



Humboldt Economic Index

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Humboldt Economic Index

November 2006

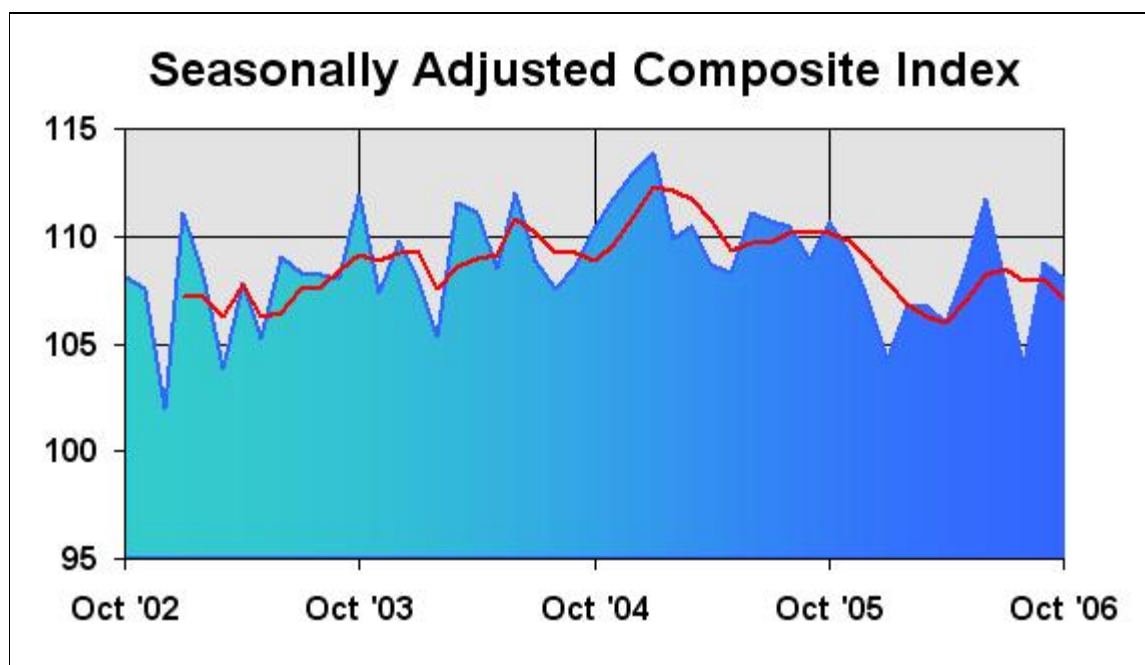
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The seasonally adjusted composite Index is represented in the graph above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

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.

In October, the Composite Humboldt Economic Index, together with many of the sector Indices declined. The Home Sales Index is the sole gainer, adding a hefty gain this month, in spite of many indications of a weakening housing market. Employment was stable, while Retail, Manufacturing and Hospitality all declined. The local employment sector remains quite strong with a very low unemployment rate, high help wanted advertising and low unemployment insurance claims.

We are pleased this month to announce the addition of a Humboldt Real Estate Economics Page to the Index website. On this page our readers will discover a wealth of information relating to the local real estate market. We hope our readers find it interesting and useful and we remain grateful to them for their interest and support.

Composite & Sectors

		Percent Change From:			
Index	Value*	Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
Composite	107.6	-1.1	-2.8	-0.8	4.2
Home Sales	114.8	21.1	-7.6	-12.8	19.8
Retail Sales	147.2	-7.3	13.6	6.4	44.8
Hospitality	96.1	-2.6	-3.7	-8.6	-7.4
Electricity Consumption	112.8	0.0	-20.5	10.6	-0.1
Total County Employment	104.0	0.0	-0.2	3.0	2.6
Manufacturing	74.0	-5.2	-10.1	-20.4	-30.0

* 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‡
\$325,000	5.875	5.2

* 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.

