

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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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.

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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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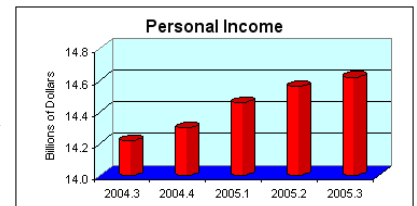
ECONOMY AT A GLANCE!

ABBAS P. GRAMMY

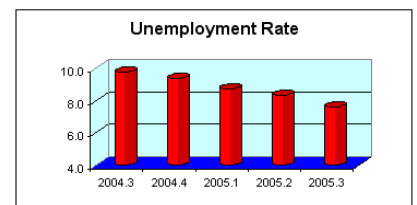
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In the third quarter of 2005, we have witnessed the devastating human and financial costs of Hurricanes Katrina and Rita on the economies of the Gulf region. The impacts of these disasters on the national economy were transmitted through rising fuel prices and lost consumer confidence. In annual terms, the cost of living inflation rate soared from 4.2 to 5.1 percent and the cost of producing inflation rate climbed from 6.6 to 10.8 percent. In the meantime, the University of Michigan's measure of consumer confidence dropped from 90 to 88. Nonetheless, impacts on other performance indicators were negligible as the real GDP accelerated from 3.3 to 3.8 percent and the rate of unemployment dropped from 5.1 to 5.0 percent.

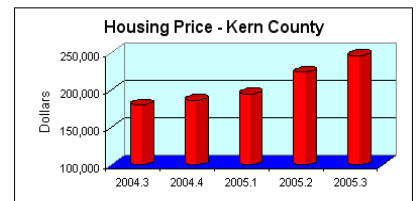
In Kern County, the economy continued to improve. Our survey data show a modest improvement in business outlook, but a sizable decline in consumer optimism. The Business Outlook Index climbed 5 percentage points, whereas the Consumer Sentiment Index dropped 38 percentage points. The local economy expanded at an annual rate of 2.5 percent, adding \$90 million of personal income. Labor productivity inclined \$170 and manufacturing workers earned an additional \$43 per week.



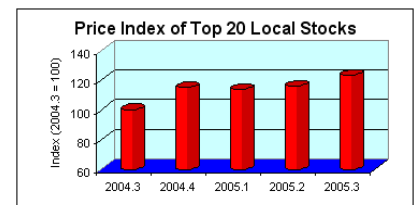
The employment picture of the county continued to improve. The labor force increased by 940 members and total employment expanded by 3,190 positions. In the meantime, total unemployment declined by 2,250. As a result, the rate of unemployment dropped 0.8 percent to reach 7.6 percent. The City of Bakersfield recorded a low unemployment rate of 5.2 percent. Likewise, California City, Ridgecrest, Rosamond, Taft, and Tehachapi recorded unemployment rates below the county average. Both farm and nonfarm sectors added jobs, and private-sector firms and public-sector agencies hired more workers.



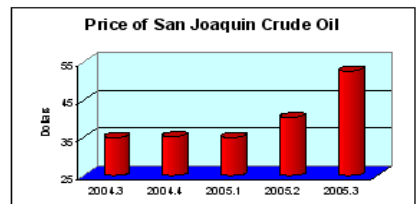
Kern County's housing prices appreciated at a slower rate. The county's median sales price for all homes climbed 9.9 percent to reach \$246,300. Housing prices continued to appreciate in Bakersfield, California City, Delano, Ridgecrest, Rosamond, Taft, and Tehachapi. Residential development continued in spite of higher mortgage-loan interest rates, reduced housing affordability, and fewer new building permits.



Many corporations doing business in Kern County gained in the Stock Market. The price index of the top 20 local stocks jumped 6.4 percent, while the price index of the top 5 corporations soared 23.2 percent in one quarter. The top 5 corporations - Berry Petroleum, Sears, Granite Construction, Occidental Petroleum, and Tejon Ranch Company - gained between 90 and 48 percentage points in their stock prices since the third quarter of last year.



Prices of consumer and producer goods and services continued to rise at faster rates. In particular, the price of San Joaquin Valley crude oil jumped \$12.21 per barrel from \$40.36 to \$52.57 and the price of gasoline sold in Bakersfield metropolitan area soared 31 cents to reach \$2.73 per gallon. Output prices received by farmers continued to fall short of the input prices they paid. As a result, the gap in farm prices widened 3 percentage points.



THE CEO PROFILE!



Introduction

Keith Brice is the President and CEO of Mid State Development Corporation. Headquartered in Bakersfield, Mid State is a SBA authorized Certified Development Company serving Kern County. Mid State is partnering with commercial lenders to finance owner-occupied commercial and industrial real estate, and equipment purchases. Mid State was established in 1980 to assist in creating economic growth through projects that help businesses become more competitive in the marketplace.

Since its inception, Mid State has funded over \$60 million in loans. These projects have created or retained over 4,200 jobs in Kern County.

Keith came to Mid State with over 20 years of commercial banking experience, having held Vice Presidency positions at California Republic Bank, First Interstate Bank and Sanwa Bank (now Bank of the West). An active member in the community for over 20 years, he has served on various boards and committees. Currently, he is the past-president of South Bakersfield Kiwanis Club. He also serves on the boards of United Way of Kern County, Westminster Presbyterian Church Foundation, Small Business Development Center, Kern Economic Development Corporation, and Kern County Community Foundation. He is also a member of CSUB's School of Business and Public Administration Executive Advisory Council.

A native of Washington, D.C., Keith earned his baccalaureate degree in Business Administration from the University of Dayton. He is also a graduate of Pacific Coast Banking School in Seattle. He is married to Betsy Brice, who is a mathematics teacher at Freedom Middle School. They have two children, Vanessa and Shane.

Interview

How does Mid State Development Corporation contribute to small business development in Kern County?

Mid State Development Corporation (Mid State, hereafter) is licensed by the U.S. Small Business Administration to provide second mortgage financing to expanding small businesses through the SBA 504 Loan Program. We have been helping successful small businesses in

Kern County purchase or expand their own real estate since 1980. As a result of our expertise and successful track record in lending, Mid State has been Kern County's number one SBA lender for the past five years.

What are the advantages to small businesses in receiving SBA Loans?

The SBA 504 program has many advantages for small business-owners. Perhaps, the most immediate advantages are the smaller down-payments and lower interest rates. With a minimum of 10 percent, small business owners can get the financing they need to purchase or construct a new facility or buy long-term equipment without having to go deeply out of pocket. Mid State funds 40 percent of the project cost. Banks fund 50 percent as the first trust deed or lien holder. Other advantages to small business-owners are:

- Fully amortizing 20-year loan
- Bank interest rate on the first can be lower than conventional financing
- Tax advantages
- Fixed occupancy costs
- Appreciation in real estate purchased

How does Mid State Development Corporation contribute to commercial real estate development in Kern County?

Mid State has funded over 150 commercial real estate projects within Kern County over the past five years. The average cost of the project is \$875,000, which has resulted in over \$131 million in real estate projects funded in the county. Permitted commercial real estate uses of the 504 loans proceeds are:

- Acquisition of vacant land for construction of a building
- Acquisition of land and building
- Leasehold improvements
- Renovation of Building
- Additions to buildings
- Construction of a building

(Continued on page 4)

Without SBA participation several projects would not have happened. The problem with conventional loans is the restriction on property type. If you have ever tried to finance a gas station, restaurant, or hotel with conventional financing, the response from the bank was either “no or 40 percent down please”. Unlike a conventional loan, the 504 blends bank loans with SBA loans. This combination provides an attractive long-term fixed asset loan, even for properties seen as “difficult” for conventional lenders.

How does Mid State Development Corporation contribute to the economy of Kern County?

Mid State is a not-for-profit organization whose mission is “to stimulate economic development and create/retain jobs in the region by helping small businesses obtain financing.” Activities of Mid State have resulted in the creation and/or retention of more than 1600 jobs, and an increase in the local real property and business tax base. The economic impact of Mid State could be determined by the multiplier effect. Using a conservative employment multiplier of 1.5 for 320 new/retained jobs at \$10 hourly wage, the net effect is over \$6.6 million in additional wages annually within the community.

How does Mid State Development Corporation contribute to the community of Kern County?

Mid State actively participates in a variety of community programs centered around economic and employment expansion and regularly provides referrals to various organizations that in turn may assist small businesses. As a result, Mid State has been actively involved with the following organizations:

- Small Business Development Center of Kern County
- Service Corps of Retired Executives
- Kern Economic Development Corporation
- Valley Small Business Development Corporation
- Greater Bakersfield Chamber of Commerce
- Kern County Hispanic Chamber of Commerce
- Kern County Black Chamber of Commerce
- City and County Economic Development Departments
- Other Kern County Chambers (Ridgecrest, Delano and others)

Mid State also contributes financially in several ways. This includes scholarships for CSUB students, sponsorship of United Way’s Day of Caring, American Cancer

Society’s Relay For Life, Junior Achievement, and Kern Community Foundation, just to name a few. By participating and donating both time and money we can better serve the communities in which we lend.

