INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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June 1999

Key Statistics		Leading Indicators	
Humboldt County:		*Seasonally Adjusted*	%Change in May
Median Home Price (May)*	$118,500	Help Wanted Advertising	-15.1
30 Yr. Mortgage Rate (06/28)	8.0%	Building Permits	22.1
Prime Rate (07/01)	8.0%	Unemployment Claims	-12.4
Unemployment Rate (May)	6.1%	Manufacturing Orders	-26.6

*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.

Monthly Change

The seasonally adjusted *Index of Economic Activity for Humboldt County* declined slightly during May, dropping from 120.4 to 119.6. There was some variability in the performance of the sectors of the Humboldt County economy during May. On the positive side, it is important to note the rebound of the home sales sector this month over the previous month. Moreover, while both the employment and retail sectors were down slightly over last month, they are up over previous years. In contrast, the hospitality sector (as measured by hotel/motel occupancy rates) has continued to decline each year since 1996. While occupancy rates were up slightly over the previous month, they were less than would normally be expected in May. The energy sector, which carries a relatively large weight in the composite *Index*, also declined slightly.

In the month-over-month comparison with June reports from the recent past, the seasonally adjusted *Index* for June 1999 was up 9.6 percent over June 1998, up 8.3 percent over June 1997, and up 9.3 percent over 1996.

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 contrast, the seasonally adjusted *Index* has leveled off.

Monthly Sectoral Analysis:

Home Sales: The Humboldt County Board of Realtors reported 110 residential home sales during May 1999, rebounding a seasonally-adjusted 23.56 percent over April '99. The real estate market is unsettled, and there is concern that rising interest rates, driven in part by inflationary fears and the recent rate increase by the Fed, will lead to a slump in home sales. Whle strong home sales in Humboldt county are broadly consistent with a state-wide increase of 6.6 percent in May, they stand in contrast to the 8.56 percent decline in May home sales in the western region of the U.S., and the 5.13 percent decline in May home sales nation-wide. Interestingly, home sales in Santa Rosa to our south declined during May, following the national trend, though prices continue to rise sharply in Sonoma county. In a month-over-month comparison, seasonally adjusted home sales for May 1999 in

Humboldt county were 1.2 percent higher than May 1998, 44.5 percent higher than May 1997, and 19 percent higher than May 1996.

Employment: In their preliminary report for May 1999, the Employment Development Department (EDD) reported that 57,800 people were employed in Humboldt county, up by 500 from the revised April 1999 report. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various **services** industries increased from a revised 41,600 in April 1999 to 41,900 in May 1999, an increase of 300 jobs (0.7%). The retail subsector of services increased from a revised 10,500 in April 1999 to 10,600 in May, an increase of 100 jobs (9%).
- Total county employment in **manufacturing** remained constant at 6,300 jobs.

In a month-over-month comparison, seasonally adjusted county employment was up 1.84 percent over May 1998, up 1.45 percent relative to May 1997, and up 3.75 percent relative to May 1996.

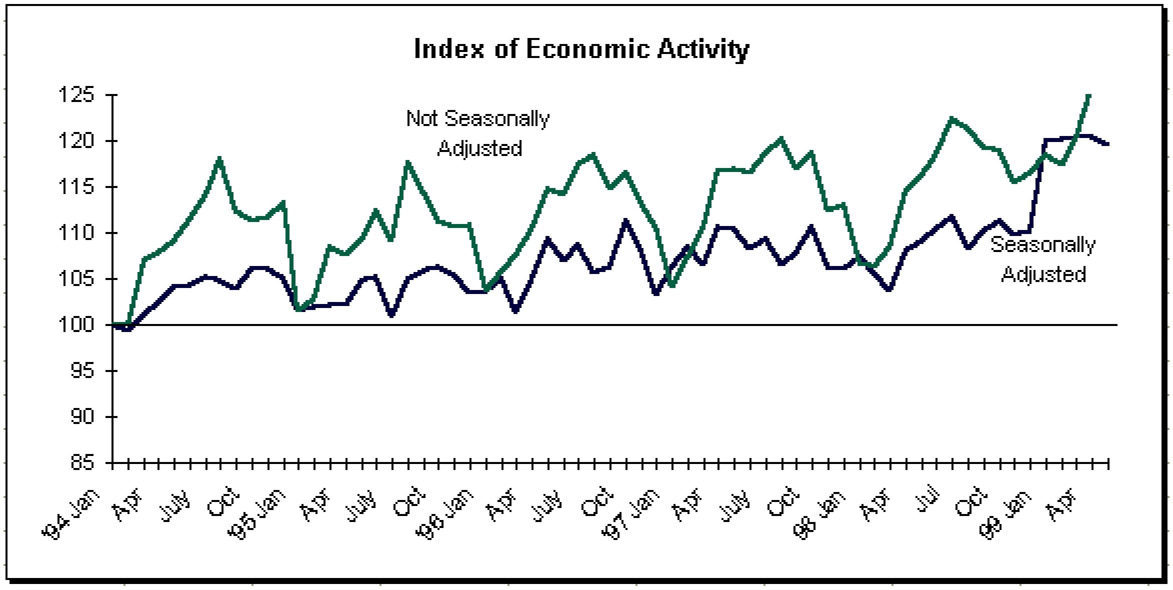
Retail Sales: Seasonally-adjusted retail sales were down 5.0 percent from last month. In contrast, nation-wide retail sales were up by one percent in May. The month-over-month comparison with June reports from the recent past shows a trend of continuous sales growth among our participating retailers. For example, county retail sales were up a seasonally-adjusted 2.0 percent over the June 1998 report, 9.0 percent over 1997, and 17.9 percent over 1996 figures.

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. Seasonally adjusted manufacturing declined a very slight 0.2 percent from the last report. There has not been a consistent trend in month-over-month comparisons of seasonally-adjusted manufacturing over the past few years.

Hospitality: We use occupancy rates at participating county hotels and motels as the indicator of this sector's performance. It is worth noting that while seasonally-adjusted occupancy rates were up 2.2 percent over the last report, a general downward trend exists. In the month-over-month comparison, occupancy rates were consistently below the levels observed from June reports in the recent past. For example, the sector was down 8.5 percent over May 1998, down 15.3 percent over 1997, and down 18.0 percent over 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 June report is down slightly at 0.7 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 "June 1999" report reflects data from May 1999. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.



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 decreased by 15 percent over the previous month, indicating reduced numbers of new job openings. Manufacturing orders at local lumberyards were also down significantly. This could indicate a future decrease in county employment in the manufacturing sector. In contrast, building permits increased 22.1 percent over the previous month, suggesting that construction employment may rise in the near future. Similarly, claims for unemployment insurance were down 12.4 percent, following the national trend in May, and indicating a decline in the number of newly unemployed people in Humboldt county. Taken together the indicators are in significant conflict, making it difficult to draw conclusions about the future direction of the county economy.

Financial markets have already adjusted to a widely expected 0.25% increase in interest rates by the Federal Reserve Bank at the end of June. The question now is whether the Fed will increase rates even more. You may recall that the Fed lowered interest rates by 0.75% in three steps late last year in response to the Asian financial crisis. Now that Asian economies are rebounding, growing concerns about inflation are pushing the Fed to raise interest rates, and have already resulted in a rise in bond yields. Higher interest rates and bond yields have adverse effects on business profits and on the attractiveness of stocks, and by discouraging borrowing, higher interest rates slow down consumer spending and economic growth.

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