

Humboldt Economic Index

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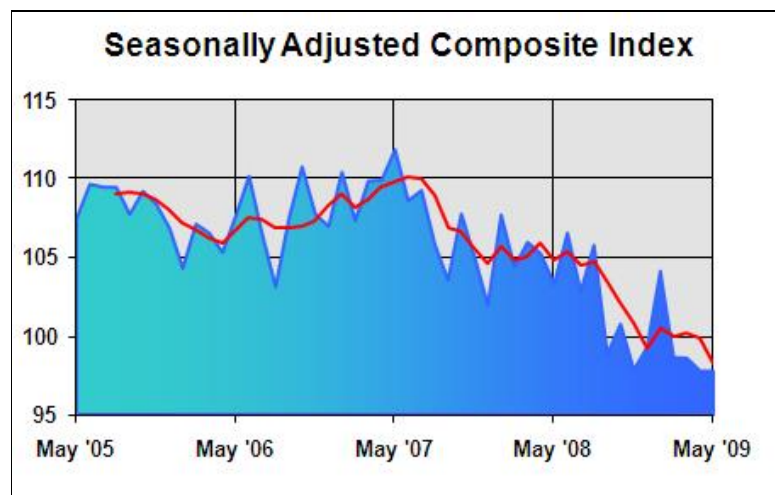
Humboldt Economic Index

June 2009

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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 overall composite remains unchanged from the previous month at a seasonally adjusted index value of 98.7, but is 5.4 percent from the same time last year. All sectors except retail experienced reduced activity. Each sector reduced moderately, but was offset by the rise in retail activity. Retail continues as the strongest sector we track; however, leading indicators suggest future cooling of the local economy as unemployment claims rise while help wanted and building permits remain near historic lows. Consumers have also been faced with rising credit card costs as credit card companies raise the minimum monthly payment in response to new legislation. Gas prices have kept from skyrocketing, but with talks of a new cap and trade system may cause utility prices to rise. With all of these factors, recovery may take longer than expected as consumers' wealth diminishes due to rising costs.

Composite & Sectors					
Index	Value*	Percent Change From:			
		Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	97.8	-1.4	-5.7	-4.4	-6.4
Home Sales	59.0	-3.1	-10.3	-49.6	-44.5
Retail Sales	149.1	4.3	-1.9	1.5	15.0
Hospitality	87.5	-1.0	0.8	-4.6	-6.6
Electricity Consumption	130.5	0	-2.4	18.1	-0.1

Total County Employment	98.3	-1.4	-5.7	-4.4	-6.4
Manufacturing	33.6	-2.9	-32.7	-60.3	-66.9
* 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.					

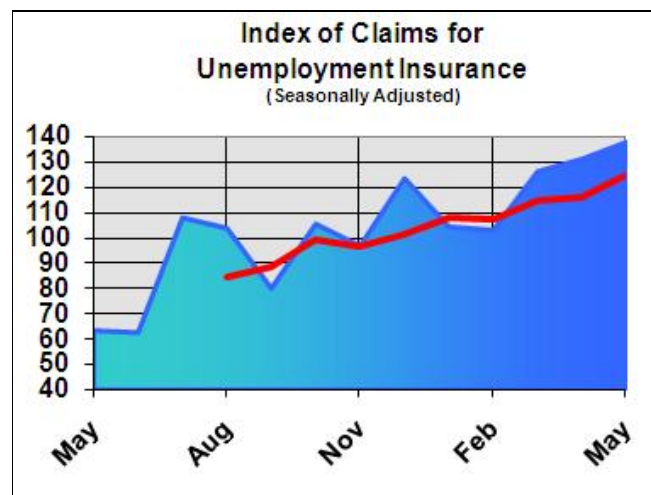
Key Statistics		
Median Home Price*	Mortgage Rate†	Unemployment Rate‡
\$285,000	4.375%	11.8%
* Home price data are provided by the Humboldt Association of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, 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

