

# INDEX OF ECONOMIC ACTIVITY FOR HUMBOLDT COUNTY

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**October 1999**

| Key Statistics                 |           | Leading Indicators         |                         |
|--------------------------------|-----------|----------------------------|-------------------------|
| Humboldt County:               |           | <i>Seasonally Adjusted</i> | %Change<br>in September |
| Median Home Price (September)* | \$126,500 | Help Wanted Advertising    | 5.89                    |
| 30 Yr. Mortgage Rate (10/27)   | 8.25%     | Building Permits           | **                      |
| Prime Rate (10/27)             | **%       | Unemployment Claims        | **                      |
| Unemployment Rate (September)  | 4.7%      | Manufacturing Orders       | 15.09                   |

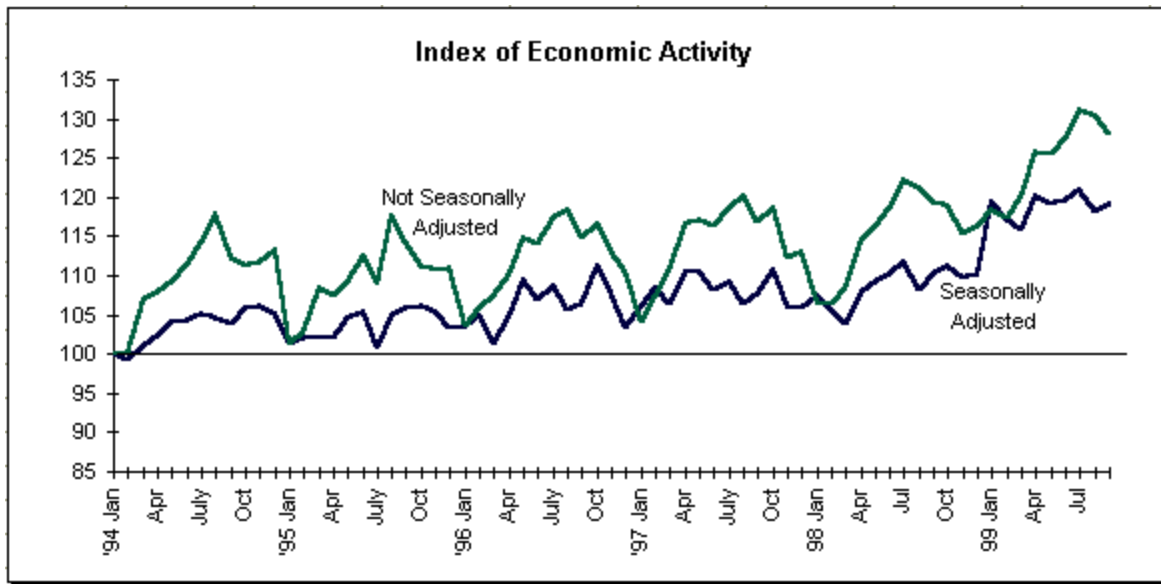
\*Home price data are provided by the Humboldt County Board of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does 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 were not available at the time the report was produced.

## Monthly Change

The seasonally adjusted *Index of Economic Activity for Humboldt County* increased 1.1 percent from a revised 118.0 for the month of August to 119.3 for the month of September. A month-over-month comparison with October reports from the recent past indicates that the trend toward slowing growth observed over the past several months is continuing. The seasonally adjusted *Index* was up 8.26 percent over October 1998, up 10.67 percent over October 1997, and up 12.23 percent over 1996.

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 "October 1999" report reflects data from September 1999. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.



While there was some variability in the performance of the sectors measured by the *Index* during September, activity of note includes the second straight month of record lows in unemployment rates for the County, and the continuing decline in the manufacturing sector.

