

California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311-1099
Phone: 661/664-2466
Fax: 661/664-2049
Email: agrammy@csub.edu



KERN ECONOMIC JOURNAL

Volume 6 Issue 2

2004 Second Quarter



In This Issue...

Business Outlook Survey
Consumer Sentiment Survey
Tracking the Local Economy
Considering Sponsorship Opportunities

Economic Assistance for Rural Kern County
Kern EDC Announces Three Major Grants from USDA
The Profit Motive
Econ Briefs!

www.csub.edu/kej/

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.

We wish to gratefully acknowledge the following sponsors:



KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) 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. Sources of funding for the journal include university contributions and sponsorship and subscription fees.

Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in hard or electronic copy. Individual authors are responsible for the views and research results.

Editorial Board:

Randal Bye, Director, CSUB Foundation
Brent Dezember, President, StructureCast
Mark Evans, Interim Dean, Extended University Division, CSUB
Abbas Grammy, Professor of Economics, CSUB
Guy Greenlee, Director, County of Kern Community and Economic Development Department
Jeffrey Johnson, Director, Weill Institute Small Business Development Center

Publisher and Managing Editor: Abbas Grammy
Design & Production: Sylvia O'Brien, O'Brien Images (661/664-4591)

INSIDE THIS ISSUE:

Cover Page

Photo Location: Shell Refinery, Bakersfield, CA

Photo: Mick O'Brien, O'Brien Images

Economy at a Glance! 2

Opinion Surveys

Kern County Business Outlook Survey..... 3

Bakersfield Consumer Sentiment Survey 4

Business Education

Considering Sponsorship Opportunities 6

Special Topic: Assistance for Economic Development

Economic Assistance for Rural Kern County: USDA Rural Development California..... 7

Kern EDC Announces Three Major Grants from USDA 10

Tracking the Local Economy

Unemployment Rate 12

Nonfarm Employment Growth 12

Personal Income 13

Personal Income Per Capita..... 13

Earnings in Manufacturing..... 13

Median Housing Prices 14

Housing Affordability Index 14

New Housing Permits..... 14

Mortgage Interest Rate 15

Inflation Rates 15

Price of Crude Oil..... 15

Price of Regular Gasoline 15

Farm Price Index..... 15

Econ Brief!

Milk Price Hikes in California..... 9

Economic Outlook of Kern County..... 11

How to Improve the Place of Bakersfield in California..... Inside Back Cover

Economic Forces in Business

The Profit Motive..... 16

ECONOMY AT A GLANCE!

Kern County's economy improved in the second quarter of 2004. Business managers became more optimistic about local economic outlook, and households expressed greater confidence in their financial conditions. Labor markets improved with lower unemployment rate and higher job growth rate. Total and per capita personal income inclined at modest rates. Housing prices continued

to appreciate in spite of rising mortgage interest rate. Higher oil and gasoline prices fueled inflation in the market for consumer and producer goods and services. Output prices received by farmers fell short of input prices they paid.

Economic Indicator	2004 1st Quarter	2004 2nd Quarter	Quarterly Change	Data Source
Household and Business Survey:				Data collection and analysis by CSUB
Business Outlook Index	126.5	138.9	12.4	
Consumer Sentiment Index	114.0	119.0	5.0	
Labor Market Conditions:				California Employment Development Department (CEDD)
Unemployment Rate (%)				Averaging, seasonal adjustment, and estimation by CSUB
Kern	12.6	11.5	-1.1	
Bakersfield	9.2	8.7	-0.5	
Nonfarm Employment Growth (%)				
Kern	-2.7	2.2	4.9	
Bakersfield	0.0	5.3	5.3	
Economic Conditions:				Bureau of Labor Statistics (BLS) and CEDD
Total Personal Income (\$ billion)				Averaging, seasonal adjustment, and estimation by CSUB
Kern	14.04	14.14	0.10	
Bakersfield	7.82	7.88	0.06	
Personal Income Growth (%)				
Kern	2.6	2.8	0.2	
Bakersfield	3.1	3.2	0.1	
Personal Income Per Capita (\$)				
Kern	20,800	20,950	150	
Bakersfield	31,650	31,850	200	
Earnings in Manufacturing (\$/week)	573.40	594.30	20.90	
Housing Market:				California Association of Realtors
Median Housing Price (\$)				
Kern	141,670	162,830	21,160	
Bakersfield	151,170	175,500	24,330	
Building Permits (#)	529	537	8	
Housing Affordability Index (%)	51.7	46.0	-5.7	Economagic.com
Mortgage Interest Rate (%)	5.61	6.13	0.52	
Prices:				
Inflation Rates				
Consumer Price Index, U.S. (%)	3.5	4.7	1.2	Economagic.com
Producer Price Index, U.S. (%)	6.9	11.7	4.8	
Energy Prices				
San Joaquin Crude (\$/barrel)	29.15	31.74	2.59	Berry Petroleum
Bakersfield Regular Gas (\$/gallon)	1.82	2.23	0.41	BakersfieldGasPrice.com
Farm Prices				
Index of Prices Received	127	136	9	U.S.D.A.
Index of Prices Paid	134	132	-2	
Index of Price Parity	88	95	7	

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB



Kern County's business outlook brightened in the second quarter of 2004. Our survey results revealed that business decision-makers have become more optimistic about local economic conditions.

For this telephone survey, we drew random samples from the membership of the Chamber of Commerce in Bakersfield, Mojave, Ridgecrest, Taft, and Tehachapi. The survey participants represented a wide range of industries including amusement, automotive services, business and legal services, construction, education, farming, finance, insurance, real estate, government, health services, hospitality and personal services, management and consulting services, manufacturing, retail and wholesale trade, social and cultural services, transportation, and public utilities. The survey results are summarized below.

More than 80% of the survey respondents reported that the number of jobs in their companies stayed the same as the previous quarter and expected employment to remain unchanged this quarter. Sixty percent of survey respondents indicated improvement in financial conditions (sales or profits) of their companies last quarter, and over 50% predicted improvements this quarter. Nearly 50% of survey respondents perceived that employment and financial conditions of their industries were better last quarter, and are likely to improve this quarter. Likewise,

about 50% of the survey respondents perceived improvement in local employment and business conditions in this and next quarter.

We enumerated the survey responses to construct the Business Outlook Index (BOI). The value of 100 indicates *neutrality* about local business conditions, greater than 100 expresses *optimism*, and less than 100 *pessimism*. As illustrated in the following chart, the BOI soared 12.4 % points from 126.5 in the first quarter to 138.9 in the second quarter of 2004. This increase indicates that business managers are more *optimistic* about local conditions. Since the second quarter of 2003 the BOI has increased continually, gaining 37% points.