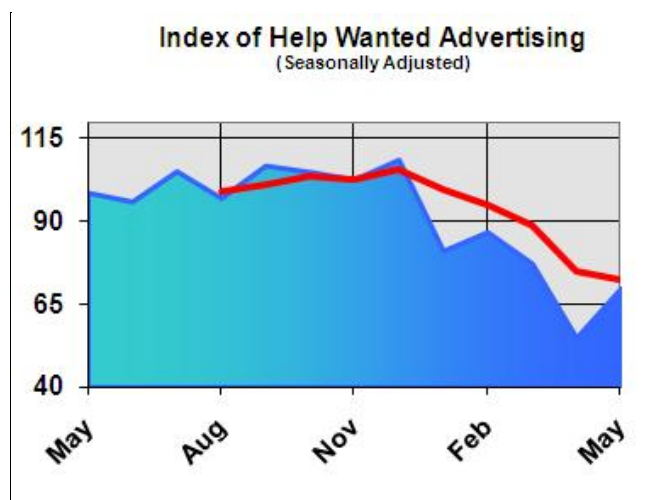
Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	5.1%	27.2%	-3.7%	N/A
* All values are seasonally adjusted.				

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.



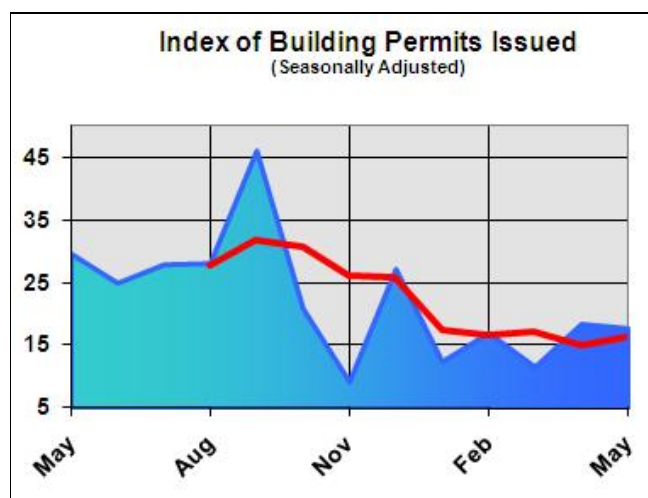
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment Claims continue to rise as the unemployment rate reaches new highs. The seasonally adjusted index value of 137.7 is 117.2 percent higher than that of the May 2008 level. This is an astonishing rise in the Unemployment Claims index. Furthermore, it is the third consecutive month of growth for this index. This could suggest future unemployment in the coming months and weakened economic activity within the county.



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 expanded 27.2 percent from the previous month; however, this large percentage increase is due to historic low index values. More importantly is to note that the long run average for this index is above 130, but the seasonally adjusted index value for May 2009 is almost half that at 69.8 which is 29.2 percent lower than the May 2008 level. Such low levels support continued cooling in local labor markets and supports addition pressure on overall county employment.



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.

As seen in the above, the four month moving average has declined considerably in the last few months. The reduction in building permits confirms that businesses are reluctant to expand or cannot afford to expand due to diminished economic activity.