Our program has also had a direct effect on some of the following business types:

- Community and business revitalization
- Expand exports to overseas markets
- Expand minority business development
- Aiding rural development
- Expand woman-owned business development
- Expand veteran-owned business development

What are the prospects of economic development in Kern County?

I think it is good. First, you have to look at the existing natural resources and industry already within the County. We have significant concentrations in agriculture, energy, and the military. Fortunately, all are doing well and aggressively changing to remain competitive within new and different markets. In addition, you look at emerging industries, which include aerospace, logistics facilities, value-added agriculture, and tourism. Despite the recent spike in real estate prices, Kern County still remains one of the most affordable areas to live and do business in California. A key factor to economic development success is the desire of the community. Local leaders in business, government, and education recognize the need for sustained economic development. I see a concentrated effort by these leaders to meet the need of our rapidly growing and changing community. The challenge is how to do this while protecting and improving the quality of life we all enjoy.

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KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB



Kern County's business outlook improved in the third quarter of 2005. To measure business outlook, we administered telephone surveys to a random sample of 250 local private-sector managers and public-sector administrators. We asked the survey participants two sets of questions, one regarding the assessment of local business conditions in the current quarter and another in the forthcoming quarter. Each set included four questions.

The survey participants represented a wide range of industries including amusement and recreation, automotive services, business and legal services, construction, education, employment services, health services, hospitality and personal services, manufacturing, public utilities, real estate, retail trade, transportation, social and cultural services, and wholesale trade. The survey results are shown in the table below.

Employment Outlook – More than one-half of survey respondents reported that the number of jobs in their companies stayed constant this quarter and expected the number of jobs to remain unchanged next quarter. However, nearly forty percent of respondents stated that employment conditions improved in their companies this quarter and are likely to get better next quarter.

Financial Outlook – About fifty percent of survey respondents said that financial conditions (sales and profits) of their companies remained the same this quarter and are likely to stay constant next quarter. Nevertheless, nearly forty-five percent of respondents perceived that financial conditions of their companies improved this quarter and will get better next quarter.

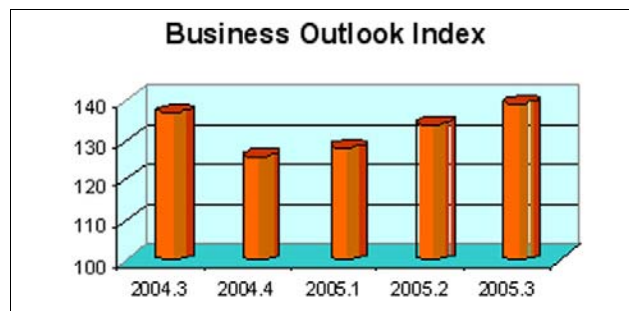
General Business Outlook – The majority of survey respondents perceived that employment and general business conditions of their industries remained the same this quarter and will be unchanged next quarter. More than 40 percent of survey respondents reported improvements in employment and general business conditions of their industries this and next quarter.

County-wide Economic Outlook – More than one-half of survey respondents perceived no improvement in local business conditions this and next quarter. However, over forty percent of them felt that conditions were better this quarter and will continue to improve next quarter.

Business Outlook Index - Survey responses were enumerated to construct the Business Outlook Index (BOI). In the third quarter of 2005, the BOI rose 5 percentage points from 134 to 139. This index value indicates that

(Continued on page 8)

Survey Response Rates (%)			
Question	Response		
	Better	Same	Worse
1. Employment in your company this quarter was	39	53	8
2. Employment in your company next quarter will be	40	56	4
3. Financial conditions of your company this quarter was	45	50	4
4. Financial conditions of your company next quarter will be	47	48	5
5. General business conditions in your industry this quarter were	46	51	3
6. General business conditions in your industry next quarter will be	40	55	5
7. General business conditions in Kern County this quarter were	46	52	2
8. General business conditions in Kern County next quarter will be	42	58	0



BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS

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



The Bakersfield Index of Consumer Sentiment tumbled from an all-time high of 148 in the second quarter to 110 in the third quarter. At the national level, the University of Michigan’s measure of consumer sentiment declined from 90 in the second quarter to 88 in the third quarter. This slight decline in Michigan’s quarterly average masks the troubling deterioration of national consumer sentiment as the third quarter unfolded: 97 in July, 89 in August, and - yikes - 77 in September, thanks to Katrina, piled on top of speculative housing markets and rising energy prices.

The absolute levels of the national and local indexes should not be directly compared since they are tabulated differently and have different base years. Perhaps the best way to interpret what “110” means locally is to keep in mind that the Bakersfield index falls short of this reading about 30 percent of the time and exceeds it in 70 percent of the quarters. For comparison purposes, the national index is mired at about the 20th percentile for readings it attained over the same time frame.

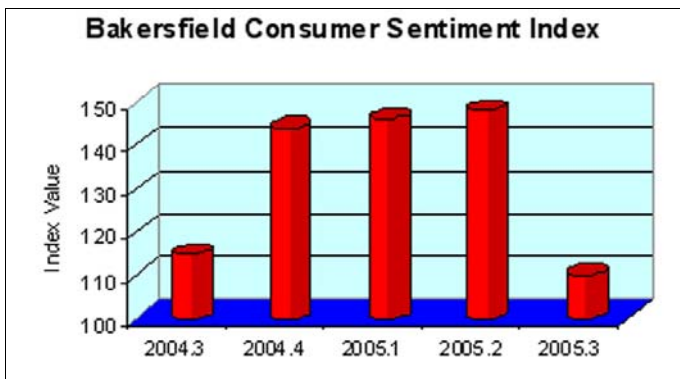
We began compiling the Bakersfield Consumer Sentiment Survey in 1999 from telephone surveys administered to a random sample of 250 households listed in the phone book. The index is designed to help local business leaders determine whether changes in their sales reflect movements in the overall economy or shifts in their relative competitiveness. However, users of our index should keep in mind that the correlation between these types of indexes and consumer spending has weakened recently as consumers continued to spend while telling interviewers things were getting worse. On the other hand, it is

doubtful this disconnect can go on forever.

The index is disaggregated into sub-indexes relating to recent trends and future expectations. The sub-index measuring recent trends is constructed from responses to questions relating to expenditures on discretionary items, financial status of the household compared to one year ago, and perceived changes in the financial condition of acquaintances in Kern County. This sub-index attained a value of 106 in the third quarter, down from 147 in the second quarter. Only 19 percent of households reported spending more than usual on discretionary items (compared to 55 percent in the previous quarter), while 30 percent spent less than usual (compared to only seven percent in the previous quarter). The percentage of households reporting they were doing better than one year ago dropped by nearly 20 points (38 percent versus 57 percent in second quarter), while the percent reporting they were worse off tripled (15 percent versus 5 percent previously).

To assess future expectations, households are asked how they think the financial situation of their families will change over the coming year, how their acquaintances in Kern County view the coming year, and whether this is a safe or risky time to draw down savings or incur debt. This sub-index fell to 114 from 149 in the second quarter. While five-in-ten households thought it was a safe time to reduce accumulated savings or incur debt in the second quarter, only two-in-ten thought so during the third quarter. The percent who think this is a risky time quadrupled from 9 to 36 percent.

(Continued on page 7)



	Most Recent Quarter	Previous Quarter	One Year Ago
Consumer Sentiment Index	110	148	115
Index of Recent Buying & Financial Trends	106	147	107
Index of Consumer Expectations	114	149	123

Is consumer spending, which makes up more than two-thirds of the economy at a tipping point? Economic fore-

casters will be watching spending even more closely than usual this Christmas season.

Table 2: Recent Buying and Financial Trends			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	19 %	51 %	30 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	38 %	47 %	15 %
How your acquaintances in Kern County are doing financially compared to one year ago.	18 %	70 %	12 %

Table 3: Future Expectations			
	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now .	58 %	28 %	14 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	30 %	53 %	17 %
	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?	21 %	43 %	36 %

Econ Brief!

Housing Costs in the San Joaquin Valley

The U.S. Census Bureau counted nearly 70 million owner-occupied homes in the 2000 census. Seventy percent of these homeowners had mortgage loans. The median monthly costs compiled by the Bureau included mortgage payments, property taxes, insurance premiums, utility payments, and, where appropriate, association fees.

The list of the five most expensive counties included two counties from New York and three counties from California. Manhattan, with a monthly housing cost of \$3,615, topped the list. It was followed by Westchester County, Marin County, San Mateo County, and Santa Clara County.

In the San Joaquin Valley, California, San Joaquin County recorded the highest monthly housing cost of \$1,235, whereas Tulare County had the lowest monthly housing cost of \$943. With an average monthly housing cost of \$986, Kern County ranked 7th among 9 San Joaquin Valley communities.

County	Monthly Housing Cost
San Joaquin	\$1,235
Stanislaus	\$1,112
Fresno	\$1,047
Merced	\$1,016
Mariposa	\$1,005
Madera	\$993
Kern	\$986
Kings	\$979
Tulare	\$943
Source: www.epodunk.com	

(1) business managers remained optimistic about local business conditions and (2) their degree of optimism has improved since the previous quarter. Historical data show that after a decline in the fourth quarter of 2004, the BOI index has increased over the previous three quarters.