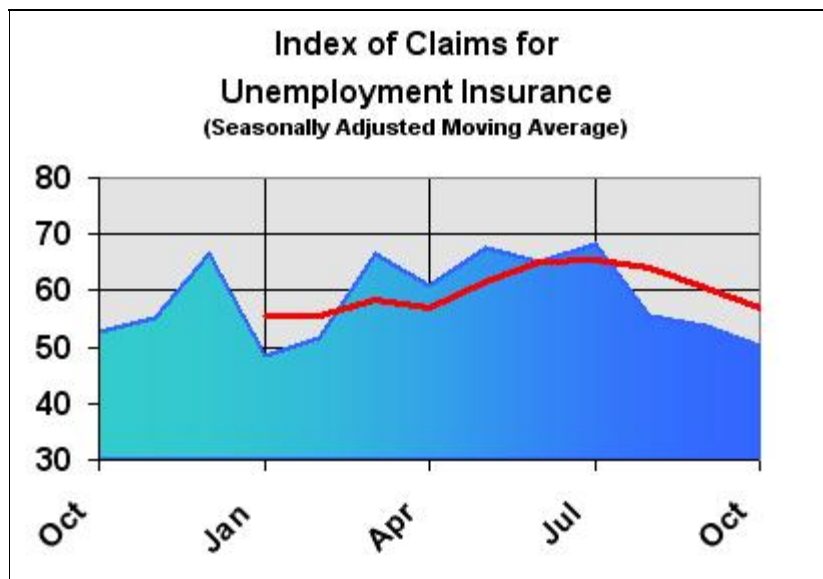
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Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Percent Change from Prior Month*	-6.6	-12.7	68.3	15.3

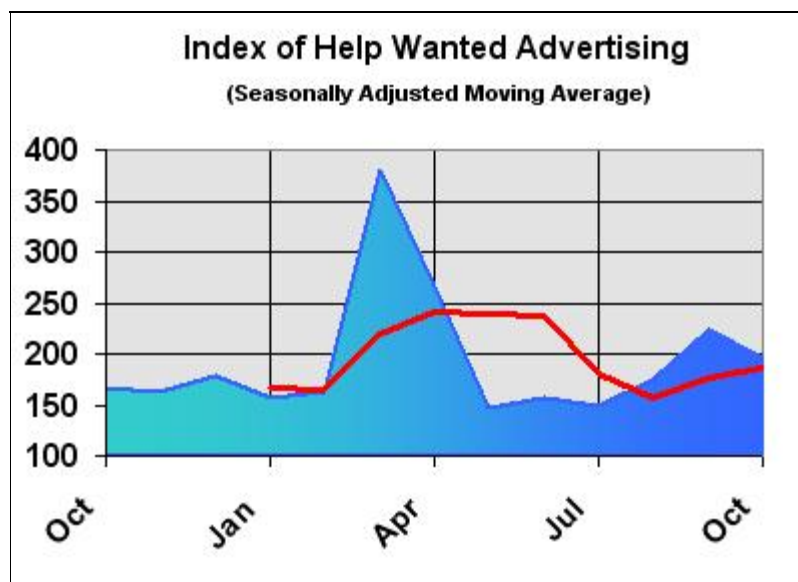
* All values are seasonally adjusted.

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.