### Monthly Sectoral Analysis:

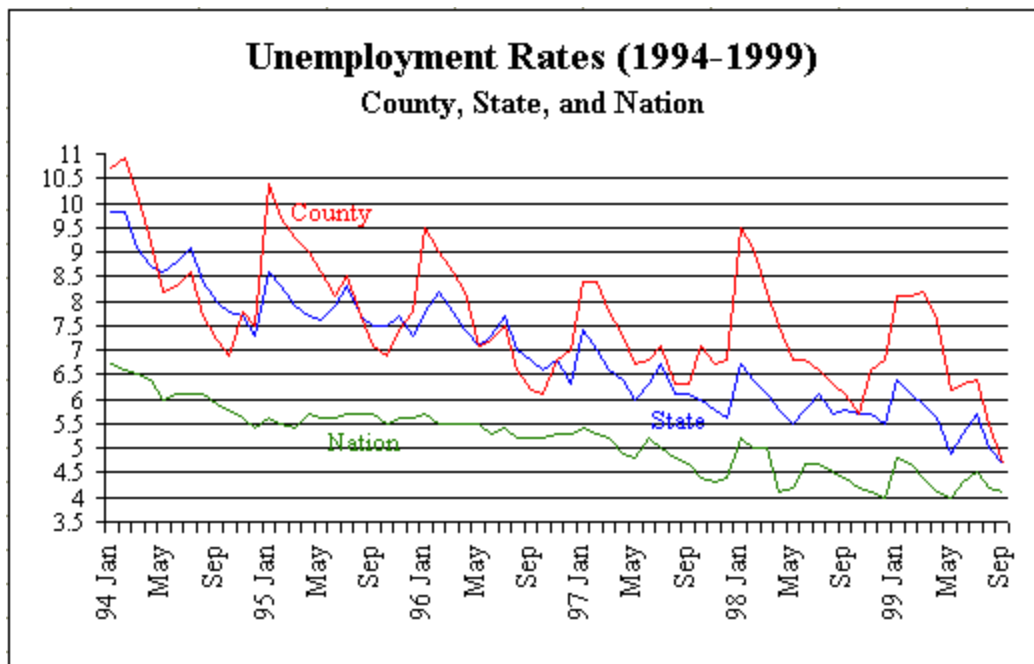
**Employment:** In their preliminary report for September 1999, the Employment Development Department (EDD) reported that 58,500 people were employed in Humboldt county, up by 700 from the revised August 1999 report. Preliminary EDD data indicate the following changes in Humboldt County employment:

- Total county employment in the various **services** industries increased from a revised 40,700 for the month of August to 41,800 for the month of September (2.7%). The retail subsector of services increased from a revised 10,500 in June, July, and August of 1999 to 10,600 in September (1.0%).
- Total county employment in **manufacturing** remained unchanged from August to September at 6,600.

The employment rate in Humboldt County shows slowing growth in the month-over-month comparison. For example, seasonally adjusted county employment was up 1.02 percent over September 1998, up 3.31 percent relative to September 1997, and up 3.50 percent relative to September 1996.

The unemployment rate in Humboldt County continued to decline in September, reaching its lowest point in 16 years. This is the second month in a row that the EDD has reported record low unemployment rates. This trend in low County unemployment is consistent with low unemployment rates in California and across the country. As discussed in last month's report, a low unemployment rate was expected in September, due in part to the usual contraction in the labor force when students return to schools and colleges.

The graph below illustrates national, state, and county unemployment rates since 1994.



There are several interesting items of note. One of these is the wide seasonal fluctuation in Humboldt County's unemployment rate relative to that of California and the U.S., rising during the wet, rainy months and falling during the drier, summer months. Weather sensitive industries such as timber and tourism are relatively more important in Humboldt County. Also note the general decline in both California and Humboldt County's unemployment rates since the recession years of the early 1990's.

### Employment-Based Economic Indicators:

Leading indicators are used to forecast the direction of change in the Humboldt County economy. Two of the four leading indicators that we track are related to employment--help wanted ads and claims for unemployment insurance.

A count of help-wanted ads indicates the number of new job openings. Help wanted advertising was up in all comparisons for the month of September. For example, advertising was up 5.89 percent over the previous month. In the month-over-month comparisons, help wanted was up 37.13 percent over September 1998, up 47.82 percent over September 1997, and up 34.95 percent over September 1996.

Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the quantity of new unemployment claims are a negative indicator of economic activity. The claims for unemployment insurance in the county was not available at the time this report was produced.

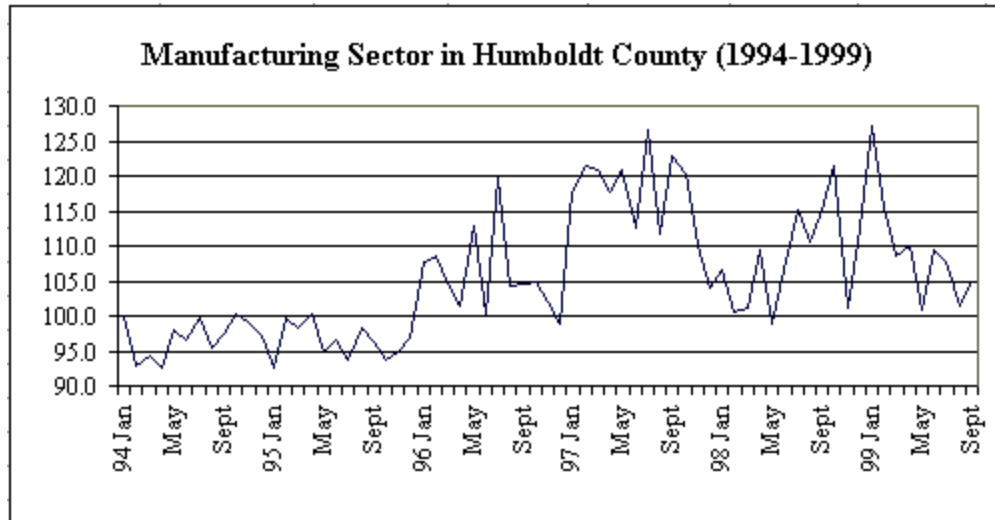
**Manufacturing:** We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about 75 percent of total county manufacturing income.

