



# KERN ECONOMIC JOURNAL

2005 Fourth Quarter

Volume 7 Issue 4

## *Award of Merit, California Association for Local Economic Development*

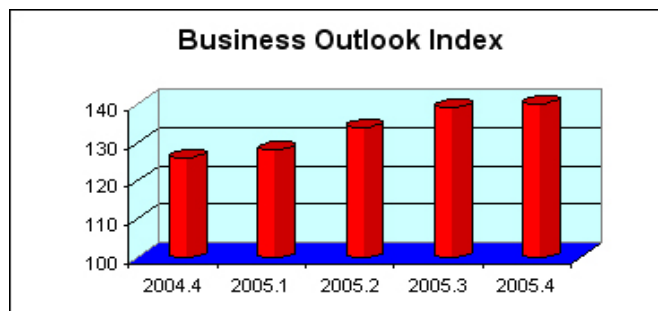
### BUSINESS OUTLOOK IMPROVES SLIGHTLY

ABBAS GRAMMY

**K**ern County's businesses remained optimistic about local economic conditions. Collecting data from a random telephone survey of businesses across the county, we measured the *Business Outlook Index* from. The index value increased slightly from 139 in the third quarter to 140 in the fourth quarter of 2005. Compared to one year ago, business managers were more optimistic as the *Business Outlook Index* edged 16 percentage points higher.

In addition to the overall index, we calculated two sub-index values. The *Index of Current Conditions* lost 5 percentage points, whereas the *Index of Future Conditions* gained 6 percentage points. Results from these sub-index values suggest that although survey participants felt less confident about current conditions, they were more optimistic about the future.

Nearly 60 percent of interviewees reported that the number of jobs in their companies stayed constant, but 35 percent said more jobs were available. Looking ahead,



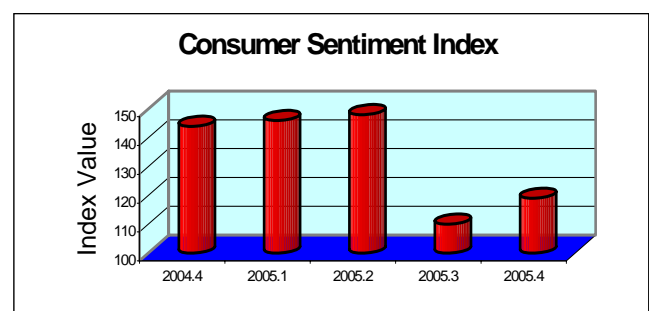
(Continued on page 4)

### CONSUMER SENTIMENT REBOUNDS TO AN AVERAGE READING

MARK EVANS

**T**he *Bakersfield Index of Consumer Sentiment* rebounded to 119 in the fourth quarter of 2005 from 110 in the third quarter. The index is constructed and reported to help local business leaders compare national and local trends in expectations. The index also can help local businesses determine if their recent sales trend reflects movements in the local economy or shifts in relative competitiveness.

The absolute levels of the national and local indexes cannot be directly compared since they are tabulated differently and have different base years. The local reading of 119 is identical to the average value of this index since we began tabulating it in 1999, while the national index climbed to within striking distance of the normal range in December. At the national level, the University of Michigan's measure of consumer sentiment declined for the third straight quarter to 82.4 from 87.5 in the previous quarter. However, the national index is on the rebound as its monthly readings increased throughout the quarter. The decline in the national index was caused by



(Continued on page 4)

*KERN ECONOMIC JOURNAL* is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

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# ECONOMY AT A GLANCE!

**ABBAS GRAMMY**  
PROFESSOR OF ECONOMICS, CSUB



Growing at a surprisingly sluggish rate, the United States economy did not perform well in the fourth quarter of 2005. The Gross Domestic Product increased 1.1 percent; the rate of unemployment fell 0.1 percent; and the index of manufacturing production rose 2 percentage points. While consumers acquired more debt, the cost of living soared 3.2 percent. The cost of production increased at a feverish rate of 15 percent and the cost of employment climbed 3.2 percent. The Index of Leading Economic Indicators, a widely watched barometer of future economic activity, increased 0.8 percent, indicating slow economic growth in the near future.

In California, the rate of employment dropped 0.1 percent from 5.3 to 5.2 percent. The state's farm economy added 4,400 jobs and non-farm industries created 60,000 new jobs.

Kern's economy continued to improve. The economy expanded at an annual rate of 3.3 percent, adding \$120 million of personal income. Personal income per worker increased \$140. Local households conveyed greater confidence in their financial conditions as the Bakersfield Consumer Sentiment Index increased to 119 from 110. In the meantime, the Kern County Business Outlook Index edged 1 percentage point higher from 139 to 140, indicating that managers remained optimistic about local economic conditions.

The county's unemployment rate dropped to a record low of 7.3 percent. The rate of unemployment averaged 5.5 percent in Bakersfield, 4.4 percent in Ridgecrest, and 6.1 percent in California City, all below the county average. The county's labor force added 4,540 workers. The number of employed workers increased 5,110, while 570 persons remained jobless. The farm labor market added 2,425 full-time equivalent jobs and nonfarm industries created 3,455 paid positions. However, the informal labor market - including self-employed labor and those working outside the county - lost 770 jobs. Government agencies added 690 full-time equivalent jobs and the private-sector added 2,765 positions.

In the housing market, prices appreciated at slower rates. The county's median sales price for all residential units climbed 8.9 percent to reach \$268,300. In Bakersfield, the median housing price appreciated 7.4 percent to ar-

rive at \$285,300. Ridgecrest gained 10.7 percent as its median housing price climbed to \$188,900. Likewise, Delano's median housing price soared 28.8 percent to attain \$198,750.

With rising mortgage interest rates, the monthly number of permits issued for the construction of new privately-owned dwelling units decreased from 578 to 567. Housing became more expensive relative to household income as the affordability indicator increased from 6.6 to 7.3. The latter number indicated that the median housing price was 7 times greater than the average income. Failure to make mortgage payments led to an increase in the rate of housing foreclosure from 361 to 424.

Commodity prices had falling trends. The price of San Joaquin crude oil dropped \$3.66 per barrel; the average price of regular gasoline in Bakersfield dropped \$0.21 per gallon; and the unit price of California's instant nonfat dry milk edged \$0.23 lower. The price that farmers received for their outputs dropped 4 percentage points, whereas the price that farmers paid for their inputs rose 2 percentage points. As a result, the disparity between output prices farmers received and input prices farmers paid continued to widen.

The stock price index of the top five *market-movers* in Kern County declined 7.3 percentage points in the fourth quarter of 2005. However, their stock price index has climbed 28 percentage points since the fourth quarter of 2004. These publicly traded companies were Berry Petroleum (BRY), San Joaquin Bank (SJQN), Granite Construction (GVA), Occidental Petroleum Corporation (OXY), and Tejon Ranch Company (TRC).

The CSUB Department of Applied Economics  
can assist your organization with:

## **Economic and Fiscal Impact Study**

Using:

- Kern County Input-Output Multipliers
- IMPALN PRO computer program

Contact Abbas Grammy (654-2466) for more information

# THE CEO PROFILE!



## Introduction

**B**art Hill is President and CEO of San Joaquin Bank, Kern County's fourth largest commercial bank. He has held that position since 1987 when the bank was just seven years old and had only \$48 million in total assets. Today, San Joaquin Bank has assets totaling \$630 million and is a major force helping to shape the future of Kern County.

Previous to his current position, Hill worked for Bank of America in San Francisco, Fresno and Bakersfield for 13 years. His last position with that firm was head of the corporate lending group for Kern County. Hill received a bachelor's degree in economics from UC Santa Barbara and a master's degree in agricultural economics from UC Davis.

Active in civic affairs, Hill is a member of several community boards and is past president of the Greater Bakersfield Chamber of Commerce, the Kern County Board of Trade, the Rotary Club of Bakersfield, the Downtown Business Association, and the Tree Foundation of Kern. Additionally, he is a current board member of the California Bankers Association and serves on a national banking task force investigating the Hurricane Katrina disaster to develop a financial disaster preparedness plan.

## Interview:

***You've been a banker for your entire career. What is it about this business that keeps you motivated?***

I love the role of a banker because for me it's very similar to that of a medical doctor. We are financial doctors who evaluate the economic health of our customers and provide them with advice, credit, and services to help them achieve their goals. For example, it's very rewarding for a banker to help a struggling company gain financial stability or to help a customer realize the dream of starting and operating a successful business. I also enjoy contributing to a working environment where employees can thrive, and where they are able to deliver "over the top" customer service. After all, it's service more than anything else that differentiates the banks.

***So, is San Joaquin Bank different from other banks?***

Yes, in some ways it is different. San Joaquin Bank was established in Bakersfield 25 years ago by some local business people who felt that banks weren't meeting their needs. The bank's original purpose was to address the specific needs of the business community, and that's still our focus today. We of course also have personal banking services as well. Some of our most popular business services are daily deposit pick up and cash management. We think your banker should pick up your deposits and worry about your banking so that you can devote all of your time and attention to your business. So, we tend to be more specialized than many banks because of our focus and our unique services.

***Well, how has this slightly different formula worked for the bank?***

It's worked very well. We like to think that our customer service is the kind that's talked about. People tell their friends and then they change banks too. This has resulted in us being the fastest growing bank in the county with a five year average growth rate exceeding 20% and a 10% market share. I think it's difficult to achieve excellence when you're trying to be everything to everybody. Banks in general are doing a pretty good job of the "big stuff," but it's the "little stuff" that wins and loses customers. It's all about focus and service quality.