Survey responses were then disaggregated to construct two sub-indexes. The Index of Current Conditions increased 2 percentage points from 138 to 140. Similarly, the Index of Future Conditions climbed 7 percentage points to arrive at 139. These increments express that survey respondents feel more confident in current and future business conditions.

Factors Affecting Business Outlook – Survey respondents were also asked to identify local, regional, na-

tional, or international factors that have affected employment and financial conditions of their companies. They felt several factors brightened the local business outlook:

- Local economic growth and development
- Construction and real estate boom
- Community support for Katrina and Rita disasters

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

- Higher gasoline prices, increasing the cost of doing business
- Government interference in business activity
- Opening of more national franchises hurting small retail businesses

	This Quarter	Previous Quarter	Change
Index of Business Outlook	139	134	5
Index of Current Business Condition	140	138	2
Index of Future Business Condition	139	132	7



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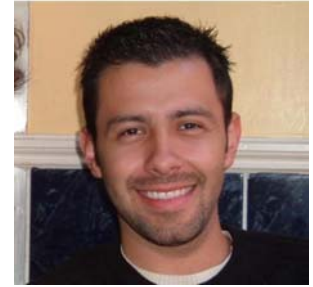


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FINANCIAL IMPACTS OF MEADOWS FIELD AIRPORT ON KERN COUNTY

DANIEL R. ALVARADO
ECONOMICS STUDENT, CSUB



Introduction

Kern County's Economic Development Strategy (hereafter Strategy) is an analysis of the county's long-term economic goals, detailing a review of current conditions, trends, and results from previous initiatives. The most recent publication (April 2005) reported positive growth for the transportation, logistics, and warehousing industry of 2.4 percent in 1993-2003. Employment in this industry has reached over 12,000 workers with above average wages in the key segments of road, air, rail, logistics, warehousing, and wholesale trade. However, the Strategy considers air transportation segment as a "weakness" within the industry. The weakness has been attributed to a number of factors including relatively easy access to Los Angeles International Airport, lack of flight options, and poor airport infrastructure.

The Strategy lists expanding air transport services as one of its strategic flagship initiatives stating, "Expand direct air service to Bakersfield to help connect the County to other locations around the country and support the needs of clusters, where direct connections to other cities is crucial for competitiveness." Through a series of grants provided by the Federal government's Airport Improvement Program and matching funds from the County of Kern and the City of Bakersfield, over \$35 million have been invested to improve the infrastructure of Meadows Field Airport (MFA).

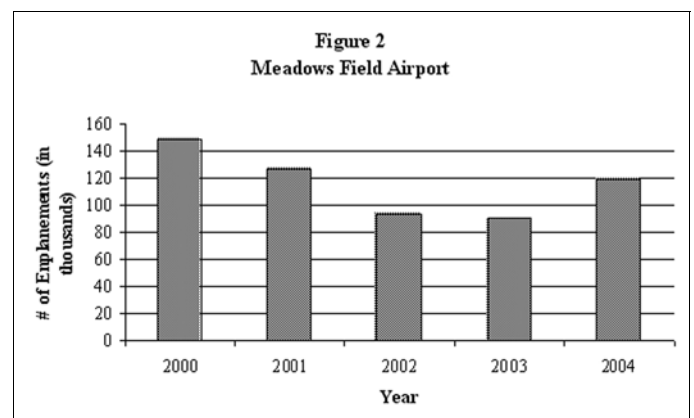
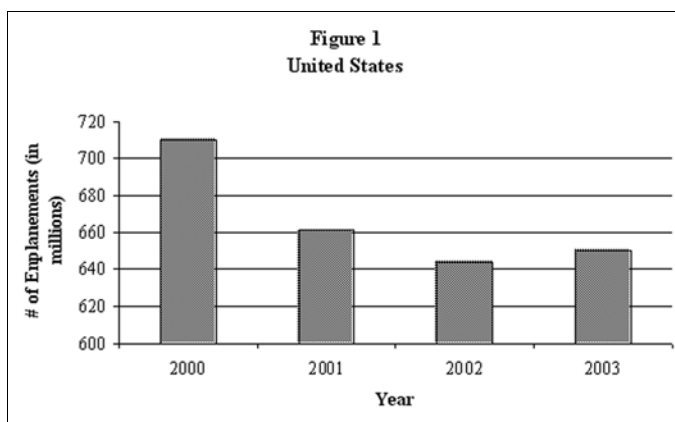
The MFA consists of two parallel runways and related taxiways. New construction is currently underway con-

sisting of a new passenger terminal, apron, and extended runway. The new 63,800 square feet passenger terminal is capable of accommodating 6 jet boarding bridges with 12 gates. Design of the terminal took into account future expansion to potentially accommodate an additional 12 jet boarding bridges for a total of 24 gates. Currently, four commercial passenger airlines operate out of MFA. An additional airline offering international service to Mexico is expected to enter as soon as the new terminal goes into operation. There are a total of 254 aircraft based at the airport of which 70 percent are single engine planes. Only one runway is capable of handling all types of commercial aircraft. It extends 10,857 feet but currently runs on a dated lighting system that is due for repairs. The second runway will be extended to 7,700 feet to allow for repairs on the dated lighting system and not disrupt air transport services.

Trends in Air Travel

Initially, there was a sharp decline in the demand for air transport services due to a combination of factors such as an economic recession, terrorist fears, heightened security, and higher fares. Figure 1 illustrates that nationwide enplanements fell 6.9 percent in 2001 and did not begin experiencing signs of recovery until 2003. Similarly, as shown in Figure 2, the MFA experienced an initial decline of 14.2 percent in 2001 but has now fairly recovered to its 2001 level.

(Continued on page 10)



According to a State of California economic impact report of its aviation system, new trends in air transportation are likely to favor smaller airports. In general, the report expects increased use of smaller airports and smaller regional jets. This is attributed to the September 11th attacks, which caused air travelers to become more reluctant to board large aircrafts and travel long distances. There is an increased demand for short haul flights and an increased demand for business, corporate, and chartered aircraft. Growth is also expected in airports specializing in cargo services and in low cost commercial air transportation services.

These new trends result in a net benefit for MFA, whose main aircraft types are small commercial regional jets that travel short distances. MFA accommodates a few business and corporate jets and is expected to house more upon completion of the nearby industrial park. Air cargo will increase at MFA due to saturation of most of Los Angeles County’s airports. Growth of air cargo is due to a decade of rapid global economic expansion and the increasing popularity of on-line purchases by consumers necessitating air shipments. Kern County is neighbor to Los Angeles County and is expected to be an excellent candidate to receive a share of the air cargo shipments.

Economic Impact of MFA

This economic impact report is conducted using the IMPLAN software, which is an input-output accounting program, designed to estimate the direct, indirect, and induced economic effects of an activity/event. The input-output analysis involves examining the economic relationship of producers, intermediaries, and final consumers within the boundaries of a regional economy by accounting for all monetary transactions within a market.

The economic impact of the construction of the new terminal, apron, and runway extension will be derived using a “predictive” model. It consists of a set of input-output multipliers for Kern County which will forecast

the county’s total economic activity based on the \$35 million investment. This investment is an economic stimulus, which will produce direct, indirect, and induced economic effects via the multiplier effect. The direct effect represents the economic impact of the actual construction activity (i.e., labor and materials). The indirect effect accounts for the transactions between industries due to the new investment. And the induced effect reflects the increased household spending from new income (i.e., spending by construction workers). The investment will be applied to “other new construction” as it is the most appropriate sector relating to construction of a terminal, apron, and runway extension.

The economic impact of the hypothetical growth in air traffic and corresponding airport/airline operating revenues will be derived using an “impact analysis” model. It consists of applying the expected operating revenue to the air transportation sector and calculating the direct, indirect, and induced effects on the other industrial sectors. Growth of air traffic will be determined by and result in increased operating revenues. Both impact reports employ a deflator to account for actual changes of a dollar’s value over time. The construction project is a six year venture, and the hypothetical air traffic growth will forecast revenues for several years. A standard deflator of 1.0 will be used and all amounts will be in 2002 dollars.

The economic impact of the new construction resulted in approximately 652 jobs created in Kern County throughout the six year construction period. These jobs include wage, salary, and self employed workers in both part-time and full-time positions. Approximately 57 percent of those jobs were directly created by the construction project. Labor income represents the value of compensation for all types of employment and includes benefits and proprietor income. Labor income is close to \$26 million. Value added is about \$33.5 million and represents the value of payments made by industry to workers, interest, profits, and indirect business taxes. Output is the value of production by industry. Total output is about \$60 million.

