

INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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August 1999

Key Statistics		Leading Indicators	
Humboldt County:		<i>Seasonally Adjusted</i>	%Change in July
Median Home Price (July)*	\$129,600	Help Wanted Advertising	-17.4
30 Yr. Mortgage Rate (08/20)	8.00%	Building Permits	**
Prime Rate (08/20)	8.0%	Unemployment Claims	-14.5
Unemployment Rate (July)	6.3%	Manufacturing Orders	-1.98

*Home price data are provided by the Humboldt County Board 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.

**Data not available at the time report was produced.

Monthly Change

The seasonally adjusted *Index of Economic Activity for Humboldt County* remained unchanged during July at 118.6. In the month-over-month comparison with August reports from the recent past, the seasonally adjusted *Index* for August 1999 was up 6.23 percent over August 1998, up 8.60 percent over August 1997, and up 9.20 percent over 1996. As with the July report, the pace of growth in the *Index* for August has slowed.

While there was some variability in the performance of the sectors measured by the *Index* during July, trends of note include the continued slowing growth over the long-term in the retail sector and the marked decline in the manufacturing sector. While the cooling in retail sales activity is consistent with national trends, declines in the County manufacturing sector contradict nationwide trends of robust manufacturing activity.

Monthly Sectoral Analysis:

Home Sales: The Humboldt County Board of Realtors reported 131 residential home sales during July 1999, an increase in sales of 23.6 percent over the previous month. In the month-over-month comparison, however, the seasonally-adjusted home sales sector overall was down 20.15 percent over July 1998, up 7.52 percent over July 1997, and down 7.31 percent over July 1996. Home sales are generally expected to rise during the summer months. This month's sales, while up, were not as high as is expected for the month of July. This, coupled with a decline in both the average and median home sales prices, led to a decline in the home sales *Index*.

The decline of home sales in Humboldt County is in contrast to the vigorous pace of housing activity throughout the nation reported by the Federal Reserve. It is believed that buyers are trying to take advantage of home loans, in expectation of the Fed raising interest rates again at its August meeting.

Employment: In their preliminary report for July 1999, the Employment Development Department (EDD) reported that 57,700 people were employed in Humboldt county, down by 600 from the revised June 1999

report. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various **services** industries decreased from a revised 42,000 in June 1999 to 40,900 in July 1999, a decrease of 1,100 jobs (-2.6%). The retail subsector of services remained unchanged at 10,500 in June and July of 1999.
- Total county employment in **manufacturing** increased in July 1999 over June, from 6,400 to 6,500 (1.6%). This increase in manufacturing jobs is in stark contrast to the decline in the manufacturing sector discussed below.

In a month-over-month comparison, seasonally adjusted county employment was down a slight 0.86 percent over July 1998, up 2.63 percent relative to July 1997, and up 4.20 percent relative to July 1996. As was discussed in last month's report, growth in the employment sector appears to be slowing.

Retail Sales: Seasonally-adjusted retail sales inched down 0.88 percent from last month. The month-over-month comparison with July reports from the recent past suggests that retail sales are flattening out after a number of years of strong growth. In particular, county retail sales were down a seasonally-adjusted 0.66 percent over the August 1998 report, but were up 11.89 percent over 1997, and up 31.06 percent over 1996 figures. This is consistent with the national trend toward decelerating growth. It is reported that while sales continue to run high, the pace of growth may be easing. Excluding auto sales, which rebounded from a decline in June, national retail sales growth was only 0.3 percent in July -- lower than expected. The San Francisco District of the Federal Reserve Bank, which encompasses nine western states including Alaska and Hawaii, reported that while most retailers in the district experienced solid sales growth, the Pacific Northwest reported slower growth in retail sales.

Below is a chart depicting the decelerating growth of seasonally-adjusted retail sales in Humboldt County.



Manufacturing: We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about 75 percent of total county manufacturing income. Nation-wide, manufacturing activity continues to expand in the wake of a strong economy. Specifically, the Federal Reserve reported that producers of lumber and wood products are experiencing robust growth, as demand in both the domestic construction and export markets grow.

The strength of national and international demand for lumber is in stark contrast to the July values reported in the local manufacturing sector. While county employment in manufacturing increased this month, the manufacturing sector declined a seasonally-adjusted 6.93 percent over the previous month. A month-over-month comparison shows a similar trend. For example, seasonally-adjusted manufacturing decreased 8.95 percent over July 1998, decreased 17.15 percent over July 1997, and decreased 12.52 percent over July 1996. Manufacturing orders, a leading indicator of activity and employment in the County, also showed a decline this month. Orders