We also asked the survey participants to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies. They felt several factors brightened the local business outlook:

- Continued real estate and construction boom in Kern County
- Warmer weather conducive to farming
- Growing local and national economy

(Continued on page 5)

Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	10	82	8
Employment in your company next quarter will be	10	90	0
Financial condition (sales or profits) of your company this quarter was	60	39	1
Financial condition (sales or profits) of your company next quarter will be	52	47	1
Employment and general business conditions in your industry this quarter were	53	46	1
Employment and general business conditions in your industry next quarter will be	49	50	1
Employment and general business conditions in Kern County this quarter were	48	48	4
Employment and general business conditions in Kern County next quarter will be	49	47	4

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS
INTERIM DEAN, EXTENDED UNIVERSITY
DIVISION, CSUB

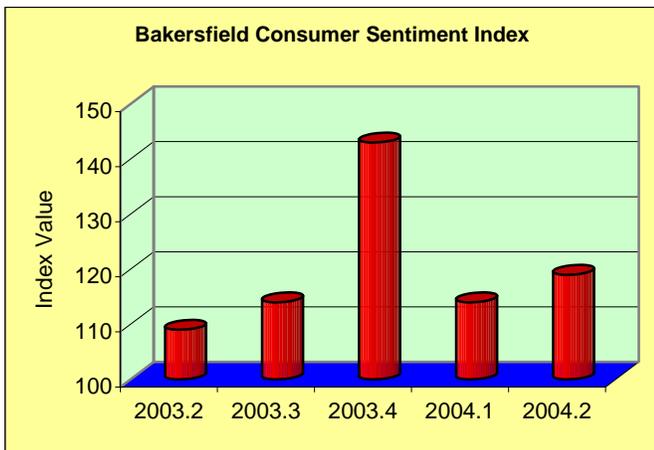


The Bakersfield Index of Consumer Sentiment increased modestly from 114 in first quarter 2004 to 119 in the second quarter. The first quarter reading equals the average value of the index since its inception, while the most recent quarter tops two-thirds of the previous readings. We began compiling the local index in 1999 from telephone surveys administered to a random sample of households listed in the Bakersfield section of the phone book. Index values about 100 indicate consumer *optimism*, while values below 100 are rare and suggest considerable *pessimism*. The index is disaggregated into sub-indexes relating to recent trends and future expectations. The sub-index measuring current conditions was close the median for past quarters, while the level of optimism suggested by the sub-index for future

expectations exceeded nearly three-fourths of previous quarter readings.

The Index of Recent Buying and Financial 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 was flat, decreasing from 113 in the first quarter to 112 in the second quarter. One-third of the households reported spending more than usual on discretionary items such as dining out and entertainment, similar to first quarter. The percent responding that they spent less than normal on discretionary

(Continued on page 5)



	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	119	114	109
Sub index: Recent Buying & Financial Trends	112	113	104
Sub index: Expectations	127	114	114

	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	33 %	54 %	13 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	20 %	70 %	10 %
How your acquaintances in Kern County are doing financially compared to one year ago.	14 %	78 %	8 %

Consumer Sentiment (Continued from page 4)

items decreased from 20 percent in the previous quarter to 13 percent in second quarter. The frequency of households responding that they were better off compared to one year ago declined from 2-in-five in first quarter to 1-in-five in the second quarter. However, the percent indicating they were worse off also was cut in half from two-in-ten in first quarter to only one-in-ten in second quarter.

To assess consumer expectations, households were asked how they thought the financial situation of their families would 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 forward-looking index showed a healthy increase from 114 in first quarter to 127 in the

most recent quarter. The average past value for this sub-index is 119. When asked the most likely financial situation of their household in one year, four-in-ten expected improvement compared to five-out-of-ten in the previous quarter. The sub-index showed greater optimism despite this less favorable self-assessment because responses to the other two questions shifted toward greater optimism. The percent of household who thought their acquaintances expected improvement in their situations over the coming year increased from four-in-ten to five-in-ten. Most importantly, the percent that thought this was a safe time to use savings or incur debt to buy something expensive increased from 30 percent to nearly 50 percent. The flip side is that the percent that thought conditions were risky was cut by more than half -- from 40 to 17 percent.

TABLE 3—FUTURE EXPECTATIONS (Percentage of Responses)

	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	39 %	45 %	16 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	49 %	27 %	24 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	49 %	34 %	17 %

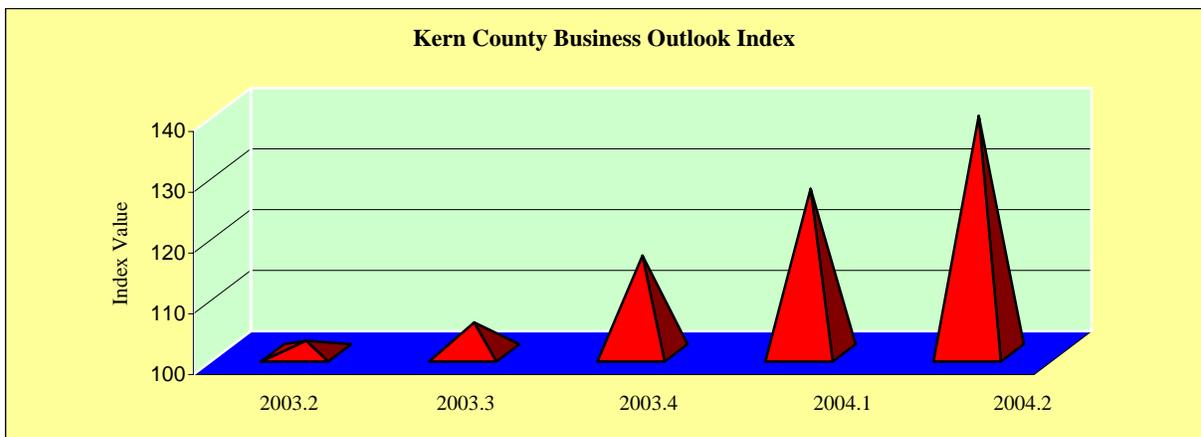
Business Outlook (Continued from page 3)

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

- State budget cuts affecting public safety and social services

- National security, war, and terrorism concerns
- Residential development taking over the farmland

Overall, the local business outlook brightened as the survey respondents became more optimistic. Several positive and negative economic factors helped local managers form their perceptions of the business climate.



BUSINESS EDUCATION

CONSIDERING SPONSORSHIP OPPORTUNITIES

RICHARD M. CAMPBELL, JR.

ASSISTANT PROFESSOR OF MARKETING, CSUB



How can sponsorship help your company achieve its corporate communications goals?

Advertising. Advertising. Advertising. When most business professionals are asked how to reach their target markets with information, their response is advertising. While advertising is an effective method of communication, an often overlooked opportunity for corporate communication is sponsorship.

According to *IEG's Complete Guide to Sponsorship*, sponsorship is "a cash and/or in kind fee paid to a property (typically in sports, arts, entertainment or causes) in return for access to the exploitable commercial potential associated with that property." While most business professionals and consumers are familiar with major companies (e.g. Budweiser, Ford, Citibank, etc.) sponsoring major events (e.g. NFL football, NASCAR, March of Dimes WalkAmerica, etc.), there are numerous options for local and regional firms to take advantage of the benefits that sponsorship can provide.

To determine the events that are most beneficial for your firm to sponsor, consider three screening criteria. First, the target market of the event should be consistent with the target market for your product offerings. To make this determination, ask the event administrators for a demographic breakdown of attendees and, perhaps more importantly, attend the event and ask yourself "are these people similar to my customers?" Second, the image of the event should correspond with the image your firm wants to portray. A litmus test for this criterion is to look at the other sponsors of the event. Would you be proud to have your company's name associated with the other sponsors? The final criterion is price. What is the cost of becoming a sponsor? As suggested in *IEG's* definition, becoming involved as a sponsor need not be a cash transaction. Is it possible for your firm to be a provider of goods or services in exchange for sponsor participation? In many instances, this approach lowers the real cost for becoming a sponsor, yet provides the event with a valuable resource.

Once an appropriate event has been identified, three factors must be considered to make the sponsorship a successful part of your overall corporate communications plan: setting goals, sponsorship activation and post-event evaluation. In terms of goals, what are you trying to accomplish through

the sponsorship? Options range from simply gaining exposure for your brand to driving increased traffic to your website to increasing foot traffic to your physical location. Once you have decided on the goals, discuss with the event representative what you are trying to accomplish and how you can work together to achieve them.

The next step in creating a successful sponsorship for your business is commonly referred to as activation. Activation represents the efforts your company makes to utilize the sponsorship. As presented in the *IEG* definition, the rights fee is paid to have access to the exploitable commercial value of the event. Simply being listed as a sponsor is rarely worth the fee paid. Rather it is up to your business to leverage the sponsorship within the rest of your corporate communications efforts. This can be accomplished in many ways such as an onsite presence at the event, product sampling, including your role as sponsor in other advertising efforts, preparing mailings to event attendees, etc. The key is to use your goals as the basis for determining how to activate the sponsorship and discuss your ideas with the event representative to secure use of logos and other assistance before agreeing to become a sponsor.

