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The Index of Economic Activity for Humboldt County

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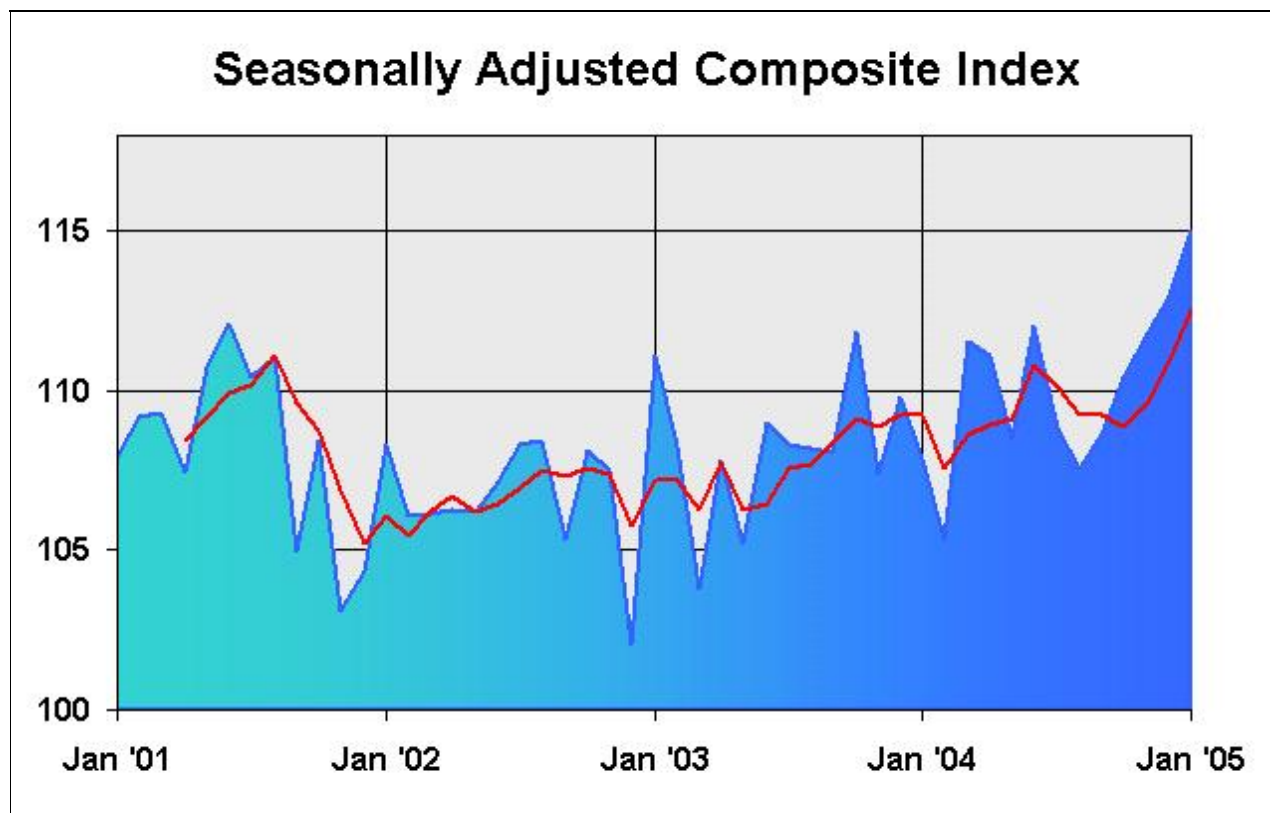
HSU Economics Department

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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This month's report is sponsored by
[California State and Federal Employees' Credit Union #20](#)

February 2005



Graphic description: The seasonally adjusted composite *Index* is represented in the graph above by the blue area. The red trend line shows the four-month moving average of the *Index* which smooths month-to-month volatility to show the long run trend.

