

Humboldt Economic Index

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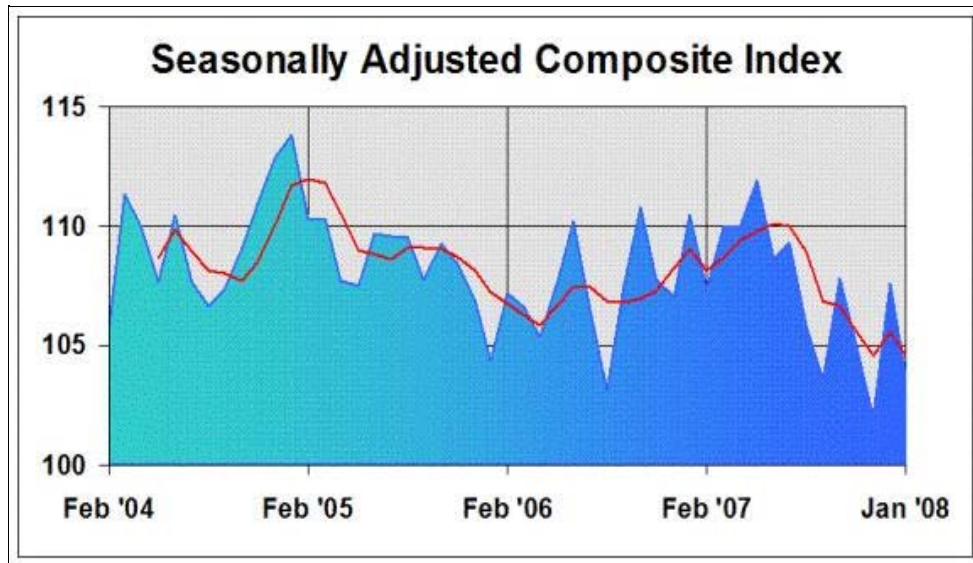
Humboldt Economic Index

March 2008

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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 fell in February to a seasonally adjusted index value of 103.7, a 3.6 percent decrease. The index was pulled down by declines in home sales, retail, and total county employment. Home sales fell as the median home price rebounded above the \$300,000 mark for the first time since October 2007; while the retail sector has curtailed its merchandise orders because of increased inventories. Humboldt County Employment experienced a modest 1.6 percent decline from January 2008. The Hospitality and Manufacturing indices were the only two sectors to expand. Hospitality's 3.5 percent growth could be attributed to increased tourism from foreigners; while Manufacturing edged up for the second month in a row to 52.1. However, leading indicators suggest that manufacturing and local labor demand may show signs of contraction in the coming months.

Composite & Sectors					
Index	Value*	Percent Change From:			
		Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	103.7	- 3.6	- 3.4	- 4.5	3.1
Home Sales	86.5	- 18.3	- 22.4	- 41.0	20.4
Retail Sales	142.3	-11.9	-7.4	1.2	24.9
Hospitality	92.6	3.5	4.8	11.1	- 5.8

Electricity Consumption	127.3	0.0	6.1	8.6	19.8
Total County Employment	104.6	- 1.6	- 1.4	- 0.4	0.7
Manufacturing	52.1	11.3	- 14.6	- 34.7	- 48.5

* 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‡
\$ 317,000	5.5 %	5.8 %

* 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.

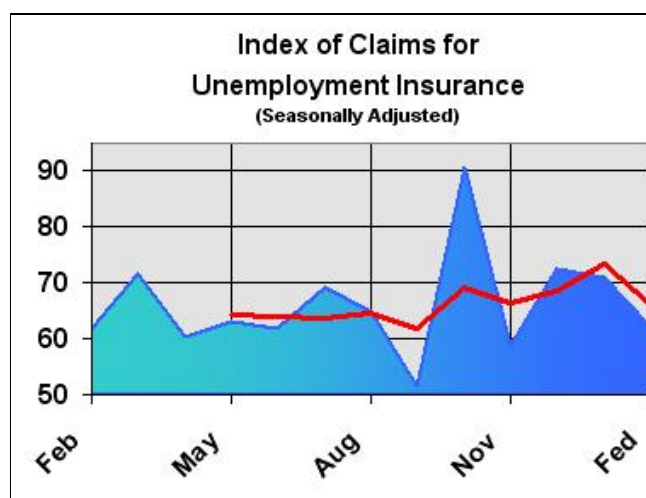
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Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	- 12.6 %	- 12.5 %	- 37.5 %	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.