Finally, once the event has occurred you need to determine whether your goals were achieved. A post-event evaluation meeting with the event representative can be used to discuss how successful the sponsorship agreement was for both parties. The decision to renew the sponsorship can be made based on whether the goals were achieved. In many instances, new goals for the following year may be discussed. And in some cases, the sponsorship may not be renewed.

As with most business activities, the first sponsorship agreement that you enter may not be successful. However, as you become more familiar with evaluating sponsorship opportunities, developing goals, implementing activation and conducting post-event evaluation you may find that sponsorship is a useful tool in your corporate communication efforts.

ECONOMIC ASSISTANCE FOR RURAL KERN COUNTY: USDA RURAL DEVELOPMENT CALIFORNIA



PAUL VENOSDEL.
CALIFORNIA STATE DIRECTOR, USDA-RURAL DEVELOPMENT

How did Kern County get \$15 million in business, infrastructure and housing development in 2004? USDA Rural Development - California. Who are we? USDA Rural Development - California is the lead agency within the Department of Agriculture that delivers economic development loans, grants and technical assistance to rural communities through 25 field offices across California.

Our financial programs touch rural Kern County residents in many ways. We support such essential public facilities and services as water and sewer systems, single, multi-family and farm worker housing and vital resources for first responders. We promote economic development by offering guaranteed loans to businesses through banks and community-managed lending pools while also offering grants to non-profit organizations and public bodies. We deliver technical assistance and financial resources to help agricultural cooperatives become more competitive in the global economy. And we provide technical assistance to help communities undertake community empowerment programs.

In 2004, the Kern County region offered Rural Development a rare chance to increase federal funding opportuni-

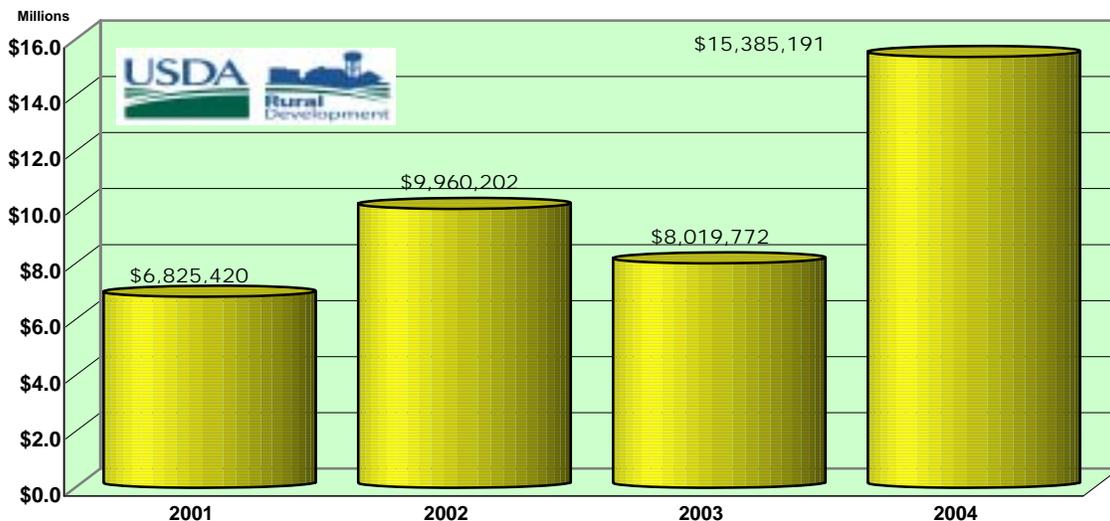
ties. Factors leveraging the funds included the sheer size of the county, the diverse population and the poverty / unemployment statistics. In each of our programs there are different eligibility criteria. The unique statistics and demographics of rural Kern County indicated a high potential for additional funding. However, our funding success in Kern was only made possible because of the hard work and dedication of a highly skilled and professional staff. Our field office staff in Bakersfield and our State Office staff in Davis have worked closely with applicants to bring projects to life in Kern County.

At the beginning of the fiscal year we made a strategic decision to target our outreach programs to rural residents of Kern County. The success has been overwhelming. We have been able to increase overall program fund delivery by more than \$7.3 million an extremely healthy 91.8% increase from Fiscal Year 2003. (See graph below for illustration.)

Our goal was not just to deliver more federal dollars to the county – it was to help the businesses, individuals and the families of Kern County. We took our marching orders

(Continued on page 8)

Kern County Funding - USDA Rural Development California



from the President of the United States of America. On March 4, 2004 President George W. Bush came to Bakersfield to have a conversation on the economy with the employees of Rain for Rent and leaders from around Kern County. The President heard first hand how companies from the area were investing in capital improvements and hiring additional employees.

Rural Development not only followed-up on the job creation effort in Kern County but also in the critical economic development fields of infrastructure and housing improvements. See the chart *USDA-RD Economic Tools at Work in Kern County-2004* for detail on current projects.

This year has been truly gratifying to watch the business, infrastructure and housing projects we offer become part of the economic fabric throughout rural Kern County. My sincere appreciation goes to our community partners, the rural development staff and the rural residents of Kern County for participating in our programs. For additional information on the many programs offered by Rural Development, please contact our field office in Bakersfield at 661-336-0967 or our State Office in Davis at 530-792-5800 or visit our informative and detailed website at www.rurdev.usda.gov/ca.

(Continued on page 9)

USDA-RD ECONOMIC TOOLS AT WORK IN KERN COUNTY - 2004

BUSINESS DEVELOPMENT: Rural Business Enterprise Grants and Value Added Producer Grants		
California City	\$65,000	New and improved waterlines and road improvements to help retail and professional businesses take advantage of California City Blvd. traffic flow
East Kern – Mojave Airport District	\$50,000	Airport Industrial Park building energy efficiency improvements including HVAC, windows and doors plus interior remodeling to expand tenancy potential
Kern Economic Development Corporation	\$80,000	Expansion and retention of medium sized businesses and job growth in Kern County through intensive economic development and technical assistance
CALCOT	\$337,400	Expansion of sales through direct marketing with CALCOT identity
San Joaquin Valley Quality Cotton Growers Assn.	\$228,250	Expansion of sales through high quality marketing strategy with exclusive trademark

INFRASTRUCTURE PROJECTS: Utilities and Community Facilities loans and grants		
East Niles Community Services District	\$1,390,200	Construction of new water well and lines for area homes on prior individual wells
Frazier Park	\$2,000,000	Redirecting and replacing waterlines, installing fire hydrants, replacing storage tanks and well helps families and businesses
Rosamond Community Services District	\$244,496	Replacing waterlines and installing fire hydrants and water meters helps families and businesses
Rancho Seco / Cantil	\$369,000	Replacing waterlines, pressure tank, meters and well helps families and businesses
Kern County Sheriffs Dept.	\$52,875	Purchasing of SWAT team surveillance equipment for better community protection
Lamont School District	\$47,744	Purchasing classroom computers to improve student instruction
Bear Mountain. Park and Recreation Dist.	\$35,432	Swimming pool resurfacing improves health and fitness for kids and families
Greenfield Association	\$10,000	Bathroom rehab and well improvements for facilities serving fitness activities for area young people
Kern River Valley Youth Center	\$55,471	Remodeling community center to improve facilities and safety for area young people