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. The current *Index* is based on the most recently available data, which is generally data from the previous month.

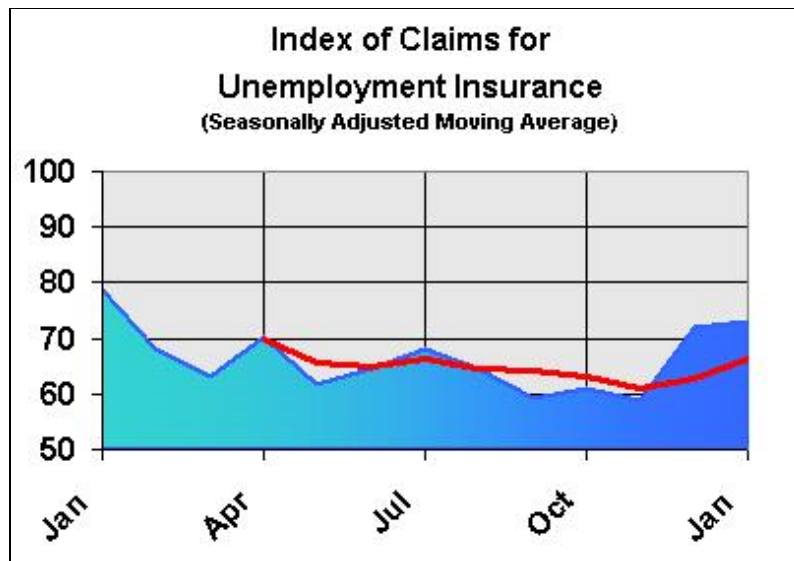
Humboldt County's economy continued to expand in January. The composite Index of Economic Activity rose 1.9 percent from last month's number and now stands at 115.0 (January 1994 = 100). Growth in the hospitality, retail, and employment sectors was tempered by contractions in home sales and manufacturing. Following several months of record figures, the home sales Index declined in January. This month the home sales Index decreased by 4.4 percent to a value of 136.6. This slowing trend is consistent with expert expectations. Manufacturing also declined slightly from last month's high, decreasing by 0.4 percent to a value of 104.1. The manufacturing Index is 30.2 percent higher than it was at this time last year. The hospitality sector showed the largest increase from December by rebounding 13.9 percent. Though still lower than last year's figures, January's hospitality Index shows growth with an Index value of 87.8. The hospitality sector is based on occupancy rates at local hotels, motels and inns and represents a broad selection of both locally owned establishments and nationwide chains. Due to the variability of the hospitality index, we recommend looking at the four month moving average for perspective on the sector's general trend. Both retail sales and employment sectors increased moderately this month. The Index for retail sales grew by 1.3 percent to 149.5 in January. This is an increase of 11.0 percent from January 2004. This is consistent with a national trend of strong sales in the retail sector. The employment Index for Humboldt County increased by 1.5 percent to an index value of 104.5 despite a high unemployment rate. After enjoying an unemployment rate lower than the state and national averages last fall, Humboldt County's preliminary unemployment rate of 7.0 surpasses state and national rates once again.

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 2004	Same Month 2003	Same Month 2002	Same Month 2001	Same Month 2000
COMPOSITE	115.0	1.9	6.7	3.5	6.2	6.6	3.6
<i>Sector</i>							
Home Sales	136.6	-4.4	1.7	-2.1	-1.1	14.8	29.2
Retail Sales	149.5	1.3	11.0	6.0	7.4	12.2	5.8
Hospitality	87.7	13.9	-1.1	-11.1	-4.0	-6.0	-0.4
Electricity Consumption	137.33	1.0	17.2	17.7	20.7	32.3	7.0
Total County Employment	104.5	1.5	-0.9	0.2	2.0	0.2	1.3
Manufacturing	104.1	-0.4	30.2	17.3	20.8	0.9	-6.9

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 claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) manufacturing orders. 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.