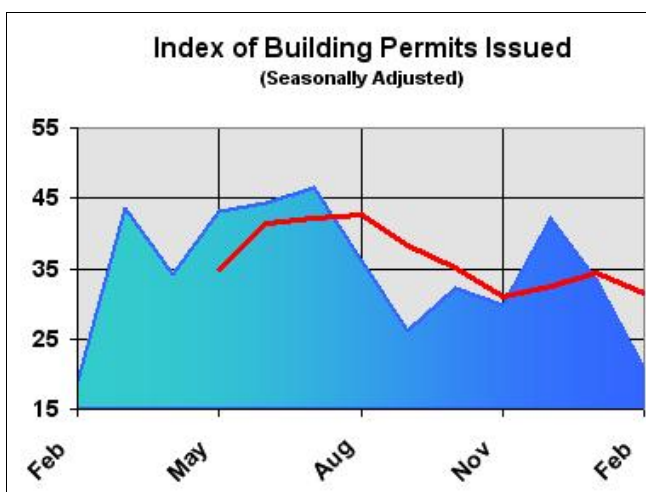
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Unemployment claims dropped in February by 12.6 percent to an index value of 62.1. Coupled with the drop from January, this suggests a strengthening of the labor markets in the economy.



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.

The Help Wanted Advertising Index took its first dip under the 100 mark since April 2004 to a value of 95.5, a 44.8 percent fall from February 2007. The downward trend of this index could imply a contracting of labor markets in the near future.



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.

The Building Permits Index fell for the second month straight losing more than half its December 2007 value. The index now stands at 20.8 which is a 37.5 percent drop from January. This index has significantly declined when compared to two, three, four, and five years ago. This could signal a slowing of economic activity in the coming months.