HOUSING PROJECTS: Single Family and Multi-Family loans and grants		
Shafter, Wasco, McFarland, Arvin	\$2,415,650	Single family housing loans direct loans for low income families
Rosamond, California City, Wofford Heights	\$1,205,773	Partner with local banks on single family housing guaranteed loans for moderate income families
Tehachapi, McFarland, California City, Buttonwillow, Shafter, Lamont, Wasco, Rosamond	\$22,750	Single family housing repair grants for low income families to meet basic health and safety needs
Arvin	\$2,500,000	Reconstruction of Arvin Farm Labor Center – Sunset Camp loan and grant
Lamont	\$1,858,000	Phase Two construction at Ruben J. Blunt Village farm labor housing complex loan
Wasco	\$955,000	Construction loan for El Mirage Multi-Family housing project for low income families
Mojave, Wasco, Delano	\$1,462,150	Repair and improvement loans for low income multi-family housing, Delano International Village and Wasco Farm Center

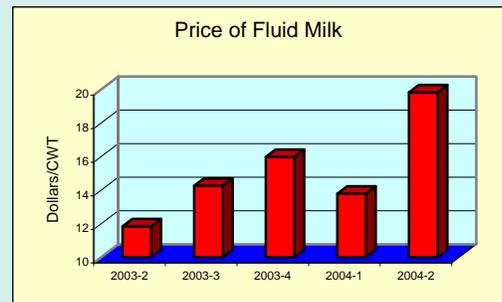
Econ Brief!

Milk Price Hikes in California

The California Department of Food and Agriculture (CDFA) sets the minimum milk price that dairy processors must pay to dairy farmers. In stark contrast to the situation experienced a year ago, milk prices have surged in recent months. The minimum price for fluid milk (Class 1) has set new records with respect to: (1) highest price levels and (2) largest price increases. The average price for fluid milk per hundredweight jumped to \$19.83 in the second quarter from \$13.79 in the first quarter of 2004. This increase amounted to a whopping \$6.04 or 43.8%. Relative to four quarters ago, the Class 1 dairy price was higher \$7.98 or 67.3%.

There does not appear to be any one reason that would explain such sharp milk price increases in wholesale dairy markets. According to CDFA, the following factors have contributed to the extraordinary price hikes:

- Milk production is not increasing and is expected to be “soft” for several months
- The Canadian border is closed to blocking the normal importation for new dairy cows
- Dairy cow numbers are down across the country
- Milk production per cow is lower for two reasons: higher milk prices encourage dairy farmers to keep older, less productive cows and feed quality is poor in some parts of the country
- Sales of dairy products are expected to increase significantly throughout this year
- Lenders may be reluctant to finance dairy expansions until there is some recovery of equity lost during the record low prices of 2002 and 2003



The CDFA expects milk prices to remain high for the rest of the year. However, it offers the following reasons that milk prices might retreat from recent highs:

- Commercial use of dairy products is experiencing moderate growth
- The economic recovery remains unsettled and does not show a clear direction
- Commercial stocks of dairy products have not been reduced substantially
- Lack of significant change in the following three areas: number of dairy farms going out of business; slaughter prices of older, less productive cows; and size expansion of existing dairy farms
- Dairy product markets are expected to be tight later this year

KERN EDC ANNOUNCES THREE MAJOR GRANTS FROM USDA

BILL JEFFRIES
BUSINESS DEVELOPER, KERN EDC



An \$80,000 grant will help implement the “Tomatoes on Steroids” project—an economic gardening strategy aimed at growing local businesses

The local economy has received a shot in the arm from three major grants totaling nearly \$200,000 from the U.S. Department of Agriculture Rural Development Office (USDA). The grants will be used to grow local business in small Kern communities with high unemployment rates and fund specific projects in eastern Kern.

“We are pleased that Kern County is being recognized for its strong economic development commitment and its ongoing potential for growth,” said Patrick Collins, President and CEO of Kern EDC. He added, “We look forward to partnering with the USDA to grow the economy throughout Kern County.”

For an innovative project it is calling “Tomatoes on Steroids,” Kern EDC has been awarded an \$80,000 grant that will be used in an economic gardening strategy aimed at growing small companies in Kern County. The project will identify a group of small businesses for an intensive economic development effort - identifying opportunities and providing multi-faceted business support linkage to those companies - ultimately resulting in job growth.

While there are a number of organizations providing services to start-up companies, there is no group with a concentrated effort to grow jobs with small businesses in primary job growth industries. Kern EDC has been helping companies in our targeted industries, but this grant will help us take the process one step further and enable us to seek out and assist companies that have growth potential and the potential to make a positive impact in their immediate communities.

“Tomatoes on Steroids” will target companies with 50 or fewer employees, with specific focus given to small communities with high unemployment including Arvin, California City, Delano, Lamont, Lake Isabella, McFarland, Mojave, Ridgecrest, Shafter, Taft, Tehachapi and Wasco. Companies will be recruited to apply to participate in the program.

Eastern Kern County received two grants - \$50,000 for the East Kern Airport District and \$65,000 for the City of Cali-

fornia City. Mojave Airport will use its grant to fund a second phase of improvements - including energy efficiency items such as new windows and frames, interior and exterior doors and an upgraded HVAC system - in a 10,000 square foot building located at the Mojave Airport Industrial Park. The building currently houses several businesses and will attract several more upon completion of the project.

“This grant is a continuation of funding we’ve received from the USDA that has helped us improve the small business environment at the airport,” says Tim Jaworski, director of finance for the airport district. “This gives start-up businesses in the area access to broadband, high speed and DSL connections, telephones and an overall office setting that allows them to bring their customers to their business. It gives small businesses more exposure for their customers to meet in a public setting and not their home.”

The city of California City will use its grant to provide 800 feet of new waterline, sewer and road improvements to service a 27-acre parcel that fronts on California City Blvd. The project will allow several businesses to relocate to the area including the golf pro shop, a hotel, credit union, RV park and several retail outlets. The new addition will enhance the city’s General Plan by realigning existing and future businesses to take advantage of California City’s main arterial traffic flow along the main thoroughfare.

“We’re very appreciative of our relationship with the USDA and their involvement in eastern Kern,” says Larry Adams, mayor of California City. “This project is part of the village master plan to stimulate more growth around the golf course and civic center. This grant will help us bring more jobs and more tourism to our area.”

The USDA is pleased with its relationship with Kern County as a whole and sees these grants as part of a continuation in funding for the area. “Kern County is so large and diverse that there are plenty of opportunities to partner with community leaders to create and maintain jobs in the area,” says Paul Venosdel, state director, USDA Rural Development in California. “Kern County has been a priority and target for us in 2004 and we’re looking forward to strengthening that commitment and backing it up with dollars.”

(Continued on page 11)

According to Venosdel, his office will be partnering with Kern County on several other projects including three water projects, more business-related grants and a number of projects related to facility and housing development.

Since the announcement of the grant, Kern EDC has hired me as a business developer to lead the economic gardening project. I bring to the position extensive knowledge of finance and economic development with more than 16 years in the banking industry. My past positions include vice president and branch manager for Sun Bank in Mt. Dora Florida, vice president and manager of Sun Bank and Trust Company in Brooksville Florida and president of

First Georgia Telecom, Inc. in Newnan, Georgia. I earned my bachelor of arts degree in business administration from Saint Leo University, St. Leo, Florida. He have also received a certificate of completion from the Graduate School of Banking of the South through Louisiana State University, and completed the Georgia Academy for Economic Development Leadership Program. I am anxious to meet with community leaders and small businesses that can take advantage of the resources Kern EDC has to offer to help them grow.

For more information on “Tomatoes on Steroids” please contact Kern EDC at 661-862-5150.

Econ Brief!