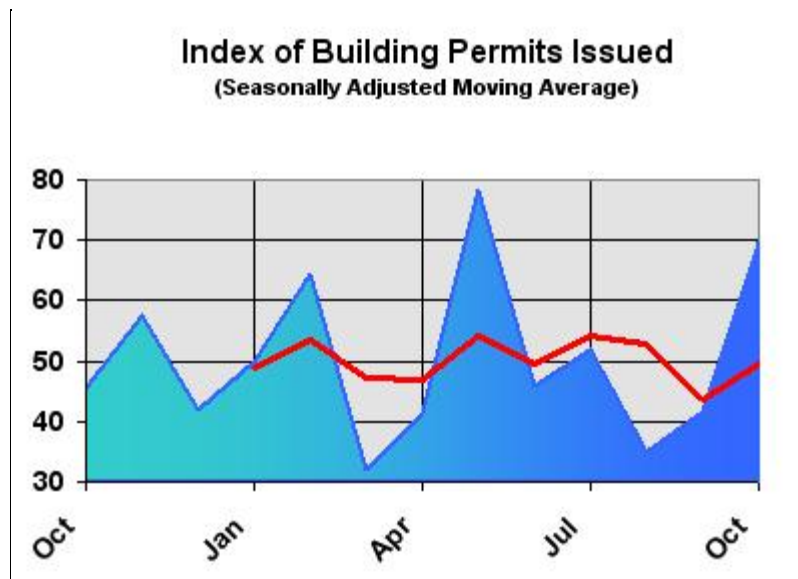
The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The seasonally adjusted Index of Initial Claims for Unemployment Insurance declined for the third consecutive month, with October's decline coming in at 6.6 percent bringing the Index to 50.1. This is historically quite low for this Index, and may indicate increased economic activity in coming months in Humboldt 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.

The Index of Help Wanted advertising in the county declined by 12.7 percent to come to an Index value of 195.1. While a decline in this Index may indicate a weakening job market in months ahead, this month's decline is the first month after a significant upswing. Since the spike near April was a data collection error and not a legitimate increase in advertising, the current level is historically actually very high. In spite of the significant decline this month, the Help Wanted Index remains at the fourth highest level on record. Unless declines in this Index persist, its high level may indicate further strength in the local job market.



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 seasonally adjusted number of building permits issued in Humboldt County has risen for the past three months, with the most recent rise especially sharp. The Index added 68.3 percent to come to an Index value of 69.8. Growth in this indicator may indicate increased economic activity in the county in months ahead, as business decision makers expand construction. This indicator may rise on an increase in planned construction of either a commercial or residential nature.



The seasonally adjusted Index of Manufacturing Orders 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.

Expected month ahead manufacturing orders increased 15.3 percent in October to a seasonally adjusted Index value of 69.3. The trend in this Index since June has been upward, with the current value the highest since March. An upswing in this Index may presage an improved performance in months ahead in the manufacturing sector of our local economy.

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Individual Sectors

Home Sales

We are pleased to announce that in addition to the section on the Home Sales Index here in the main Index report, we have also added a new Real Estate section to our website which can be reached by the

new link in the left hand menu bar, or by clicking [here](#).

In October the Seasonally adjusted Index of Home Sales, which is based on the total number of Humboldt County homes sold in the month, rose a sizable 21.1 percent to an Index value of 114.8. This rise was the only increase among all of the Index sectors during October, and the only factor preventing a much more sizable decline in the Composite Index. The movement of this Index is caused by changes month to month in the number of homes sold in the county. In addition to the increase in October in the number of home sales, the median selling price also rose. It now stands at \$325,000, up from September's value of \$306,000. The current price, although it is above last month's price, is 3.2 percent lower than the price a year ago in real, inflation adjusted terms. This is the sixth consecutive month in which prices were lower in real terms than the prices twelve months earlier. In spite of this month's increased prices and number of sales, the local real estate market still seems to be priced at unsustainably high levels.

At the state level, California home sales and home prices continue to decline, with median sales price shedding 1.5 percent from September to October and the total number of homes sold declining 28.7 percent on the year. (www.car.org)

Nationally, total home sales rose over September, but were lower than a year ago, and posted the weakest October performance since 2003. Median home price nationally remained the same from September to October, but fell from a year ago to \$221,000 from \$229,000 in October of 2006. This was the largest year on year decline on record. (www.realtor.org)