(Continued on page 11)

	<i>Direct</i>	<i>Indirect</i>	<i>Induced</i>	<i>Total</i>
<i>Output</i>	\$35,000,000	\$10,630,356	\$14,301,385	\$59,931,741
<i>Value Added</i>	\$18,408,644	\$6,156,303	\$8,983,101	\$33,548,048
<i>Labor Income</i>	\$16,649,424	\$4,343,161	\$4,844,875	\$25,837,460
<i>Employment</i>	370.8	117.8	163.6	652.2

	<i>Direct</i>	<i>Indirect</i>	<i>Induced</i>	<i>Total</i>
<i>Output</i>	\$1,000,000	\$630,000	\$275,511	\$1,906,437
<i>Value Added</i>	\$248,664	\$303,295	\$173,056	\$724,995
<i>Labor Income</i>	\$195,215	\$209,200	\$93,335	\$497,750
<i>Employment</i>	6.1	6.2	3.2	15.5

The economic impact of the increase in air transportation revenue resulted in approximately 16 jobs created. Compensation for these employees was about \$497,750, an average of about \$32,113 per worker. Value added resulted in about \$725,000. Revenues from increased air traffic are represented directly in output but add close to \$906,000 more to the economy through indirect and induced effects.

These results indicate that for every dollar generated in new construction or air traffic revenue, an additional \$1.90 is contributed to Kern County's economy. The value of labor income and the nature of the air transportation sector suggest that the new jobs created were middle to high income jobs. Creation of middle to high income jobs is vital because a disproportionately high

amount of workers in Kern County are employed in low income jobs.

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Econ Brief!

Kern #1 in Personal Bankruptcy!

Effective October 2005, the Bankruptcy Reform Bill has made it harder for individuals to clear their debts through bankruptcy. Lawmakers who favor the legislation argue that the Bill will prevent households from abusing the bankruptcy laws – using them to clear debts that they can afford to pay. The Bill requires the development of a bankruptcy plan that allows a debtor to resolve debts through the division of assets among his/her creditors. It also provides the debtor with assurance that when the bankruptcy case is discharged, he/she will have a *fresh start*: free from the financial obligations incurred prior to bankruptcy.

Individuals usually file for bankruptcy under Chapter 7 or Chapter 13. In 2004, over 1.1 million people in the United States filed for Chapter 7 and nearly 450,000 filed for Chapter 13. The rate of personal bankruptcy filing, including both Chapter 7 and Chapter 13, increased from 4.32 per 1,000 persons in 2000 to 5.32 per 1,000 persons in 2004. In California, however, the bankruptcy rate fell from 4.06 to 3.30 during the same time period.

In 2004, Kern County had the distinction of having the highest personal bankruptcy-filing rate in the state. Its rate increased from 4.96 in 2000 to 6.10 in 2002, but fell to 5.06 in 2004. Tulare County followed Kern County with a rate of 4.73. Three other San Joaquin Valley communities made the list of top ten counties: San Joaquin, Stanislaus, and Kings. In contrast, the counties of Alpine, Napa, and Marin recorded the lowest personal bankruptcy rates in California, respectively.

Rank	County	Personal Bankruptcy Rate
1	Kern	5.06
2	Tulare	4.73
3	Tehama	4.44
4	San Joaquin	4.30
5	Stanislaus	4.26
6	Sacramento	4.12
7	San Benito	4.11
8	Yuba	4.10
9	Kings	4.06
10	Shasta	4.06

Source: www.epodunk.com

ECONOMIC IMPACTS OF NONPROFIT ORGANIZATIONS ON KERN COUNTY



CHANDRASEKHAR COMMURI

ASSISTANT PROFESSOR OF PUBLIC ADMINISTRATION, CSUB

Nonprofit organizations in the United States are among the oldest forms of organization in the country and have tremendously contributed to the improvement of citizens' lives in many spheres. The nonprofit sector today represents a diverse and creative group of entities that are, in many cases, still the first responders in times of crisis. There are over 1.6 million nonprofit organizations today representing 5.8 percent of all organizations in the country. They have revenues over \$700 billion and they employ about 11 million people. In addition, nearly 84 million people volunteer with these organizations. The value of this volunteerism is estimated to be over \$239 billion. Even though these are impressive numbers, data about the nonprofit sector is consistently underreported because detailed information about many small and religious charities is not available.

The sector is not evenly spread, however, across the nation. The number, type, and capacity of nonprofit organizations vary quite a bit from state to state and also, more importantly, from community to community. These variations are determined by a complex set of factors (like cultural traditions, availability of foundation funding, and political advocacy within

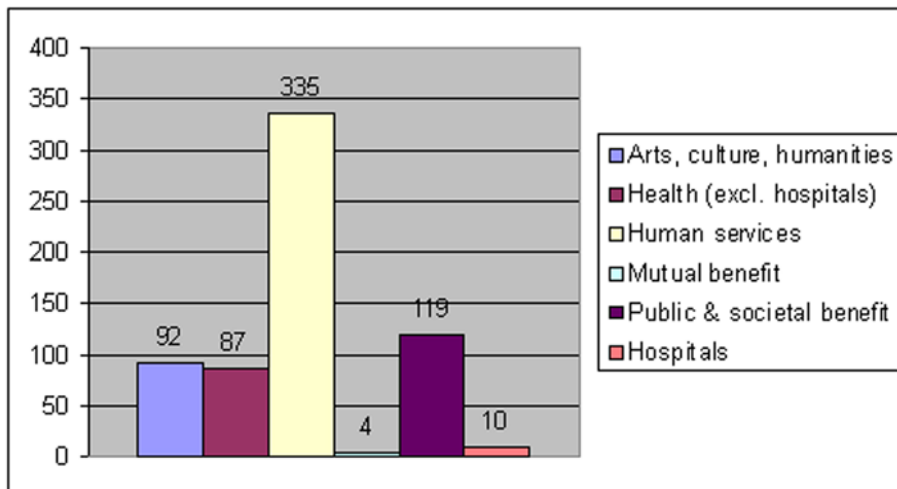
communities, for example) and the variations lead to some communities being underserved while other, sometimes neighboring, communities are experiencing a surfeit of services and redundancies.

There are 2,319 nonprofits in Kern County comprising about 1.6 percent of all organizations here. Of this group, less than 800 filed the IRS form 990 (religious charities and nonprofits with annual revenues less than \$25,000 are not required to file this form). The nonprofits filing form 990s reported revenues of nearly \$1.3 billion (based on data available as of July 2005). In addition, these organizations have assets worth \$900 million. This includes the 93 private foundations with assets of \$46 million.

The largest number of nonprofits in Kern is in the human services sub-sector (335). Other important sub-sectors include public and societal benefit organizations (119), arts and cultural organizations (92), and non-hospital health organizations (87). Even though there are only 10 nonprofit hospitals in Kern, they, as may be expected, account for over half of all nonprofit revenues in the county (\$720

(Continued on page 13)

Chart 1: Number of Nonprofit Organizations in Kern County



(Continued from page 12)

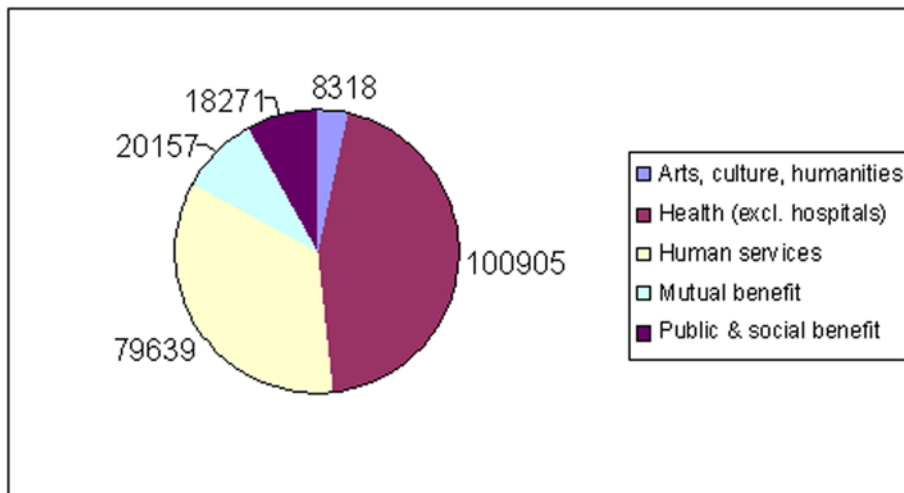
million). In terms of the average revenue per non-profit, these hospitals skew the data significantly. Non-hospital health nonprofits have average revenues of \$ 1 million, and human services nonprofits have \$780,000. At the other end, public and social benefit organizations have average revenues of \$183,000 and arts and cultural organizations have \$83,000. This data is represented in charts 1 and 2.

The number of nonprofit organizations is relatively low in Kern County compared with other parts of the state. The central valley typically tends to have fewer nonprofit organizations and foundation grant inflows than other areas. For example, Kern County

has 3.17 nonprofits per 1000 population compared with 6.02 in Santa Barbara County and 3.67 in Los Angeles County. Fresno has an even lower non-profit density of 3.08.

Based on the last available reliable data, Kern's nonprofits employ over 7,000 people, paying \$172 million in wages and salaries. The contribution therefore of these wages to the local economy is substantial. Further, Kern's nonprofits provide opportunities for volunteers to express their desire for community service. National data shows that 85 percent of nonprofits use volunteers who typically average about 3.5 hours per week.