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Individual Sectors

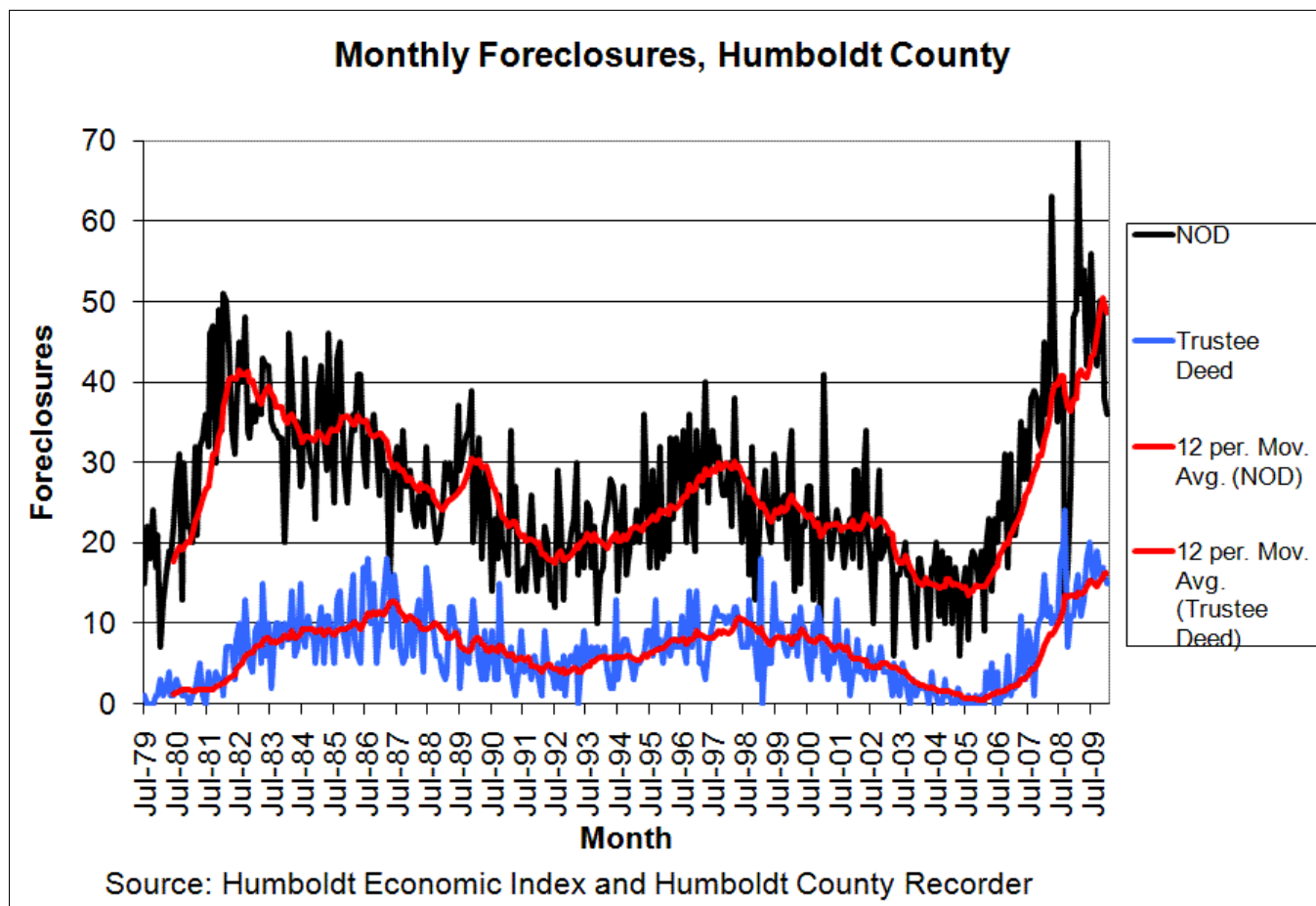
Home Sales

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.

February home sales fell 18.6 percent from January to an index value of 86.5. Accompanying the fall in sales was an increase in the median home price by twenty-seven thousand dollars bringing it to \$317,000. This is the first time the median home price has risen since October 2007 which may have been a cause of falling sales. 30-year fixed mortgage rates dropped 5.5% a 0.125% drop from last month and a 0.375% drop from 12 months ago. Another factor that caused sales to fall is the liquidity crunch by essentially restricting demand.

The Index has begun collecting monthly foreclosure data for Humboldt County. Notice of Defaults (NODs) are the first stage in the foreclosure process, and are listed with the County Recorder when mortgage payments are about 90 days delinquent. Trustee Deeds are when the borrower loses the house, either to the lender or to a third party sale. We've collected monthly data from 1989 to the present and created a 12 month moving averages of each series, which is meant to smooth the data. The data are shown below. Foreclosures last peaked in the late 1990s, which was just about the time when inflation-adjusted mean house prices bottomed out. There has been a very rapid rise in foreclosures in Humboldt County since 2005, which has also accompanied a drop in inflation-adjusted house prices. Three years ago, foreclosures (measured either as NODs or Trustee Deeds) were at 19-year lows. Today, NODs are at record highs and Trustee Deeds are at near record highs. Since a NOD for a property is issued before a Trustee Deed, it is reasonable to assume that Trustee Deeds will rise to record levels in the near future. This steep rise in defaults will continue to increase the supply of houses for sale, which will keep downward pressure on prices. And downward pressure on prices will lead to increased foreclosures, as buyers with no or little money down will find

themselves with negative equity.



The California Association of Realtors reports that home sales and median home price for California as a whole dropped 28.5 percent and 26.2 percent from the same time one year ago.

Proposed Congressional legislation will lower FHA loan limits. If this legislation passes it will help consumers enter into the housing market. However, lowering down payment requirements and increasing the FHA loan limits which effectively makes big purchases more affordable through a reduction in interest rates may cause future problems in the housing market. By not allowing it to correct itself, this new legislation could develop a new housing bubble in the coming years and keep housing unaffordable for new buyers.

February's Unsold Index for existing single-family detached homes grew to 14.3 months, from 8.2 months in February 2007. This index indicates the number of months it would take to sell the remaining supply of homes at current sales rate. Mortgage rates also fell statewide this month to 5.92% from 6.29% in February 2007.

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](#).