Graphic description: The seasonally adjusted Index of Claims for Unemployment Insurance is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

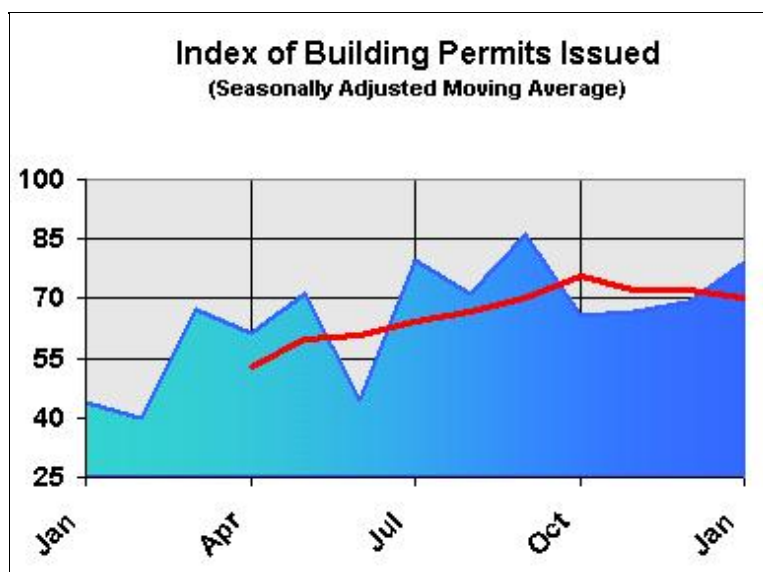
The Index of claims for unemployment insurance is an indicator of negative economic activity. This month the Index rose slightly to a value of 72.9. This increase, coupled with last month's jump in help wanted advertising indicate future job growth. This is also indicated by an upward tick in the four month moving average.



Graphic description: The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red trendline shows a four month moving average which "smoothes" month to month volatility.

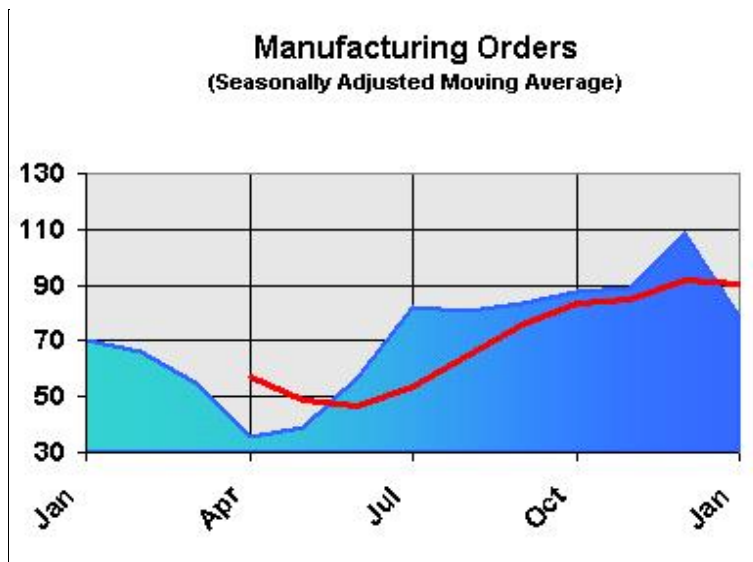
The Index of help wanted advertising is an indicator of labor market conditions and job creation. This Index is based on help wanted advertisements posted in the *Times-Standard*. In January the number of help wanted advertisements increased by 2.8 percent to an Index value of 138.41. The four month moving average continued to exhibit a slow but steady upward trend.

The Conference Board's help wanted advertising Index is measure of national employment expectations. Most regions reported an increase for the month of January, although the Pacific Coast, including California, experienced a decline. January is the third consecutive month of overall growth in the Conference Board's help wanted advertising Index. Their Index is based on a survey of 51 major newspapers nation wide. (www.conference-board.org)



Graphic description: The seasonally adjusted Index of Building Permits is represented above by the blue area. The red trendline shows the four month moving average which "smoothes" month to month volatility.

