

Humboldt Economic Index

December 2009

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The Humboldt Economic Index is produced by the Economics Department at Humboldt State University. It 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.

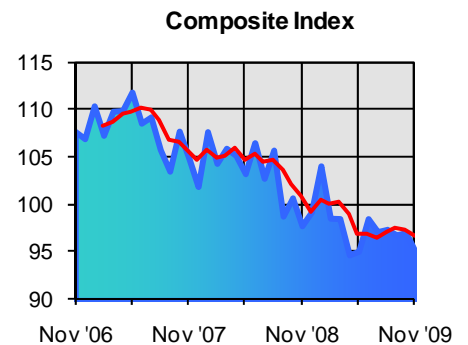
Leading Indicators Positive, Employment Down

This is the last edition of the Index for Casey O'Neill, who has been the Assistant Editor since November, 2007. Casey is graduating with a degree in Economics and in Applied Mathematics. Please join us in wishing Casey much success in his future endeavors.

The overall Composite Index contracted 2.1 percent from October to a value of 95.1. This is the lowest composite value since April 2009. All sectors are down from October with Hospitality experiencing the largest decline. Both the Lumber-based manufacturing index and the employment index reach new historic lows.

Hospitality declined nine percent from October, due likely to travelers worried about weak employment prospects and low consumer confidence. Nationally, occupancy rates have reached Depression Era lows.

Median home prices increased while seasonally adjusted home sales decreased. Mortgage rates rose by one



half a percentage point from October.

The seasonally adjusted employment index continued to fall and now stands at the lowest value since its inception in 1994. Surprisingly, Help Wanted advertising leapt to an eleven month high.

While the Composite Index remains low, all three leading indicators and Consumer Confidence offer a more positive outlook on the economy.

Composite & Sectors

Index	Value*	Percent change from			
		Last Month	One Year ago**	Five Years ago**	Ten Years ago**
Composite	95.1	-2.1	-2.8	-14.3	-14.1
Home Sales	87.6	-3.3	25.8	-35.7	-4.4
Retail Sales	136.1	-1.0	-10.5	-8.4	3.4
Hospitality	84.2	-8.7	-3.6	-0.5	-4.9
Electricity	130.4	0.0	17.9	2.2	1.4
Employment	94.0	-0.3	-6.3	-9.5	-9.5
Manufacturing	29.4	-10.3	-22.0	-66.2	-73.1

* 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.

The Index – Leading Indicators

Leading Indicators

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

Leading Indicators			
	Unemployment Claims	Building Permits	Help Wanted Advertising
Change from prior month*	-39.8%	-7.4%	28.4%
* All values are seasonally adjusted.			

Key Statistics

Median Home Price*	Monthly Rent**	Mortgage Rate†	Unemployment Rate‡
\$265,000	\$1,300	5.38%	12.5%

* The Humboldt Association of Realtors provides home price data. 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.

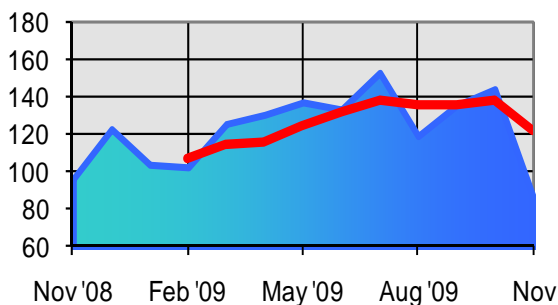
** Average rent on 2, 3 and 4 bedroom houses listed in the Times Standard.

† 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.

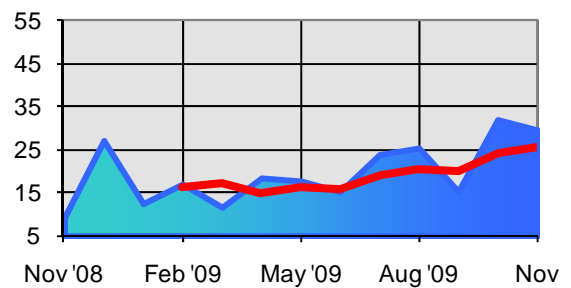
Unemployment Claims declined 40 percent to a seasonally adjusted value of 87. This is the lowest seasonally adjusted unemployment claim since September 2008. If sustained, improving employment opportunities will boost consumer confidence.

Index of Claims for Unemployment Insurance



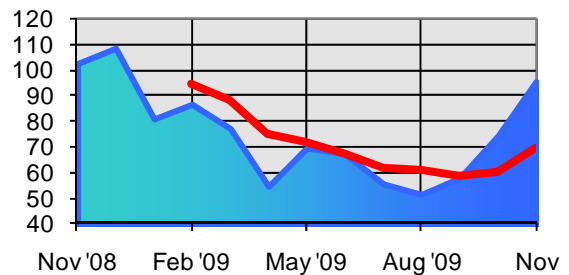
Building permits declined slightly to 30. This is the second highest value over the last twelve months.