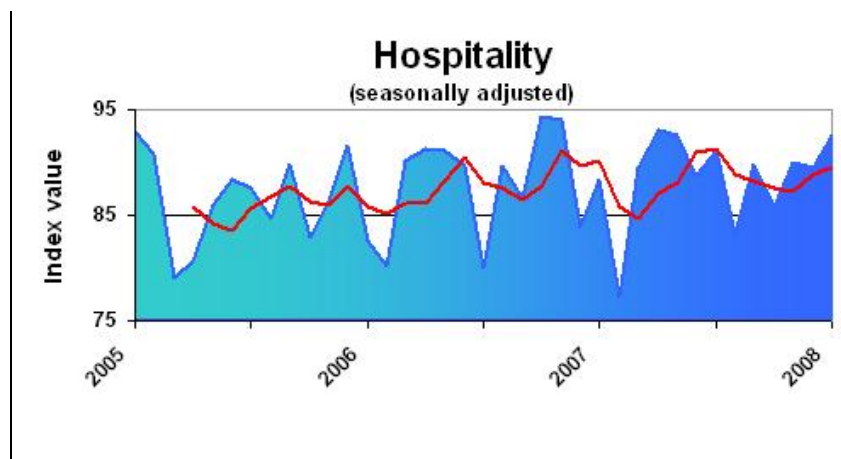
Retail Sales

In February the Retail Index fell 11.4 percent from January to a seasonally adjusted index value of 142.3. Local business across the board contracted slightly in February. **The Beige Book** reports that the relatively weak holiday season has caused inventories to rise which has forced merchandise orders to fall. Gasoline stations contracted the most in February likely from the recent increase in the overall average price per gallon. The current housing crisis has slightly shortened the demand for home furniture and appliances which have experienced reduced sales for the past few months.

The Conference Board notes that the Consumer and CEO Confidence indices have been on a downward march and based on February data are at five and seven-year lows, respectively. Consumers have growing concerns about the strength of U.S. markets in the future. Retail sales may fall as a growing proportion of consumers, who believe that the economy will continue to slow or even slip into a recession, prepare for the coming months ahead.

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.

This month the Hospitality Index expanded by 3.5% from last month to 92.6. This index continues to remain stable as it overcomes the long run average of 91.5. Comparing current figures to last year and five years ago to date there has been a steady increase in hospitality. This means that there has been an above normal rate of tourism in Humboldt County. **The Beige Book** suggests that foreign tourism remains strong due to the lower exchange value of the dollar.

Gasoline Prices

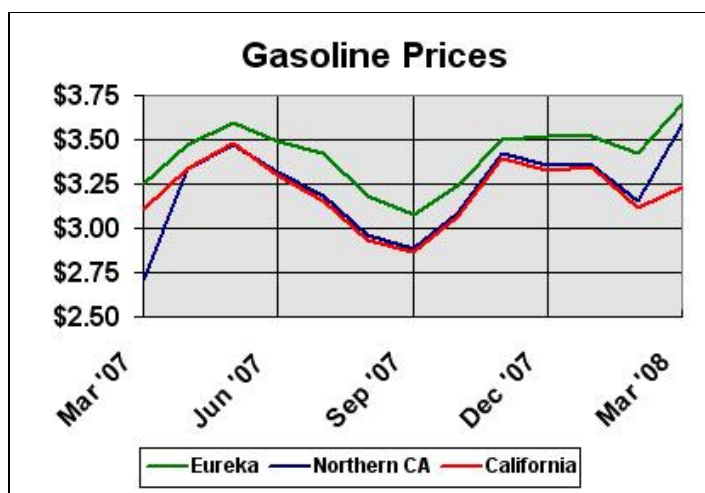
Gasoline prices rose considerably in February by 28 cents in Eureka, bring the average cost of gasoline to \$3.70. San Mateo and Tahoe City lead California with current average gas prices at \$3.75 per gallon.

The price of oil rose as the employment sector weakened, lowering the value of the dollar. **MSNBC** reports that oil producers are cutting back on supply to facilitate the transition away from winter grades of gasoline to the summer grades of gasoline. The summer grades of gasoline are cleaner but more costly to produce. As oil producers restrict supply, gas prices at the pumps will continue to rise in the coming months.

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 3/11/2008	Average Price*	Change from Previous Month
Eureka	\$ 3.70	\$ 0.28
Northern CA	\$ 3.59	\$ 0.44
California	\$ 3.23	\$ 0.11