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Individual Sectors

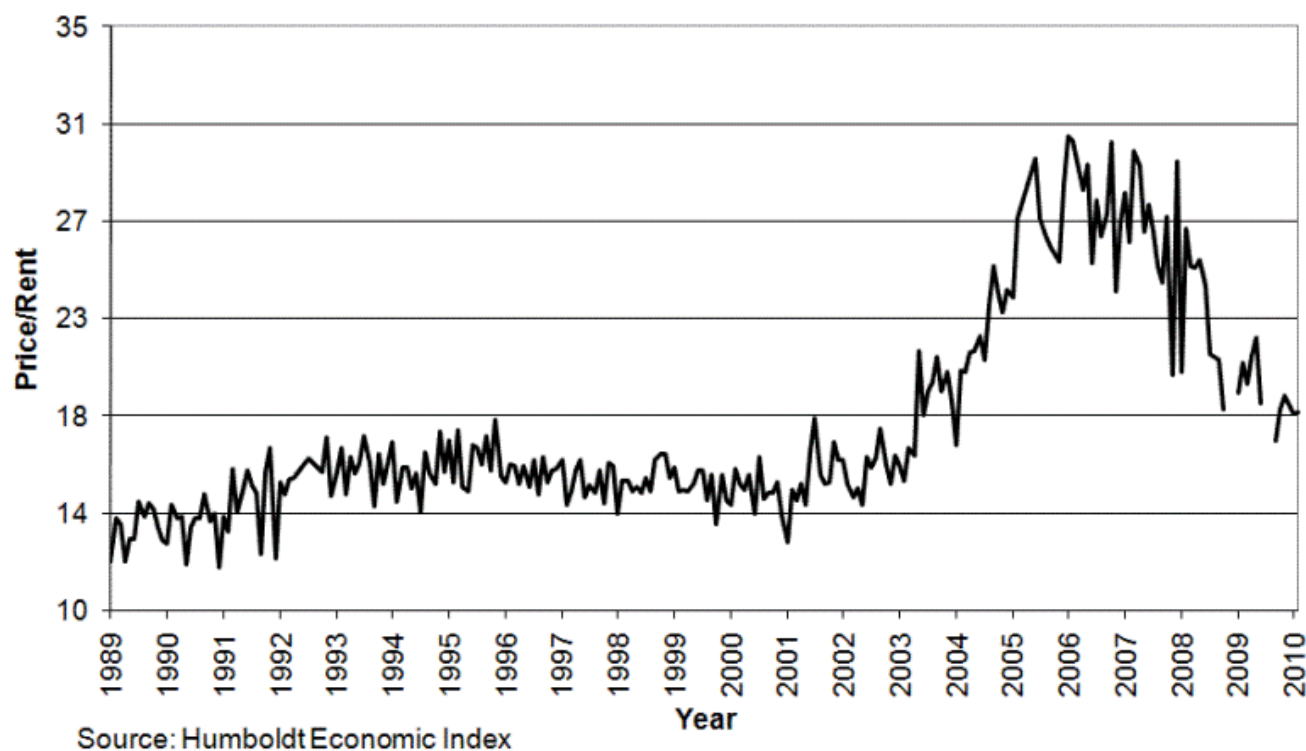
Home Sales

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.

The Humboldt Housing index fell 3.1 percent from the previous month to a seasonally adjusted index value of 59.0. The inflation adjusted median home price declined to \$245,384, which is a 5.5 percent reduction since May 2008, while interest rates remain unchanged from the previous month. Housing is experiencing complications with stabilizing partly due to the rising unemployment rate. Buyers remain unable or unwilling to enter the market while the labor market continues to weaken throughout the recession. With the continued rise in the Unemployment Insurance Index coupled with the slight decline in the Building Permit Index suggest future weakness in housing markets in the coming months.

We've updated the price to rent ratio, and it shows that housing prices have fallen significantly relative to rent over the last three years. There is still a ways to go, but it seems that we are about halfway toward historical ratios.

Humboldt County Housing Price to Rent Ratio, 1989-2010 (medium home price/mean rent, adjusted for expenses)



The National Association of Realtors reported that home sales for all housing types rose 2.4% while the national median home price is down 16.8% from the same period twelve month ago. **The California Association of Realtors** reported that sales rose 35.2% when compared to the May 2008 level. The median home price in California now stands at \$267,570, a 30.4 percent decline from the May 2008 level, but up 4.2 percent from the previous month. According to Freddie Mac, thirty-year fixed mortgage rates averaged 4.86 percent throughout May 2009. This is a considerable drop in interest rates when compared to the May 2008 level of 6.04.