***Is your stock traded publicly and how's the bank doing financially?***

Yes, it's a public company, and anyone can own stock. It's listed daily in the *Bakersfield Californian* under stocks of local interest. San Joaquin Bank has grown steadily and has had record profits for the past 22 consecutive years. The stock has more than tripled in the last five years and currently sells in the \$33 to \$35/share range.

***How does San Joaquin Bank contribute to our local community?***

We're very conscious of being a good corporate citizen, and we contribute in a number of ways. First of all,

*(Continued on page 3)*

there's an obvious economic contribution made by providing 130 jobs in the county. Additionally, the bank has loans outstanding of over \$400 million with a vast majority of those funds loaned to local business people. The nature of a bank, particularly a business bank, is to provide financing and services to help companies grow and prosper, and this ultimately benefits the entire community. San Joaquin Bank also makes substantial cash donations each year, and provides time for its employees to be on the boards of charitable organizations and to

work on fundraising projects. Our employees currently hold board positions in more than 20 non-profit organizations. Lastly, the FDIC regularly evaluates what we are doing for Kern County based on criteria contained in the Community Reinvestment Act (CRA), and we are in a very small number of banks in California to have received an Outstanding rating. I believe it's our job at San Joaquin Bank to not just help our community grow, but also to make a sincere effort to improve the quality of life.

## Econ Brief!

### Demographic Characteristics of Kern County

Interesting observations can be made by looking at population data in Kern County between 2000 and 2004:

- The county population increased 41,210 people or 6.2 percent to reach 703,000.
- The county's female population grew five-times faster than its male population.
- The county's largest age group was adults 18 years and older, but its fastest growing age group included children 5 years and younger.
- The county's largest racial group was White who accounted for more than 540,000 or about 77 percent of the one-race group of people.
- The population share of African-Americans and Native Americans declined in favor of Whites and Asians.
- A smaller number of county residents classified themselves as two and more races.
- The Hispanic population increased 46,700 people or 18.4 percent to exceed 300,000 and its population share rose from 38.4 to 42.8 percent.

Characteristics	2000	2004	2000-2004		2000	2004
	Population		Change		Share	
Total	661,645	702,855	41,210	6.2%	-	-
<b>Gender Distribution:</b>						
Male	339,382	346,763	7,381	2.2%	51.3%	49.3%
Female	322,263	356,092	33,829	10.5%	48.7%	50.7%
<b>Age Distribution:</b>						
5 years & younger	55,707	60,202	4,495	8.1%	8.4%	8.6%
18 years and older	450,266	479,906	29,640	6.6%	68.1%	68.3%
65 years and older	62,054	64,956	2,902	4.7%	9.4%	9.2%
<b>Racial Distribution:</b>						
<b>One Race:</b>						
White	407,581	540,759	133,178	32.7%	61.6%	76.9%
African-American	39,798	35,781	-4,017	-10.1%	6.0%	5.1%
American Indian & Alaska Native	9,999	5,216	-4,783	-47.8%	1.5%	0.7%
Asian	22,268	27,508	5,240	23.5%	3.4%	3.9%
Native Hawaiian & other Pacific Islander	972	770	-202	-20.8%	0.1%	0.1%
Others	153,610	73,121	-80,489	-52.4%	23.2%	10.4%
<b>Two or more Races</b>	<b>27,417</b>	<b>19,700</b>	<b>-7,717</b>	<b>-28.1%</b>	<b>4.1%</b>	<b>2.8%</b>
Hispanic or Latino (of any race)	254,036	300,758	46,722	18.4%	38.4%	42.8%

Source: U.S. Census Bureau; <http://factfinder.census.gov>



*Businesses Optimistic (Continued from cover page)*

45 percent perceived that the number of jobs would stay constant, whereas 50 percent expected their companies to hire more workers next quarter.

Likewise, 47 percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant, whereas 45 percent indicated increased profits and sales this quarter. Thirty-six percent expected financial conditions of their companies to remain constant, but 56 percent anticipated increased sales and profits next quarter.

About 50 percent of interviewees perceived that employment and general business conditions of their industries remained the same this quarter and are likely to stay constant next quarter. However, nearly 45 percent reported improvement in employment and general business conditions of their industries this quarter and expected these conditions to get better next quarter.

Almost 50 percent of interviewees perceived no improvement in local economic conditions this and next quarter. However, 45 percent felt that Kern County's economy improved this quarter and would get better next quarter.

We asked business managers to identify factors that have affected employment and financial conditions of their companies. They felt the following factors brightened the local business outlook:

- Continued residential and commercial construction
- Increased business sales during the holiday season
- Increased tourism with more people traveling

However, survey respondents expressed the belief that several factors darkened the local business outlook:

- Higher prices of oil, gas, and steel, increasing costs of doing business
- Unprepared and unskilled workforce
- Volatility in the Stock Market

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*Consumer Sentiment (Continued from cover page)*

a plunge to 74.2 in October following Hurricane Katrina, after which it increased to 81.6 in November to 91.5 in December.

The index is disaggregated into sub-indexes relating to recent trends and future expectations. The sub-index measuring recent trends is constructed from responses to questions relating to expenditures on discretionary items, financial status of the household compared to one year ago, and perceived changes in the financial condition of acquaintances in Kern County. This sub-index attained a value of 118 in the fourth quarter, up from 106 in the third quarter. The 118 reading is exceeded only one-third of the time. Twenty-two percent of households reported spending more than usual on discretionary items, similar to the response rate of the previous quarter. However, only eight percent spent less than usual on discretionary

items, considerably less than the 30 percent spending less in the previous quarter. The percentage of households reporting they were doing better than one year ago increased slightly from 38 to 44 percent, while the percent doing worse did not change.

To assess future expectations, households are asked how they think the financial situation of their families will change over the coming year, how their acquaintances in Kern County view the coming year, and whether this is a safe or risky time to draw down savings or incur debt. This sub-index increased from 114 in the third quarter to 120, which is exceeded a bit more than half the time. This slight increase is attributable to households reporting that their acquaintances in Kern County are more optimistic about the coming year than they were in the previous quarter.

	Most Recent Quarter	Previous Quarter	One Year Ago
<b>Consumer Sentiment Index</b>	<b>119</b>	<b>110</b>	<b>144</b>
Recent Buying & Financial Trends Index	118	106	126
Expectations Index	120	114	161

## *BUSINESS EDUCATION:*

# INFORMATION SECURITY: A NEW MANAGERIAL CONCERN

*HOSSEIN BIDGOLI*

PROFESSOR OF MANAGEMENT INFORMATION SYSTEMS,  
CSUB



Some 30 years ago, security meant a good lock on the office door! Now, managers and computer users have to be concerned about computer viruses, worms, phishing, spam, intrusion, and identity theft. Security issues and threats in a network environment are varied and can be caused intentionally and unintentionally by insiders and outsiders. They can be categorized as controllable, partially controllable, and uncontrollable. We offer a series of guidelines that should assist key decision makers and network/ computer users to improve the integrity and confidentiality of organizational information, the second most important resource (after humans) in an organization.

It should be noted that the amount of security budget and protection expenses is often dependent upon the value of the data (i.e. low risk or cost of data replacement would not justify a high cost for security). Some aspects of security measures can be improved and implemented with moderate expenses. Other technical aspects need capital investment in software, hardware, infrastructure, and technical expertise. An organization should carefully consider the security threats and issues and examine those that are particularly related to a specific organization and try to integrate them into its security plan. To establish a comprehensive security plan, some or all of the following suggestions should be considered:

- Organize a security committee. The committee should include representatives from user groups (including finance, accounting, marketing, manufacturing, and personnel), top management, hardware group, software group, security specialists, and legal department.
- Post the organization's security policies in a visible place and/or in front of every entry port (workstation or PC). The signs should state the organization's policies on security.
- Require all employees to sign an acceptable use policy. This would include appropriate and acceptable network and web access as well as specify punishments as a result of misuse.
- Encourage employees' sensitivity to security problems. This can be done by implementation of a security awareness program. Employees should understand what security risks are and how they can be eliminated or at least minimized.
- Revoke terminated employees' passwords and badges immediately so that a malicious ex-employee cannot be destructive.
- Be prepared for computer virus attacks by using the most recent version of antivirus utility programs. Guard against spyware and other intrusive programs by installing a recent version of an anti-spyware program.
- Install a firewall that can guard the computer network against many external security threats.
- When downloading or copying a file (from the Web or from other sources) check it first with antivirus software before copying it to a hard disk or other permanent devices.
- Do not allow employees to connect personal computing devices onto the organization's network without a thorough inspection for viruses and/or other malicious programs.
- To minimize legal, organizational and social issues related to the Web and e-mail systems, design, and distribute comprehensive e-mail and Web use policies.
- Back-up all of your computer files. Store at least one generation of backups at an off-site facility.
- Develop a disaster recovery plan. The plan should outline the actions that will be taken should a disaster strike. The plan should regularly be tested with trial data in order to see the effectiveness of the plan.

*(Continued on page 7)*

# TRANSPORTATION AND THE QUALITY OF LIFE IN KERN COUNTY



**RONALD E. BRUMMETT**

KERN COUNCIL OF GOVERNMENTS, AND  
ADJUNCT PROFESSOR OF PUBLIC ADMINISTRATION, CSUB

There is much to discover in Kern County. Some people come to escape big-city life. Others come because of the rural setting and still others because of job availability and relatively low-cost housing. Kern County is the choice of many because of the quality of life it offers.