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

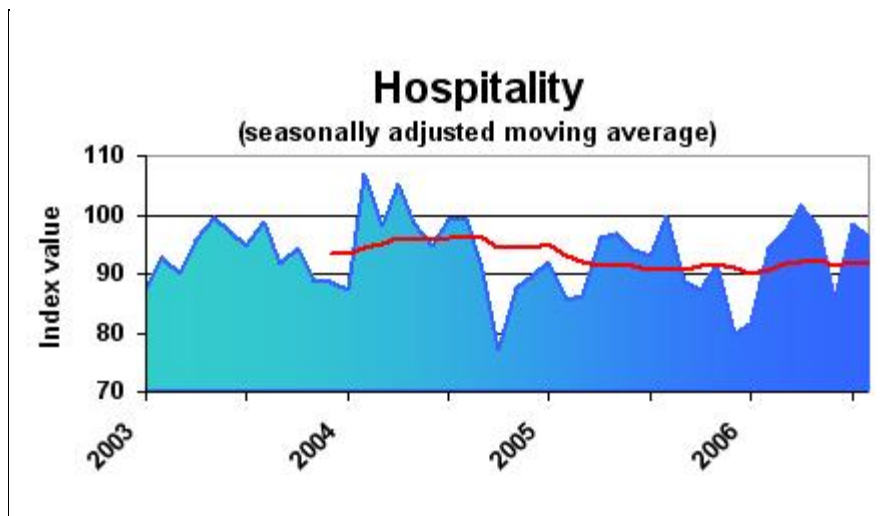
In October the Index of Retail Sales lost much of last month's gains. It declined 7.3 percent to 147.2. This is still fairly high for the Index, and higher than the numbers the Index posted for much of the year. Historically Retail has been the best performing sector and continues to significantly outpace the other Indices. As the table above shows, this Index is a sizable 44 percent above the level it was at ten years ago in October 1996. This gain dwarfs that of all the other Indices.

At the national level, as a counterpoint to the weak Manufacturing Report on Business issued by the Institute of Supply Management, the ISM Non-Manufacturing Report on Business there showed more strength. The manufacturing report is discussed more fully below in the Manufacturing section. The Non-Manufacturing report surprised expectations by rising strongly over last month. Many expected the Index to decline from last month's level, but it rose to 58.9 in November from 57.1 in October. The Index includes all sectors of the US economy outside of manufacturing including services and retailers. The Index represents about two thirds of the national economy, (www.ism.ws)

The strength of this Index may indicate that currently weakness in the national economy is relatively confined to real estate and autos. In order for the slowdown in those areas to expand to the larger economy, they must begin to erode consumer spending. This scenario may not be unlikely, in fact, as the housing slowdown puts a pinch on the wealth accumulation homeowners have enjoyed as house prices have risen sharply and unsustainably in recent years. Much of this wealth accumulation has been mortgaged and spent on consumer goods through home loan refinancing and home equity based credit lines. As the housing slowdown crimps this avenue of consumer spending, many economists fear that real estate weakness will spread to the larger economy by way of consumer spending. These consumer expenditures account for the greater part of US GDP, and as they decline the impact on the growth of the economy as a whole is significant.

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 Hospitality in November remained near last month's level, declining 2.6 percent to an Index value of 96.1. This is still near the higher levels of the year, but is still close to the range this Index has moved within during most of its history. It began at 100 in January of 1994, and hasn't moved far from that level since.

