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KERN ECONOMIC JOURNAL

Volume 6 Issue 1

2004 First Quarter

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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:

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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.

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INSIDE THIS ISSUE:

Economy at a Glance!

Kern County's economic performance was mixed in the first quarter of 2004. While business perception about local economic conditions improved, households became less optimistic. Labor markets conditions deteriorated with rising unemployment rates and stagnant job growth. However, total and per capita personal income increased at modest rates. In the meantime, housing prices continued to appreciate with lower mortgage interest rate and higher affordability index. Inflation gained momentum with rising costs of living and producing and higher oil and gasoline prices.

Economic Indicator	2003 4th Quarter	2004 1st Quarter	Quarterly Change	Data Source
Household and Business Survey:				Data collection and analysis by CSUB
Business Outlook Index	115.5	126.5	11.0	
Consumer Sentiment Index	143.0	114.0	-29.0	
Labor Market Conditions:				California Employment Development Department (CEDD)
Unemployment Rate (%)				
Kern	11.8	12.6	0.8	
Bakersfield	8.5	9.2	0.7	Averaging, seasonal adjustment, and estimation by CSUB
Nonfarm Employment Growth (%)				
Kern	4.8	-2.7	-6.5	
Bakersfield	3.2	0.0	-3.2	
Economic Conditions:				Bureau of Labor Statistics (BLS) and CEDD
Total Personal Income ($ billion)				
Kern	13.95	14.04	0.09	
Bakersfield	7.76	7.82	0.06	Averaging, seasonal adjustment, and estimation by CSUB
Personal Income Growth (%)				
Kern	2.9	2.6	-0.3	
Bakersfield	3.1	3.1	0.0	
Personal Income Per Capita ($)				
Kern	20,650	20,800	150	
Bakersfield	31,420	31,650	230	
Earnings in Manufacturing ($/week)	593.90	573.40	-20.50	
Housing Market:				California Association of Realtors
Median Housing Price ($)				
Kern	138,800	140,670	1,870	
Bakersfield	146,800	151,700	4,370	
New Housing Permits (#)	442	451	9	
Housing Affordability Index (%)	51	52.5	1.5	Economagic.com
Mortgage Interest Rate (%)	5.93	5.61	0.32	
Prices:				
Inflation Rates				
Consumer Price Index, U.S. (%)	0.9	3.5	2.6	Economagic.com
Producer Price Index, U.S. (%)	3.4	6.9	3.5	
Energy Prices				
San Joaquin Crude ($/barrel)	24.95	29.15	4.17	Berry Petroleum
Bakersfield Regular Gas ($/gallon)	1.58	1.82	0.24	BakersfieldGasPrice.com

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

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

We initiated the business outlook survey in the first quarter of 1999 by sampling members of the Greater Bakersfield Chamber of Commerce. We have expanded the survey coverage to random samples drawn from the membership of chambers of commerce locating in Mojave, Ridgecrest, Taft, and Tehachapi. They survey participants represented a wide range of industries including amusement, automotive services, business and legal services, construction, education, employment services, engineering and petroleum services, farming, finance and insurance, real estate, government, health services, hospitality and personal services, management and consulting services, manufacturing, petroleum, retail and wholesale trade, social and cultural services, transportation, and public utilities. The survey results are summarized below.

Nearly sixty percent of the survey respondents reported that the number of jobs in their companies stayed the same as the previous quarter and are expected to remain unchanged this quarter. Over forty percent of survey respondents indicated improvement in financial conditions (sales or profits) of their companies last quarter, and over fifty percent predicted improvements this quarter. The majority of survey respondents perceived that employment and financial conditions of their industries were the same last quarter, and are likely to remain constant this quarter. The majority of the respondents felt that employment and business conditions in Kern County were the same as the previous quarter. Interestingly, however, over fifty percent of the respondents predicted that local business conditions will improve this 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 than100 *pessimism*. As illustrated in the chart on page 5, BOI soared 11 percentage points from 115.5 in the fourth quarter of 2003 to 126.5 in the first quarter of 2004. This increase indicates that business managers are more *optimistic* about local business conditions. The index has gained 27 percentage points in the past four quarters.

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 reported that several factors brightened the local business outlook:

- Continued real estate and construction boom in Kern County
- Expansion of the local economy
- Improvement in the state and national economies

(Continued on page 5)

Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	15	62	23
Employment in your company next quarter will be	24	59	17
Financial condition (sales or profits) of your company this quarter was	43	44	13
Financial condition (sales or profits) of your company next quarter will be	53	45	2
Employment and general business conditions in your industry this quarter were	34	56	10
Employment and general business conditions in your industry next quarter will be	42	55	3
Employment and general business conditions in Kern County this quarter were	37	51	12
Employment and general business conditions in Kern County next quarter will be	52	40	8

Bakersfield Consumer Sentiment Survey

Mark Evans
Interim Dean, Extended University Division, CSUB

The Bakersfield Index of Consumer Sentiment returned from its hot pace at the end of 2003 to a historically normal level of 114 in first quarter, 2004. The Index attained an all-time high of 143 in fourth quarter, 2003. The first quarter reading of 114 exactly matches the mean and median values of the index since its inception. 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. While the sub-index for current trends was better than in 60 percent of previous quarters, the sub-index for future expectations topped only 40 percent of the previous 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 had a value of 113, slightly above the five-year average of 110. Three-in-ten households reported spending more than usual on discretionary items such as dining out and entertainment, while two-in-ten reported spending less than usual. Approximately three-in-ten respondents indicated their household was

(Continued on page 5)

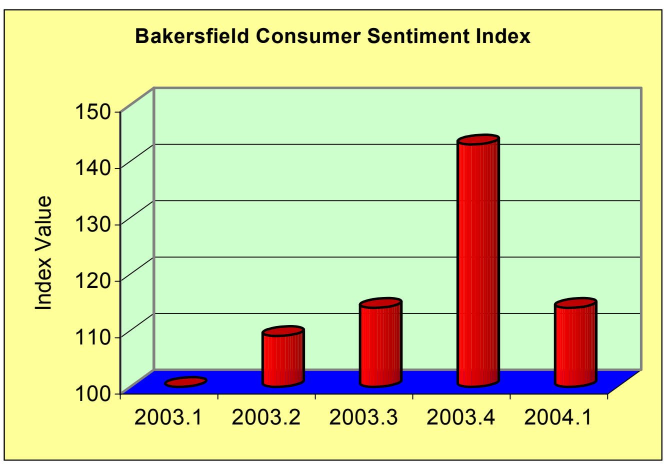


TABLE 1—INDEX VALUES			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	**114**	**143**	**98**
Sub index: Recent Buying & Financial Trends	113	130	103
Sub index: Expectations	114	155	94

TABLE 2—RECENT BUYING AND FINANCIAL TRENDS (Percentage of Responses)			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	30 %	50 %	20 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	39 %	39 %	22 %
How your acquaintances in Kern County are doing financially compared to one year ago.	29 %	56 %	15 %

***Consumer Sentiment** (Continued from page 4)*

better off than one year ago, while three-in-twenty reported they were worse off.

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 decreased from an historical high of 155 at the end of 2003 to 114 last quarter. The average value for the past five years is 118. When asked the most likely financial situation of their household in one year, about one-half of the households expected improvement compared to an astounding three-fourths in the previous quarter. Fourteen-percent expected things to worsen in the coming year compared to only four-percent at the end of the year. About one-in-three believe this is a safe time to draw down savings or incur debt compared to two-in-three during the fourth quarter of 2003. The number of households who thought this is a financially risky time increased from just nine percent to 40 percent.