However, that quality of life is in jeopardy. According to the California Department of Finance (DOF), the San Joaquin Valley's population is projected to increase 80% by 2030, to 6 million people. Kern Council of Governments projects that the Kern region will grow 60% by 2030 to a population of 1.2 million. In 2004, natural increases accounted for a population increase of 8,373 people. In-migration the same year accounted for an increase of 14,689 people (DOF). These trends are expected to continue.

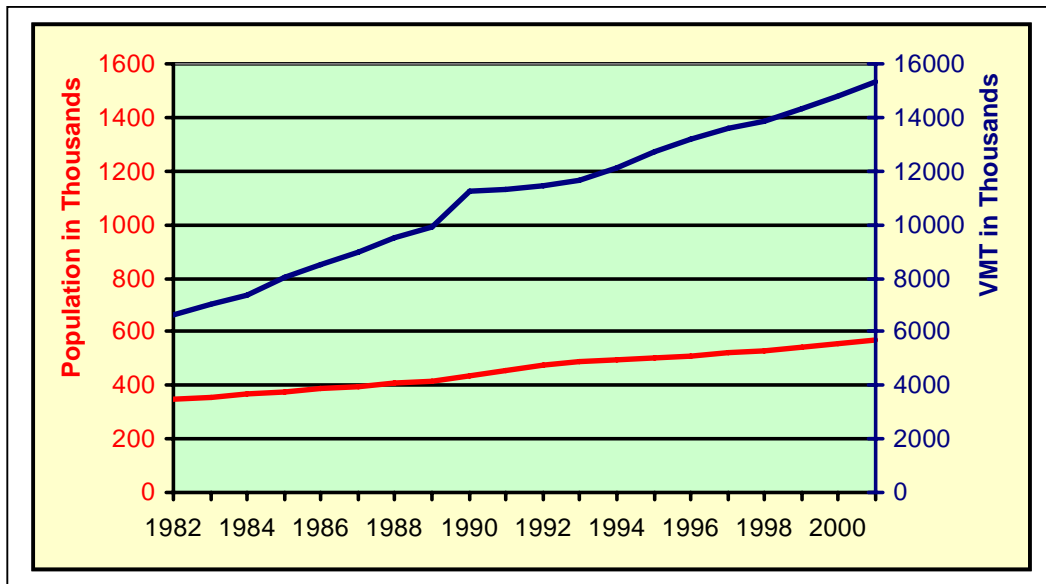
Between 2000 and 2005 the Kern region's population has increased by more than 18,000 per year, with more than 23,000 added in 2004 alone. This growth comes at a price. As new companies continue to locate in the area, they recruit workers. As new families relocate they need new housing, schools, shopping and recreation. All of

these activities necessitate an expanding transportation system. Schools require buses to transport children. Local stores require trucks to deliver their products. Housing requires vehicles to transport building materials. In all of these scenarios there are employees who use some form of transportation to get to their jobs. The reality is that our economy and quality of life is based on our ability to travel to our daily activities with ease.

Maintaining our quality of life is dependent on managing and expanding our streets, roads, highways and public transportation systems. However, this measure of our quality of life is in jeopardy.

Kern Council of Governments, in its "Destination 2030" Regional Transportation Plan (2004), identified what changes will occur as the region continues to expand. Kern COG notes that in accommodating the continued growth in available housing, the number of vehicles on our streets and highways will increase. With this increase, the number and severity of accidents will go up and there will be more congestion.

*(Continued on page 7)*



*The growth in population compared to the growth in travel between 1982 and 2000. While the population has increased by about 50%, the vehicle miles of travel have increased by about 100%. This shows that existing Kern residents are driving at an increased rate compared to the growth in population.*



*Transportation (Continued from page 6)*

The Kern COG plan notes that by 2030 there will be a need for 140,000 additional housing units to accommodate the increasing population. In a recent survey of cities within Kern County, Kern COG found that every city has experienced increases in construction activity and that most had identified significant new developments. California Department of Finance estimates show that between 2000 and 2002, the number of housing units in Kern County increased by 6,084 units. However, between 2003 and 2005 that number increased by 16,767 units.

With the increase in housing there is a corresponding increase in the number of registered vehicles. Kern COG projects the number of registered vehicles in Kern County will increase from 530,000 vehicles in 2004 to more than 950,000 vehicles in 2030.

The 2000 U.S. Census notes that the average person in Kern County travels 39 miles each day. With the projected increases in housing and registered vehicles, congestion will continue to increase. The Kern COG “Destination 2030” plan states that congestion will increase by 166% by 2030. In 1998, there were 63,600

hours of congestion in Kern County. By 2030, congestion will increase to more than 169,696 hours. Not all of the congestion is being caused by growth. Kern COG’s transportation model (2004) indicates that 75% of all vehicle miles traveled on Kern County streets and roads are by Kern County residents. The model also shows that 95% of all trips on Kern’s streets and highways begin and/or end in Kern County.

With the increase in total travel and congestion on Kern County’s streets and highways, traffic accidents will rise. On the state highway system in Kern County, the accident rate is projected to increase 125% by 2030. In 2003 there were 4,500 accidents. This is projected to increase to more than 10,500 by 2030.

Many aspects of our quality of life will be significantly impacted by population growth. At existing transportation funding levels, by 2030, Kern residents will experience more congestion, longer waiting at traffic signals, continued air quality degradation, and increased accidents. Should transportation funding levels be increased, either through existing or new revenue sources, these and myriad other problems can be mitigated.

*Information Security (Continued from page 5)*

- Identify all of the vendors and manufacturers of the software and hardware used in the organization. Record the most recent addresses, phone numbers, web sites, and e-mail addresses of these vendors.
- Document all the hardware and software in the organization and also document all the changes done to the initial hardware and software. This will help the organization to get back on its feet should a disaster strike.

**Econ Brief!**

**Economic Impacts of Hurricanes Katrina and Rita**

The Bureau of Economic Analysis estimated that in the third quarter of 2005, personal income fell \$32.7 billion (25 percent) in disaster-stricken Louisiana, the state hardest hit by Hurricanes Katrina and Rita. In Mississippi and Alabama, which did not suffer as extensive destruction, personal income grew \$567 million (0.8 percent) and \$1.1 billion (0.8 percent), respectively. Third quarter state personal income fully accounted for the uninsured losses and the net insurance settlements associated with Hurricanes Katrina and Rita. Personal income is adjusted for disaster assistance received and wages lost (or gained) in August and September. In the rest of the country, personal income increased \$105.1 billion (1.1 percent). Nationwide, personal income increased only \$74.1 billion (0.7 percent).

	2005.2		Change	
	Millions of Dollars		Millions of Dollars	Percentage
United States	10,186,624	10,260,723	74,099	0.7
Louisiana	129,649	96,983	-32,666	-25.2
Mississippi	74,849	75,416	567	0.8
Alabama	132,871	133,986	1,115	0.8
Rest of the Country	9,849,255	9,954,338	105,083	1.1

# TRACKING THE ECONOMY

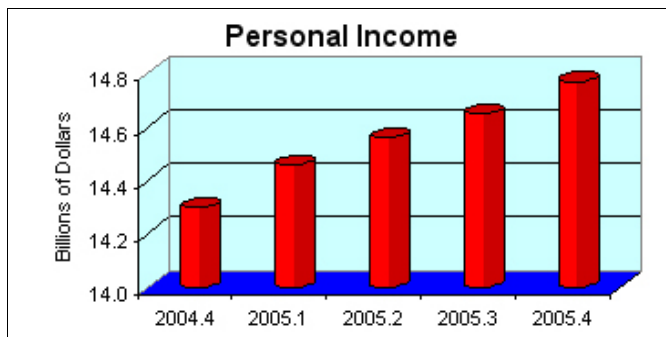
FOURTH QUARTER OF 2005

**ABBAS P. GRAMMY**

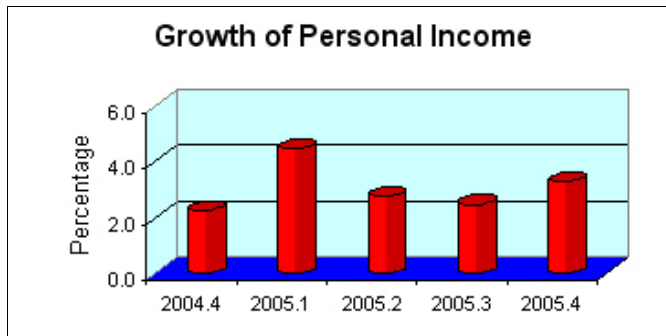
PROFESSOR OF ECONOMICS, CSUB

## Economy

**Personal Income** - Kern County's personal income (in constant 1996 dollars) increased from \$14.65 billion in the third quarter of 2005 to \$14.77 billion in the fourth quarter of 2005. The county's economy expanded \$120 million or at an annual rate of 3.3 percent. Kern County's economy has added \$470 million of personal income since the fourth quarter of last year.



