

# Humboldt Economic Index

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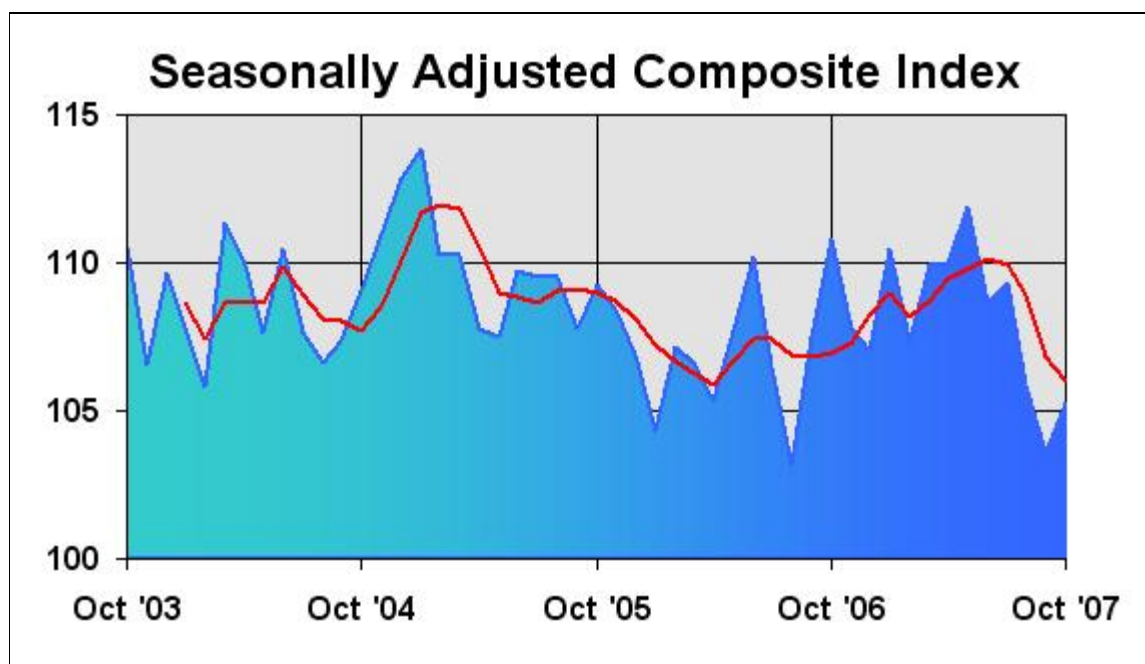
## Humboldt Economic Index

**November 2007**

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**Casey O'Neill, Assistant Editor**  
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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 Index of economic activity in Humboldt County advanced 1.6 percent in October, buoyed by a slight recovery in the Home Sales Sector and a prosperous month for Hospitality. Retail Sales and Employment were slightly off and Manufacturing slid by 4.0 percent.

Composite & Sectors					
					Percent Change From:

Index	Value*	Last Month	One Year Ago**	Five Years Ago**	Ten Years Ago**
<b>Composite</b>	<b>105.4</b>	<b>1.6</b>	<b>- 5.0</b>	<b>- 1.4</b>	<b>- 0.9</b>
<b>Home Sales</b>	<b>95.9</b>	<b>39.2</b>	<b>- 16.5</b>	<b>- 32.1</b>	<b>- 15.7</b>
<b>Retail Sales</b>	<b>157.9</b>	<b>- 1.0</b>	<b>- 7.3</b>	<b>23.4</b>	<b>41.3</b>
<b>Hospitality</b>	<b>89.9</b>	<b>8.0</b>	<b>3.8</b>	<b>3.4</b>	<b>- 8.1</b>
<b>Electricity Consumption</b>	<b>125.4</b>	<b>0.0</b>	<b>2.3</b>	<b>9.2</b>	<b>19.5</b>
<b>Total County Employment</b>	<b>103.6</b>	<b>- 1.4</b>	<b>- 0.3</b>	<b>1.2</b>	<b>1.2</b>
<b>Manufacturing</b>	<b>49.0</b>	<b>- 4.0</b>	<b>- 33.8</b>	<b>- 45.9</b>	<b>- 59.0</b>

\* 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‡
<b>\$ 300,000</b>	<b>6.000 %</b>	<b>6.5 %</b>

\* 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.