Chart 2: Average Revenue in Dollars Per Nonprofit Organization



Economic Consulting

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*Abbas P. Grammy, Ph.D.
Professor of Economics, CSUB
Phone: 661-664-2466
E-mail: agrammy@csub.edu*

TRACKING THE ECONOMY

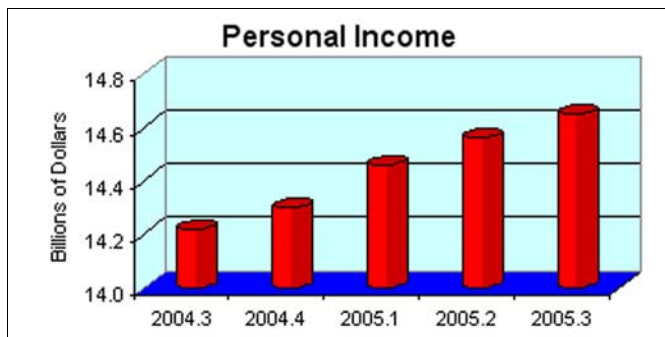
THIRD QUARTER OF 2005

ABBAS P. GRAMMY

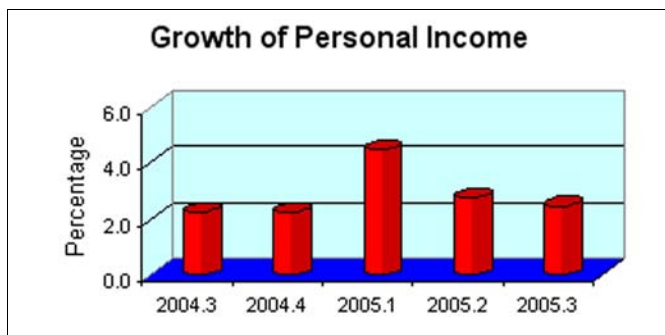
PROFESSOR OF ECONOMICS, CSUB

Economy

Personal Income - Kern County's personal income (in constant 1996 dollars) increased from \$14.56 billion in the second quarter of 2005 to \$14.65 billion in the third quarter of 2005. The county's economy expanded \$90 million. Kern County's economy has added \$430 million of personal income since the third quarter of last year.



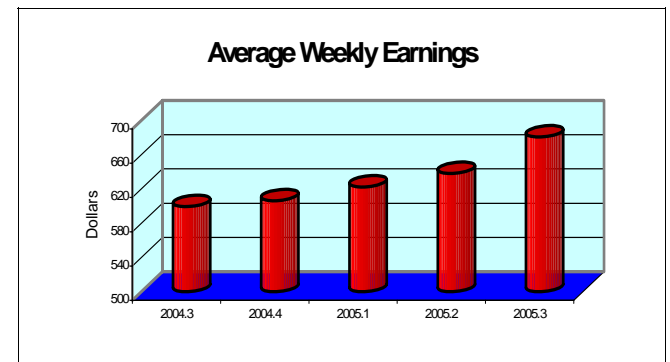
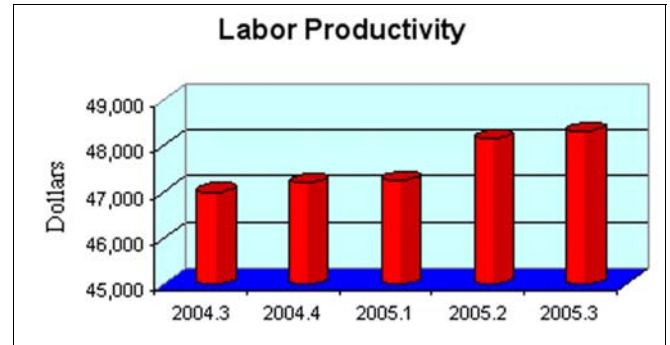
Growth – Personal income grew at an annual rate of 2.5 percent, which was slightly lower than last quarter's 2.8 percent. However, this quarter's growth rate was slightly higher than that of four quarters ago.



Productivity - Labor productivity is personal income per worker. In constant dollars, labor productivity increased \$170 or at an annual rate of 1.4 percent from \$48,150 in the second quarter of 2005 to \$48,320 in the third quarter of 2005. Since the third quarter of last year, labor productivity has increased \$1,320.

Manufacturing Wages - In the third quarter of 2005, weekly wages paid to local manufacturing workers inclined \$42.51 from \$638.22 to \$680.73. This wage increase was mainly due to an increase of 2.6 hours of work per week.

Compared with four quarters ago, local manufacturing workers earned \$81.43 more per week.



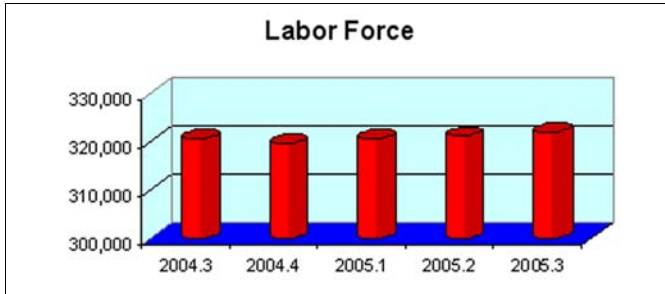
Labor Market

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

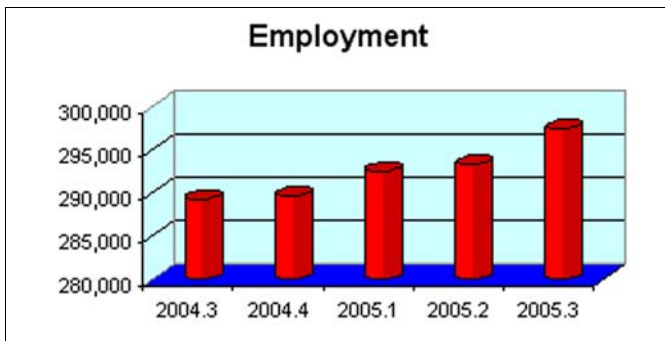
Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
940	3,190	-2,250	300	2,000	1,700	300

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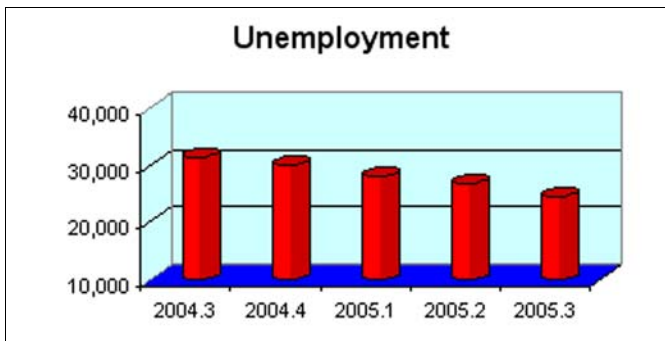
Labor Force - The civilian labor force increased by 940 workers from 321,200 in the second quarter of 2005 to 322,140 in the third quarter of 2005. Over the previous four quarters, the labor force has expanded by 1,340 members.



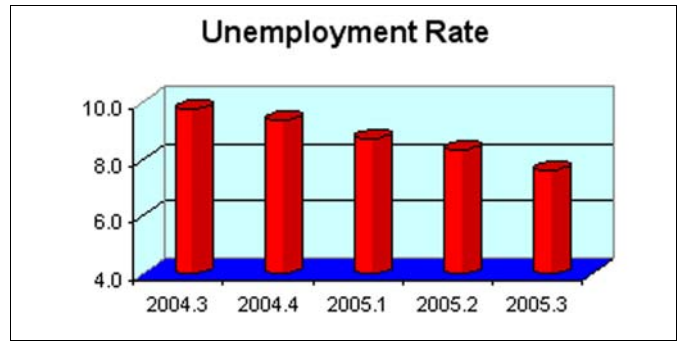
Employment - Total employment increased by 3,190 from 294,300 in the second quarter of 2005 to 297,490 in the third quarter of 2005. The number of employed workers has increased 8,220 since the third quarter of last year.



Unemployment - In the meantime, the number of unemployed workers declined 2,250 from 26,820 in the second quarter of 2005 to 24,570 in the third quarter 2005. The number of unemployed workers has fallen by 6,885 since the third quarter of last year.



The rate of unemployment dropped 0.8 percent from 8.4 percent in the second quarter of 2005 to 7.6 percent in the third quarter of 2005. Since the third quarter of last year, the county's unemployment rate has fallen 2.2 percent.