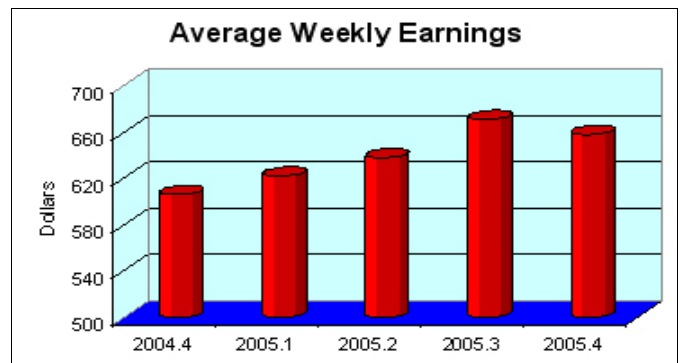
**Growth** - In the fourth quarter of 2005, personal income grew at an annual rate of 3.3 percent, which was 0.8 percent higher than that of the previous quarter. Compared with one year ago, the growth rate of personal income accelerated one percentage point.



**Personal Income per Worker** - Labor productivity is personal income per worker. In constant dollars, labor productivity increased \$140 or at an annual rate of 0.9 percent from \$48,180 in the third quarter of 2005 to \$48,320 in the fourth quarter of 2005. Personal income per worker has increased \$980 since the fourth quarter of 2004.



**Manufacturing Wages** - In the fourth quarter of 2005, weekly wages paid to local manufacturing workers declined from a "revised" figure of \$671.11 to \$658.24. As a result, manufacturing workers, on average, lost \$12.87 of income per week. This wage decline was mainly due to a decrease of one hour of work per week. However, local manufacturing workers earned \$51.93 more per week than four quarters ago.



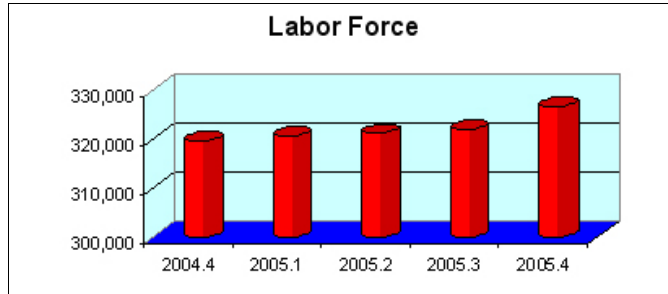
## Labor Market

To analyze labor market conditions in Kern County, a time-series dataset was established (January 2000 – December 2005). Monthly employment data were adjusted in three ways: (1) to calculate "informal" employment (i.e., the difference between total employment and industry employment), accounting for members of the labor force who are self-employed or work outside their county of residence; (2) to adjust the dataset for the effects of seasonal variations; and (3) to take three-month averages for the analysis of quarterly changes. Changes in the local labor market are shown as follows:

(Continued on page 9)

Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
4,540	5,110	- 570	2,425	3,455	2,765	690

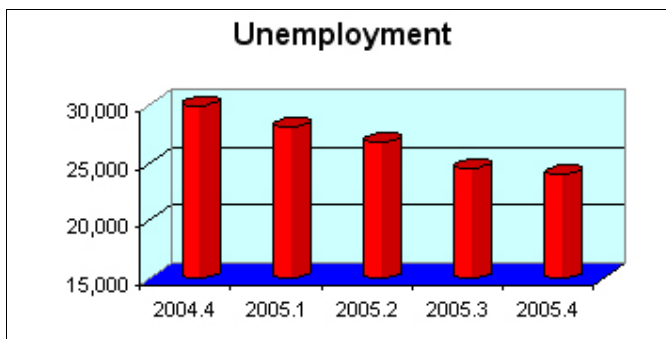
**Labor Force** - The civilian labor force increased by 4,540 workers from 322,140 in the third quarter of 2005 to 326,680 in the fourth quarter of 2005. Over the previous four quarters, the labor force has expanded by 7,095 workers.



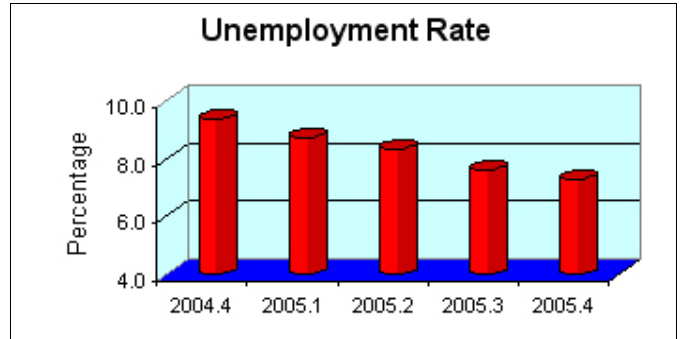
**Employment** - Total employment increased by 5,110 from 297,490 in the third quarter of 2005 to 302,600 in the fourth quarter of 2005. The number of employed workers rose 13,015 since the fourth quarter of last year.



**Unemployment** - In the meantime, the number of unemployed workers declined by 570 from 24,570 in the third quarter of 2005 to 24,000 in the fourth quarter 2005. The number of unemployed workers has fallen by 6,000 since the fourth quarter of last year.



The rate of unemployment dropped 0.3 percent from 7.6 percent in the third quarter of 2005 to 7.3 percent in the fourth quarter of 2005. Since the fourth quarter of last year, the county's unemployment rate has fallen 2.1 percent.



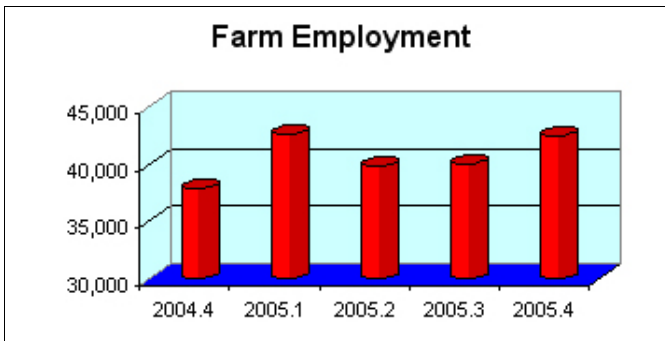
The rate of unemployment varied considerably across the county. It ranged from 3.1 percent in Kernville to 22.1 percent in Arvin. The rate of unemployment was below the county average of 7.3 percent in Kernville, Lebec, Ridgecrest, Tehachapi, Bakersfield, California City, Inyokern, Rosamond, Edwards AFB, North Edwards, and Frazier Park. In contrast, the rate of unemployment was above the county average in Taft, China Lake, Oildale, Lake Isabella. Buttonwillow, Mojave, Shafter, Lamont, Weedpatch, Wasco, Lost Hills, McFarland, Delano, and Arvin.

Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	3.1	Taft	7.7
Lebec	3.4	China Lake	7.9
Ridgecrest	4.4	Oildale	8.3
Tehachapi	5.2	Lake Isabella	9.5
Bakersfield	5.5	Buttonwillow	9.7
Inyokern	5.2	Mojave	9.9
California City	6.1	Shafter	14.3
Rosamond	6.3	Lamont	14.5
Edwards AFB	6.4	Weedpatch	14.8
North Edwards	6.6	Wasco	15.0
Frazier Park	6.8	Lost Hills	15.6
		McFarland	17.0
		Delano	21.4
		Arvin	22.1

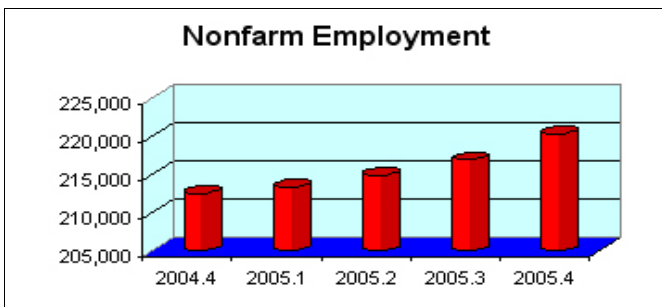
Note: City-level data are not adjusted for seasonality.

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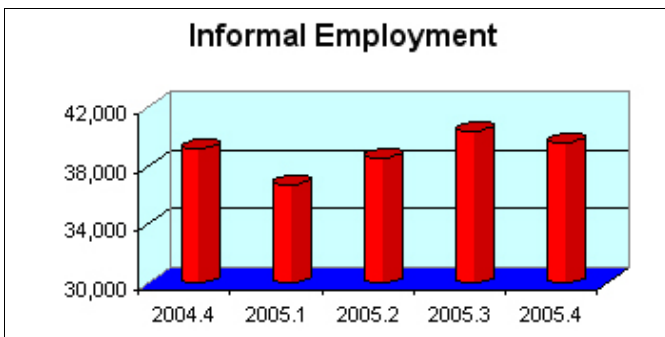
**Farm Employment** - In the fourth quarter of 2005, farm employment increased by 2,425 paid positions from 40,120 to 42,545. Since the fourth quarter of 2004, the economy has added 4,685 farm jobs.



**Nonfarm Employment** - In the fourth quarter of 2005, the number of nonfarm workers climbed from 216,960 to 220,415 for a gain of 3,455 jobs. The nonfarm sector has added 7,895 new jobs since the fourth quarter of last year.

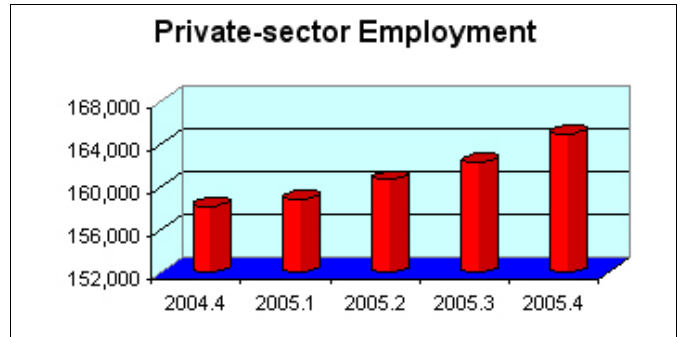


**Informal Employment** - Informal employment is the difference between total employment and farm and non-farm employment. It accounts for self-employed workers and those who work outside their county of residence. The number of workers engaged in this market declined by 770 from 40,420 in the third quarter of 2005 to 39,650 in the fourth quarter of 2005. However, the informal labor market has added 445 jobs since the fourth quarter of last year.