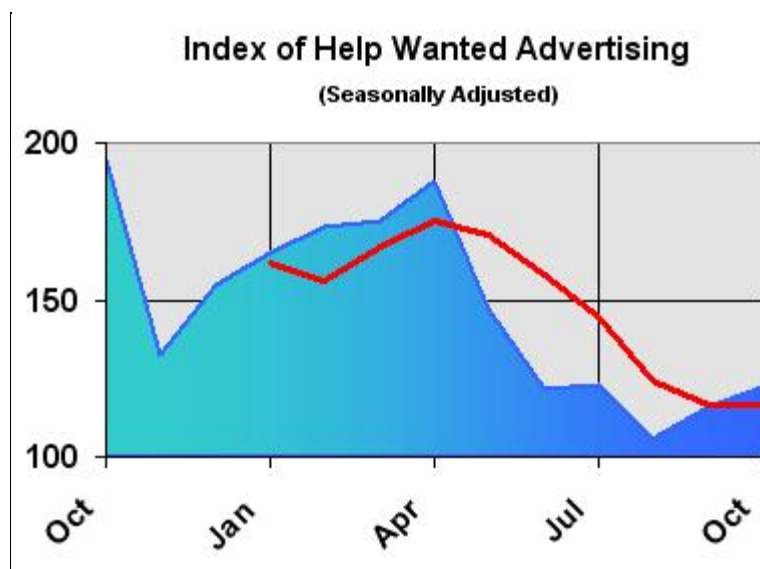
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## Leading Indicators

Leading Indicators				
	Unemployment Claims	Help Wanted Advertising	Building Permits	Manufacturing Orders
Change from Prior Month*	<b>Not Available</b>	<b>5.3</b>	<b>22.9</b>	<b>Not Available</b>

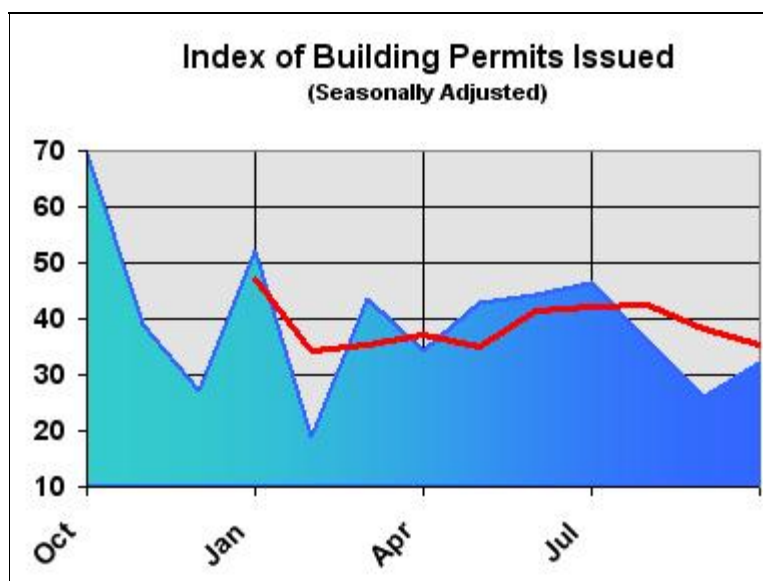
\* All values are seasonally adjusted.

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 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 seasonally adjusted Help Wanted Advertising picked up after consecutive drops. October advertising increased by 22.9 percent, bringing it up to 122.37, while the seasonally adjusted unemployment rate dipped down to 6.5 percent from last month's 6.6 percent.



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.

Building permits slightly recovered from last month's 27.9 percent drop by recovering to 32.1. Recently, building permits have remained historically low and talks of a recession linger. The recent trends raise concern that the economy will be slowing down further into 2008.

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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.

October Home Sales show growth after back-to-back double digit drops in August and September. The Index is up from a low 68.0 to 95.7; an increase of 39.2 percent. The median sale price dropped to

\$300,000 in October from \$324,900, contributing to some of the rise in sales. Furthermore, the increase in sales was in part caused by a decrease in local mortgage rates. The rate on a 30 year fixed rate mortgage declined by 0.125 percent. In spite of this, entry-level housing affordability remains at only 11 percent.

According to the **California Association of Realtors**, at the state level the median price dropped 9.9% to 497,110 in October 2007 from 552,020 in October 2006. The CAR also reports that sales have decreased 40.2 percent from the 443,320 sales pace recorded in October 2006. Entry-level housing affordability stands at 24 percent in the state, more than double the Humboldt County level, pointing up the disconnect in Humboldt County between prices and income. This is partly due to the fact that the Office of Federal Housing Enterprise Oversight, (OFHEO), has yet to label California as a "high-cost" state. The OFHEO sets the limit on conforming loans, yet has not increased its limit since 2006. Non-conforming loans, or jumbo loans, usually have higher interest rates than conforming loans. Any loan over \$417,000 is designated as non-conforming, but median sale prices in California are \$80,110 over the conforming limit. This additional financial pressure associated with higher interest rates discourages buyers from participating in the market.