Economic Outlook of Kern County

The county’s economic outlook seems bright as presented in the following data chart and illustrated by the following findings:

1. Kern County’s population exceeds 700,000. At a growth rate of 2% per year, the county’s population will reach 1.0 million by 2020 and 1.5 million by 2040. The county’s population is youthful as 36% of the county residents are under 20 years of age. The female population of the county is expected to increase at a faster rate than male, and the non-White population to grow more rapidly than the White.
2. Kern County is a \$15 billion economy. Labor income accounts for two-thirds of total earnings and the private sector creates over 70% of total nonfarm earnings. With large oil, construction, and manufacturing industries, Kern’s economy is strong in the provision of services. The largest services-providing industries are government, retail trade, and professional and business services.
3. Kern County is expected to create jobs to accommodate its growing labor force. By and large, jobs will be created in the nonfarm sector and the self-employed, small-business market. Although the overall unemployment rate will remain in double-digit, Kern’s nonfarm unemployment rate is comparable with the state average.
4. Kern County offers affordable housing for its growing population. However, housing prices will continue to appreciate due to the rising residential demand, increased construction cost, and larger housing area.
5. Kern County’s quality of life will continue to improve. The key to sustaining prosperity is to mitigate the adverse effects of the state budgetary crisis through business retention and expansion.

Indicator	2000	2001	2002	2003	2004f	2005f
Demography:						
Size (#)	665,300	673,300	688,900	703,400	717,500	731,800
Growth (%)	2.2	1.2	2.3	2.1	2.0	2.0
Economy:						
Size (constant \$ billion)	13.6	13.9	14.2	14.6	14.9	15.2
Growth (%)	1.9	2.3	2.3	2.2	2.2	2.1
Per Capita (constant \$)	20,540	20,520	20,650	20,700	20,740	20,750
Labor Market:						
Labor Force (#)	287,100	292,000	299,100	305,400	311,500	318,400
Labor Force Growth (%)	2.3	1.7	2.4	2.1	2.0	2.2
Employment (#)	254,700	260,900	264,000	267,900	273,800	280,600
Employment Growth (%)	2.4	2.4	1.2	1.5	2.2	2.5
Unemployment Rate (%)	11.3	10.6	11.7	12.3	12.1	11.8
Nonfarm Unemployment Rate (%)	6.3	6.8	7.5	7.8	7.6	7.5
Housing Market:						
Median Price (constant \$)	81,700	89,700	100,500	124,800	135,600	143,000
Monthly New Home Permits (#)	238	289	379	457	488	532
Affordability Index (%)	62	63	59	54	52	50
Quality of Life Index:	121	133	129	134	135	137

TRACKING THE LOCAL ECONOMY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

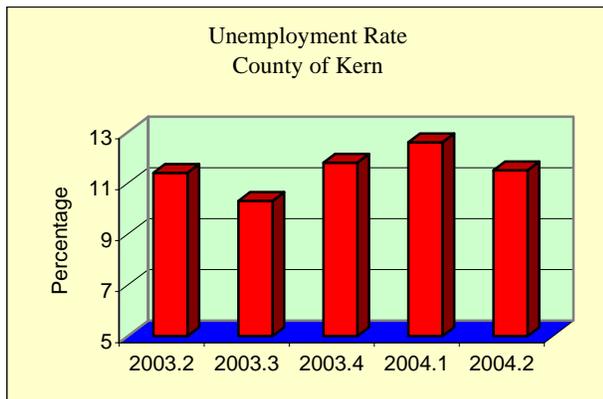
Labor Market

In the second quarter of 2004, large increases in farm and nonfarm employment were offset in part by job losses in “residual” employment (i.e., self-employed labor and those who work outside their county of residence). The farm sector gained 1,900 jobs and the nonfarm sector added 800 jobs, whereas the “residual” sector lost 1,300 jobs. As a result, total employment gained 1,400 paid positions. The labor force added 100 members and the number of jobless workers declined 1,300.

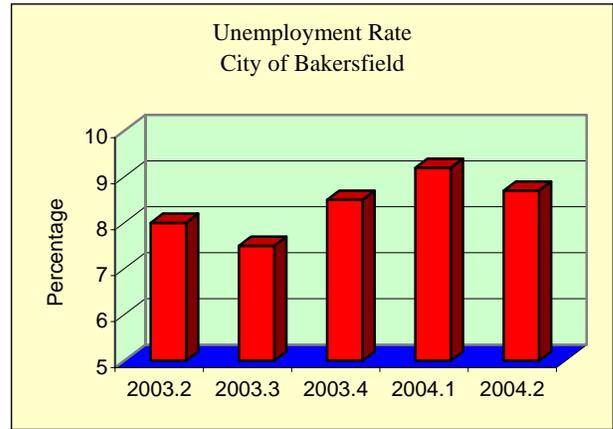
Quarter 2004	Labor Force	Employment	Unemployment	Nonfarm Employment	Farm Employment	Residual Employment
Quarter	302,100	259,000	43,100	207,100	28,700	20,967
Second	302,200	260,400	41,800	207,900	30,600	24,000
Difference	100	1,400	-1,300	800	1,900	-1,300

Note: Calculated from seasonally unadjusted monthly data published by California Employment Development Department, www.calmis.cahwnet.gov.

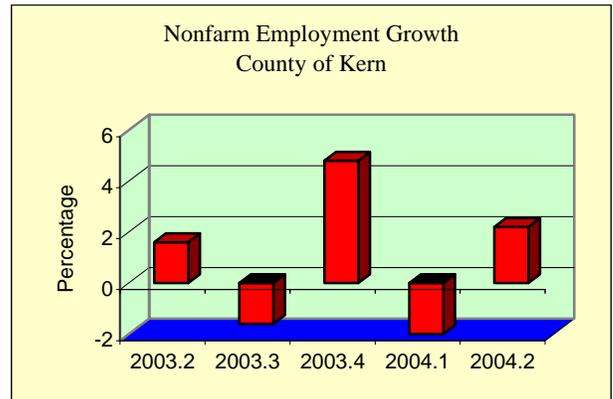
Unemployment Rate - When adjusted for seasonality, the rate of unemployment in Kern County plunged 1.1% from 12.6% to 11.5%. The county’s unemployment rate was 0.1% higher than that of four quarters ago. Kern’s unemployment rate was 5.3% higher than the state average and 5.9% greater than the national average.



Likewise, the *seasonally adjusted* unemployment rate in the City of Bakersfield dropped to 8.7% from 9.2%. Compared with four quarters ago, the city’s unemployment rate was 0.8% higher. Bakersfield’s unemployment rate was 2.8% lower than the county rate, but 2.5% higher than the state rate and 3.1% greater than the national rate.



Employment Growth – Kern County recovered from a quarter of job loss. Nonfarm employment increased an annual rate of 2.2%. Among the nonfarm industries, construction, manufacturing, wholesale and retail trade, professional and business services, educational and health services, and leisure and hospitality added jobs.



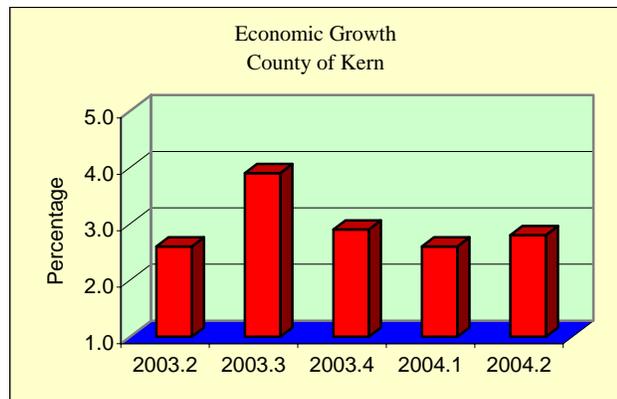
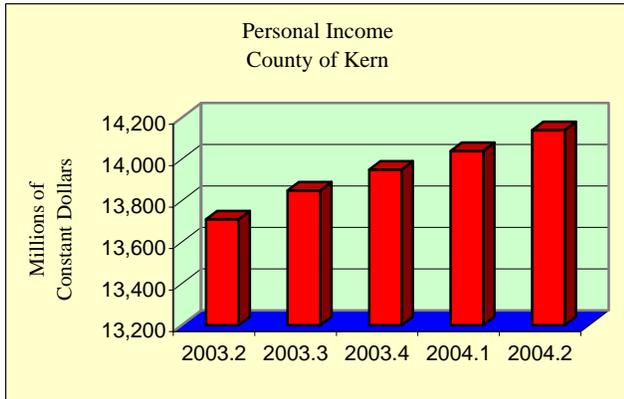
In the City of Bakersfield, employment growth accelerated at an annual rate of 5.3% in the second quarter of 2004 after a quarter of stagnation.