**Private-sector Employment** - Nonfarm employment is comprised of private-sector employment and public-sector employment. The private sector added 2,765 jobs as employment increased from 162,200 in the third quarter

of 2005 to 164,965 in the fourth quarter of 2005. The private sector has added 6,755 jobs since the fourth quarter of last year.

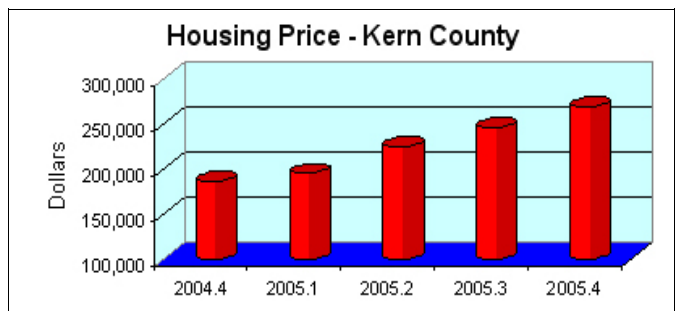


**Public-sector Employment** - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. The public sector added 690 jobs as employment increased from 54,530 in the third quarter of 2005 to 55,190 in the fourth quarter of 2005. Since the fourth quarter of 2004, the public sector has added 978 jobs.



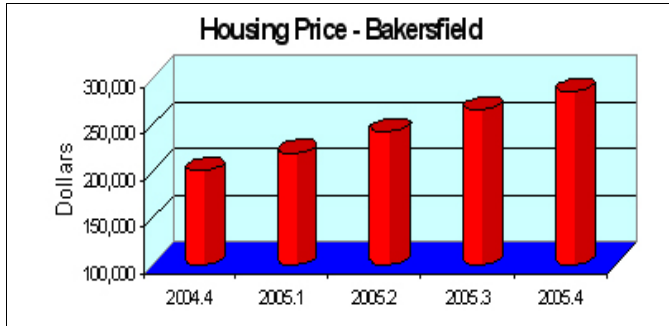
**Housing Market**

**Housing Price** - In Kern County, the median sales price of all residential units increased from \$246,300 in the third quarter of 2005 to \$268,300 in the fourth quarter of 2005. This was a quarterly increase of \$22,000 or 8.9 percent. The county's median housing price appreciated \$81,500 or 43.6 percent since the fourth quarter of 2004.

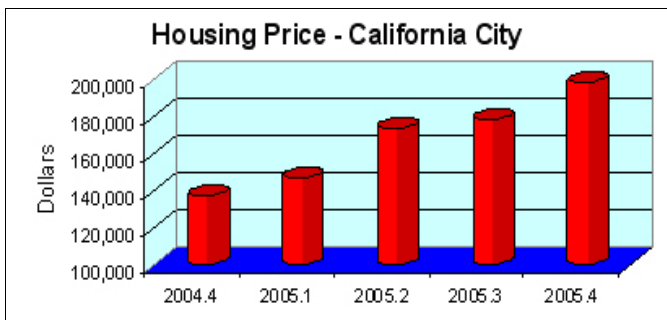


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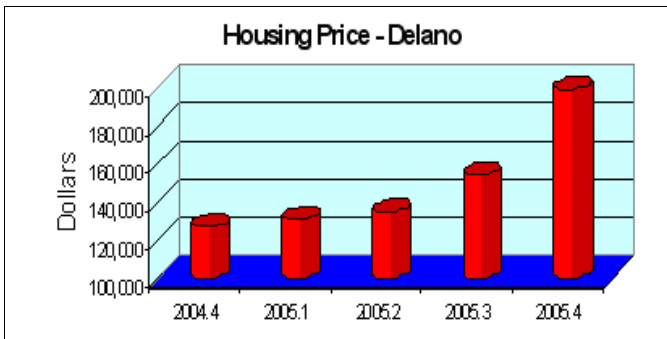
In Bakersfield, the median sales price of all homes rose \$19,600 or 7.4 percent from \$265,700 in the third quarter of 2005 to \$285,300 in the fourth quarter of 2005. Since the fourth quarter of last year, the city's median price has appreciated \$85,100 or 42.5 percent.



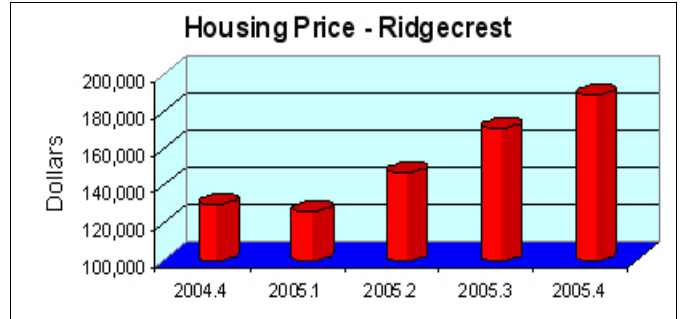
Meanwhile in California City, the median housing price climbed from \$178,800 in the third quarter of 2005 to \$198,300 in the fourth quarter of 2005. This jump was a \$19,500 or 10.9 percent price increase. The city's median housing price has gained \$60,900 or 44.3 percent since the fourth quarter of last year.



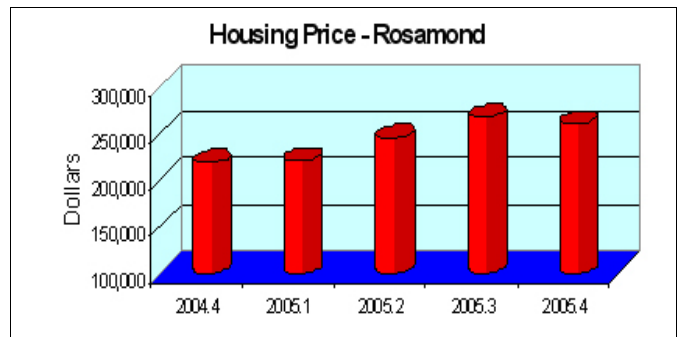
In Delano, the median housing price appreciated \$44,500 or 28.8 percent from \$154,250 in the third quarter of 2005 to \$198,750 in the fourth quarter of 2005. Compared with one year ago, the city's housing price has appreciated \$74,450 or 56.1 percent.



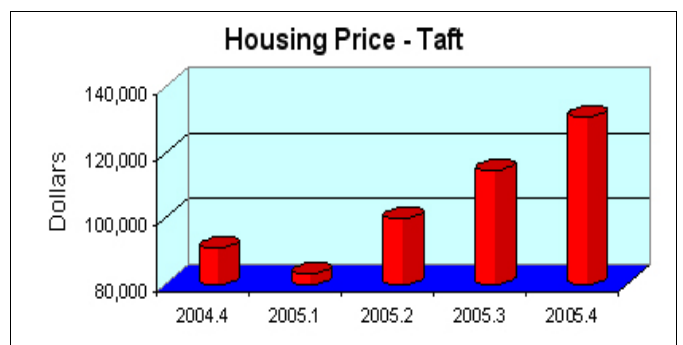
In the fourth quarter of 2005, Ridgecrest's median housing price gained \$18,300 or 10.7 percent from \$170,600 to \$188,900. The city's housing price has appreciated \$58,600 or 45 percent since the fourth quarter of last year.



In Rosamond, the median housing price declined to \$260,000 in the fourth quarter of 2005 from \$266,700 in the third quarter of 2005. This was a price decrease of \$6,700 or 2.5 percent in one quarter. Over the previous four quarters, the city's housing price has climbed \$41,700 or 19.1 percent.



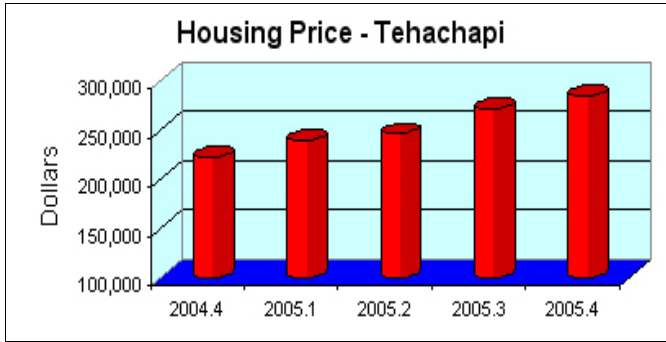
In the meantime, Taft's median housing price jumped \$16,300 or 14.3 percent from \$114,300 in the third quarter of 2005 to \$130,700 in the fourth quarter of 2005. The city's median housing price has appreciated \$39,900 or 43.9 percent since the fourth quarter of last year.