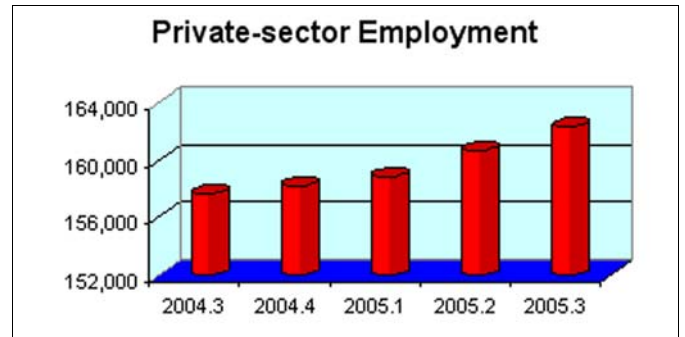
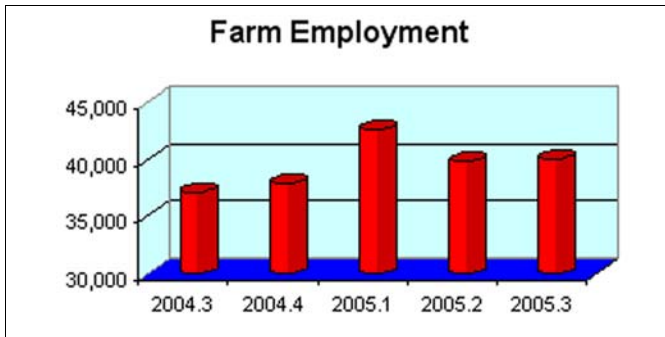


The rate of unemployment varied considerably across the county. It ranged from 3.0 percent in Kernville to 21.2 percent in Arvin. The rate of unemployment was below the county average in Kernville, Lebec, Ridgecrest, Tehachapi, Bakersfield, California City, Inyokern, Rosamond, Edwards AFB, North Edwards, Frazier Park, Taft, and China Lake. In contrast, the rate of unemployment was above the county average in Oildale, Lake Isabella, Buttonwillow, Mojave, Shafter, Lamont, Weedpatch, Wasco, Lost Hills, McFarland, Delano, and Arvin.

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	3.0	Oildale	7.9
Lebec	3.2	Lake Isabella	9.0
Ridgecrest	4.1	Buttonwillow	9.2
Tehachapi	4.9	Mojave	9.3
Bakersfield	5.2	Shafter	13.6
California City	5.8	Lamont	13.8
Inyokern	5.9	Weedpatch	14.1
Rosamond	6.0	Wasco	14.2
Edwards AFB	6.0	Lost Hills	14.9
North Edwards	6.2	McFarland	16.2
Frazier Park	6.5	Delano	20.5
Taft	7.2	Arvin	21.2
China Lake	7.5		

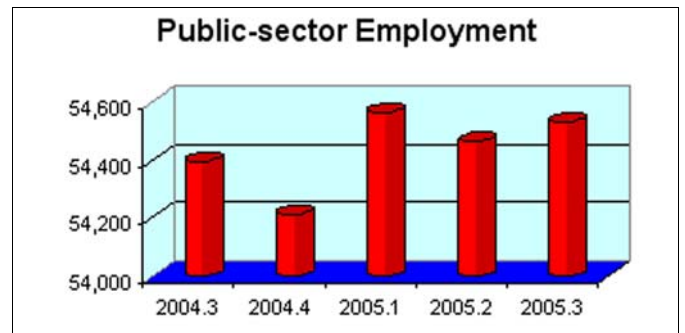
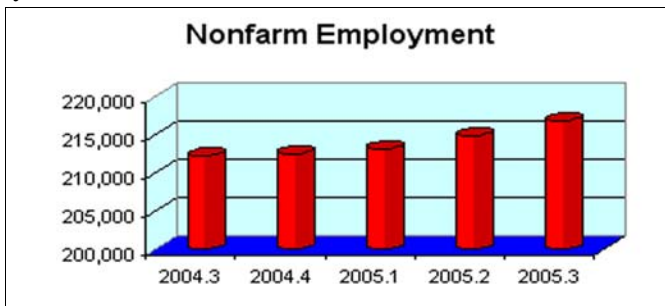
Note: City-level data are not adjusted for seasonality.

Farm Employment - In the third quarter of 2005, farm employment increased by 300 paid positions from 39,820 to 40,120. Since the third quarter of 2004, the economy has added 2,980 farm jobs.



Nonfarm Employment - In the third quarter of 2005, the number of nonfarm workers climbed from 214,960 to 216,960 for a gain of 2,000 jobs. The nonfarm sector has added 4,750 new jobs since the third quarter of last year.

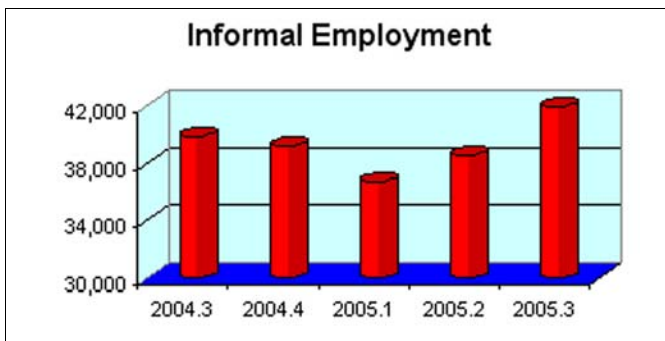
Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. Employment in the public sector increased from 54,200 in the second quarter of 2005 to 54,500 in the third quarter of 2005. Since the third quarter of 2004, public-sector employment has added 140 jobs.



Informal Employment - Informal employment is the difference between total employment and farm and nonfarm employment. It accounts for self-employed workers and those who work outside their county of residence. The number of workers engaged in this market rose by 890 from 39,530 in the second quarter of 2005 to 40,420 in the third quarter of 2005. The informal labor market has added 500 jobs since the third quarter of last year.

Housing Market

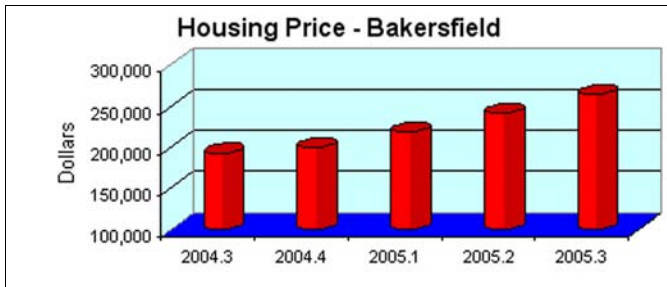
Housing Price - In Kern County, the median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) increased from \$224,100 in the second quarter of 2005 to \$246,300 in the third quarter of 2005. This was a quarterly increase of \$22,200 or 9.9 percent. The county's median housing price appreciated \$66,000 or 36.6 percent since the third quarter of 2004.



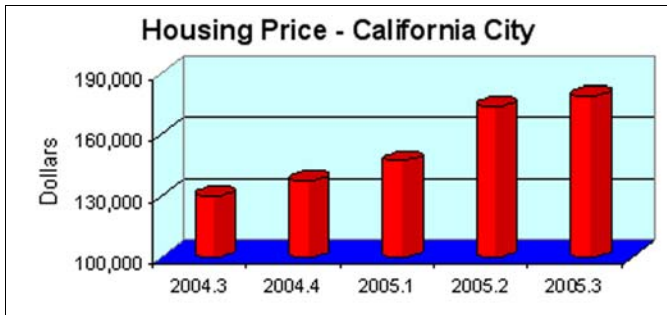
Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. The private-sector added 1,700 jobs as employment increased from 160,500 in the second quarter of 2005 to 162,200 in the third quarter of 2005. The private sector has added 4,590 jobs since the third quarter of last year.

In Bakersfield, the median sales price of all homes rose \$23,400 or 9.6 percent from \$242,300 in the second

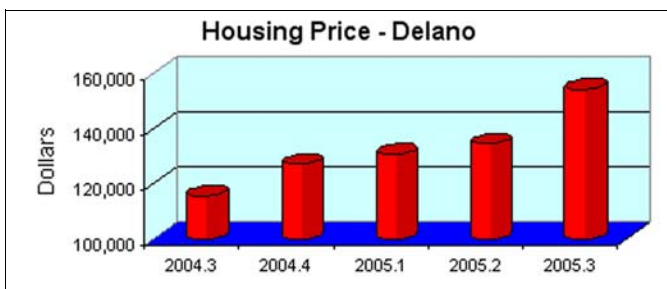
quarter of 2005 to \$265,700 in the third quarter of 2005. Since the third quarter of last year, the city's median price has appreciated \$72,500 or 37.5 percent.



Meanwhile in California City, the median housing price climbed to \$178,800 in the third quarter of 2005 from \$173,800 in the second quarter of 2005. This jump was a \$5,000 or 2.8 percent price increase. The city's median housing price has gained \$49,300 or 38 percent since the third quarter of last year.



In Delano, the median housing price appreciated \$19,500 or 14.5 percent from \$134,750 in the second quarter of 2005 to \$154,250 in the third quarter of 2005. Compared with one year ago, the city's housing price has appreciated \$38,750 or 33.5 percent.



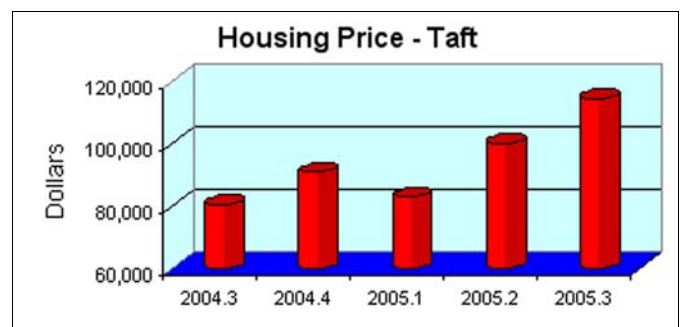
In the third quarter of 2005, Ridgecrest's median housing price gained \$23,600 or 16 percent from \$147,000 to \$170,600. The city's housing price has appreciated \$47,300 or 38.3 percent since the third quarter of last year.