The Case-Shiller Home Price Indices reported that the rate of decline in housing prices slowed. David M. Blitzer, Chairman of the Index Committee at Standard & Poor's commented that "The pace of decline in residential real estate slowed in April." The Case-Shiller Composite-10 and Composite-20 showed an annual decline of 18.0 and 18.1 percent. However, the "recovery" of housing markets may still not be here. One month of slowing in housing prices should not be mistaken as a recovery. Continued slowing in coming month will further support a bottoming of housing prices and perhaps a recovery soon after. However, with national unemployment still on the rise the housing market may experience more contractionary pressure than can be foreseen. Continued low and/or declining in interest rates will aid in creating a housing market that is affordable for Americans.

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](#).

Retail Sales

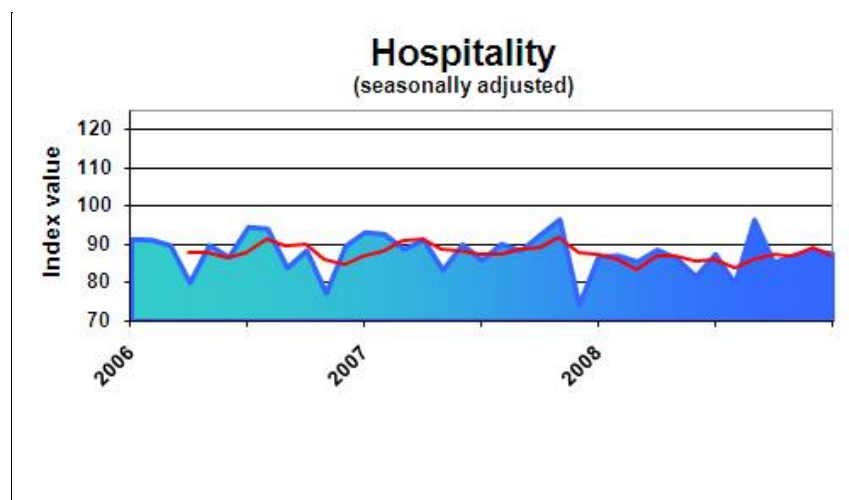
The Index value for the retail sales sector is based on the seasonally adjusted dollar value of sales each month from a cross section of local retail businesses.

Retail in Humboldt County expanded 4.3 percent from the previous month, but is still 1.9 percent lower than the May 2008 level. The seasonally adjusted index value for May 2009 is 149.1. Every industry we track experienced increased economic activity throughout May. The largest increases were seen in the grocery industry. This is usual during times of economic uncertainty and weakness in labor markets. Consumers being switching away from dining out and begin to dine in.

Nationally consumers are experiencing additional hardships as the average number of hours worked began to decline, unemployment rose throughout the month, and credit card companies are responding to the new legislation signed in President Obama. **The Credit Card Accountability Responsibility and Disclosure Act of 2009** prohibits credit card companies from a variety practices. However, these companies have begun to raise the minimum monthly payment. This rise in monthly payments reduces consumers' discretionary spending and could cause more individuals unable to repay their debts. Which at that time the credit card companies can raise interest rates. Recovery in the retail sector for luxury items will be negatively affected by such legislation as consumers will be unable to afford big ticket items.

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.

The seasonally adjusted hospitality index was up 0.8 percent from the same period a year ago, but declined 1.0 percent from the previous month. As seen by the four month moving average, hospitality has remained relatively constant in the upper 80 to low 90's region. This consistency does support the tourist activity throughout the county has remain fairly stable throughout the months of this recession.