The Index of building permits issued gives insight to future home sales and construction. The Index of building permits increased 14.3 percent this month, to a value of 79.17. Since this measure experiences a great amount of month to month variability, the four month moving average is used to determine longer term trends. As depicted in the graph above, the moving average leveled out in January, recovering from earlier decline.



Graphic description: The seasonally adjusted Index of Manufacturing Orders is represented above by the blue area. The red trendline shows the four month moving average which "smooths" month to month volatility.

The Index of manufacturing orders shows expectations for future manufacturing sales. This index decreased 27.6 percent in January to an Index value of 78.39. This is down from last month's unusually high peak. The fourth month moving average, currently at 90.67 resisted last month's peak and remains relatively level.

Key Statistics		Leading Indicators	
			% Change From Previous Month
Median Home Price*	\$270,500	Unemployment Claims	1.4
30 Yr. Mortgage Rate as of 1/15	5.625%	Help Wanted	2.8
Unemployment Rate**	7.0%	Building Permit	14.3
		Manufacturing Orders	-27.6
<p>* 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.</p>			
<p>** Preliminary EDD data (not seasonally adjusted). See the EDD Website for updates.</p>			

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 in Humboldt County decreased in January. The home sales index value declined 4.4 percent to an Index value of 136.6. The medial selling price for a home in Humboldt County also dropped slightly to \$270,500, a decrease of \$1,500 from last month's median home price. This indicates a leveling off of the housing market, following several months of remarkable growth.

Statewide home prices as well as sales increased when compared to the same period last year. The median home price in California is \$485,700, up 2.3 percent from the previous month, and up 20.1 percent from January 2004. Despite this increase, expectations for future housing growth remain modest. "While we expect sales for all of 2005 to be below 2004's record level, demand for housing in California continues to outstrip supply, which is reflected by the dramatic median price appreciation experienced by every region in the state," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "We're out of the starting gate with a bang. Both sales and the median price of a home hit new records in January as homebuyers continued to flood the market," said C.A.R. President Jim Hamilton. "Buyers are taking a little more time before making an offer compared with last year, in part because the specter of significant increases in mortgage interest rates has diminished." (www.car.org)

Nationally, existing home sales figures were relatively flat, dropping only 0.1 percent from last month's sales. David Lereah, NAR's chief economist, said January home sales were buoyed by the condo sector. "A slight decline in single-family home sales was offset by a record monthly level of condo sales, which just came off its ninth consecutive record year," he said. (www.realtor.org)

According to the country's largest mortgage company, Freddie Mac, the nationwide average for a 30-year fixed rate mortgage as of February 24th, was 5.69 percent with an average 0.7 points. This is up from last month as well as from last year at this time. While sales of existing homes are slightly reduced, Freddie Mac expects continuingly low interest rates will maintain home sales overall. "Mortgage rates moved up for the second week in a row on concerns about a pick up in inflation showing up in raw materials," said Frank Nothaft, Freddie Mac vice president and chief economist. "However, a broader measure of inflation, the Consumer Price Index (CPI), posted a less than expected rise in inflation, causing bond yields to fall. This means that next week's survey results may retreat to prior levels of a week or two ago. (www.freddiemac.com)

Retail Sales

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

The retail sector increased slightly in January, growing 1.3 percent to an index value of 149.5. This represents an 11.0 percent increase in retail sales from January of 2004. Overall, the retail index has consistently grown over time, and is one of the strongest sectors in the composite Index. Early tax refunds and a brightening job picture likely contributed to the rise in retail sales, while some larger chain stores claimed increasing gas prices hurt sales of larger ticket items like furniture.