TABLE 3—FUTURE EXPECTATIONS (Percentage of Responses)

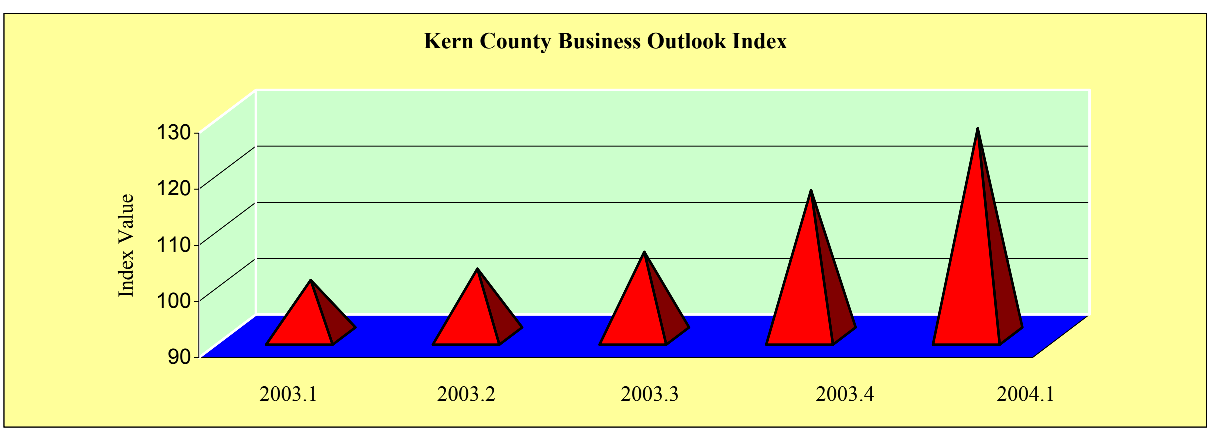
	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	48 %	38 %	14 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	41 %	39 %	20 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	30 %	30 %	40 %

***Business Outlook** (Continued from page 3)*

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

- Concerns about seasonality of employment in the county
- State budget cuts affecting public safety and social services
- Uncertainty about the war in Iraq and international terrorism

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



BIZ ED!

YOUR DISASTER RECOVERY PLAN

ASRON L. PHILLIPS
ASSISTANT PROFESSOR OF FINANCE, CSUB

How Long Has It Been Since You Reviewed Your Disaster Recovery Plan?

If a pigeon builds a nest in a power transformer and shorts out the electricity to your office, is that a disaster? If vandals remove the wheels from your company's service vehicles, is that a disaster? If a fire completely destroys your office complex, is that a disaster?

Most business professionals readily answer "yes" to the third question because we tend to think of disasters as having an immediate, extensive, and costly impact. We think of tornado strikes, hurricanes, earthquakes and fires as disasters due to their destructiveness. We often ignore the small disasters that might befall our business.

Disaster recovery planning forces you to look at the critical aspects of your business and ask the question: what is the impact on my business if I lose _______? Fill in the blank with every operating aspect of your business. For example, are your company records housed on a single computer? If so, what would the operating consequences be if the hard drive was completely destroyed? How easily and inexpensively could you re-create your company's accounts receivable, accounts payable? If you have a back up, where is it located and is it tied into the same network? Is the backup automatic?

A disaster recovery plan requires you to first identify your business' operating, financial, and even personnel risk points. Having done that, the next step is to draft a plan to address those risks. For example, if the pigeon does cause a power outage to your office that may last a day or more, what is the impact on your business? Do you have an independent backup power source for your offices? If not, do you have an alternate site from which you can carry out most normal operating activities? If the answer to that question is yes, do you have an accessible backup of your company's key records at that site?

A backup of financial records is an important element of a disaster recovery plan, but a business is more than financial records. Consider the business that has a key employee, such as a field sales person. How often does that sales person update customer and order information? Does your disaster recovery plan have the flexibility to address the sudden loss or incapacitation of that person? For example, your sales force generates an order but does not process it immediately. That person is then in an accident and hospitalized unconscious. Your company faces the risk of losing that person's services and information. An unfilled, unknown order might translate into a damaged corporate image for your business and even possible loss of a customer. A current customer represents a potential stream of orders for your firm's products and/or services. The loss of that potential stream of business should be considered a disaster!

Just as your disaster recovery plan needs to address information management and essential personnel, it must also address mission critical assets. Ask the question: how dependent are we on __________? For example, if you operate a delivery service, what is the consequence of vandals taking the wheels off your service vehicles? How readily available are repair services? Do you know whether or not your business has access to other vehicles? How long can your business operate effectively without that key asset and what will be the impact on customer satisfaction? These issues must all be addressed in your disaster recovery plan.

How long has it been since you reviewed your disaster recovery plan? Most businesses are not static; i.e., they are constantly changing. Businesses face customer growth, supplier change, employee turnover, and asset replacement. Does your disaster recovery plan specify actions to be taken by someone no longer with your company? Your disaster recovery plan needs to be reviewed regularly to accommodate changes in the key risk points to your business.

A View From the Top of the Year National Trends and Local Challenges[1]

Henry Lowenstein, Ph.D.
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National Trends

Economic Growth - The economy started 2004 on an upswing from a slowdown that began in the last year of the Clinton Administration. But, the economy took a nose-dive from the terrorist attacks of September 11, 2001 with its negative impacts on consumer and business confidence. The economic slump was aggravated by high profile corporate accounting scandals and rising energy costs.

In 2002, the Federal Reserve System (hereafter, the Fed) continued to hold the interest rates to record low levels in order to fuel economic growth. Home mortgage loan refinancing alone released over $55 billion of disposable income into the economy. Furthermore, the Federal tax cuts gave households additional income to spend. Productivity growth further fueled the recovery. The year 2003 saw the big push forward with the Gross Domestic Product (GDP) growing at 2.5% for the first six months. Over the next six months, the GDP was up 6.2% including a whopping 8.2% in the 3rd quarter. The consensus forecast for 2004 is a rapid 5% to6% growth.

Budget Deficit - One concern is, of course, the mounting federal budget deficit, now projected to exceed $480 billion. Although very large in dollars, the deficit is just about 4% of the GDP. This is a much lower percentage of GDP than deficits in the 70s and 80s. With careful monetary control the budget deficit will have a minimal effect on economic growth. Remember, the Federal government has the power to borrow and print money. State budgetary deficits are different matters. States cannot print money. Could you imagine California's deficit, equal to 25-30% of the state budget, being financed by printing extra money?

Employment - With all this robust activity, where are the jobs? It has become the political football of 2004. One group says they are coming, the other group says they are being outsourced to India and China. Who is right? Well, they are both right. Within business cycles, jobs are first out in a downturn and last in during an upswing. Certainly, that is the case. Unlike previous recessions, the past one did not bring massive loss of jobs, and unusually, productivity growth continued throughout the cycle. The unemployment rate hit a high 6.3% last June. This month, it is 5.6%. Anything under 6% is referred to as full employment. Projections for 2004 are that the economy will create on average 100,000 to 150,000 new jobs a month. More than the critics say, but less than the White House claims. But, a healthy growth is just shy of 2 million new jobs this year and job growth will come later in the year as reluctant employers finally begin hiring. Lower value added jobs are being outsourced while higher value added jobs are being added.

Outsourcing - In December 2003, IBM announced it was moving 5,000 lower level programming jobs to India. The next day, however, it revised its domestic employment plan upward by going from adding 10,000 jobs to 15,000 jobs. Likewise, North Carolina has lost numerous furniture jobs to China. If the political rhetoric is true, however, how then do you explain that most of the Japanese cars and trucks and many German automobiles are made in the U.S? Not to mention all the parts and subcontractors. The mix of jobs and their relative values to businesses are changing. Many pay equal or higher than union wages. Higher labor productivity remains a key factor in business investment. Indeed, *Business Week* recently reported that job losses from outsourcing last year were 300,000, but productivity gains eliminated 1.4 million jobs.