Index of Building Permits Issued



Help Wanted Advertising rose 22 percent to a seasonally adjusted value of 96. This is the highest value since December 2008. All three leading indicators this month offer a more optimistic outlook on the future local economy.

Index of Help Wanted Advertising



Graphs Explanation: The blue area represents the seasonally adjusted Index of Unemployment Claims 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 Index – 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.

The seasonally adjusted homes sales index declined slightly to 88.6. The four month moving average has risen over the last six months. Median home prices rose by \$3,750, to \$265,000.

The graph below shows the inflation-adjusted price of the median house sold in Humboldt County over the last twenty years. These prices have fallen about half way to their long run average before the housing bubble in 2002.

The local mortgage rate rose to 5.38%. Though still relatively low, higher mortgage rates effectively lower demand for homes, which puts downward pressure on home prices. During the run-up of house prices 2002-2005, higher housing prices were a much larger factor than lowered interest rates in affecting housing prices. This suggests that despite growing mortgage rates, housing affordability will rise as prices continue to fall.

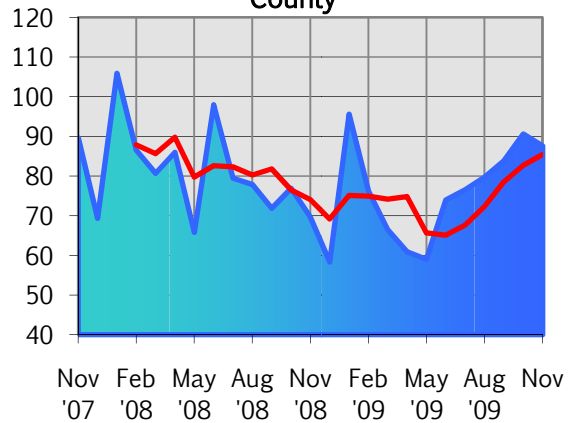
The [Case-Shiller Home Price Index](#) was unchanged September to October. Over the last twelve months it has declined 7.4 percent.

Locally and nationally, high unemployment continues to put downward pressure on home sales and prices. It is uncertain whether the modest recovery in home prices can be attributed to a genuine recovery in the economy or to government policies designed to bolster demand for homes.

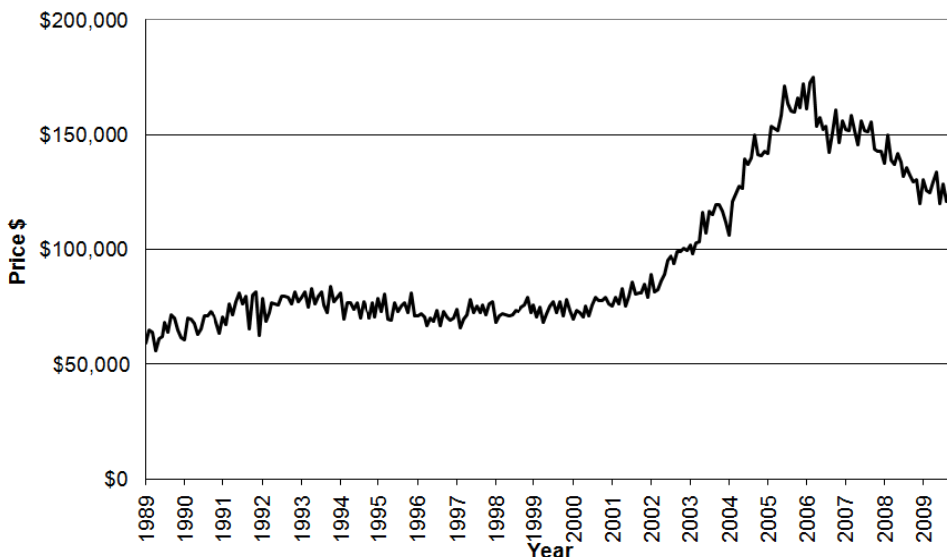
Moreover, while leading indicators offer some reason for optimism, the Federal Government's First-Time Homebuyer Credit, now set to expire in mid 2010, leaves future home prices uncertain.

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](#).

Home Sales Index, Humboldt County



Inflation-Adjusted Median Price of Houses Sold, Humboldt County



Source: Humboldt Economic Index. Amounts in 1982-84 dollars.