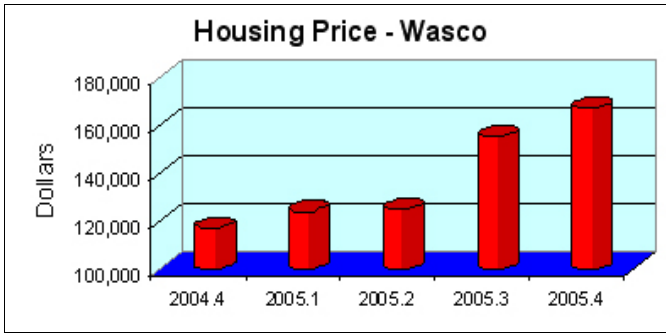
In Tehachapi, the median housing price appreciated \$14,000 or 5.2 percent from \$271,300 in the third quarter of 2005 to \$285,300 in the fourth quarter of 2005. Over the previous four quarters, the city's median housing price soared \$62,800 or 28.2 percent.

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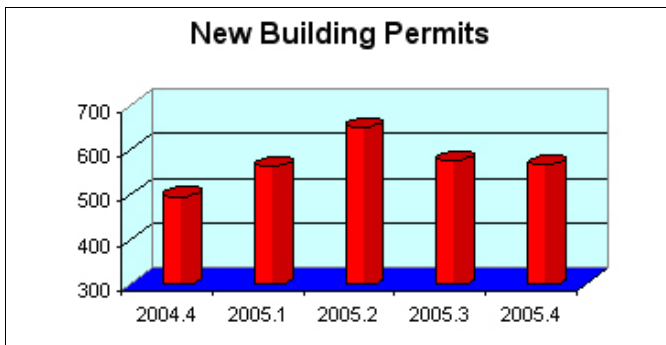




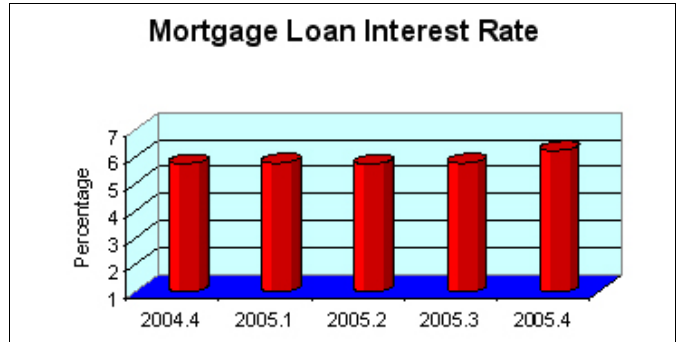
Housing prices appreciated \$12,000 or 7.7 percent in Wasco during the fourth quarter of 2005 as the city's median housing price jumped from \$155,500 to \$167,500. Since four quarters ago, housing prices have gone up \$50,000 or 42.6 percent.



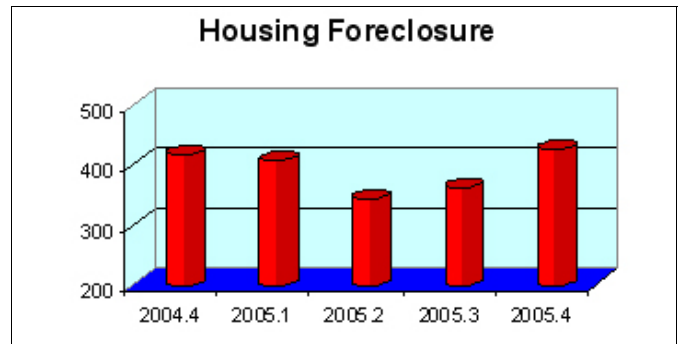
**Building Permits** - The monthly average number of permits issued for the construction of new privately-owned dwelling units in Kern County decreased by 11 from 578 in the third quarter of 2005 to 567 in the fourth quarter of 2005. However, relative to the fourth quarter of last year, 71 more building permits were issued.



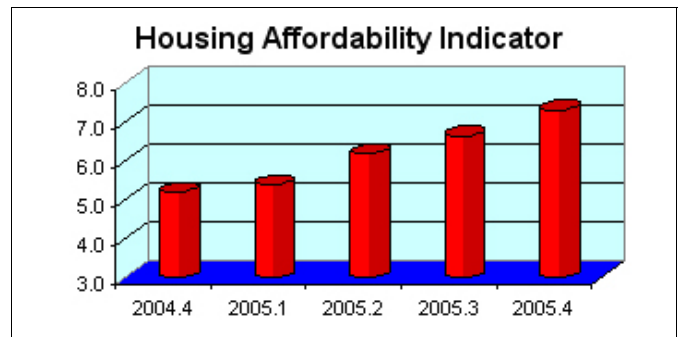
**Mortgage Interest Rate** - Mortgage loan interest rates remained low. The interest rate of thirty-year conventional mortgage loans jumped 0.49 percent from 5.76 percent in the third quarter of 2005 to 6.22 percent in the fourth quarter of 2005. Since one year ago, the mortgage loan interest rate has risen 0.49 percent.



**Housing Foreclosure Activity** - Foreclosure activity in Kern County edged up in fourth quarter 2005, the result of lower appreciation rates. Lending institutions sent 424 default notices to local homeowners during this quarter. It was up 17.5 percent from 361 of the previous quarter, and 2 percent higher than 417 of four quarters ago.

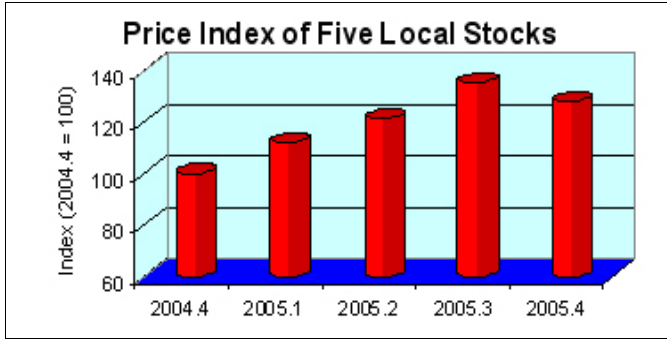


**Housing Affordability** - The housing affordability indicator rose from 6.6 in the third quarter of 2005 to 7.3 in the fourth quarter of 2005. This increase indicates that, on average, the county's housing price is now seven times greater than labor income. This change suggests that housing affordability has declined 10 percent since last quarter. If we were to keep the housing affordability indicator at 3.0, it would require an average labor income of more than \$89,000 to afford buying a median-priced home.

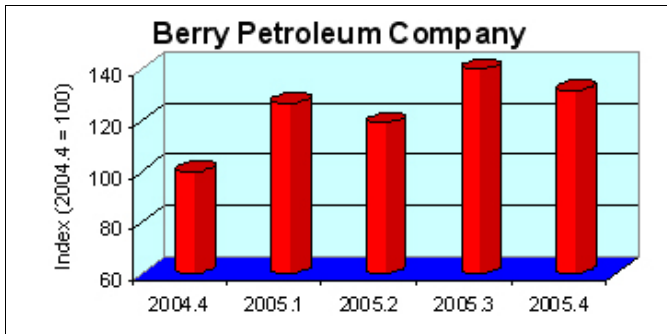


**Stock Market**

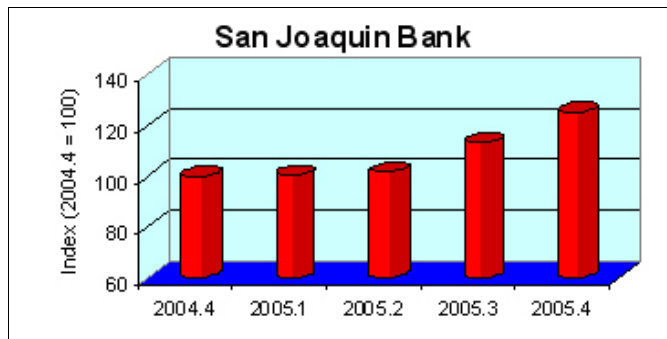
In the fourth quarter of 2005, the price index of five local market-movers declined 7.3 percent. However, since one year ago, the index has climbed 28.0 percent. These top five local market-movers are Berry Petroleum, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



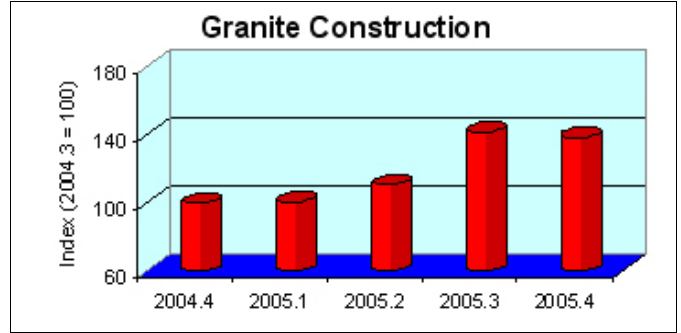
**Berry Petroleum (BRY)** recorded an 8.6 percentage point loss from \$61.84 to \$58.04. However, the company's ownership shares have gained 31.8 percent in value since four quarters ago.



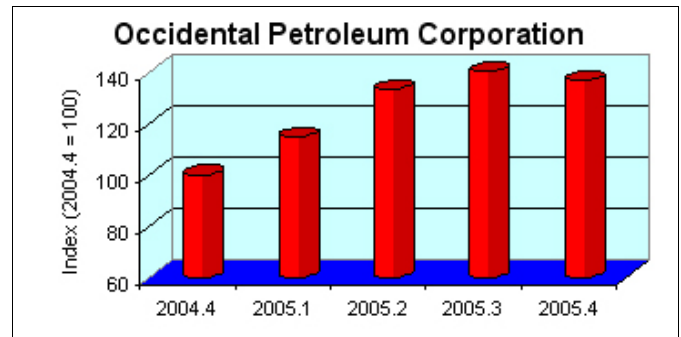
**San Joaquin Bank (SJQN)** gained \$3.20 as its price climbed from \$30.10 to \$33.30 per share. Since the fourth quarter of 2004, SJQN shares have gone up \$6.70 or 25.3 percent.