Education - We have entered now a "knowledge-based" production stage. While the rate of unemployment is 5.6%, the rate for those with college education is 2.8%. Investment in education is essential for any state to compete. States attracting jobs are investing in higher education and job creation, and many college towns across the nation have low unemployment rates. Kern County's largest job risk is the need to improve its educational levels and college going rates. This area has an unacceptable shortage of skilled workforce, 14% with college degree vs. 26% for the state and nation. The San Joaquin Valley must either put a high priority on education or prepare itself to remain a high unemployment, low personal income region. Job growth estimates for the nation are 4-6%. New and existing businesses will add transfers and new positions and hire qualified workers. Economic development will depend on educational institutions supplying qualified workers.

Inflation - Inflation continues to be low. We look at inflation in two ways: the "core rate" of inflation, which ex-

(Continued on page 8)

[1]This is a revised version of a speech given at the annual meeting of Executives Association of Kern County, February 2004.

Top of the Year *(Continued from page 7)*

cludes such volatile items as energy, housing, and food, and the "overall" inflation rate (CPI). As of last month the overall inflation rate was 2.6%, but the more important "core" inflation rate was 3.7%. The difference is explained by higher prices for gasoline, electricity, and meat. Despite recent spike in energy prices, the overall inflation rate is expected to remain in the annualized 2.5-3% range. A knowledge-based and competitive economy makes price increases difficult. Corporate profits continue to depend on productivity growth, cost control and value added products and services. Increased demand will impact some industries. Steel, for example, is having an unusual 30% increase in prices due to weak dollar and capacity issues. At the same time, telecommunications continues to experience major reductions in cost per minute of long distance and cellular services.

Interest Rate - With low inflation, the Fed is holding down interest rates to fuel economic growth. The Federal Fund Rate at 1% is the lowest since 1956. The "real" interest (interest rate minus inflation rate) is actually negative, so it pays to borrow. The 30-year fixed mortgage rate still around 5.5% has induced refinancing. Low interest rates, however, penalize savers and bondholders. Many of you see monthly savings account interest and 3-month T-bills pay less than 1% and 10-year T-bonds offer 4% yields. There is broad consensus the Fed will raise interest rates by the year's end. Last year, we expected it around June 2004, but given the election politics, it will probably be in the 4th quarter, probably ½ point in one or two bumps to help prevent inflationary pressures. Mortgage rates will probably be over the 6% by year's end, but that is still historically low continuing to fuel residential and commercial construction.

Stock Market - With such low yields in money and bond markets, the stock market is quickly recovering their losses from the Dot Com downfall and 911 attacks. If you invested 12 months ago, you gained about 35% in DJINA, 37% in S&P 500, 54% in NASDAQ. Institutional investors and pension and mutual funds push the stock market up. Fallout from corporate accounting scandals and the subsequent Sarbanes-Oxley Act now gives investors transparency in corporate earnings reports. Consensus is that 2004 will be a better than average stock market for investors, 15-20% rate of return. At the top of the year, the markets are behaving in that trend line direction. However, they will continue to be volatile making short term dips and run-ups based on world events and national headlines. The long term trend remains positive. We expect to see at least a 12,000 DJINA by year's end, assuming no economic and political shocks.

Energy Cost - As you travel today, you pay over $2 a gallon for gasoline. You may wonder what is going on. The energy market is complex. In the 1980s, prices were forced by OPEC price and control of crude oil supply. Today, domestic refining capacity and speculation for fuel futures drive pricing. Crude oil with Iraq coming back into the picture and Libya returning to economic legitimacy plus other oil sources actually poses a potential supply increase on the market later this year. Iraq sits on the second largest proven oil reserve, 1.5 billion barrels of oil and they need cash. A more serious concern is refining capacity. As the oil industry has restructured, refining capacity has declined to very low levels on the West Coast from 33 to 22 refineries California insists on special formulated gas for environmental purposes. Hence, the percentage price spike comes from just a two week unexpected shut down at two California refineries in Martinez and Wilmington. Imagine what would happen with a major outage or emergency. Absent increases in refined capacity, West Coast economies will continue to be exposed to erratic supply and price fluctuations.

Local Challenges

Kern County was spared most of the recent slowdown because its basic industries were immune from national business cycles. Kern's farm exports benefited from a weak dollar; oil enjoyed higher prices; and defense gained more contracts. Kern also benefited from its extraordinary real estate boom, new and expanded business activity, and strong retail markets. Hence, Kern is well poised to benefit from economic expansion and must continue to diversify its economy to cushion future business cycles. Exports and business development are increasing. The new air terminal will be a major conduit for trade and transportation. Defense and space program investments bode well in the short-run for local military and related operations. Kern's location is becoming a strong regional base in logistics, financial services, and real estate development in addition to traditional agriculture and oil. If you have to do business in California, Greater Bakersfield has one of the best profiles for successful commerce. However, Kern County is threatened by the State of California in three major ways outlined below.

Workers Compensation is the "Great White Shark" of job destruction in California. No other single government program has such a negative impact on job creation. Unseen by employees, employers in some fields face costs 5 times the hourly wage. One regional corporate head told me that if his workers compensation were at the national average, he could give each employee an $8,000 raise and still save money. The California government as an employer pays over $2 billion a year in workers compensation. At the national average rate, the state could save $1 billion, equal to ¼ cent state sales tax. New state mandates merely add to the employment cost burden and disadvantage of California

(Continued on page 9)

to other states. Thus, if we do not want jobs outsourced, policy makers need to stop pricing California's labor out of domestic and foreign markets.

Budgetary Crisis - Nearly 20% of local employment is tied to state government directly or indirectly. Cutbacks from the state will impact city, county and state employment and services. Of particular concern are expenditure on public safety, education, and health. The state's irresponsible financing may negatively impact both our economic health. California now at BBB bonds the lowest in country. The next downgrade would be junk bond (i.e., non-investment grade). Further deterioration or default could send shock waves to the bond market with national implications. If you want to gain $6 billion without spending cuts and tax hikes, improve the credit rating to California had just 4 years ago. It is approximately $1 billion interest saved per rating level. Almost one-half of that potential saving equals the backfill for the VLF or the entire budget of the 23-campus California State University System. Passing the economic recovery bond Propositions 57-58 next week is critical. The public is not prepared for the alternative. Lack of access to capital markets shall make severe spending cuts or tax hikes inevitable.

Regulations - Workers Comp, mandated employer health care coverage, stringent environmental laws, falling housing affordability, and complex tax laws and restrictions hinder economic development. California has become uncompetitive in national and global markets. Over 200,000 manufacturing jobs have left the state over the past two years. Out-migration is increasing. Major investment is going elsewhere. The Governor and General Assembly have a window of opportunity to have California share in the economic recovery or trail behind. No one suggests going back to the past, but there must be a more rational balance between economic realities and what public policy makes wish to achieve.

The U.S. economy is on an upward course. Kern's economy has a bright future as it offers as a good place to live, work, and do business. The lesson of economics is clear; the law of supply and demand prevails in spite of government's best effort to muck it up.

I gave you a quick tour from the Top of the Year 2004. Am I correct? Stay tuned!

Econ Brief!

Bakersfield: A Top Digital City

Bakersfield is one of the most digital-savvy, cutting-edge mid-sized cities in the nation, according to the 2003 Digital Cities Survey, an annual study conducted by the Center for Digital Government, a national research and advisory institute on information technology in government and education. The survey examined and assessed how city governments are utilizing information technology to operate and deliver quality service to their customers and citizens. Bakersfield is one of the two cities in California that appear in the list of top 10 cities with a population of 125,000-250,000. It shares the 9th place with Mobile, Alabama and is ahead of Madison, Wisconsin and Naperville, Illinois, but behind Hampton, Virginia. Torrance, the only other California city in this list, is in the 6th place.

Rank	City
1	Fort Wayne, IN
2	Winston-Salem, NC
3	Des Moines, IO
4	Plano, TX
4	Salt Lake City, UT
5	Richmond, VA
6	Lincoln, NE
6	Norfolk, VA
6	Torrance, CA
7	Irving, TX
8	Hampton, VA
9	Bakersfield, CA
9	Mobile, AL
10	Madison, WI
10	Naperville, IL

Kern County Demographic Trends and Marketing Implications

Ronald Pimentel
Assistant Professor of Marketing, CSUB

Kern County has been described as "a Texas town dropped into California." Certainly, the nature of Kern County is partly the result of the agriculture, the oil, and influxes of population from Texas and Oklahoma. More recent influxes include refugees from over-crowded and over-priced communities of California plus recent arrivals from Latin America. Demographic trends in Kern County follow those of California in some respects, but are distinctive in other respects.