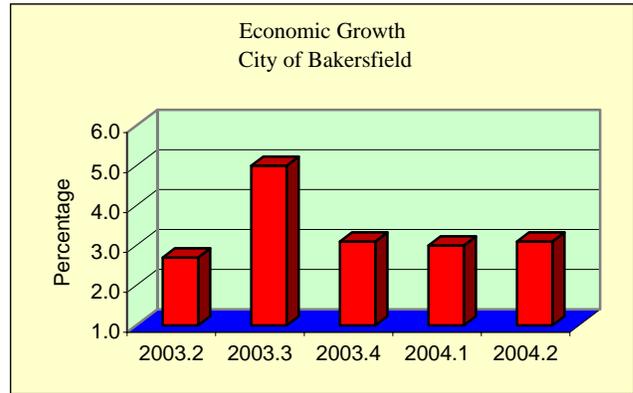
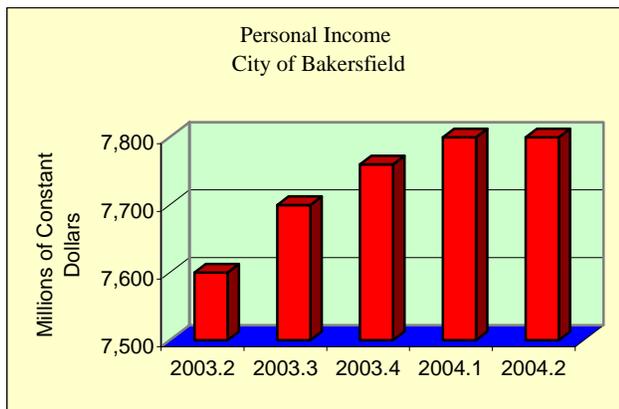
(Continued on page 13)

Economic Growth

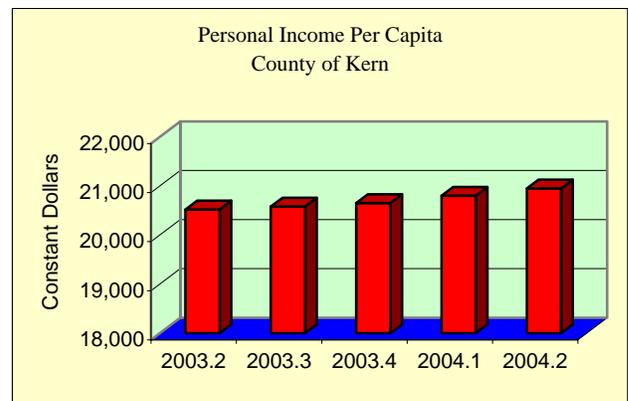
Personal Income - Kern County's total personal income (in constant 1996 dollars) increased continually from \$14.04 billion to \$14.14 billion. The county's economy expanded \$100 million or at an annual rate of 2.8%. Since four quarters ago, Kern's economy has created \$410 million of income. Since the second quarter of 2003, the local economy has grown at an average annual rate of 2.7%.



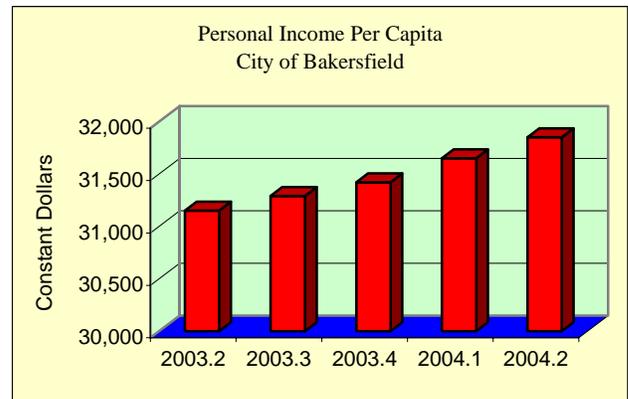
In Bakersfield, personal income (in constant 1996 dollars) rose to \$7.88 billion from \$7.82 billion. The city's economy expanded \$60 million or 3.2% per year. Since the second quarter of last year, the Bakersfield's economy has added \$280 million in income.



Personal Income Per Capita - In Kern County, personal income per capita (in constant 1996 dollars) inclined to \$20,950 from \$20,800. Since the four quarters ago, the county's personal income per capita has increased \$430.

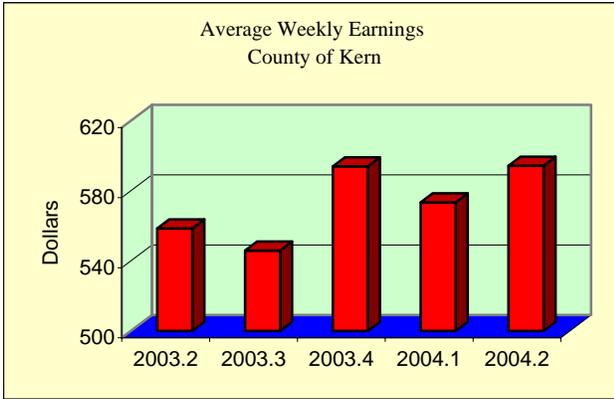


Bakersfield's personal income per capita (in constant 1996 dollars) rose to \$31,850 from \$31,650. Since the second quarter of last year, personal income per capita in the city has increased \$700.



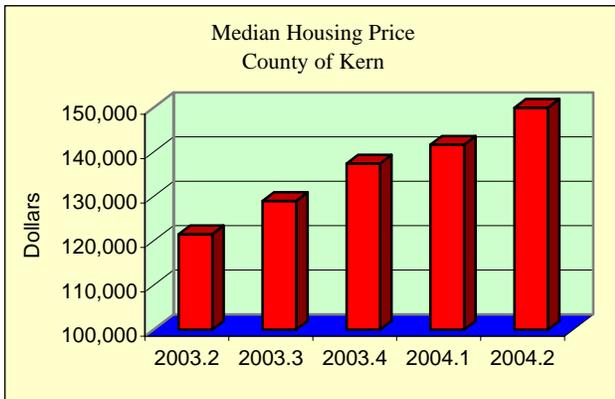
Earnings in Manufacturing - Average weekly wages paid to local manufacturing workers inclined \$20.90 from \$573.40 to \$594.30. This wage increase was attributed mainly to the rise in the hours of work. The average weekly hours increased from 36.9 to 38.2. Compared with the state average, local manufacturing workers earned \$15.10 less per week. But, they made \$35.80 more per week relative to four quarters ago.

(Continued on page 14)

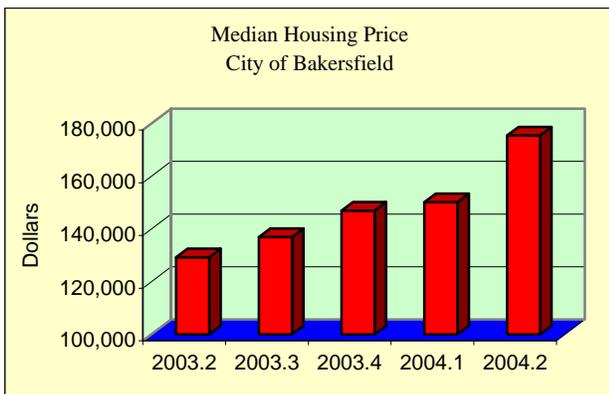


Housing Market

Median Prices - In Kern County, the median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) soared \$21,160 or 14.9% from \$141,670 to \$162,830. Since the second quarter of last year, the county's median price has increased \$41,330 or 34.3%.