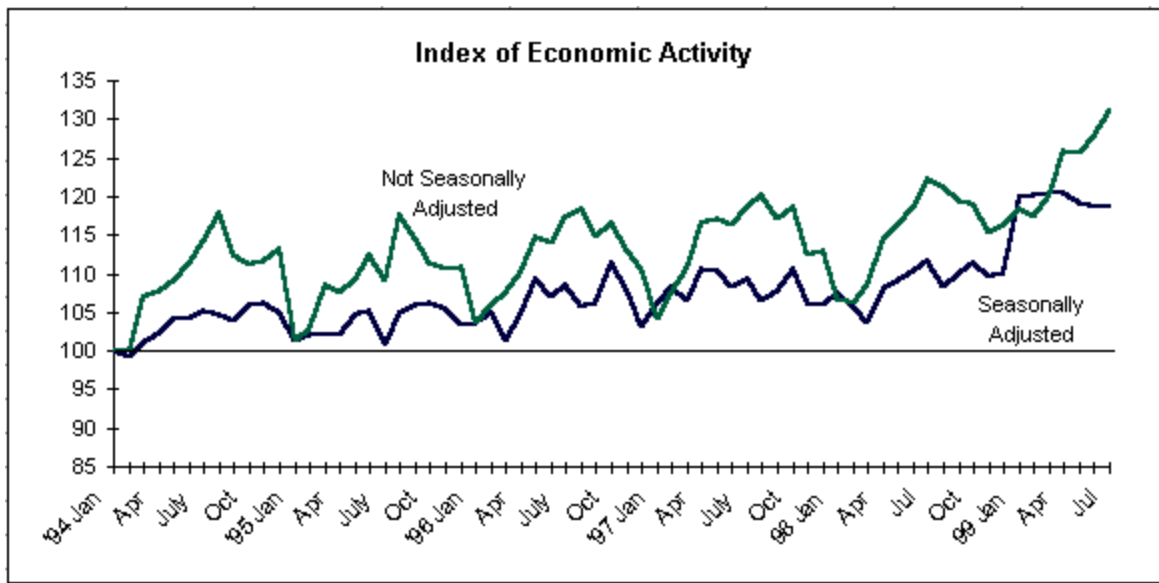
are down 30.1 percent over July 1998, 33.1 percent over 1997, and down 30.7 percent over 1996. There has not been a clear trend in month-over-month comparisons of the manufacturing sector in the recent past. It is necessary to continue to watch this sector's development in order to determine if a true downward trend exists.

Hospitality: We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. Seasonally-adjusted occupancy rates were up 2.4 percent over the last report. The month-over-month comparison shows mixed results in the hospitality sector. The seasonally-adjusted occupancy rates were down 3.6 percent over July 1998, up 10.0 percent over 1997, and down 2.5 percent over July 1996.

Energy: We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Energy and employment have been the most stable of the sectors that we track, usually varying by no more than a few percentage points from month to month. The energy sector in the July report is up 2.6 percent over the previous month.

For those of you who are new or less familiar with the *Index*, we have been tracking seasonally adjusted economic activity since January 1994. Each sector of the seasonally adjusted series is weighted to correct for "normal" monthly variation in the data, and so trends in the seasonally-adjusted index provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so the "August 1999" report reflects data from July 1999. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

It is evident in the diagram below that the nonseasonally-adjusted *Index of Economic Activity* is following its usual pattern of rising to a peak during the summer months. In fact, this month's nonseasonally-adjusted *Index* has reached an all-time high. In contrast, the seasonally-adjusted *Index* has begun to dip after leveling off.



Leading Indicators

We track 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 (i) number of help-wanted advertisements in the *Times Standard*, (ii) number of building permits issued, (iii) volume of manufacturing orders, and (iv) number of claims for unemployment insurance.

Help wanted ads dropped 17.4 percent over the previous month, indicating a decreased number of new job openings. In comparison, the number of claims locally for unemployment insurance were down again, declining 14.5 percent over revised June reports. In a month-over-month comparison, claims were down 26.9 percent over July 1998, down 21.8 percent over 1997, and down 28.1 percent over 1996. This decline is consistent with national trends as jobless claims hit their lowest point in the nation since 1973. A downward trend indicates a

decline in the number of newly unemployed people in both the county and the nation. As was discussed above in the Manufacturing sector, manufacturing orders at local mills are down considerably over August reports in previous years.

In June the Federal Reserve Bank increased interest rates one quarter point in response to the booming economy -- an 8 year expansion that is the longest in peacetime history. As discussed in last month's *Index*, higher interest rates have adverse effects on business profits and on the attractiveness of stocks. By discouraging borrowing, higher interest rates slow down consumer spending and economic growth. Most economists agree that some deceleration of growth nationally has occurred. As posed in last month's report, was the economic cool-down enough? Economists are divided in their predictions for whether or not Alan Greenspan and the Federal Reserve Board will again inch up interest rates at their August 24 meeting. Those who are expecting a rate increase cite continued retail growth, labor shortages, low inventory stockpiles, and supply constraints for retailers. Those in the other camp are relying on a Fed survey which found "no evidence of any broad-based pickup" in consumer prices or wages. Stay tuned, we will have more economic news next month.



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