Population Growth

California is the most rapidly growing state in terms of the number of people being added to our population—currently about 384,000 per year. It ranks ninth in terms of percent growth, increasing at a rate of 1.07% per year. Kern County, with annual growth of 1.61%, is growing significantly faster than the state as a whole.

Occupational Structure

Kern County is distinctive in the state and the country for its higher levels of employment in agriculture and the petroleum industry, and lower levels of employment in manufacturing (Figure 1). Agriculture is significant, in part, because of the employees that it attracts to the area. A significant component of the international migration into California and Kern County is farm laborers coming from Latin America, from Mexico in particular. Many of the people who come seeking this type of work have not had good educational opportunities. Partly as a result of this, the county's levels of educational attainment are lower than those for the state or the country (Figure 2).

Farm labor is a seasonal occupation. There are times of the year when farm laborers are idle. Partly as a result of this, median incomes for the county are relatively low (Figure 3) and poverty levels are relatively high (Figure 4).

(Continued on page 11)

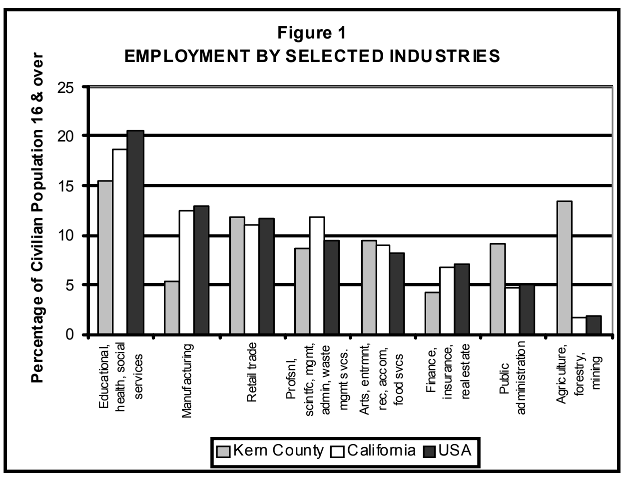


Figure 1
EMPLOYMENT BY SELECTED INDUSTRIES

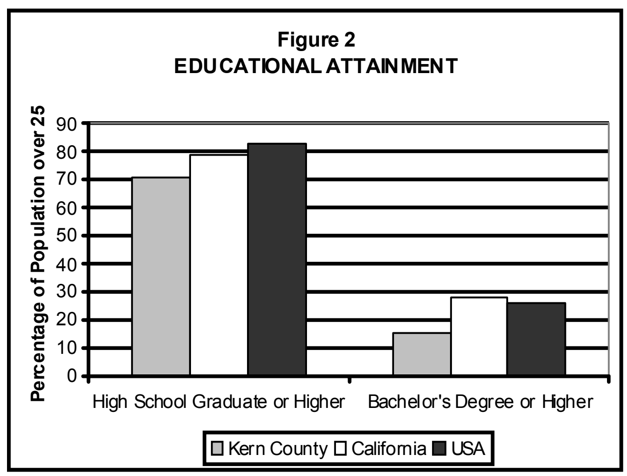


Figure 2
EDUCATIONAL ATTAINMENT

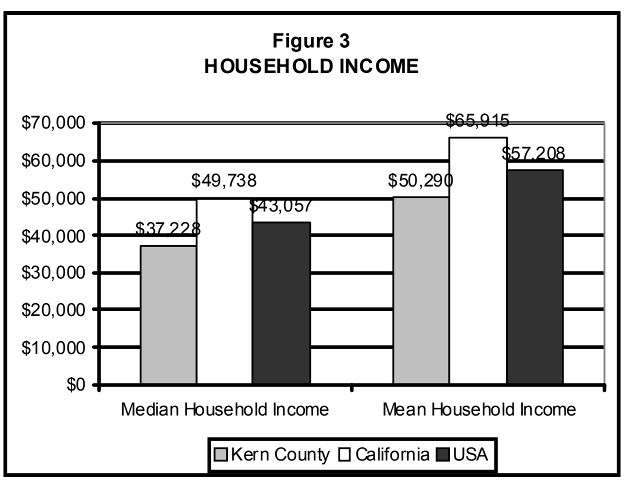


Figure 3
HOUSEHOLD INCOME

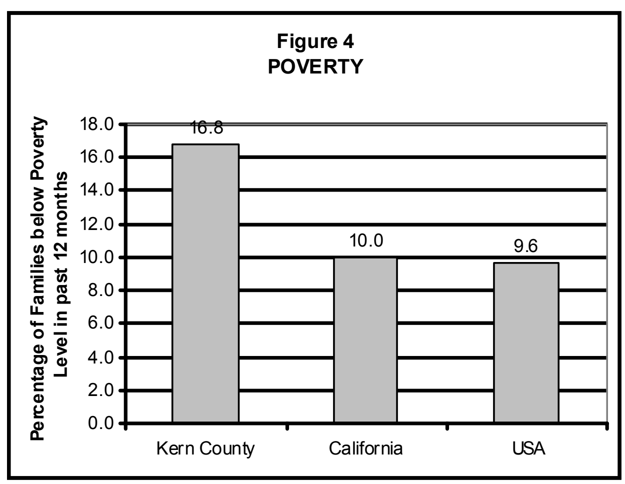


Figure 4
POVERTY

Trends *(Continued from page 10)*

Ethnic Composition

Much of California's growth comes from the international migration (Figure 5). As mentioned previously, Latin America is the source of many immigrants for both the county and the state. There is also significant immigration into California from Asian countries. As a result, there has been a shift in the ethnic composition of the state with Hispanic and Asian populations becoming larger proportions of the state's population (Figure 6).

California ranks first in total population of both Hispanic and Asian residents. It ranks second to New Mexico in percentage of Hispanic population (34.0%) and second to Hawaii in percentage of Asian population (13.0%). In contrast, California ranks 26th in the United States (i.e. below the national median) for percentage African American population (7.0%). Kern County has an even lower percentage of African American residents than the state, with only 6.6%. The percentage of the population that is of Asian descent is much lower than the state average. At 4.7% it is just barely higher than the national average (4.5%). On the other hand, Kern County is even more heavily Hispanic (40.9%) than California and much more than the United States. Consequently, the Hispanic population is an important market segment in Kern County.

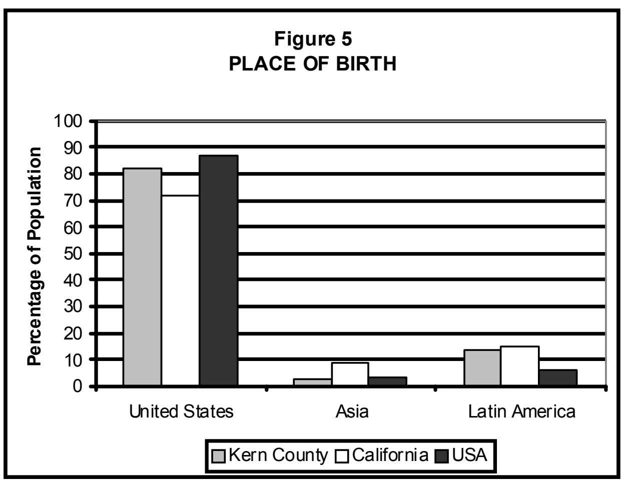
There is great deal of diversity among Hispanics in the United States, and some degree of diversity within the county, but most share two important commonalities. 82% of Hispanics in the United States speak Spanish. In addition, 85% of them are affiliated (to some degree) with the Catholic Church. Family values tend to be traditional and the family is of central importance.