In Bakersfield, the median sales price of all homes jumped \$24,330 or 16.1% from \$151,170 to \$175,500. The city's median price was \$12,670 higher than the county's price. Since four quarters ago, the city's median price has increased \$46,200 or 35.7%.



The latest monthly data published in June 2004 indicate a sizable year-to-year price appreciation in Kern County as well as Bakersfield, California City, Delano, Rosamond, Tehachapi, and Wasco. In contrast, housing prices have depreciated in Ridgecrest and Taft.

Area	June 2004	June 2003	Year-to-Year Change
Kern County	\$170,000	\$135,000	25.9%
Bakersfield	\$183,500	\$142,750	28.5%
California City	\$150,000	\$95,000	57.9%
Delano	\$120,250	\$94,000	27.9%
Ridgecrest	\$111,000	\$113,500	-2.2%
Rosamond	\$185,000	\$134,500	37.5%
Taft	\$68,000	\$73,000	-6.8%
Tehachapi	\$205,000	\$159,500	28.5%
Wasco	\$87,000	\$79,750	9.1%

Source: California Association of Realtors

Price Affordability Index¹ - The index of housing affordability declined 5.7% points from 51.7 to 46. Compared with the state's affordability index of 19, Kern County remains one of the most affordable areas of California. Also, Kern County is one of the most affordable communities in the Central Valley whose affordability index was 30.

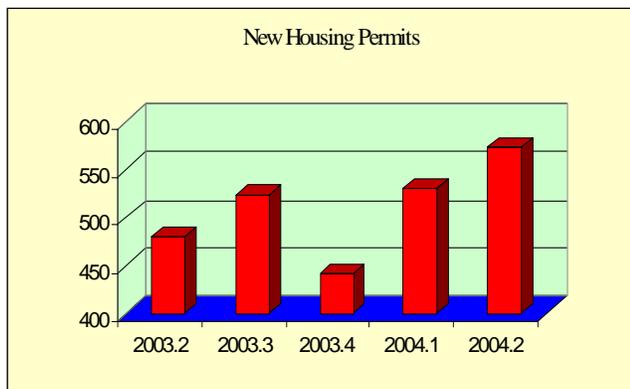
Over the past four quarters, the county's index fell 10% points. Rising housing prices and higher mortgage interest rates have contributed to the decline in the housing affordability index. This current index value indicates that a family earning the median household income has 46% percent of the income necessary to qualify for a conventional loan covering 80% of a median-priced existing single-family home.



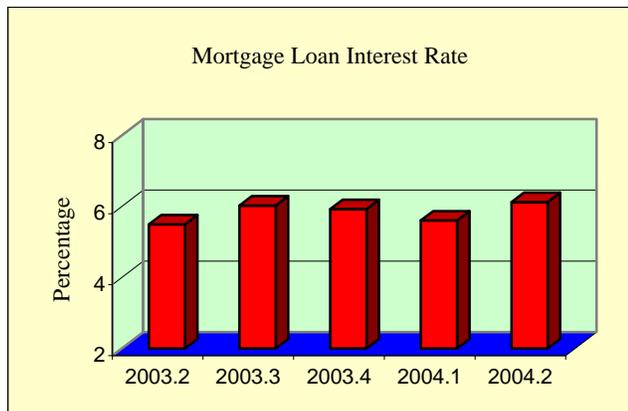
Building Permits - In Kern County, construction boom continued as the monthly average number of building permits for single-family homes increased to 573 from 529. On average, 93 more building permits have been issued per month since four quarters ago.

(Continued on page 15)

¹Data on the affordability index and building permits are the average of April and May. Data for the month of June were not available at this time.

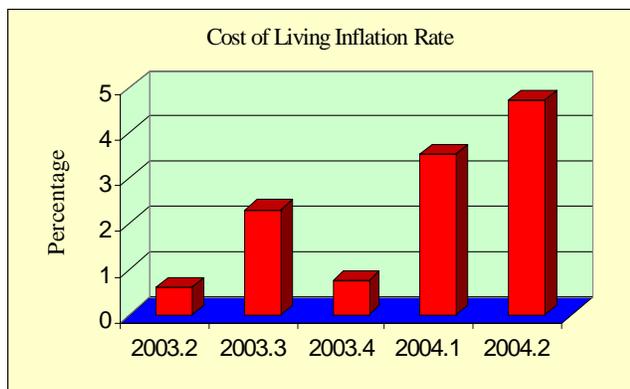


Interest Rate - The interest rate of thirty-year conventional mortgage loans rose to 6.13% from 5.61%. Since four quarters ago, the mortgage interest rate has soared 0.63%.



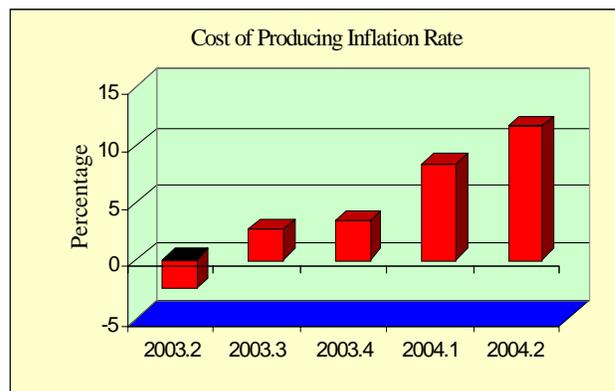
Commodity Prices

Cost of Living - The Consumer Price Index for all urban areas (1982-84 =100) rose to 188.6 from 186.4. The cost of living inflation rate ascended to 4.7% per year in the second quarter of this year. Since the second quarter of last year, the cost of living inflation rate has climbed 4.1% from 0.6% to 4.7%.

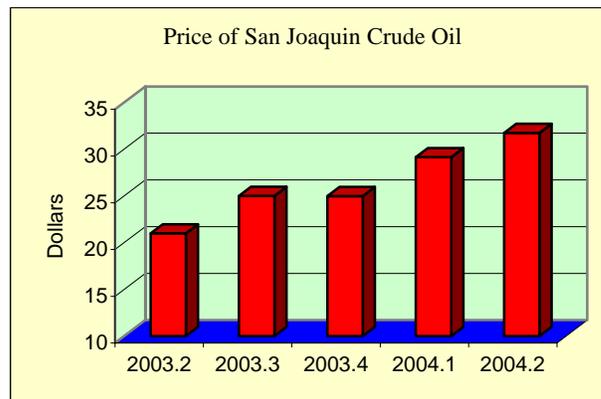


Cost of Producing - The Producer Price Index for all commodities (1996 =100) jumped to 146.1 from 142.0. The cost of producing inflation rate ascended a whopping 11.7% per

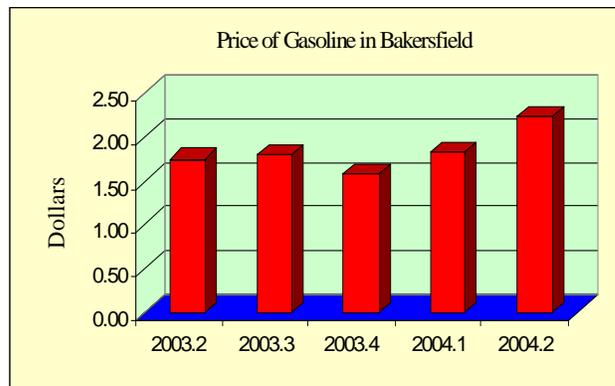
year in the second quarter of this year. Since one year ago, the cost of producing inflation rate has climbed 14.2% from -2.5% to 11.7%.