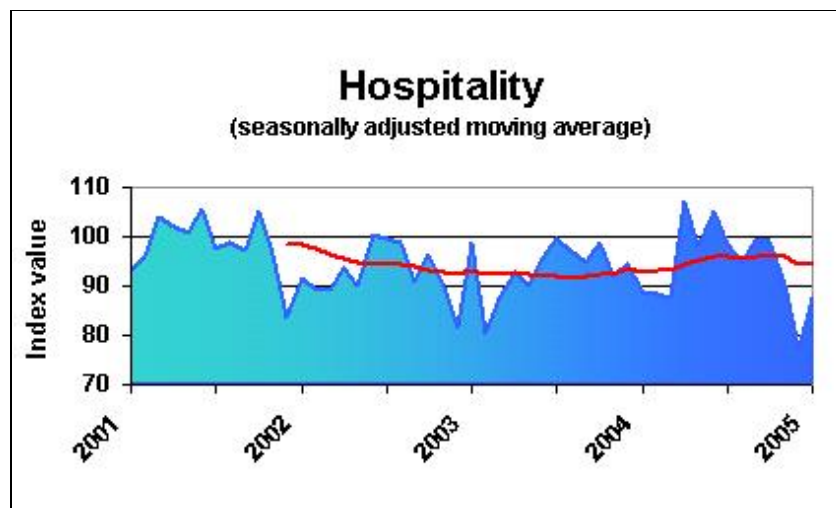
Nationwide retail sales, as reported by The Commerce Department, decreased in January. Seasonally adjusted food and retail sales were \$347.7 billion, down 0.3 percent ($\pm 0.7\%$) from the previous month but up 7.2 percent ($\pm 1.0\%$) from January 2004. Total sales for the November 2004 through January 2005 period were up 7.6 percent ($\pm 0.7\%$) from the same period one year ago. (census.gov)

Looking to the future, consumer confidence dropped slightly after increasing in both December and January. "Although expectations cooled this month, consumers are more optimistic today than they were a year ago," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "Just as important, consumer confidence about current economic conditions, including the labor market, continues to gather momentum. Despite recent fluctuations, both present and future indicators point toward continued expansion in the months ahead." The Conference Board's Consumer Confidence Index is based on a survey of 5,000 representative United States households. The Index

now stands at 104.0 (1985=100), down from 105.1 in January. (conference-board.org)

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.



Graphic description: The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four-month moving average of the hospitality index which smoothes month-to-month volatility to show the long run trend.

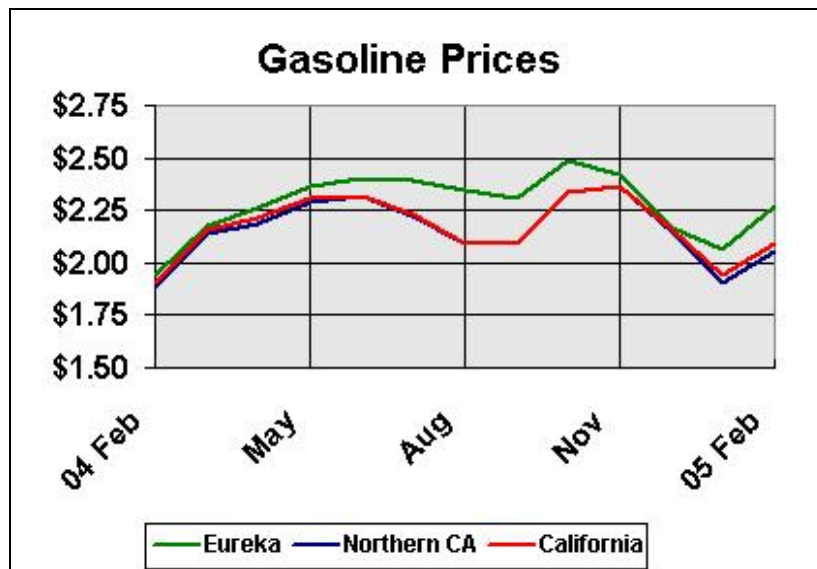
The hospitality sector regained some its losses from last month, increasing 13.9 percent to an Index value of 87.7. This increase did not compensate for last month's low, although the overall trend in the hospitality sector has not changed dramatically in the last three years. This is illustrated by the four month moving average, which reduces the intensity of this sector's variability. Please note that the index numbers are seasonally adjusted and relate back to the base month January 1994. This seasonally adjusted index is different from raw occupancy rates, as the expected seasonal variation is removed so that changes over time can be compared more appropriately.