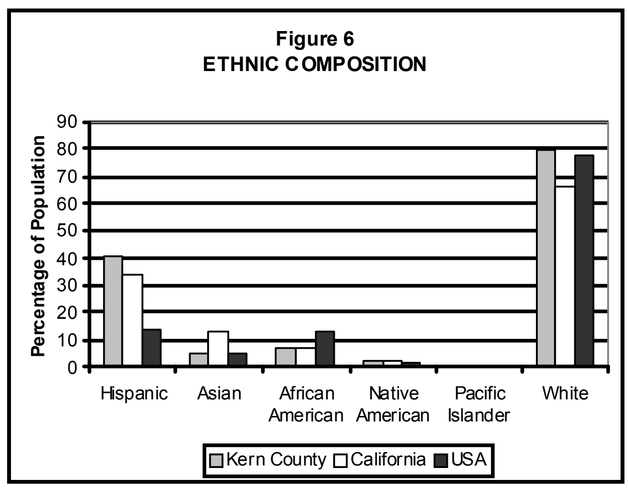
The Spanish language is a convenient vehicle for marketers. Promotional efforts done in the Spanish language and in Spanish language media automatically targets Hispanic consumers. It is important to recognize that many Hispanics, especially the young, have a bicultural existence. They may be very much a part of U.S. youth culture while they are with their friends, but they are part of a more traditional Hispanic culture when they are at home with family.

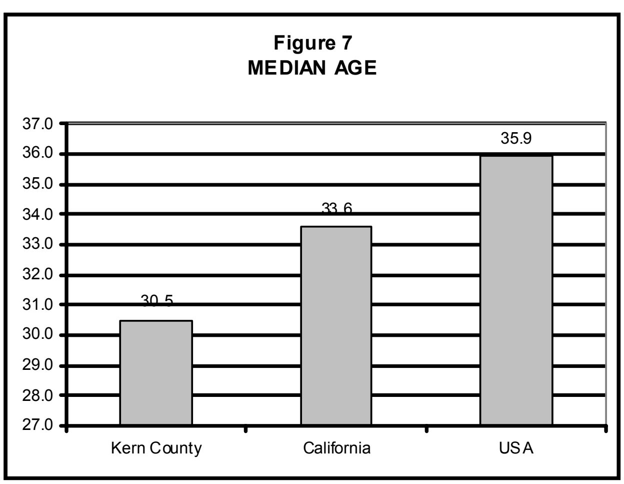
Age Structure

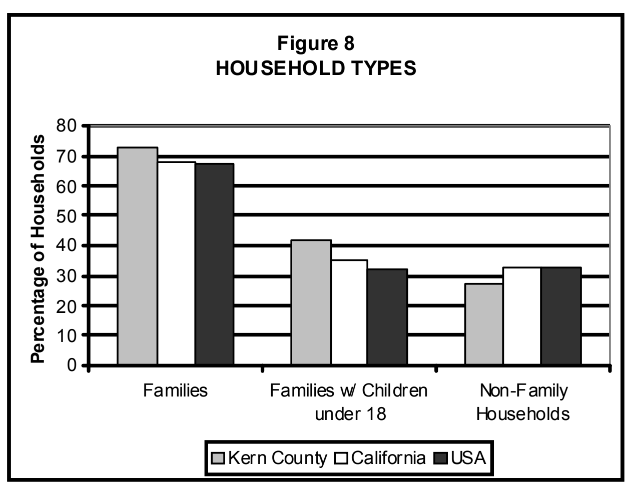
We are currently experiencing the "graying of America." In general, the nation is getting older. People are living longer, and birthrates have dropped. As a result the median age of our population is getting higher. This trend is not occurring as rapidly in California, and especially not in Kern County.

(Continued on page 12)









Trends *(Continued from page 11)*

While the national median age is 35.9, it is 33.6 in California, and only 30.5 in Kern County (Figure 7). Part of this is a result of the large Hispanic population. In accordance with cultural norms, Hispanic families tend to include more children per family. In addition, a greater percentage of Kern County households are families with children than the state or the country. 41.6% are families with children under the age of 18. Comparable figures for California and for the United States as a whole are 35.0% and 32.2% respectively (Figure 8).

With such a young population, market segments of children and teenagers are important. There are ethical concerns to be considered when marketing to children, but if they can be reached in a responsible manner, they represent two opportunities: purchases they make themselves and family purchases that they influence. Children between the ages of 6 and 14 spend $77 billion per year themselves in the United States. In addition, they influence family purchase decisions regarding such things as food, eating out, and family vacations. The influence of children in family decision making increases as the children become older and start earning money of their own.

Children develop skills as consumers through a socialization process. They learn from parents, peers, and the media. They learn quickly and well. Trademarked cartoon characters that are associated with specific brands are recognizable to children as young as 3. 85% of children's letters to Santa Claus name specific brands for the items requested. By the time they reach the sixth grade, children in the United States can distinguish between prestigious and non-prestigious brand names.

By the time children become teenagers, they are sophisticated consumers. The current cohort of teenagers is sometimes referred to as the "Net Generation." Indeed, many of them grew up on line. They have become adept at using the Internet to compare offerings and prices. They understand marketing and recognize marketing efforts directed at them. As a result, they are not greatly influenced by advertising. They give much more credence to word-of-mouth information-- assessments of products by their consumer peers. The Internet is an efficient medium for the transmission of "buzz," positive or negative. Attitudes and trends can spread very rapidly, and be replaced just as rapidly.

Despite the challenges, this is a potentially lucrative market segment. Teenagers between the ages of 12 and 18 receive weekly allowances from parents that average $50 per week (Arnould 505). It is almost entirely disposable income—the teenagers are not paying household bills with this money.
It is important to be upfront with these consumers in promotional efforts as they detect and resent attempts at deception. Sprite had some success reaching this group by sponsoring Hiphop events. There may be similar opportunities for brands to become associated with youth culture by supporting and sponsoring events, activities, and entertainment that young people enjoy.

The recording artists, Linkin Park, have used the Internet to recruit a street team of volunteer fans who help promote the group's CDs and concerts. This is effective because the promotional messages are coming from peers.

Conclusion

We know that we are different in Kern County from other areas of the state and the country. While we revel in our distinctiveness, it is also important to know who we are and direct our marketing accordingly. We are younger, have more families with children, and are more heavily Hispanic. Consequently, there are opportunities to target marketing at the Hispanic population plus children and teenagers. Successful marketers are those who understand the potential customers in their market and are able to fulfill their needs.

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3. Mowen, John and Michael Minor, 2001, *Consumer Behavior: A Framework*, Upper Saddle River, NJ: Prentice Hall.
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5. Thanks to Lisa Beason, Research Manager, *The Bakersfield Californian.*

ECONOMIC INDICATORS

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PROFESSOR OF ECONOMICS, CSUB

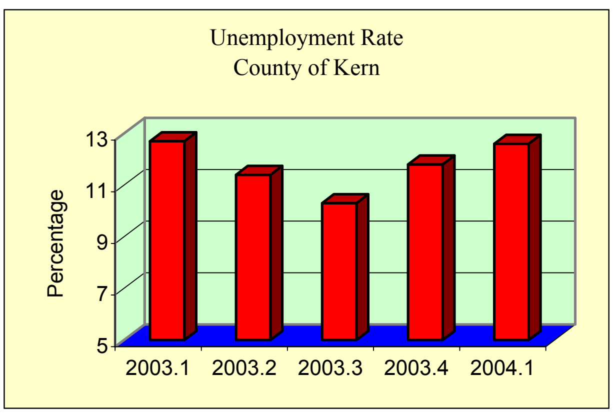
Unemployment Rate

In the first quarter of 2004, the county's employment picture turned grim. The main factors contributing to a rise in the unemployment rate were:

- Increase in the size of the workforce by 1,133 persons
- Increase in civilian unemployment by 6,434 persons
- Decline in civilian employment by 5,333 persons

The decline in civilian employment included 1,000 jobs lost in the nonfarm sector and 8,166 jobs lost in the farm sector, but 3,833 jobs gained in the residual sector (i.e., self-employed workers and those who work outside county of residence).