The Index – Individual Sectors

Total County Employment

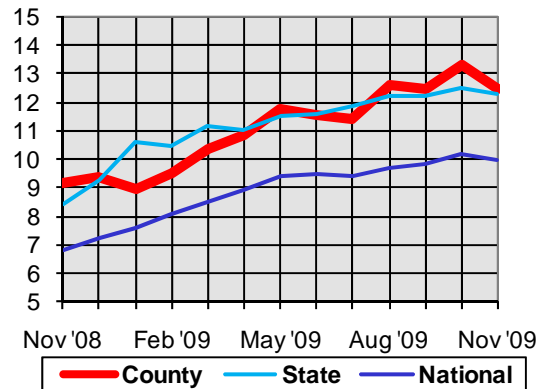
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Total county employment declined 0.2 percent from the previous month to a seasonally adjusted 94. This is the lowest index value since the Index began tracking in 1994. The Humboldt County seasonally adjusted unemployment rate declined to 12.5 percent, while the national unemployment rate declined slightly to 9.4 percent.

The Bureau of Labor Statistics reported that mass layoff events, layoffs of at least 50 workers by one employer, were down by 330 from the previous month to 1,797. This reduction is possibly driven by an improving manufacturing sector, as manufacturing accounted for 33

percent of layoffs in November 2009 and 39 percent of layoffs a year earlier. See Lumber-Based Manufacturing for more on the manufacturing sector.

Unemployment Percentage Rates



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 declined 9.5 percent from October to a seasonally adjusted index value of 84.2. This is well below the Index's long-run average of 91.5.

Nationally, 2009 was the worst year since the Great Depression for occupancy rates. Rates for the year averaged near 55 percent as reported by CalculatedRisk.

Gasoline Prices

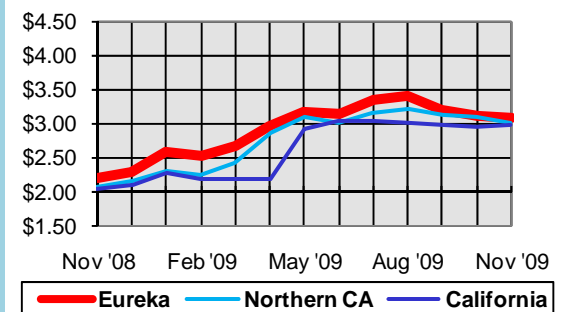
Eureka gas prices fell 3 cents from October, to \$3.07 per gallon, while statewide prices rose 2 cents to \$2.98. There has been a convergence over the past few months between North Coast prices and California prices as a whole, which may be attributed to reduced demand from tourists and to the reduction in the price of diesel used to transport gasoline.

According to the Wall Street Journal, an unusually cold winter has increased global demand for heating oil. Increased demand for heating oil should increase the price of crude oil, putting an upward pressure on nationwide gas prices, as both gasoline and heating oil are derived from crude oil.

Gas Prices		
Prices as of 12/16/2009	Average price*	Change from previous month
Eureka	\$3.07	-\$0.03
Northern California	\$3.02	-\$0.06
California	\$2.98	\$0.02

* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey (www.csa.com).

Gasoline Prices



The Index – Individual Sectors

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 fell 1.0 percent to 136.1. All retailers experience some decline in sales while agriculture supplies experienced the largest decline, followed by manufacturing supplies. Declining retail sales may contribute to higher unemployment. It is unclear whether positive leading indicators will signal a rise in retail sales.

Consumer Confidence rose again in December to 52.9. Though still in a long-run low, a rising Consumer Confidence may increase retail sales as consumers spend a larger proportion of their income.

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.

Electricity Consumption data is unchanged, as quarterly data has yet to be collected. [The New York Times](#) reported that the Obama administration hopes to expand the clean energy tax credit by \$5 billion. If successful, investment in renewable energy may create skilled manufacturing jobs as well as secure sustainable future energy sources.

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.

Lumber-Based manufacturing declined to 29.4, the lowest value the Humboldt Economic Index has recorded. The continued decline of Lumber-Based Manufacturing indicates that the North Coast is evolving into a more diversified economy.

Nationally, the Purchasing Managers Index now stands at 55.9 percent, indicating growth in the manufacturing sector. The Institute for Supply Management reports that manufacturing as a whole grew for a fifth consecutive month in December, while the wood products industry contracted.

Explanatory Note: We have been tracking economic activity since January 1994. The Composite Index at the beginning of this report is a weighted average of each of the six sectors described 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 the most recent data available, which is usually from the previous month. For example, the "August 2006" report reflects mostly data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

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Cited References:

Bureau of Labor Statistics - California Association of Realtors - Case-Shiller Home Price Indices
Consumer Confidence - The Institute of Supply Management
National Association of Realtors - The New York Times

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Contact Info: Erick Eschker can be contacted at ee3@humboldt.edu

www.humboldt.edu/~indexhum

Layout & Design: Matt Hawk