Gasoline Prices

Gas prices rose sharply this month in California and across the United States. According to the California State Automotive Association, the jump in gasoline prices is due in part to California oil refineries shifting their production from winter's need for heating oil to more gasoline for the summer's busy driving season. Extended cold weather in the Northeast also placed upward pressure on the price of gasoline as more oil was demanded for heat. The Organization of Petroleum Exporting Countries (OPEC) will meet March 16, but representatives say they will not increase oil production. Expectations that the spike in prices will not last more than a few weeks make OPEC unlikely to increase output to match our demand. According to the Energy Information Administration, the West Coast and California are home to the highest gas prices in the nation at an average price of \$2.123 per gallon. (www.eia.doe.gov)

Average Price* (as of 2/15)		Change From Prev. Month (cents/gal.)
Eureka	\$2.27	21¢
Northern CA	\$2.05	15¢
California	\$2.09	15¢

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).



For more information on local gasoline prices, visit our [Special Projects page](#) for Dr. Eschker's Study of the Eureka Gasoline Market.

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.

Electricity consumption for Humboldt County is estimated at 137.33 this month. Revised consumption data will be available in April.

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 labor report for January, the EDD reported that 55,900 people were employed in Humboldt County. This number is down from December's revised figure, indicating a net loss of 1000 jobs. The total civilian labor force decreased by 500 people to 60,100. The seasonally adjusted total county employment index rose 1.5 percent despite a net loss of jobs, and now stands at 104.5. This is because employment rates surpassed seasonal expectations.

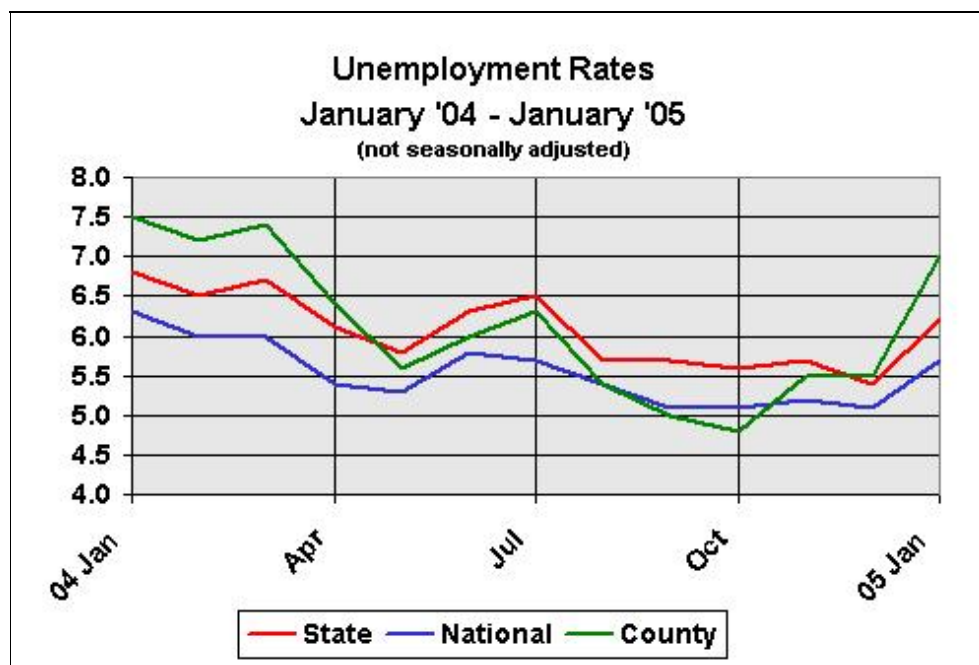
Nationally, total employment has increased to a level of 138,682 thousand employed persons over the last year. The number of unemployed persons dropped 700,000 to 8,444 thousand unemployed persons. (www.bls.gov)