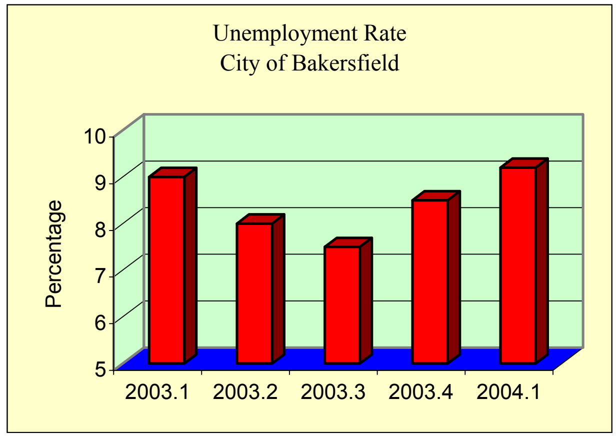
When adjusted for seasonality, the rate of unemployment in Kern County climbed from 11.8% in the fourth quarter of 2003 to 12.6% in the first quarter of 2004. However, the county's unemployment rate was slightly higher relative to the first quarter of 2003. Kern's unemployment rate was 5.9% higher than the state average and 6.5% greater than the national average.

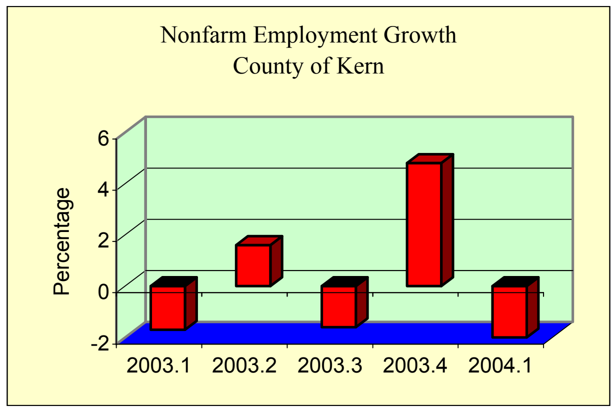


Likewise, the *seasonally adjusted* unemployment rate in the City of Bakersfield jumped from 8.5% in the fourth quarter of 2003 to 9.2% in the first quarter of 2004. Compared with four quarters ago, the city's unemployment rate was 0.2% higher. Bakersfield's unemployment rate was 3.4% lower than the county rate, but 2.5% higher than the state rate and 3.1% greater than the national rate.

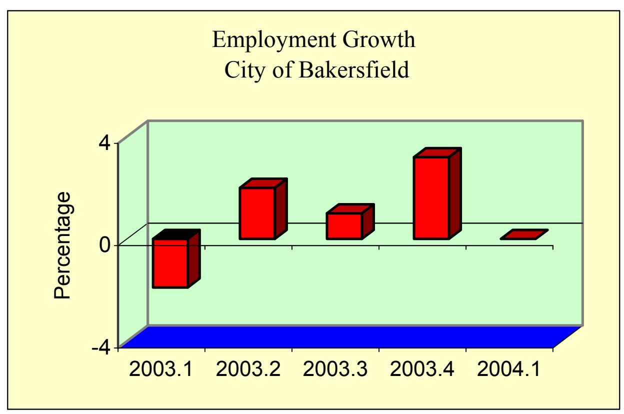
Nonfarm Employment Growth

Nonfarm employment decreased at an annual rate of 2.7% in the first quarter of 2004. Among the nonfarm industries, construction, manufacturing, wholesale and retail trade, professional and business services, and federal, county, and city governments reduced employment. But, educational and health care services, leisure and hospitality, state government, and local public education added jobs.





In the City of Bakersfield, we found no growth in the level of quarterly employment.

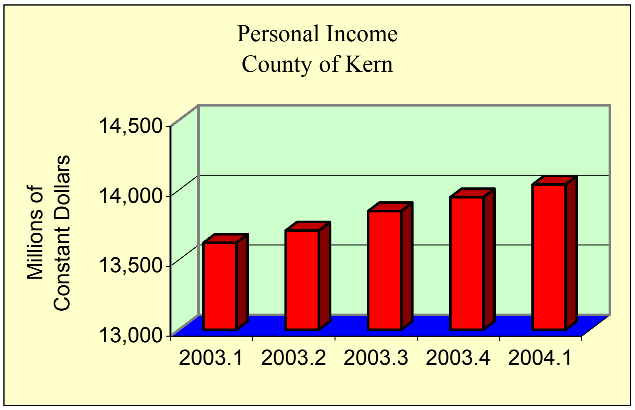


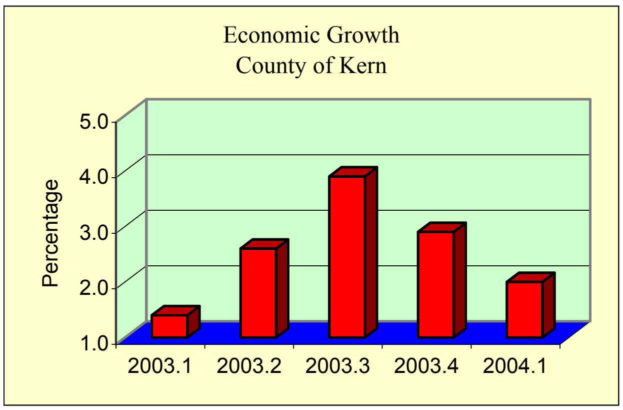
Total Personal Income

Kern County's total personal income (in constant 1996 dollars) increased from \$13.95 billion in the fourth quarter of 2003 to \$14.04 billion in first quarter of 2004. Hence, the county's economy expanded by \$90 million or at an annual rate of 2.6%. Since the first quarter of 2003, the local economy has grown at an average annual rate of 2.7%.

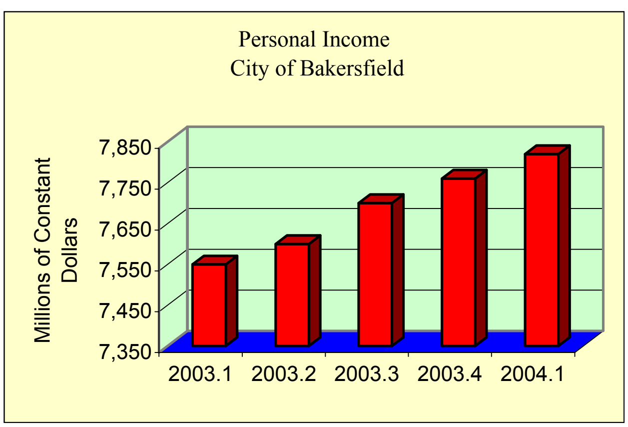
(Continued on page 14)

Economic Indicators *(Continued from page 13)*



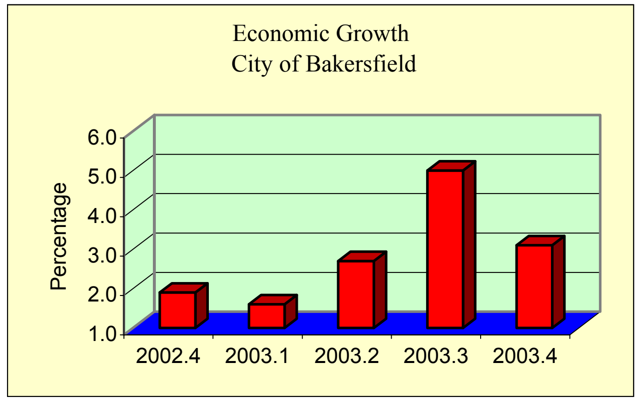


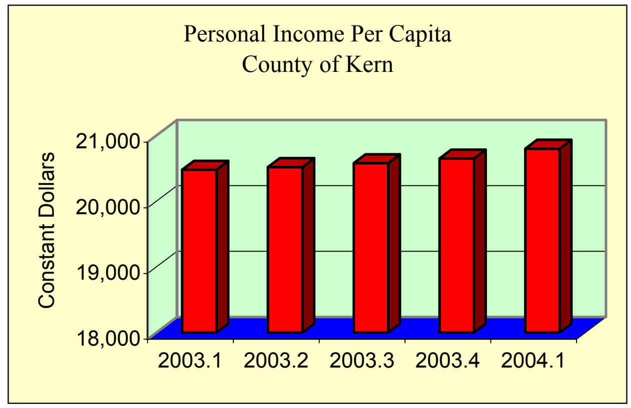
In Bakersfield, total personal income (in constant 1996 dollars) rose from $7.76 billion in the fourth quarter of 2003 to $7.82 billion in the first quarter of 2004. Hence, the city's economy expanded by $60 million or at an annual rate of 3.1%. Over the last four quarters, Bakersfield's economy has grown at an average annual rate of about 3.0%.



