early summer. High gasoline prices and concerns over a faltering economy may be among the causes of the decline. Humboldt County has received a lot of negative press lately due to gas prices that are consistently the highest in the state. According to a recent report issued by the California State Automobile Association, the average price of regular unleaded self-serve gasoline in Eureka is $1.90 per gallon, down from the previous month's $1.96. The state-wide average for the same gallon of gas dropped 20 cents from the previous month to $1.63.

Additionally, tourists may be rethinking their travel plans in the face of economic uncertainty. Occupancy rates for Northern California as a whole fell 14.3 percent in June over the previous year's figure. The downturn in the technology sector, particularly in the Bay Area, is often cited as a major contributing factor to the poor performance. Another factor may be the relative strength of the dollar in the international currency market. Fewer European and Japanese tourists are coming to the U.S. due largely to disadvantageous exchange rates. Their money doesn't go as far here as it does elsewhere. The apparent decrease in activity is also having an unfortunate effect on other tourist related businesses like specialty retailers and restaurants (www.sfgate.com).

Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Because we collect data for this sector quarterly, the figure in this month's report is estimated and will be revised in October's edition of the *Index*.

Electricity users continued to conserve in July, though the month-to-month drop was not as dramatic as it was in the previous month. Californian consumers used 5.4 percent less electricity in July than in June (www.times-standard.com).

Meanwhile, the state has been buying natural gas in the hopes of ameliorating future electricity price spikes. The plan is to purchase gas now at relatively low prices and store it until it is needed by electricity generators during times of peak demand. Then the gas will be sold to the generators, presumably at less than spot market price. Since large electricity providers often cite high gas prices to justify the outrageous wholesale electricity prices they charged earlier this year, state energy officials hope this plan will help avoid the market conditions that wreaked havoc last winter and spring. Details of how much gas is being purchased and how much it costing

the state are being kept secret for the time being (www.sfgate.com).

As we reported last month, lower temperatures and reduced demand has resulted in both lower wholesale prices and fewer rolling blackouts. This is good news for the state economy. Economists predicted earlier this year that rising electricity prices and episodic power shortages would have a devastating effect on the economy this summer. So far, the impact has been much less than was anticipated.

Retail Sales

Retail Sales in Humboldt County decreased 6.1 percent from the previous month. This sector is up across all of the year-over-year comparisons, however.

Nationally, July's retail sales were unchanged from the previous month. This is slightly better than the 0.2 percent decrease economists had anticipated. Declines in automobile and gasoline sales offset small gains made across most of retail's other subsectors (www.dismal.com). In a darkening economic climate, shoppers are increasingly looking for deals. Same store sales in July at major discount retailers like Wal-Mart, Kmart, and Costco increased 6.0 percent, 3.4 percent, and 4.0 percent, respectively, from a year ago (www.nytimes.com).

This should enliven the debate over the effects these "Big Box" retailers have on small communities. Critics have long maintained that expansion of the national chains tends to wipes out independent locally-owned businesses. A recent article in the Times-Standard reported on efforts being made by local business to compete more effectively against the chains. These include forming merchant cooperatives to expand buying power and public awareness campaigns to educate consumers on the possible economic ramifications of their shopping decisions.

Meanwhile, some economists are beginning to sound more and more like cheerleaders for a losing team. A report on July's retail sales from the Dismal Scientist reads, in part, "[c]onsumers must continue to remain stalwart spenders or the economy will slide into recession." As reported here last month, however, there is little optimism among most economists for near future improvement in this sector. According to another article at the Dismal Scientist, announced layoffs in July jumped 65 percent from June and are up anastounding 222 percent from July 2000. Personal income growth is slowing and consumer confidence is falling. Also, the personal debt to disposable income ratio rose to 14.4 percent, the highest level in fifteen years. Policy makers, who hope that the recent tax rebate engineered by the president will encourage a level of consumption sufficient to keep the economy wheezing along, may be discouraged by what is shaping up to be a lackluster back-to-school shopping season. A survey conducted by American Express claims that despite the extra $300-$600 in their pockets, parents plan to spend little more than they did last year. Additionally, planned spending by teenagers is down 19 percent from a year ago (www.dismal.com). Robert Burns had something to say about the best laid plans, however, so we'll have to wait until next month to see how much the apparent pessimism actually affects spending.

Total County Employment

In their preliminary report for July, the Employment Development Department (EDD) reported that 56,100 people were employed in Humboldt county, down 1100 jobs, or 1.9 percent from June's revised figure. August's seasonally adjusted *Index* figure for this sector is down 0.8 percent from the corresponding revised number for June. It is also down when compared to the same month's performance in the most recent years. Preliminary EDD data indicate the following changes in Humboldt county employment:

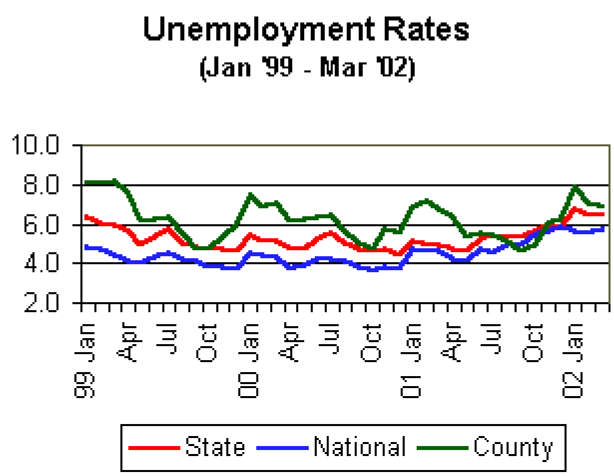
- **Total county employment in the various service industries decreased a depressing 4.7 percent from a revised 42,900 during the month of June to a preliminary 40,900 for the month of July. This sector is also down 0.5 percent over last year's figures. The biggest losers were in the state and local government subsectors, which fell 11.4 percent and 14.6 percent, respectively, from June. Employment in the state education subsector is down 19.0 percent from the previous month. A likely explanation for the latter number is that many non-teaching employees of public school districts are temporarily laid off during**