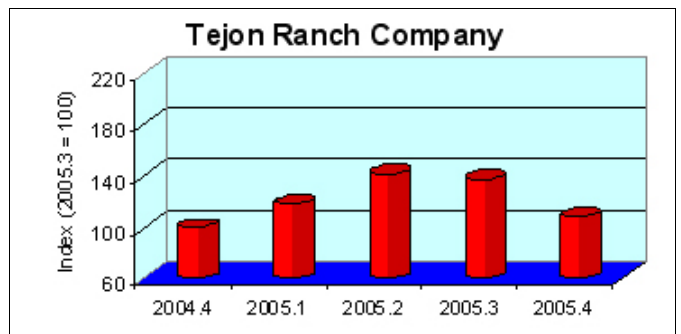
**Granite Construction (GVA)** recorded a 3.3 percent decrease in the fourth quarter of 2005 as its stock price dropped from \$36.58 to \$35.71 per share. Over the past four quarters, the company's stock price soared from \$25.81 to \$35.71, gaining 38.4 percent.



**Occidental Petroleum Corporation (OXY)** lost 7.3 percentage points as its stock price fell from \$83.58 to \$79.35. Since the fourth quarter of last year, OXY's price jumped 36.5 percent from \$58.13 to \$79.35 per share.



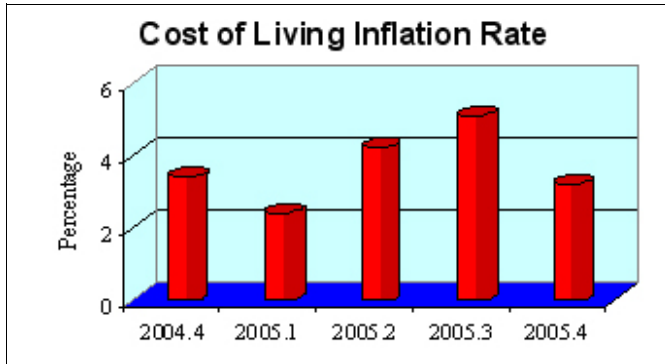
**Tejon Ranch Company (TRC)** recorded a 29.1 percent quarterly price decrease as its stock price fell from \$53.18 to \$41.89. However, over the past four quarters, the company's stocks gained 8.1 percent from \$38.75 to \$41.89 per share.



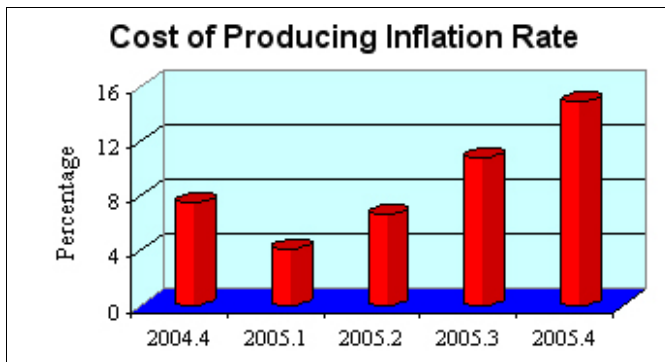
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**Commodity Prices**

**Cost of Living** - The Consumer Price Index (CPI) for all urban areas (1982-84 = 100) climbed from 196.6 in the third quarter of 2005 to 198.1 in the fourth quarter of 2005. In annual rates, inflation slowed from 5.1 percent to 3.2 percent. Relative to one year ago, the CPI inflation rate was 0.2 percent lower.

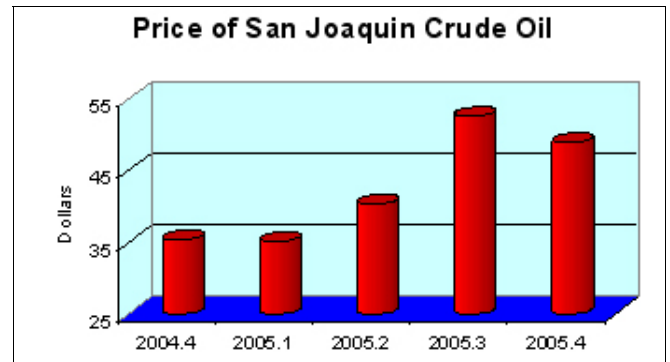


**Cost of Production** - The Producer Price Index (PPI) for all commodities (1996 =100) jumped from 158.5 in the third quarter of 2005 to 164.2 in the fourth quarter of 2005. As a result, the PPI inflation rate accelerated from 10.8 to 14.9 percent. Relative to one year ago, the PPI inflation rate has nearly doubled.

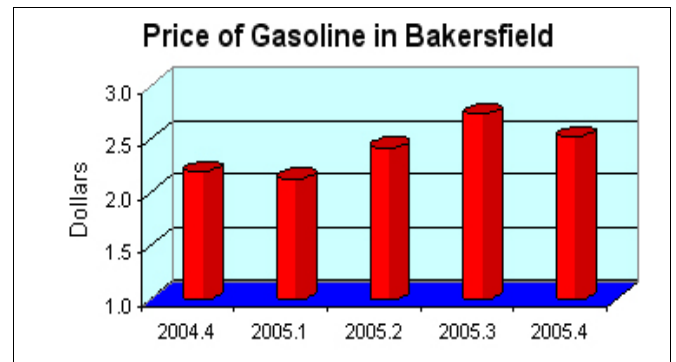


**Cost of Employment** - The Cost of Employment Index (CEI) for all workers in the private industry (1989 =100) increased from 179.8 in the third quarter of 2005 to 181.2 in the fourth quarter of 2005. As a result, the annual CEI inflation rate accelerated from 3.1 to 3.2 percent this quarter. Relative to the fourth quarter of last year, the CEI inflation rate has remained constant.

**Price of Oil** - The average price of San Joaquin Valley heavy crude dropped \$3.66 per barrel from \$52.57 in the third quarter of 2005 to \$48.91 in the fourth quarter of 2005. However, relative to the fourth quarter of 2004, the price of crude oil soared \$8.55 per barrel.



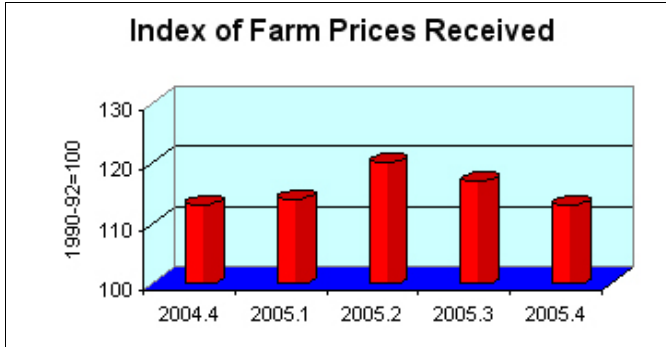
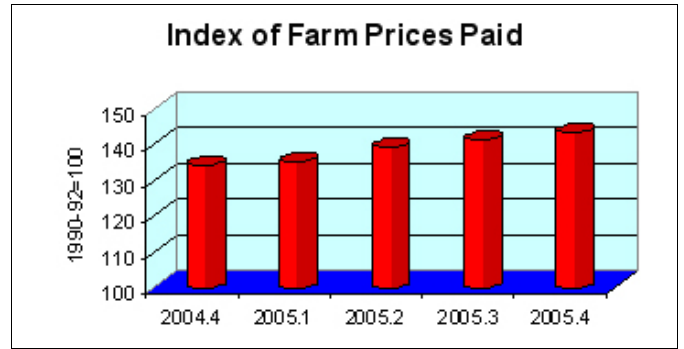
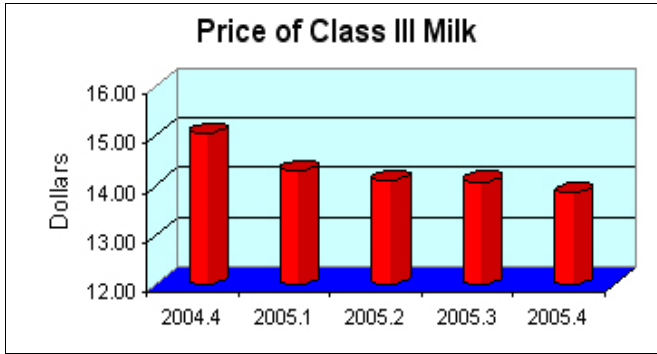
**Price of Gasoline** - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon dropped 21 cents from \$2.73 in the third quarter of 2005 to \$2.52 in the fourth quarter of 2005. Compared to a year ago, the price of gasoline edged 33 cents higher.



**Price of Milk** - The average price of Class III (instant nonfat dry) milk has had a declining trend. It fell \$0.23 from \$14.08 in the third quarter of 2005 to \$13.85 in the fourth quarter of 2005. Relative to the fourth quarter of 2004, the milk price edged \$1.21 lower.