Sectoral changes in Humboldt County employment:

- Overall the service sector posted a net loss of 1,200 jobs in January.
 - Leisure and Hospitality lost 200 jobs.
 - Retail Trade lost 400 jobs.
 - Professional and Business Services lost 100 jobs.
 - Education and Health Services gained 200 jobs.
 - Transportation, Warehousing and Utilities lost 100 jobs.
 - Local government lost 400 jobs.
 - State Government lost 100 jobs.
 - Other Services lost 100 jobs.

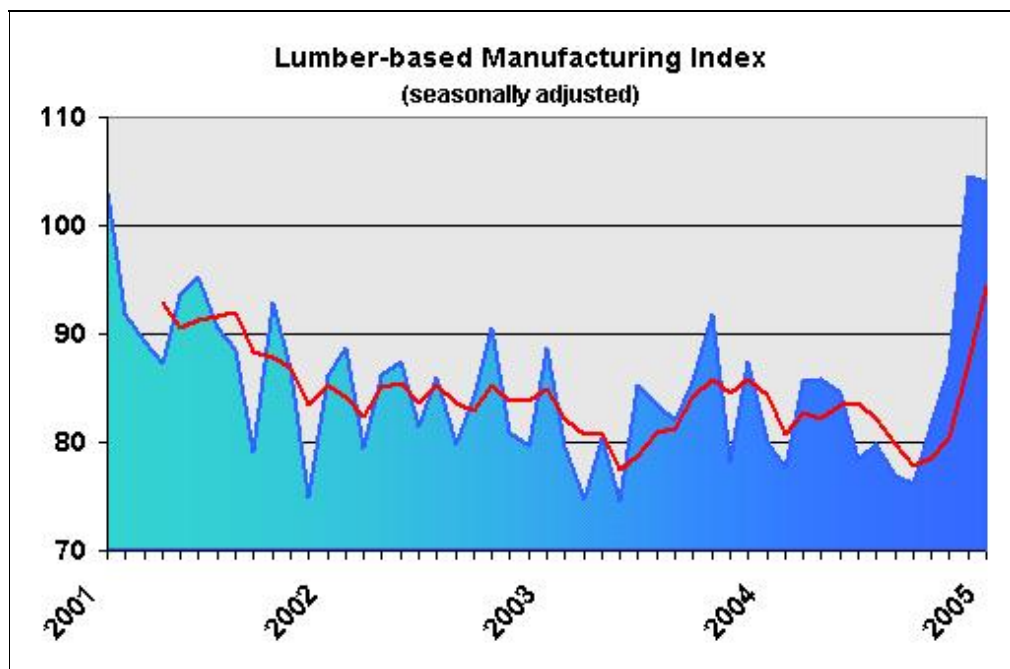
- Overall goods production employment lost 100 jobs in January.
 - Construction lost 100 jobs.
 - Nondurable Goods Production gained 100 jobs.
 - Durable Goods Production lost 100 jobs.

Unemployment rates increased sharply across the board in January. Humboldt County's unemployment rate now stands at 7.0 percent, higher than the state and the national unemployment rates of 6.2 and 5.7 percent, respectively. The increase in the unemployment rate was likely due to the end of many seasonal retail jobs, as indicated by the loss of 400 jobs in the retail sector. The unemployment rate is provided from the Employment Development Department and is not adjusted for seasonality.