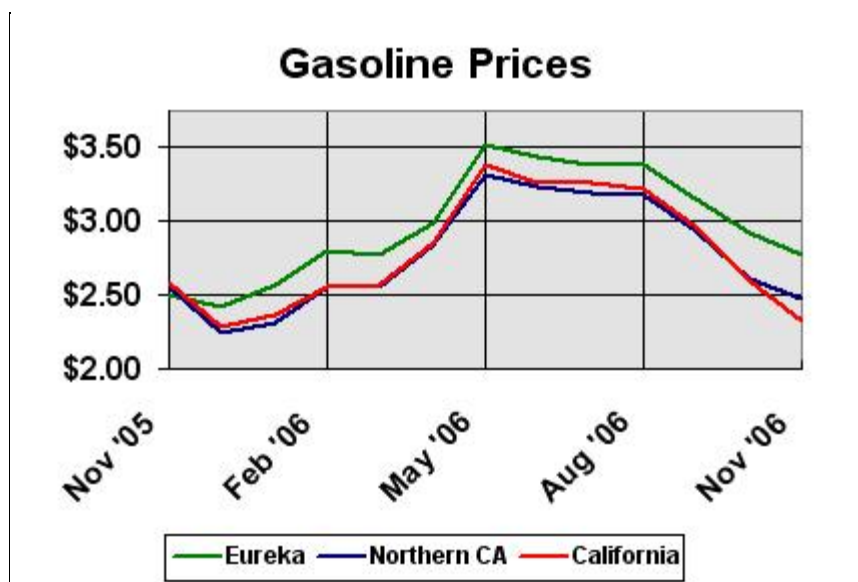
Gasoline Prices

Gas prices in the county fell 14 cents through November 6th as oil prices declined on mild weather and eased concerns about OPEC price cuts. Northern California and the state as a whole enjoyed similar declines, but in the last weeks prices have begun to rise again. Oil, which was trading close to \$60 per barrel is rising back toward \$63. In spite of the rise in oil prices, the American Automobile Association expressed in their gas price press release this month that the rising gas prices are unsupported by fundamentals of the gas market, and aren't likely to move much higher without a cold snap or an OPEC output cut. The press release noted that demand is not currently tightening and supply is not terribly constricted. (www.csaa.com)

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 11/06/2006	Average Price*	Change from Previous Month
Eureka	\$2.78	-\$0.14
Northern CA	\$2.47	-\$0.14
California	\$2.32	-\$0.28

* 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

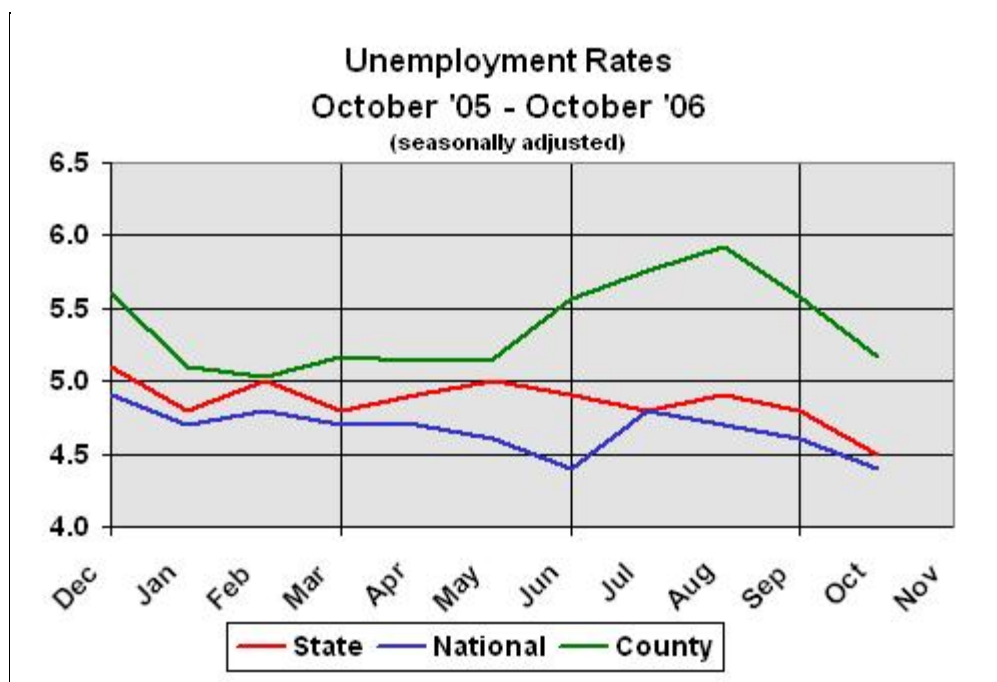
The Index value of this sector is based on seasonally adjusted kilowatt-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation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

Data for the quarter ending in September indicate a significant decline in energy consumption in the last two months of the quarter. Consumption in July was largely unchanged from June at an Index value of 130.6, but in August the Index dropped to 114.1 and then declined further in September to its current value of 112.8.