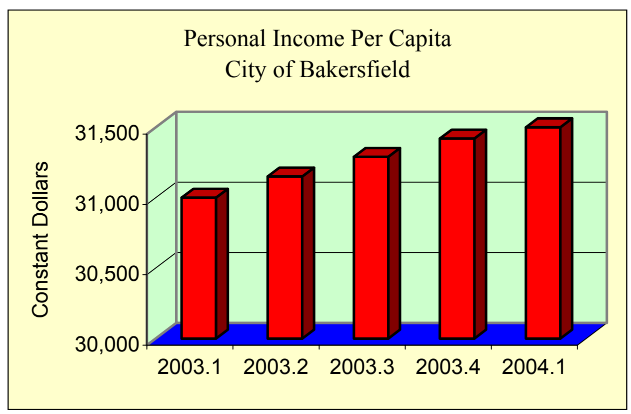
Personal Income Per Capita

In Kern County, personal income per capita (in constant 1996 dollars) rose from $20,650 in the fourth quarter of 2003 to $20,800 in the first quarter of 2004. Over the previous four quarters, the county's personal income per capita has increased by $320.





Bakersfield's personal income per capita (in constant 1996 dollars) rose from $31,420 in the fourth quarter of 2003 to $31,650 in the first quarter of 2004. Since the first quarter of 2003, Bakersfield's personal income per capita has increased by $520.

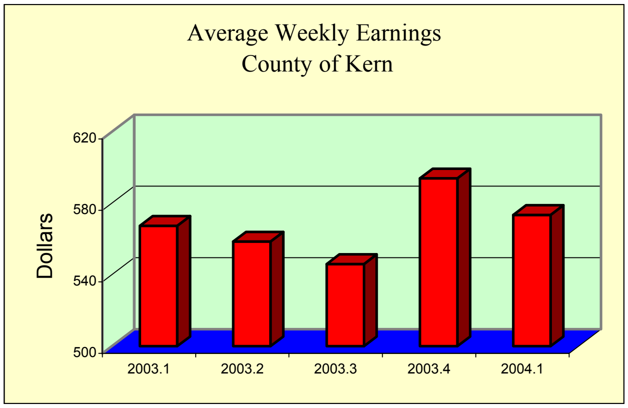


Average Weekly Earnings

In Kern County, average weekly earnings in the manufacturing industry declined by $20.50 from $593.90 in the fourth quarter of 2003 to $573.40 in the first quarter of 2004. This fall was attributed mainly to the decrease in average weekly hours from 39.6 to 36.9. However, compared with four quarters ago, manufacturing workers made an additional $6.10 a week.

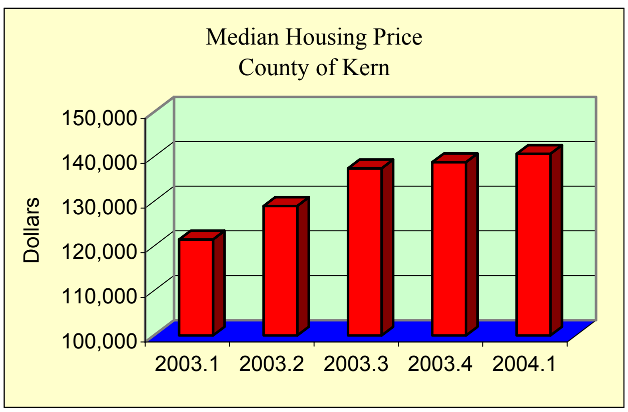
(Continued on page 15)

Economic Indicators *(Continued from page 14)*

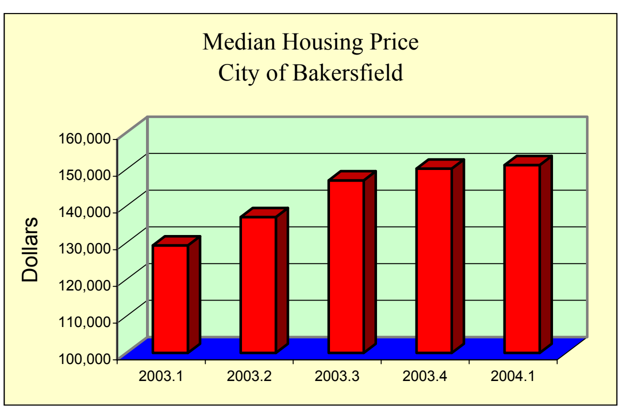


Housing Price

In Kern County, the median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) rose by $1,870 or 1.3% from $138,800 in the fourth quarter of 2003 to $140,670 in the first quarter of 2004. Since the first quarter of 2003, the county's median price has increased by $21,340 or 17.7%.



In Bakersfield, the median sales price of all homes jumped by $4,370 or 3.0% from $146,800 in the fourth quarter of 2003 to $151,170 in the first quarter of 2004. The city's median price was $10,500 higher than the county's average. Since the first quarter of 2003, the city's median price increased by $21,870 or 16.9%.

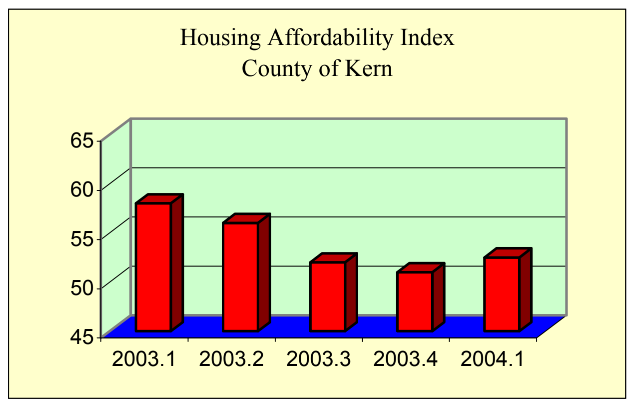


In the first quarter of 2004, the median sales price of all homes appreciated in Rosamond, but depreciated in Delano, Ridgecrest, and Tehachapi.

Housing Price for Selected Cities (First Quarter of 20034		
City	**Median Sales Price ($)**	**Change from Previous Quarter (%)**
Delano	89,500	-9.6
Ridgecrest	100,750	-6.7
Rosamond	163,330	8.3
Tehachapi	164,830	-1.6

Housing Price Affordability[1]

The index of housing affordability inclined 1.5 percentage points from 51% in the fourth quarter of 2003 to 52.5% in the first quarter of 2004. This rise of the index is partly attributable to lower mortgage interest rates. Compared with the state's affordability index of 23.5%, Kern County remains one of the most affordable areas of California. Over the past four quarters, the county's index fell 5.5%. This current index value indicates that a family earning the median household income has 52.5% of the income necessary to qualify for a conventional loan covering 80% of a median-priced existing single-family home.