According to the **National Association of Realtors**, national sales seem to be holding steady as median sales prices prior to last year dropped by 5.1 percent to 207,800. Forecasts by Moody's Economy.com expect future sales to drop again by 3.6 percent. Areas with high home price gains are predicted to be those experiencing population and/or job growth. Freddie Mac released a report stating that the average 30 year fixed mortgage rate has fallen again to 6.10 percent and 0.5 points.

President Bush spoke at the White House on December 6, about his rate-freeze proposal stating that 1.2 million homeowners could qualify, although the actual number will likely be far fewer. However, at this time, the affect of his proposal on the housing market remains uncertain. Details for the plan include: borrowers with loans made by January 1, 2005 through July 30, 2007 with rates that are scheduled to rise between Jan. 1, 2008 and July 31, 2010 and all homeowners with delinquent loans and/or loans not on a primary residence are disqualified. The impact of these rate freezes may be to keep affordability at record lows and to drag out the correction in housing prices.

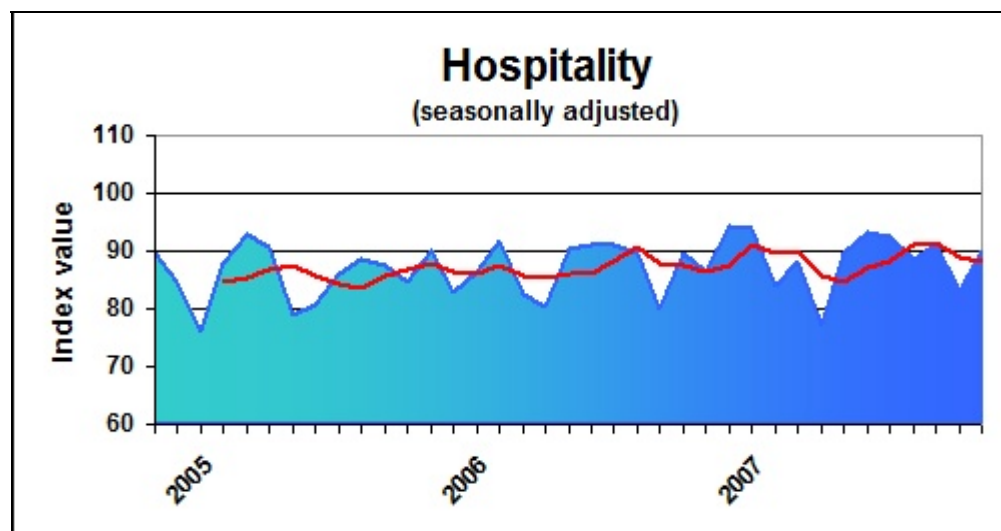
For a local perspective on the possibility of a housing bubble, visit our **Special Projects** page for a study of the Humboldt County housing market. Also, visit the **Humboldt Real Estate Economics Page**.

## Retail Sales

Retail Sales in Humboldt County were off 1.0 percent in October, and are 7.3 percent below a year ago. This is the last report before the start of the holiday shopping season. Last year's holiday season was weak, perhaps due to an increase of online shopping. This may in part explain why the Retail Sales Index, long the star of the Index as the strongest sector has been less dynamic in recent years. This Index now stands at 157.9, indicating strong growth since we began tracking Retail Sales in 1994, however the Index growth has been especially sluggish over the last year. It remains almost unchanged from it's level in the Autumn of 2006.

## 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.

Hospitality picked up in October as the seasonally adjusted Hospitality Index rose by 8 percent from last month. This brings the Index to 89.9, just shy of the long run average, and a 3.8 percent increase from the same month last year.