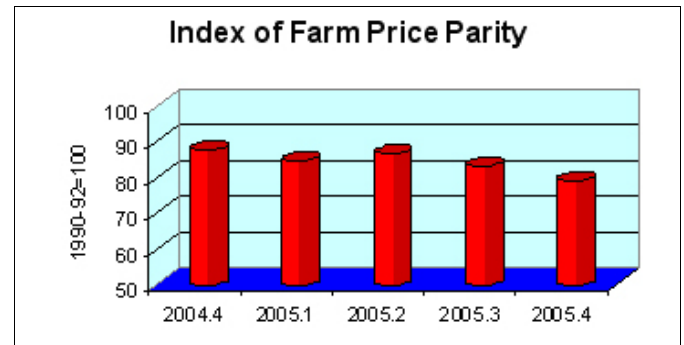
**Farm Prices** - The national Index of Prices Received by Farmers for all farm products (1990-92 = 100) plunged 4 percentage points from 117 in the third quarter of 2005 to 113 in the fourth quarter of 2005. The index value was unchanged relative to the fourth quarter of last year.

(Continued on page 15)



Here, we measure the Index of Price Parity as the ratio of the Index of Prices Received to the Index of Prices Paid. Values of this index less than 100 illustrate the imbalance between prices farmers pay for their inputs and prices farmers receive for their outputs. In the fourth quarter of 2005, the Index of Price Parity lost 4 percentage points from 83 to 79. Since four quarters ago, the disparity between output prices farmers received and input prices farmers paid widened as the index value dropped 8 percentage points.

In contrast, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents increased 2 percentage points from 141 in the third quarter of 2005 to 143 in the fourth quarter of 2005. Relative to four quarters ago, this Index has gained 9 percentage points.



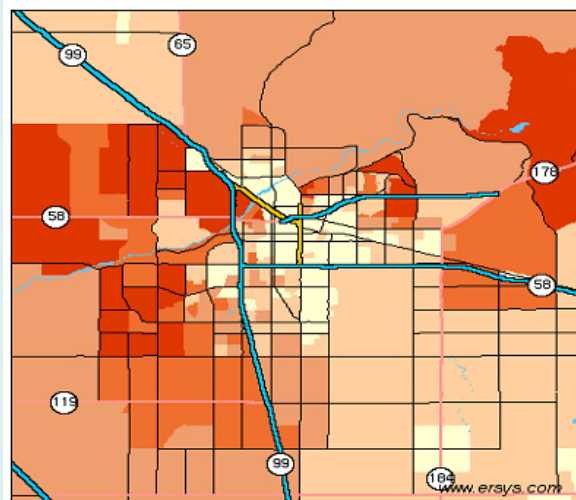
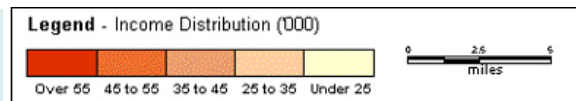
### Econ Brief!

#### Location of Household Income in Bakersfield

The enclosed map shows the dispersion of median household income in the Bakersfield metropolitan area. The median household income of nearly \$40,000 per year indicates that half of the people in the area earn less and the other half makes more than this amount.

The dark red areas indicate the highest levels of income. These high-income households are clustered in north, northeast, southwest, and northwest Bakersfield. In contrast, the yellow areas indicate the lowest levels of income. These low-income households are mostly clustered in east, south, and central Bakersfield.

Sources: U.S. Census Bureau and Synergos Technologies, Inc.



## BOOK REVIEW:

***THE SCORPIAN'S GATE*** BY RICHARD A. CLARKE  
NEW YORK: G. P. PUTNAM'S SONS, 2005

MARK EVANS

PROFESSOR OF ECONOMICS AND ASSOCIATE DEAN  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION,  
CSUB

Richard A. Clarke, renowned counterterrorism expert and author of the best-selling Against All Enemies, has published his first novel. His geopolitical chess game takes place in the near future. An internal coup has brought down the royal family in Saudi Arabia and renamed the country "Islamyah." Abdullah, Vice Chairman of the ruling Shura Council and Minister of Security analogizes that oil is like the blood of a wounded camel. Nothing attracts deadly scorpions like the blood of a wounded camel. And nothing attracts predators like the oil flowing beneath Islamyah's sands. Although the Council is united in its determination to build a scorpion's gate, it does not share a common vision of what type of society to build behind that gate or what alliances to pursue. Some want to go the Sunni fundamentalist route. Some believe self-determination can best be achieved by acquiring nuclear weapons from China in return for providing her a long-term supply of oil. Abdullah understands the nuclear option is a Pandora's Box and envisions a renaissance where Islamyah's citizens achieve their full potential, making vital contributions in science and medicine, mathematics, and the humanities as Islamic scholars did centuries before.

Reading the book requires some concentration, as the reader must keep track of thirty-or-so characters. I jotted down character names, their roles, and the page numbers on which each character was introduced. With this crutch, the book was easy to follow.

The book jacket teases, "Sometimes you can tell more truth through fiction." What are Clarke's truths? The bottom line: these are very dangerous times. An expanding oil supply is the foundation of our way of life. As world oil production peaks, demand from rapidly developing China and India is accelerating. The most serious Islamic threat to U.S. interests is not Al Qaeda, but the Shiite pan-national movement led by Iran's fundamentalist mullahs. And, U.S. policy has been grossly ineffective and counterproductive. As Jassim, a Dubai developer observes, "For generations, the mullahs in Iran have wanted to unite the Shi'a world into a single power ... The U.S. Army comes along and topples Saddam in

three weeks. Three years later and the Shi'a are practically running Iraq under Iranian guidance. Washington did Tehran's work for them."

In Spielberg's Munich, Golda Meier says there are situations where a nation must compromise its core values to ensure its very survival. Clarke would probably agree with Meier in theory. As for this specific situation, a journalist laments near the end of the novel that too many of those who will not seriously address our energy future or take the time to understand the Middle East's subtleties and diverse perspectives are more than willing to define the national interest in terms of the welfare of private interests, sending children of the middle class and poor off to war to defend those interests.

For a balanced portrayal of Richard Clarke that was published before his rise to the top of everyone's "best-loved" or "most hated" list after the release of Against All Enemies, I recommend The Age of Sacred Terror by Daniel Benjamin and Steven Simon, formerly of the National Security Council. Out of Gas by David Goodstein, Vice Provost at Caltech provides a concise, 125-page overview of the peak in oil production, its implications, and the scientific principles required to understand climate change and our energy alternatives.



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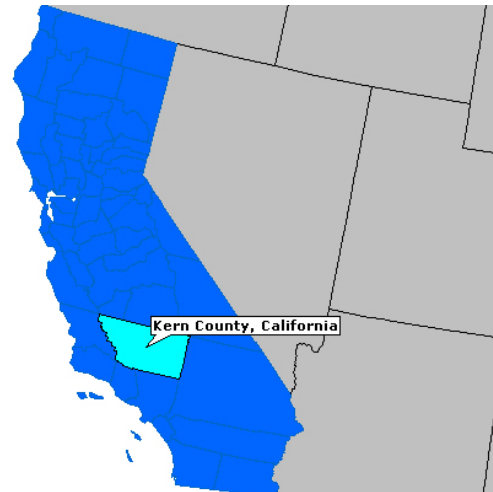


## A COOL WEBSITE!

You will find [www.e-pounds.com](http://www.e-pounds.com) a rich source of regional data. In addition to current events, the website provides detailed data on climate, demographics, economy, education, environment, genealogy, government, history, libraries, maps, museums, newspapers and other media, nonprofit groups, real estate, recreation, religion, transportation, and travel and tourism at the state, county, and city levels. For example, when you search for Kern County, California, the website will provide you with the county's general map and its profile. Using the site's search engine, you can retrieve detailed data on various aspects of life in the county and its cities. The following paragraph is a summary profile of Kern County.

Kern County was named for Edward M. Kern, a topographer who accompanied explorer John C. Frémont. Of the nation's counties, it ranks second in production of grapes; second in production of cotton; ninth in production of oranges; eighth in production of plums and prunes; and second in production of watermelons. The

estimated population of Kern County in 2004 was 735,000, which was an increase of 11 percent from the 2000 census. In 2002, the per capita personal income in Kern County was \$22,600. This was an increase of 20 percent from 1997. The county's per capita income was 73 percent of the national per capita income of \$31,000.



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Bakersfield, CA 93311-1022

The poster features a dark blue background with a stylized map of California in a lighter blue shade. The text is primarily in white and gold. The main title 'SAVE THE DATE!' is in large, bold, white capital letters. Below it, 'You won't want to miss...' is in a smaller white font. The event title 'KERN COUNTY Economic SUMMIT' is prominently displayed, with 'KERN COUNTY' in gold and 'Economic SUMMIT' in white. The date and time 'Wednesday, March 29, 2006 7:30 a.m. to 12 noon' and the location 'Doubletree Hotel • Bakersfield, CA' are listed in white. A paragraph of descriptive text and contact information is at the bottom.

**SAVE THE DATE!**  
You won't want to miss...

**KERN COUNTY**  
**Economic**  
**SUMMIT**

Wednesday, March 29, 2006  
7:30 a.m. to 12 noon  
Doubletree Hotel • Bakersfield, CA

Mark your calendar now and come see why the Kern County Economic Summit is the premier forum for learning about the state of Kern County's economy and what can be expected in the coming year. The summit is presented by the Kern Economic Development Corporation, California State University, Bakersfield and the Greater Bakersfield Chamber of Commerce.

Summit sponsorships ranging from \$500 to \$5,000 are now available. For more information on the Summit or to become a sponsor, contact summit co-chairs Beth Huggins at (661) 862-5156 or Danielle McKinney at (661) 334-2017.