In Rosamond, the median housing price climbed to \$266,700 in the third quarter of 2005 from \$245,000 in the second quarter of 2005. This was a price increase of \$21,700 or 8.8 percent in one quarter. Over the previous four quarters, the city's housing price has inclined \$65,800 or 32.7 percent.



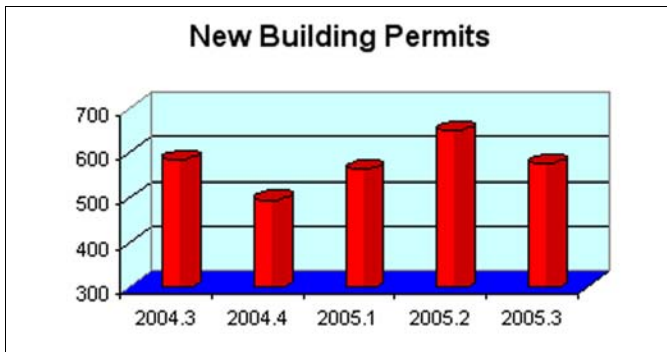
In the meantime, Taft's median housing price jumped \$14,400 or 14.4 percent from \$99,000 in the second quarter of 2005 to \$114,300 in the third quarter of 2005. The city's median housing price has appreciated \$33,600 or 41.7 percent since the third quarter of last year.



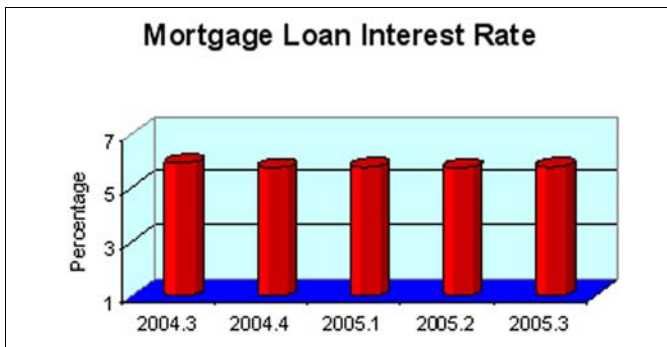
In Tehachapi, the median housing price appreciated \$25,100 or 10.2 percent from \$246,200 in the second quarter of 2005 to \$271,300 in the third quarter of 2005. Over the previous four quarters, the city's median housing price soared \$41,000 or 35.8 percent.



Building Permits – The monthly average number of building permits issued for the construction of new privately-owned dwelling units in Kern County decreased by 74 from 652 in the second quarter of 2005 to 578 in the third quarter of 2005. Relative to the second quarter of last year, 7 less building permits were issued.

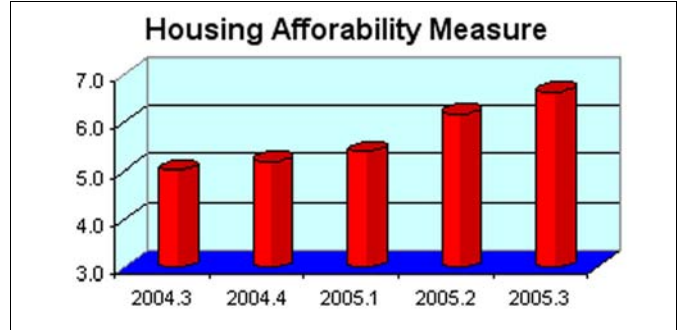


Mortgage Interest Rate – Mortgage loan interest rates remained low. The interest rate of thirty-year conventional mortgage loans increased slightly from 5.72 percent in the second quarter of 2005 to 5.76 percent in the third quarter of 2005. Since the third quarter of last year, the mortgage loan interest rate has fallen 0.14 percent.



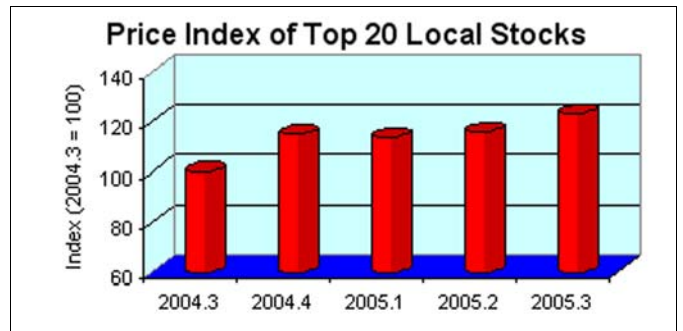
Housing Affordability – One measure of housing affordability is the ratio of the median housing price to the median household income. Since, at the county level, data on the median household income are not available on a quarterly basis, we use the published data on the mean annual salary for all Kern County occupations. Accordingly, the housing affordability indicator rose from 6.2 in the second quarter of 2005 to 6.6 in the third

quarter of this year. This increase indicates that, on average, housing has become 7.5 percent less affordable. Since the third quarter of last year, the affordability of homeownership has fallen 32.2 percent as the price-income ratio climbed from 5.0 to 6.6.



Stock Market

Companies listed in the Bakersfield Stock Index published by *The Bakersfield Californian* were evaluated according to their “percentage sales growth over the previous twelve months.” They were sorted in descending order to identify the top *market-movers*. For these companies, we averaged prices at the “close” of the market-day to constructed index values for observing their trends. In the third quarter of 2005, the price index of top 20 *market-movers* increased 6.4 percent. Since the third quarter of 2004, the index has climbed 23.2 percentage points.

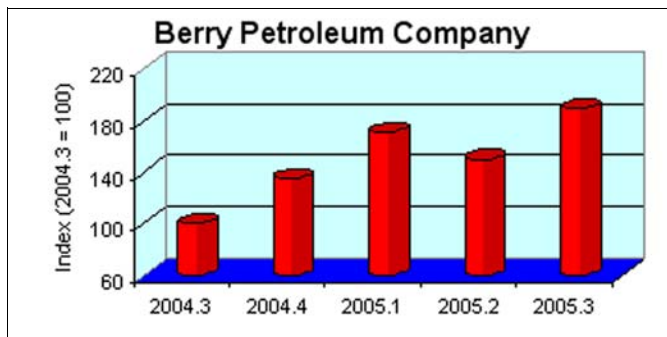
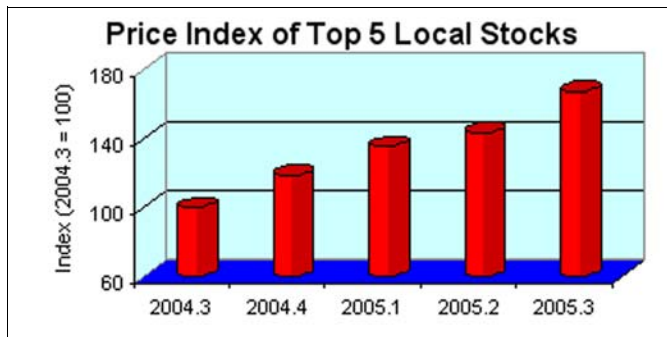


The top 5 corporations on the list are Berry Petroleum, Sears Holdings Corporation, Granite Construction Inc., Occidental Petroleum Corporation, and Tejon Ranch Company. For these 5 *market-movers*, the price index jumped 16.5 percent in the third quarter of 2005 and 67.7 percent since the third quarter of last year.

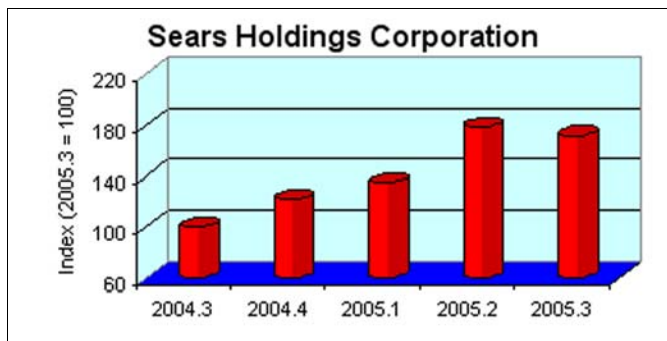
Berry Petroleum (BRY) was the top ranking local company with a 26 percent price gain in the third quarter of 2005 and a nearly 90 percent increase since the third quarter of last year. In particular, its price jumped

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\$29.20 from \$32.64 per share in third quarter of 2004 to \$61.84 in the third quarter of 2005.