## Gasoline Prices

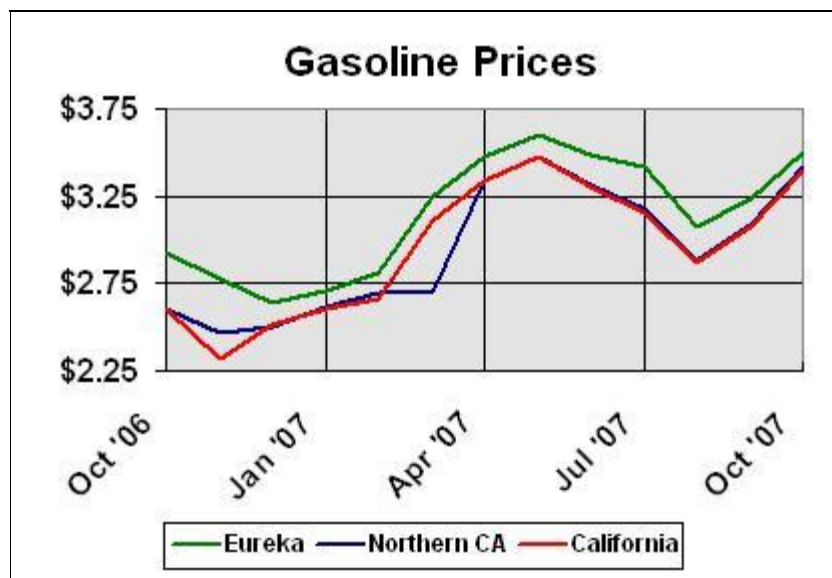
The **American Automobile Association** reports that gas prices have risen sharply and across the board in October. Eureka prices however, are not up as sharply as those in the state as a whole. Eureka gas prices added twenty-six cents as Northern California and the state as a whole added thirty-three and thirty-two, respectively. This is no doubt driven by higher oil prices. Oil has risen sharply of late and after briefly approaching one hundred dollars a barrel, now is hovering near ninety. With oil at this level, it is likely that prices at the pump will get worse. "The effects of the recent spike in oil prices probably haven't finished trickling down to the gas station where you fill up," said Sean Comey, spokesman for AAA of Northern California. "So as bad as it is now, it's likely to get worse, at least in the short term." Considering that gas prices are near record levels already, further increases could spell historic highs at the pump.

In California, the price of \$3.39 per gallon is only ten cents off the record price set in May of this year. The **US Department of Energy** predicts that prices at the pump will rise an additional twenty cents by the end of the year if OPEC does not increase production in that period.

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 11/13/2006	Average Price*	Change from Previous Month
<b>Eureka</b>	<b>\$ 3.50</b>	<b>\$ 0.26</b>
<b>Northern CA</b>	<b>\$ 3.42</b>	<b>\$ 0.33</b>
<b>California</b>	<b>\$ 3.39</b>	<b>\$ 0.32</b>

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

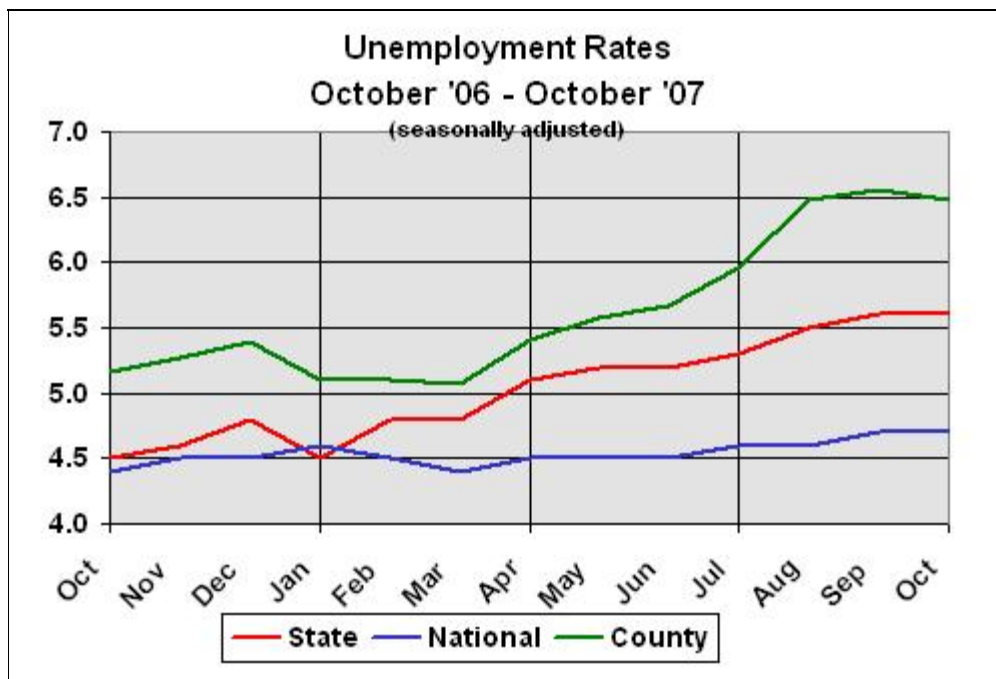
The most current data we have reflects the third quarter of the year, from July to September. Energy consumption, measured in Kilowatt-hours was down in the third quarter, and more importantly is down from its peak in March when the Energy Index was 131.5. It now stands at 125.4. This Index has increased substantially since it began at 100 in 1994, but it has begun trending downward of late. Also, energy consumption has become a much more volatile index in recent years.