While the manufacturing sector increased a seasonally-adjusted 3.55 percent over the previous month, a month-over-month comparison of October reports from the recent past shows declines in the sector. Specifically, manufacturing is down 8.77 percent over September 1998 and down 14.55 percent over September 1997.

Manufacturing orders, a leading indicator of activity and employment in the County, shows a similar pattern. This month's expected orders are up 15.1 percent over the previous months expected orders. The month-over-month comparison, however, shows declines. Manufacturing orders are down 14.5 percent over September 1998, down 19.4 percent over 1997, and down 18.33 percent over 1996.

Discussion of the manufacturing sector in the *Index* over the past few months has centered on the possibility of a downward trend in manufacturing. The month-over-month comparison of this sector in the last three *Index*

reports has shown signs of decline. A review of the manufacturing sector over the past five years reveals that this sector has traditionally been very volatile. The graph below illustrates this point.



It would seem that concern would better be focused on the bigger picture of a volatile industry and county employer, rather than a downward trend over the course of a quarter.

**Home Sales:** The Humboldt County Board of Realtors reported 113 residential home sales during September 1999, a decrease in sales of 3.4 percent over the previous month. As discussed in last month's report, home sales for the month of July were extremely high. The declines experienced in both August and September can probably be attributed to corrections in the home sales sector. In the month-over-month comparison, the seasonally adjusted home sales sector was down 0.59 percent over September 1998, up 7.34 percent over September 1997, and up 4.19 percent over 1996.

**Retail Sales:** Seasonally-adjusted retail sales are up 4.85 percent over the previous month. The month-over-month comparison with October reports from the recent past continues to suggest that retail sales are flattening out after a number of years of strong growth. In particular, county retail sales were up a seasonally-adjusted 4.46 percent over the October 1998 report, up 15.16 percent over 1997, and up an incredible 39.59 percent over 1996 figures.

**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 3.07 percent over the last report. The month-over-month comparison with October reports from the recent past shows mixed results in the hospitality sector. The seasonally-adjusted occupancy rates were down 3.38 percent over September 1998, up 16.25 percent over 1997, and down 3.65 percent over September 1996. This pattern is similar to last month's hospitality sector report.

**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 October report is up 0.16 percent over the revised report from the previous month.

## 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.

As was discussed above in the employment section, both help wanted advertising and claims for unemployment insurance were strong in the month of September. In the manufacturing sector, orders at local mills, while up

over last month, are down considerably over October reports from previous years. Building permit data have not been reported for several months because the data from a major source have not been available since June.

A large drop in the stock market earlier this month was the result of investors getting nervous about the continually expanding economy and several ominous signs of inflation. Higher inflation rates push up the cost of borrowing, reduce corporate profits, and ultimately slow economic activity. Three events contributed to these inflationary fears. The first was remarks made by Alan Greenspan, the Chairman of the Federal Reserve. First he noted that stock prices seem over-inflated. Then he gave a warning to banks to increase their financial reserves in case of a market crash. Both of these remarks were seen by investors as indications that the Fed thinks inflationary pressures are too high, and so may be preparing to raise interest rates for the third time in five months.

The second event that invoked the fall in the market was a report released by the government that September wholesale prices far exceeded expectations. In fact, the increase of 1.1 percent was the highest single-month growth in nine years. This is a strong inflationary indicator.

The final event that contributed to the stock market fall was the extremely low unemployment rate nation-wide. It is commonly accepted that a low unemployment rate is a sign of a tight labor market. A tight labor market indicates higher wages and increased consumer spending.

As was discussed in last month's report, many key policy makers believe the stock market is the ultimate indicator of the health of the economy. Evidence of a non-accelerating economy may now be needed to hold off an additional round of interest rate increases and subsequent market reaction.



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