Price of Crude Oil - The average price of the San Joaquin Valley heavy crude oil climbed to \$31.74 from \$29.15 per barrel. Compared with four quarters ago, the average price of oil has ascended \$10.74 per barrel.



Price of Gasoline - In Bakersfield metropolitan area, the average retail price of regular gasoline per gallon soared 41 cents from \$1.82 to \$2.23. Compared with four quarters ago, the price of gasoline has jumped 48 cents.



Farm Prices - The Index of Prices Received by Farmers for all farm products (1990-92 = 100) increased 9% points to 136 from 127. Since the second quarter of last year, this Index inclined 23% points.

(Continued on page 16)

ECONOMIC FORCES IN BUSINESS

THE PROFIT MOTIVE

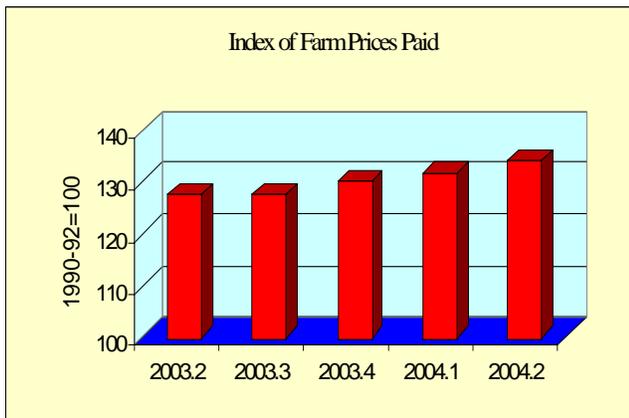
The foundation of the free enterprise system is the profit motive. Profit is the money business owners make after expenses are paid. Profit making is the main purpose - the “bottom line” - of business venture. Business owners make an effort to supply goods and services to the marketplace. They also make considerable investment both in time and money before making their products ready for sale. If ventures do not succeed, business owners stand to lose their investment. Hence, profit becomes the reward to making efforts and taking risks.

In the calculation of profit, economists take into account two expense items: (1) direct payments to suppliers of resources (e.g., wages, rent, utilities, and loan, insurance and tax payments) and (2) alternative costs of using own resources in business. For example, you may own and manage a restaurant, which generates \$30,000 in monthly revenue. Your

monthly expense account might include \$4,000 in payrolls, \$10,000 in supplies, and \$6,000 in rent, utilities, taxes, and miscellaneous expenses. So, your leftover revenue is \$10,000. Now, you deduct the value of services you provide for the business, say \$4,500 for managing the restaurant and \$500 for using your truck. The profit you earn is \$5,000. You may use this money for personal saving and spending. Without this reward, you would have no incentive to be in business.

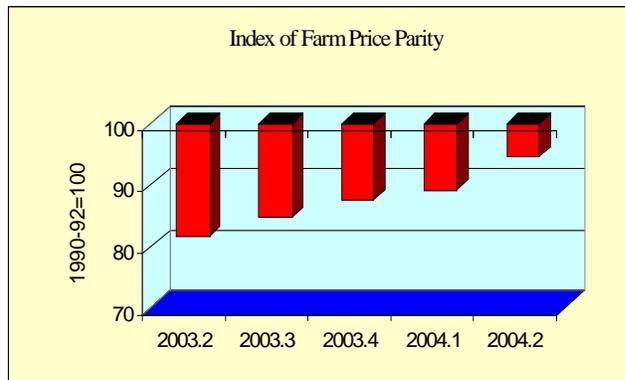
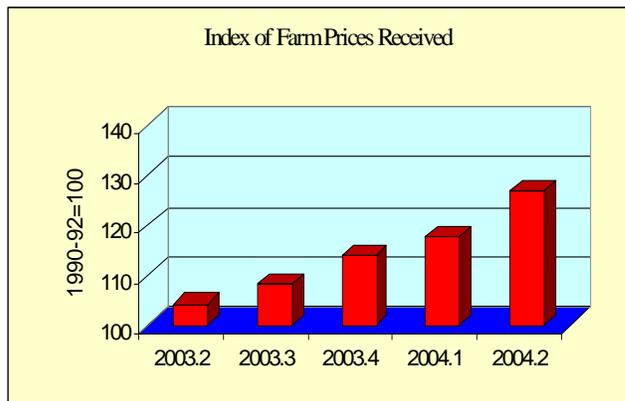
Revenue	\$30,000
Direct expense payments	(\$20,000)
Cost of using own resources	(\$5,000)
Profit	\$5,000

Local Economy (Continued from page 15)



In the meantime, the Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents rose 2% points to 134 from 132. Since four quarters ago, this Index has soared 6% points.

Here, we measure Index of Farm Price Parity as the ratio of Index of Prices Received to Index of Prices Paid. In the second quarter of 2004, the Index of Farm Price Parity of 95 indicated a 5% disparity between prices farms received and paid. However, this disparity narrowed 13% since the second quarter of last year.



Kern Economic Journal

SUBSCRIPTION FORM

NAME _____

COMPANY _____

ADDRESS _____

TELEPHONE _____ E-MAIL _____

One-Year subscription fee (four issues):

\$60 for the print issue

\$80 for the electronic issue including the archives

\$100 for both print issue and the electronic issue including the archives

Please make check payable to **CSUB Foundation**

Mail to: Dr. Abbas P. Grammy
Department of Economics
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311

Econ Brief!

How to Improve the Place of Bakersfield in California

The 2004 Kid-Friendly Cities Report Card published by Population Connection (www.kidsfriendlycities.org) evaluates cities across the nation with respect to seven socio-economic indicators:

- Population growth
- Health care
- Educational attainment
- Public safety
- Employment
- Air quality
- Community life

Letter grades are assigned to each indicator according to its relation to the national trends. I translated these letter grades into numeric scores, computed the average score for each city, and ranked the cities according to their overall socio-economic conditions.

Interesting inferences could be made from analyzing data on the ranking of 52 California cities participating in the survey:

1. The topic-ranking cities (average scores of more than 3.5) are Huntington Beach, Santa Clara, Sunnyvale, and Fremont.
2. The bottom-ranking cities (average scores of less than 2.5) are Moreno Valley, Pomona, San Bernardino, Bakersfield, Palm-dale, Fresno, and Fontana.
3. Of the major cities, only San Francisco and San Diego are placed in the top 10. San Jose is ranked 22nd, Long Beach 34th, and Los Angeles 36th.
4. Cities of the San Joaquin Valley do not fare well in the survey. Modesto is ranked 35th, Stockton 44th, Bakersfield 49th, and Fresno 51st.
5. Bakersfield receives an overall C- grade. It earns B+ in health care and A in public safety, but C in population growth, C- in educational attainment, C- in employment, C- in air quality, and C in community life. For Bakersfield to raise its place among California cities, it must improve its quality of life by
 - a. Slowing the pace of population growth
 - b. Enhancing the level of educational attainment
 - c. Reducing the rate of unemployment
 - d. Improving air quality
 - e. Expanding recreational facilities and enrichment programs for children

4045
Kern Economic Journal
Abbas Grammy
Department of Economics
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311-1099

Does your schedule make it hard for you to attend regularly scheduled classes?

Continue your education
at *your own pace* with the

Master of Science in Administration

ONLINE Graduate Degree Program

- All courses offered online
- Only forty-five (45) quarter units to complete
- Fully Accredited CSUB Degree Program
- Perfect for working professionals and managers!

**for more information call
661-664-2441
or visit www.csub.edu/msaonline**