* 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

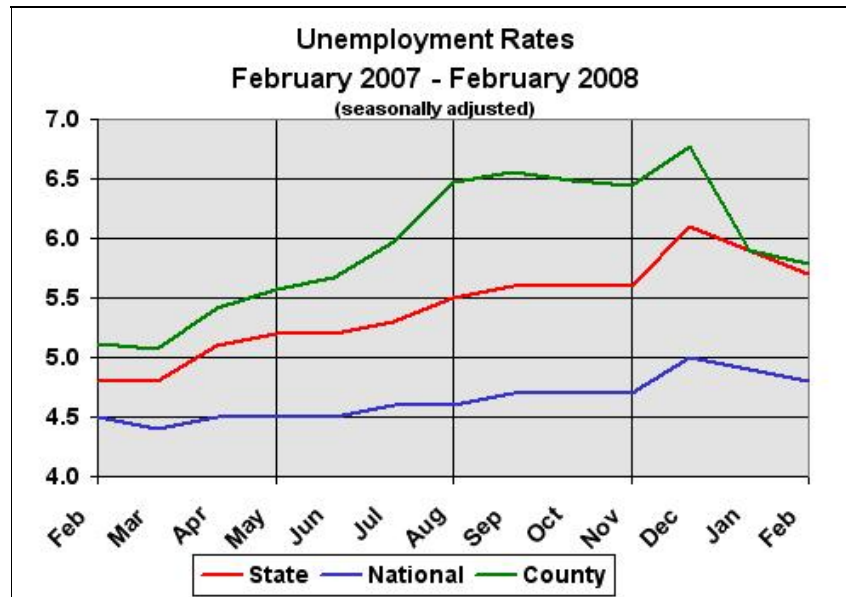
The Index value of this sector is based on seasonally adjusted kilowatt-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation 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.

Ending out 2007, fourth quarter data show an increase in electricity consumption. The September Index was 125.4, but this rose 2.9% to 129.06 in October, fell slightly to 128.8 in November, then rose 1.7% to 130.95 in December. The December Index was approximately 0.55 shy from the March 2007 peak.

Total County Employment

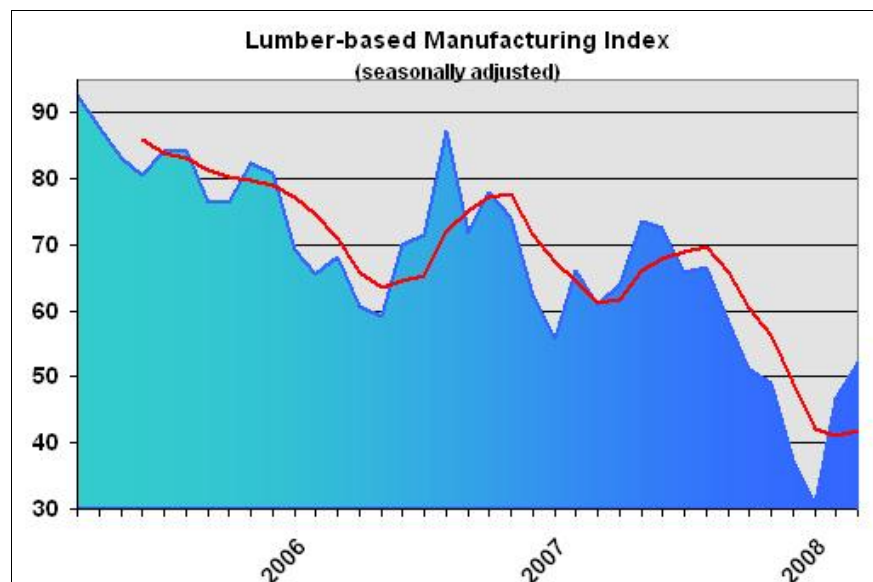
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Total County Employment dropped 1.6 percent from 12 months ago to an Index value of 104.6. The unemployment rate in Humboldt County fell 0.1 percent from January to a seasonally adjusted 5.9 percent. **The California Employment Development** recorded that the civilian labor force declined by 1,100 individuals, while 700 of them came from the labor force. The service providing sector lost 300 jobs from last month and 400 from the same time last year. In the midst of our housing crisis, the construction sector continues to contract losing another 100 jobs from January 2008 and 200 jobs when compared to February 2007. It seems that in the coming months labor markets may show signs of weakening as all three leading indicators are showing signs of contraction within the local economy.



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.

The Lumber-based Manufacturing Index rose for the second month to 52.1, an 11.3% increase from last month. However, when compared to the same time last year, 5 years ago, and ten years ago this index still remains at low levels. As seen in the graph above, Lumber-based manufacturing has displayed an overall downward trend since January 2005. However, the recent drop in the Building Permits index may dampen future manufacturing orders.

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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:

[Beige Book](#)
[The California Association of Realtors](#)

[The Conference Board](#)

[GovTrack.us](#)

[International Herald Tribune](#)

[MSNBC](#)

[U.S. News](#)

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