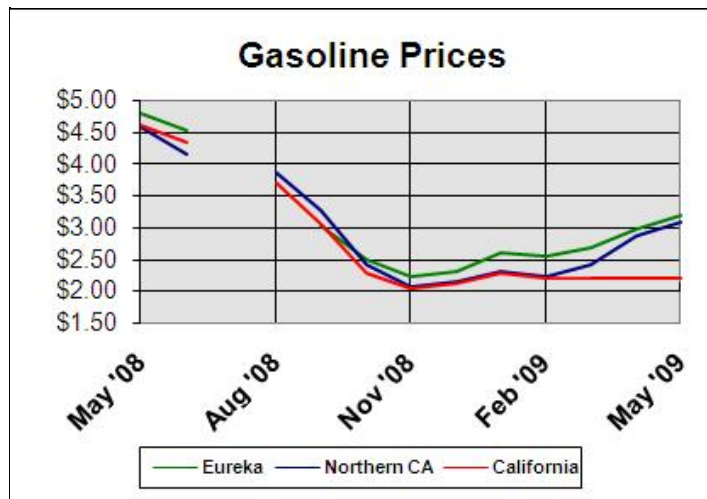
Gasoline Prices

Gas prices in the northern section of California continue to inch their way up past the three dollar mark. Eureka's average price for a gallon of gas was \$3.18 while Northern California's was \$3.08. California as a whole experienced a much lower average of \$2.20. Throughout California gas prices have declined for the first time in several weeks. The decline in price is partially due to the falling price of crude oil. Demand remains weak as the consumers continue to fight tightened labor markets and a rising unemployment rate.

The price per barrel of oil has taken a staggering journey over the past twelve months. July 3 was the record breaking \$145.29 price per barrel followed by the \$33.87 in December and is now trading at around the mid-sixties range on July 5, 2009. Gas prices tend to follow the price of oil due to its crucial role in the production of gasoline. Weakened demand from major economies such as Russian, China, and the United States while accompanied by a stronger dollar has driven the price of oil down. However, continued weakness in labor markets here in the US will help keep prices low as consumers and producers scale back their consumption of gas and oil based products during this economic downturn. US demand for oil will remain low especially due to current employment conditions.

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 6/29/2009	Average Price*	Change from Previous Month
Eureka	\$3.18	\$0.22
Northern CA	\$3.08	\$0.12
California	\$2.20	\$0.0
* 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 frequently estimated, and are revised when the quarterly data are received.

The seasonally adjusted Electricity Consumption Index remains unchanged from the previous month due to quarterly data collections. The following index will have the revised numbers throughout the quarter.

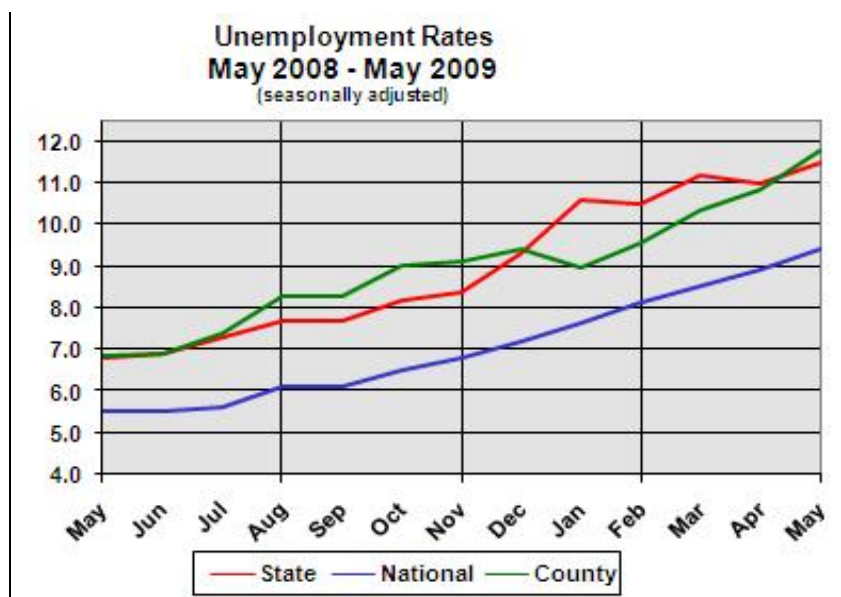
Furthermore, the House passed new legislation that if passed in the senate will start up a cap and trade system to reduce carbon dioxide emissions. Many are skeptical if such legislation during this economic downturn due to the inevitable rise in the cost of electricity, which would rise costs of domestic goods and eat away more money from consumers. However, it is also important to note the long term affects if such legislation is not enacted. This bill is also layered numerous restrictions and subsidies for companies who are competing against other foreign firms who do not have to cap their emissions. It is impossible to tell the affects of such a bill without the revised version if the senate passes its own version. More about the Cap and Trade legislation to come later.