July and August. Other losers include health services, social services, and retail. The preliminary figure for the retail subsector in July shows 10,800 jobs, which is an decrease of 0.9 percent over the revised June figure.

- **Total county employment in manufacturing rose 1.7 percent in July to approximately 6,100 jobs. As would be expected for this time of year, the logging subsector jumped 16.7 percent from June. This increase represents about 100 additional jobs. Total manufacturing employment is down 3.2 pecent from July 2000. The recent closing of the Eureka Fisheries processing plant does not seem to have had an effect on overall manufacturing employment. Despite the reported 100 lost jobs, employment in food based manufacturing remains constant at around 800 jobs. Similarly, the recent lay offs at Pacific Lumber's Carlotta mill have not affected the sawmill subsector. Employment there remained constant in the month-to-month comparison at approximately 3,000 positions. The year-over-year figure is down 3.2 percent, however.**

Nationally, 42,000 net jobs were lost in July. Yet again, reports indicate manufacturing led layoffs with 49,000 jobs shed. This is the twelfth consecutive monthly decrease for this sector. Total manufacturing losses over the past year amount to some 837,000 positions. There's a pewter lining in this particular cloud, however. The 49,000 figure is fewer than half the number of jobs lost in manufacturing in each of the previous three months. Health services, engineering/management services, and restaurants posted slight gains (www.dismal.com and www.nytimes.com).

The county unemployment rate fell from a revised 5.5 percent for the month of June to a preliminary 5.3 percent for the month of July. The unemployment rate in the state increased from a revised 5.2 percent for June to a preliminary 5.3 percent for July. The national unemployment rate remained constant in July at 4.7 percent.



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 claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued.

Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. August's *Index* figure is down 13.0 percent from the previous month. It also declined 8.8 percent from the same month in 2000, 16.1 percent from 1999, 9.4 percent from 1998, and 12.6 percent from 1997. It is up 3.7 percent when compared to the same month in 1996. This suggests that a significant rise in local employment is unlikely in the immediate future.

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. This measure continues display volatility. The July figure dropped 12.6 percent from June's. It is up 33.2 pecent and 8.9 percent from the same month in 2000 and 1999, respectively. It is down 3.0 percent, up 0.8 percent and down 8.4 percent for the corresponding months in 1998, 1997 and 1996, respectively.

Manufacturing Economic Indicator:

Manufacturing orders, a leading indicator of activity and employment in the County, are down across all comparisons once again. July's number decreased 3.6 percent from June's. In the year-over-year comparisons, the current figure fell 20.9 percent from July 2000, 8.2 percent from July 1999, 37.2 percent from July 1998, 42.5 percent from July 1997, and 40.5 percent from 1996. As noted in the past several reports, the relative lack of new orders nation-wide remains one of the most significant drags on the economy.

Home Sales Economic Indicator:

The building permits indicator is up strongly across all comparisons this month. The number of permits issued in July rose 38.7 percent from June. The figure is up 57.6 percent, 10.6 percent, 52.9 percent, 57.6 percent, and 18.2 percent when compared to July activity for the years 2000 back to 1996, respectively. This performance is likely due to a combination of historically low interest rates and the relative lack of safe investment alternatives in a weak stock market.

The Bigger Picture

In its current Beige Book, covering economic performance for the months of June and July, the Federal Reserve reports pervasive weakness in all twelve districts. Retail sales were characterized as "sluggish and frequently below expectations, despite substantial discounting...." Manufacturing activity declined virtually across the board as producers struggle to unload excess inventories. This sector's ailments continue to spread to other businesses as is evident in reduced demand for commercial real estate, trucking and shipping services, and financial services. Agricultural producers are contending with low crop prices, weak exports, higher energy costs, and in many cases poor weather conditions. The one bright spot is residential real estate, where low mortgage interest rates contribute to healthy housing markets across the country. This, in turn, is keeping the overall economy from sinking into full blown recession (www.federalreserve.gov).

The Fed's Federal Open Market Committee seems to be acutely aware of this last fact. At its most recent meeting (8/21), it cut interest rates for the seventh time this year, bringing the Federal Funds Rate down to 3.5 percent. Last December, this rate stood at 6.5 percent.

As if policy makers aren't contending with enough bad news, the second quarter estimate for GDP growth has been revised downwards from 0.7 percent to 0.2 percent.

Consumers seem to be increasingly wary of current conditions. The Consumer Confidence Index fell for the second consecutive month. The current figure (8/28) came in at 114.3. This is a 1.7 percent decline from July's revised 116.3.

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 2001" report reflects data from July 2001. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

The Dismal Scientist webpage

The Eureka Times-Standard webpage

The San Francisco Chronicle webpage

The New York Times webpage

The Federal Reserve Bank's Beige Book webpage

United for a Fair Economy webpage

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