## Total County Employment

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

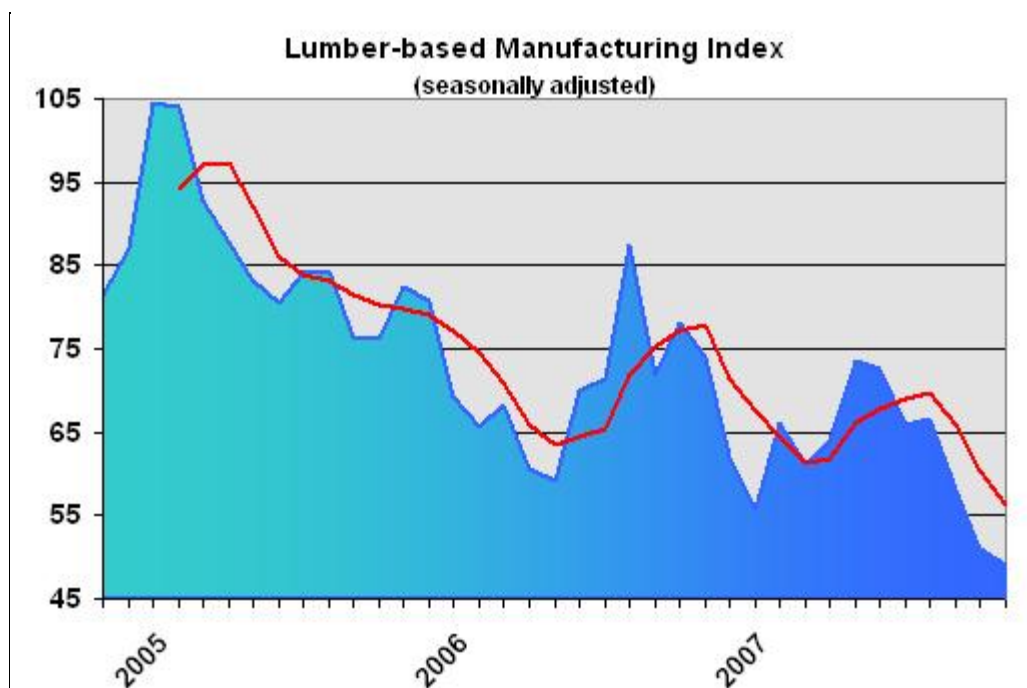
Humboldt County's seasonally adjusted unemployment rate fell slightly in October, moving to 6.5 percent from 6.6 percent. According to data from California's **Employment Development Department**, this was a result of the creation of a hundred new jobs in the County and the addition of one hundred persons to the Humboldt County labor force. Total unemployment remained at 3,300 persons without work and actively seeking employment. Major changes over the last year in Humboldt County employment have been increases in farm, natural resources and manufacturing which each saw double-digit increases and in real estate which suffered a 14.3 percent decline over the last year, driven no doubt in large part by the weakness of the Humboldt County real estate market over that period. Major sources of employment in the county include government, which accounts for one in four jobs in the county, and services which account for about two in three jobs in the county. The bulk of government jobs are local government, accounting for two thirds of government jobs or approximately a sixth of county employment.

The state and national unemployment rates both remained stable over the last month at 5.6 and 4.7 percent respectively. The national seasonally adjusted unemployment rate is obtained from the **US Bureau of Labor Statistics**.



## 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.

Manufacturing continued to slip in October, dropping 4.0 percent to an Index value of 49.0. This is down from 73.6 in April, a decline of a third in a little over half a year. This indicates a continuation of the long-term decline in lumber-based manufacturing in Humboldt County.

Nationally, the **Indtitute for Supply Management**, an Arizona-based trade association of purchasing executives, manufacturing at the national level continues to grow, but at a slower pace. The ISM also reported accelerated growth in orders to US factories. Many of ISM's data providers noted an impact on their business from higher oil prices. The **Commerce Department** confirmed that orders to domestic manufacturers were growing in the month with their surprising report that factory orders were up 0.5 percent in October. Many analysts were expecting no change. The department reported that this growth was driven in large part not by increased production, but by increased prices as a result of the increased cost of oil and related inputs.

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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:

[The American Automobile Association](#)

[California Employment Development Department](#)

[Indtitute for Supply Management](#)

[US Bureau of Labor Statistics](#)

[US Department of Commerce](#)

[US Department of Energy](#)

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