Total County Employment

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

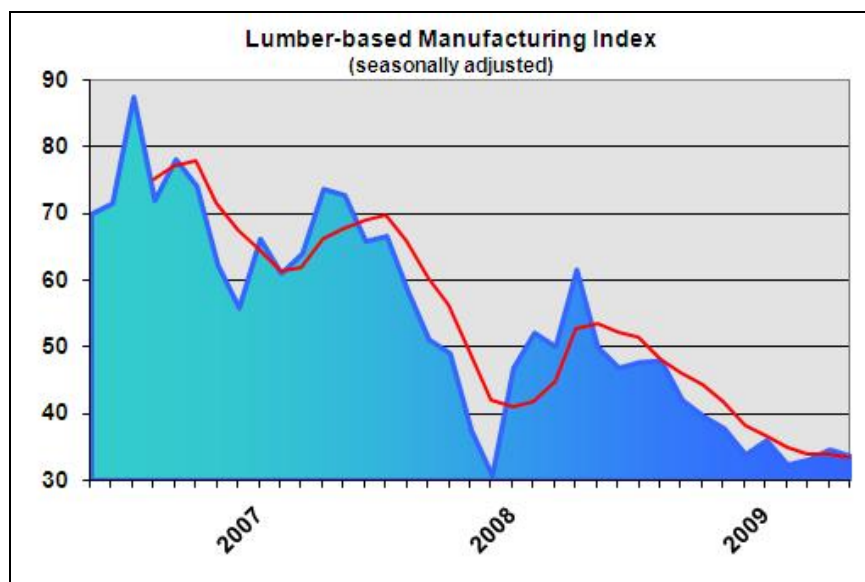
The Employment Index contracted by 1.4 percent to 98.3. The Employment Development Department's **Labor Market Information Division** reported that Humboldt County's labor force decline by 700 while the aggregate number of people employed fell by 300. The seasonally adjusted unemployment rate rose by 0.2 to 11.8 percent, a new high for the index since its inception in 1994. Mining and Logging experienced an additional 100 person employed when compared to April 2009, but is unchanged from the May 2009 level. A majority of industries are still under their May 2008 levels but the only two industries that experienced contraction in its labor force from the previous month were financial Activities and Local Government sectors.

Nationally the number of employed individuals fell by 467,000, which is the first time in four months that the rate of decline in jobs increased. This puts the United States at a 26-year high while workers average hours per week declined to 33, the lowest since 1964 when the **Bureau of Labor Statistics** started collecting that data. The state and national seasonally adjusted unemployment rates stand at 11.5 and 9.4 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 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.

Lumber-Based Manufacturing has declined 32.7 percent from the May 2008 level to a seasonally adjusted index value of 33.6. The Employment Development Department reported that manufacturing employment throughout the county has declined 10.3 percent from the same period twelve months ago. Leading indicators and national reports of increased wood products complicate future economic predictions; however, the fall in building permits does suggest some future weakness in Lumber-Based Manufacturing.

The Institute of Supply Management reported that in June 2009 the manufacturing sector contracted for the 17th consecutive month. However, the following seven industries reported growth Petroleum & Coal Products; Printing & Related Support Activities; Wood Products; Nonmetallic Mineral Products; Miscellaneous Manufacturing; Chemical Products; and Primary Metals. Wood Products experienced the third highest growth of the seven industries. Continued strength in this industry may contribute to increased activity in Humboldt County's Lumber-based manufacturing sector.

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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
The California Association of Realtors
The Case-Shiller Home Price Indices
The Credit Card Accountability Responsibility and Disclosure Act of 2009
The Institute of Supply Management
Labor Market Information Division
The National Association of Realtors

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