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 60 percent of total county manufacturing employment.



Graphic description: 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 of the lumber-based manufacturing index which smoothes month-to-month volatility to show the long run trend.

In January the lumber-manufacturing index decreased 0.4 percent from last month's revised figure and now stands at 104.1. This is a 30.2 percent increase compared to January of 2004. The four month moving average increased this month, in part due to last month's jump in sales, to a value of 94.3.

National economic activity in the manufacturing sector, as measured by the Institute of Supply Management, grew for the 21st consecutive month in January. The PMI registered 55.3 percent as of the March 1st report; a number over 50 indicates growth. "February was another good month in the manufacturing sector. While the overall rate of growth is slowing, the overall picture is improving as price increases and shortages are becoming less of a problem. Exports and imports remain strong. The recent trend of inventory growth reversed direction during February; this reduces possible concerns about involuntary inventory build. Customers' inventories declined slightly, reinforcing the probability that inventories are not yet a concern," said Norbert J. Ore, C.P.M., chair of the Institute for Supply Management. (www.ism.ws.cfm)

The Bigger Picture

National Economic News

By: Andrea Walters

On March 3, Federal Reserve chairman Alan Greenspan testified before the President's advisory panel on tax reform. The panel, a bi-partisan mix of professors, advisors, and politicians, was assembled by President Bush in early January as the first step toward fulfilling his campaign promise to reform the United States tax system. Greenspan spoke cautiously, outlining lessons to be learned from the nation's last major tax reform under former President Reagan.

Greenspan first acknowledged that periodic tax reform is necessary to correct the increasing

complexity of the U.S. tax system, saying "the tax code has drifted back to be overly complicated and burdened...A simpler tax code would reduce the considerable resources devoted to complying with current tax laws, and the freed-up resources could be used for more productive purposes. Thus, greater simplicity would, in and of itself, engender a better use of resources." Greenspan also noted that a predictable tax code could be as important to the economy as price stability.

Mr. Greenspan focused on tax reforms that would be politically viable and not hinder economic growth. Drawing from the success of 1986's reform, Greenspan identified several principles to base the tax reform on. Specifically, Greenspan suggested broadening the tax base rather than raising the tax rate. To achieve a broader tax base, Greenspan tentatively proposed the inclusion of a tax based on consumption rather than income; "Many economists believe that a consumption tax would be best from the perspective of promoting economic growth." He noted that a tax system based on consumption encourages savings, which will be imperative in the coming years, "As the baby boom generation begins to retire in a few years, it will become increasingly important for the nation to boost resources available in the future through greater national savings."

The main argument against a consumption tax is that it would unfairly burden the poor, who have no surplus income for savings or investment. 'Taxing' consumption by providing exemptions for interest, savings, and investment dividends is unpopular among many liberals for this reason. Another alternative for a consumption tax is the creation of a national sales tax which would literally tax consumption and make saving income cheaper than spending income. By shifting the tax burden from income to consumption the government could increase the incentive to participate in the labor force. Canada, for example, has had a federal sales tax since the mid-1990s.

Finally Greenspan called for a mixed reform, warning that neither income nor consumption tax would stand alone, especially against public opinion, "...public views about the fairness of proposed changes to the tax code will surely play a significant role in the current debate." Greenspan also spoke on the ability of an evenly distributed tax system to unify our bipartisan government.

For the text of Mr. Greenspan's testimony visit [The Federal Reserve Board](#).

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 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

[American Automobile Association web site](#)

[California Association of Realtors web site](#)

[Dow Jones News Wires web site](#)

[Energy Information Administration web site](#)

[Freddie Mac web site](#)

[Institute of Supply Management web page](#)

[National Association of Realtors web site](#)

[The Conference Board web site](#)

[The Economist web site](#)

[The Federal Reserve Board's web page](#)

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