Total County Employment

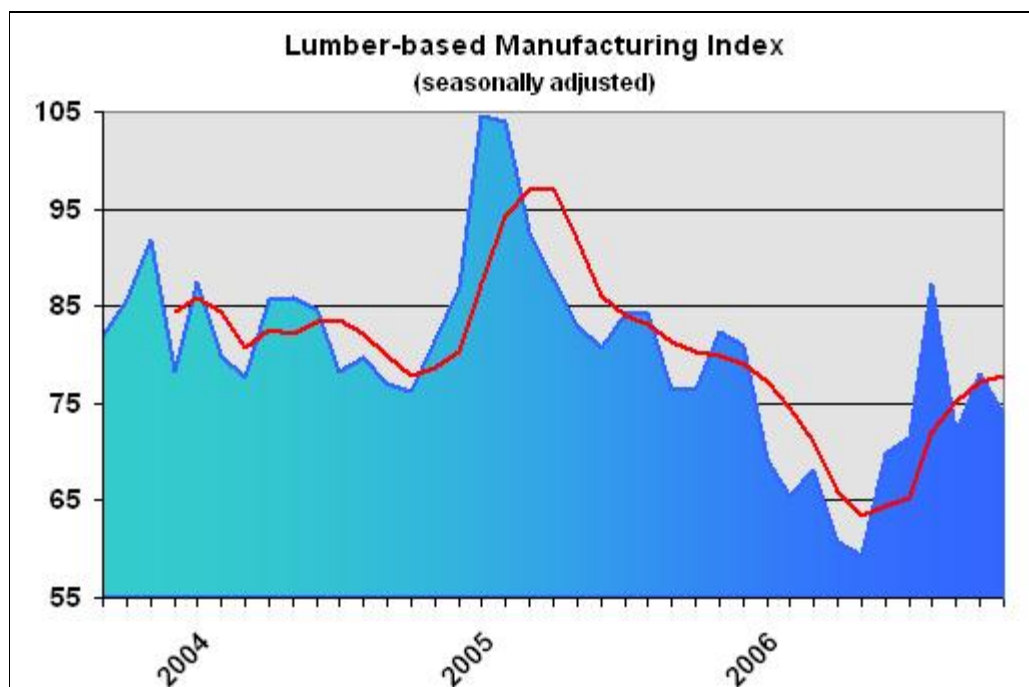
The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

Humboldt County employment remains quite strong. The seasonally adjusted unemployment rate fell to 5.2 percent in October. The rate has only been lower in three prior months, all of which were during 2006. The year has been very good for the local job market. Since January of 1994 the average unemployment rate for the county has been over 6.7 percent. All of 2006 has been well below this level, and currently it would take almost a thousand more unemployed persons in the county to bring us up to this average rate. The Employment Index for this month is unchanged from last month at 104.0. (www.edd.ca.gov)



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.

Since hitting a low of 59.2 in April, the Index of Lumber-Based Manufacturing has been trending upward for six months, giving the red four month moving average and upward trend. The Index now stands at 74.0. While the Manufacturing Index has been trending upward in recent months, its long term trend is unmistakably downward. It reached its peak in April of 1997 at a level of 124.4. It began in January of 1994 at a level of 100.

This Index may be weighed down in coming months by the emerging housing slump and the slowdown in housing construction that is sure to come with it, although throughout the country commercial construction and commercial real estate markets are faring much better than residential construction and

residential real estate are. The relative strength in commercial real estate may help lessen the impact of the housing slowdown on local lumber manufacturers.

National manufacturing surprised analysts in November as the Institute for Supply Management reported that its national Manufacturing Index fell to 49.5, indicating a decline in US manufacturing. This decline upset a period of uninterrupted growth in US manufacturing that stretched for 41 consecutive months. The ISM also reported that employment, orders and production in US manufacturing also dipped into negative territory in November for the first time in many months. (www.ism.ws)

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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:

[Automobile Association of America](#)

[California Association of Realtors](#)

[California Employment Development Department](#)

[Institute for Supply Management](#)

[National Association of Realtors](#)

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