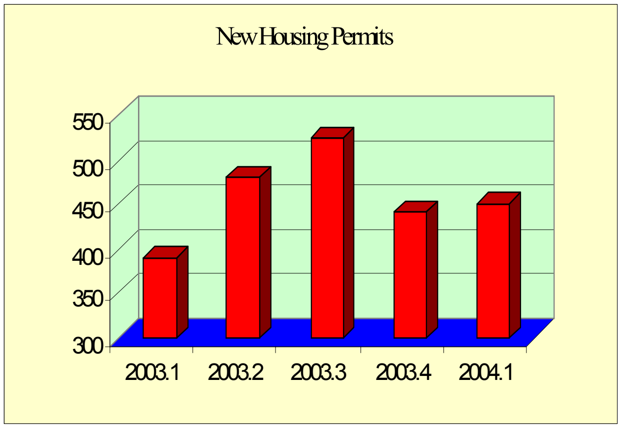
Housing Permits

In Kern County, the number of construction permits for single-family homes increased from 442 in the fourth quarter of 2003 to 451 in the first quarter of 2004. Compared with four quarters ago, 60 more new housing permits were issued.

(Continued on page 16)

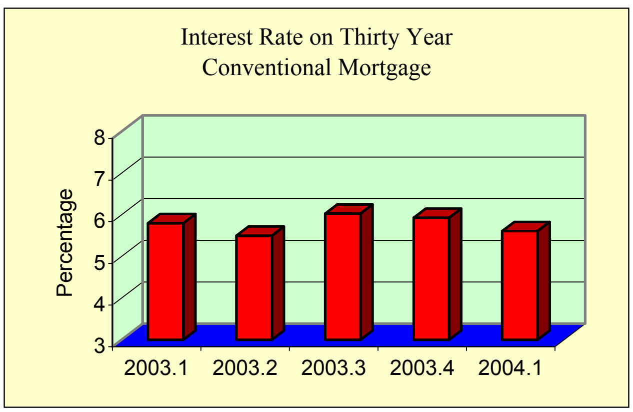
[1]Data on Housing Affordability Index and New Housing Permits are the average of January and February. Data for the month of March were not available at this time.

Economic Indicators (Continued from page 15)



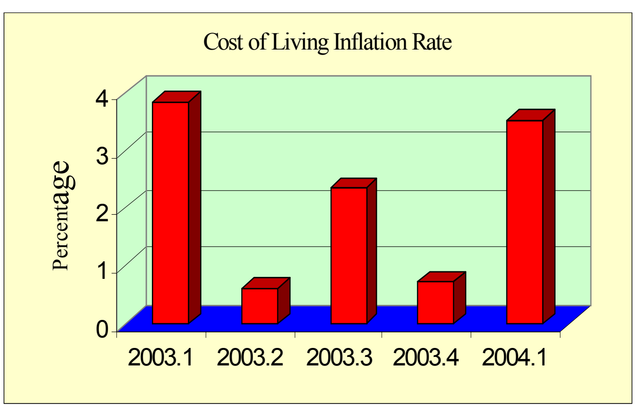
Interest Rate

The interest rate on thirty-year conventional mortgage loans dropped from 5.93% in the fourth quarter of 2003 to 5.61% in the first quarter of 2004. Compared with four quarters ago, the interest rate was 0.19% lower.

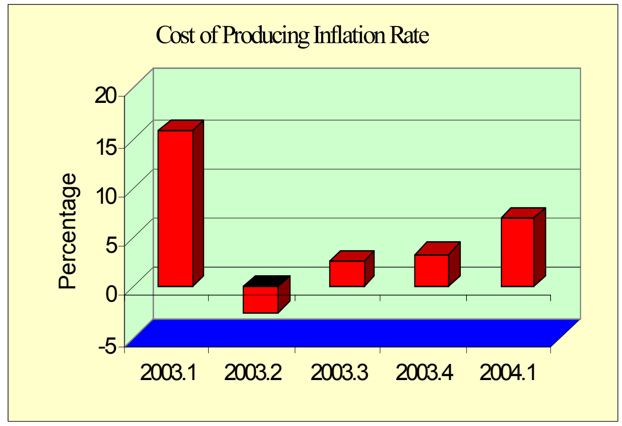


Inflation Rate

The Consumer Price Index for all urban areas rose from 184.9 in the fourth quarter of 2003 to 186.4 in the first quarter of 2004. The cost of living inflation rate ascended 3.5% per year during this quarter. Compared with four quarters ago, the cost of living inflation was 0.3% lower.

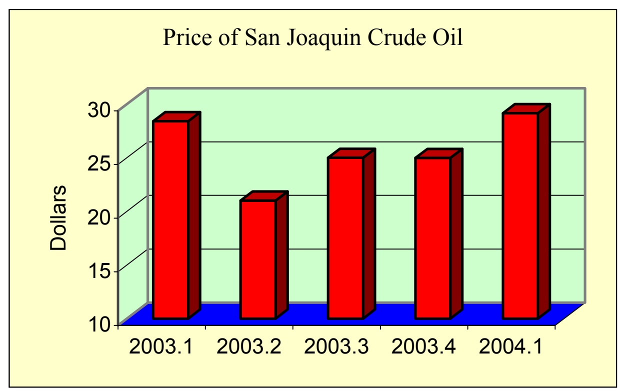


The Producer Price Index for all commodities rose from 139.4 in the fourth quarter of 2003 to 141.6 in the first quarter of 2004. The cost of producing inflation rate ascended at an annual rate of 6.9% in this quarter. Compared with four quarters ago, the cost of producing inflation was 8.9% lower.



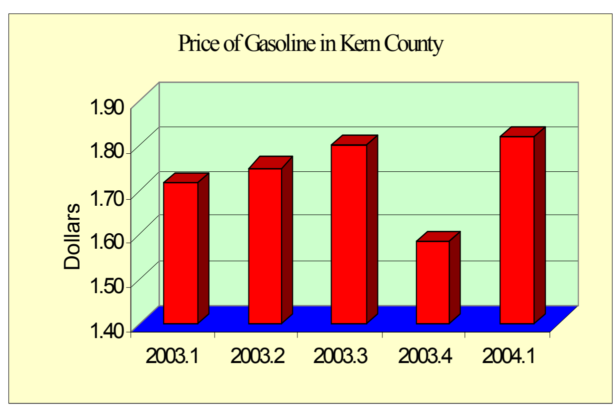
Price of Crude Oil

The average price of the San Joaquin Valley heavy crude oil inclined from $24.98 per barrel in the fourth quarter of 2003 to $29.15 per barrel in the first quarter of 2004. Compared with four quarters ago, the price of crude oil was $0.75 higher.



Price of Gasoline

In Bakersfield, the average retail price of regular gasoline per gallon soared from $1.58 in the fourth quarter of 2003 to $1.82 in the first quarter of 2004. Compared with four quarters ago, the average price was 10 cents higher.



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Econ Brief!

What to Expect in 2004? CSUB Students vs. CB Economists

One of the assignments in Intermediate Macroeconomics (ECON 302) course is to forecast performance of the United States economy. Students role-playing as economic analysts of a manufacturing company are asked to provide forecasts of major economic indicators. To make reasoned forecasts, students are required to compile a weekly journal of economic news and to analyze recent economic trends.

Twenty students taking the course in Winter Quarter of 2004 participated in this survey. The following table presents the forecasts offered by CSUB students and the forecasts made by Conference Board (CB) economists.

	Real GDP Growth Rate	Unemployment Rate	Inflation Rate	90-Days T-Bill Rate	10-Year T-Bond Rate
CB Economists	5.3	5.2	2.2	1.5	4.4
CSUB Students	4.2	5.3	2.2	1.4	4.7

The forecasts by CSUB students and CB economists are almost identical with respect to unemployment rate, inflation rate, and short-term interest rate. However, tCSUB students anticipate a less rapid GDP growth rate, but a higher long-term interest rate. They are concerned that the mounting federal budget deficits would push interest rates up, discouraging business and real estate investment as well as big ticket item purchases.

4045
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