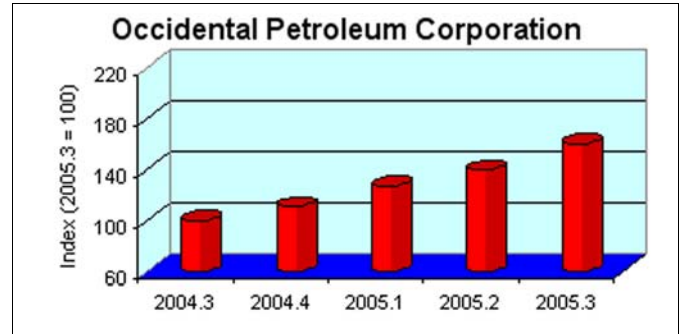
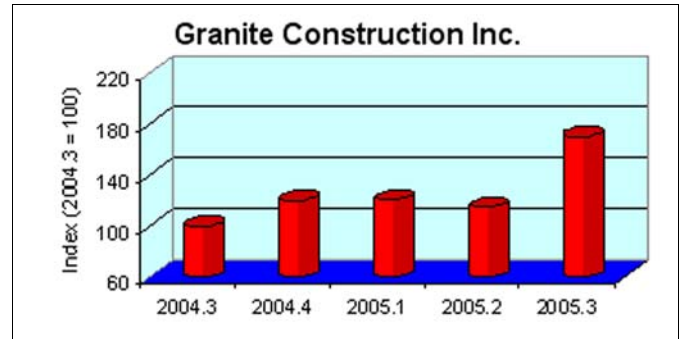


Sears Holdings Corporation (SHLD) placed second on the list of top *market-movers*. Although its stock lost 4 percent in the third quarter of 2005, it recorded a whopping 72 percent increase since the third quarter of last year.

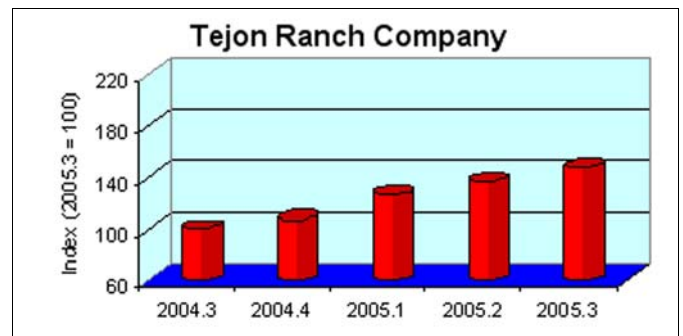


Granite Construction Inc. (GVA) placed third on the list of top *market-movers*. It recorded 48 percent price increase in one quarter as its stock price jumped from \$24.71 to \$36.58 per share. Over the past four quarters, the company's stock soared from \$21.50 to \$36.58, gaining \$15.08 or 70 percent.

Occidental Petroleum Corporation (OXY) placed fourth on the list of top *market-movers*. In the third quarter of 2005, its stock price soared \$10.57 or 14.5 percent from \$73.01 to \$83.58. Since the third quarter of last year, OXY's price jumped \$31.30 or 60 percent from \$52.28 to \$83.58 per share.



Tejon Ranch Company (TRC) recorded an 8 percent quarterly price increase as its stocks gained \$3.94 per share from \$49.24 to \$53.18. Over the past four quarters, the company's stocks gained \$17.10 or 47.5 percent from \$36.08 to \$53.18 per share.



Commodity Prices

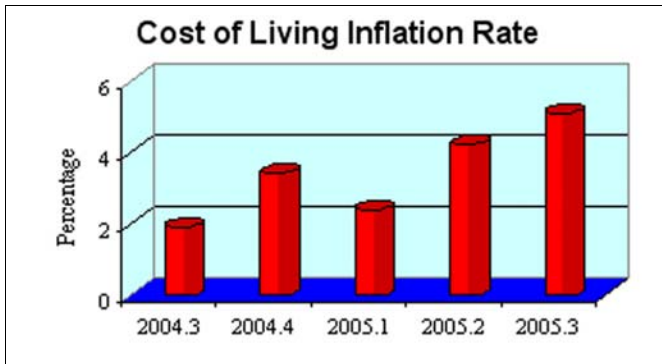
Cost of Living - Recent data on the Consumer Price Index (CPI) warn us of accelerating inflation. In annual terms, the CPI inflation rate jumped 6.4 percent in July, 6.3 percent in August, and 15.7 percent in September. The September CPI inflation rate was the fastest one-month increase since March 1980. Higher gasoline prices and increased relief expenditures for Hurricanes Katrina and Rita were the main causes of accelerating inflation.

In quarterly averages, the CPI for all urban areas (1982-84 = 100) climbed from 194.1 in the second quarter of 2005 to 196.6 in the third quarter of 2005. In annual

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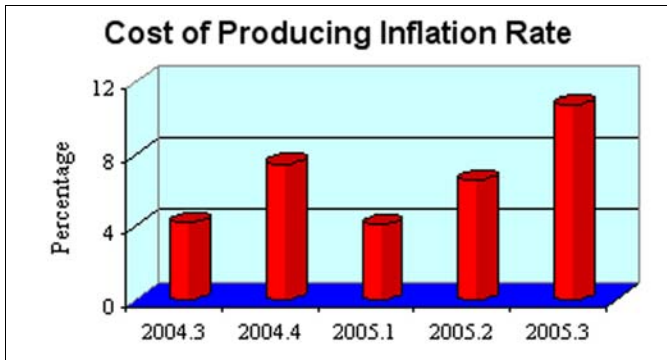
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rate, CPI inflation accelerated from 4.2 percent to 5.1 percent. Relative to the third quarter of 2004, the CPI inflation rate was 3.2 percent higher.



Cost of Production – Over the past three months, the Producer Price Index (PPI) has increased at feverish rates. In annual terms, the PPI inflation rate averaged 17.6 percent in July, 8.8 percent in August, and a whopping 41.3 percent in September. Unprecedented price increases for “crude energy materials” were largely responsible for the steep rise in production costs.

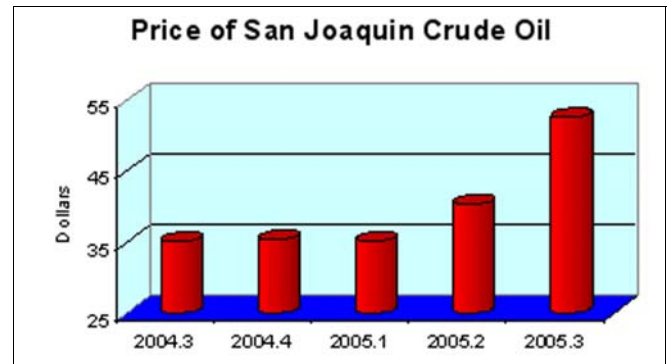
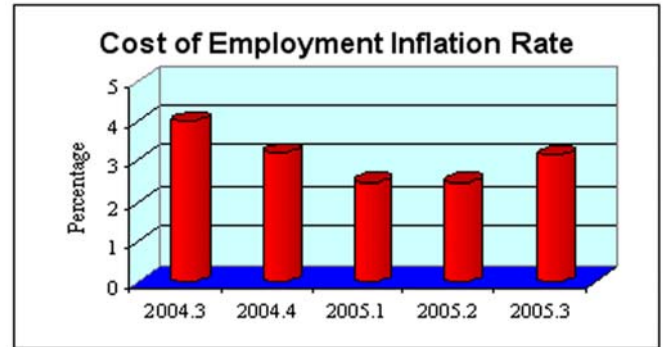
In quarterly averages, the PPI for all commodities (1996 =100) jumped from 154.5 in the second quarter of 2005 to 158.5 in the third quarter of 2005. In annual terms, PPI inflation accelerated from 6.6 percent in the second quarter of this year to 10.8 percent in the third quarter. Relative to the third quarter of last year, the PPI inflation rate has increased 6.6 percent.



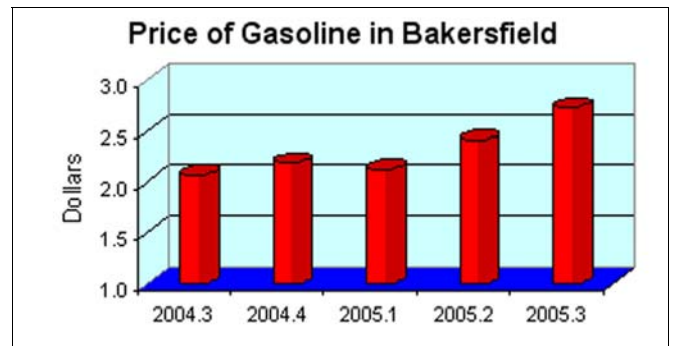
Cost of Employment - The Cost of Employment Index (CEI) for all workers in the private industry (1989 =100) jumped from 178.4 in the second quarter of 2005 to 179.8 in the third quarter of 2005. In annual terms, CEI inflation remained constant at 3.1 percent in the third quarter of 2005. Relative to the third quarter of last year, the CEI inflation has fallen 0.9 percent.

Price of Oil - The average price of San Joaquin Valley heavy crude jumped \$12.21 per barrel from \$40.36 in the second quarter of 2005 to \$52.57 in the third quarter of

2005. Relative to the third quarter of 2004, the price of crude oil soared \$17.48 per barrel or 55 percent.



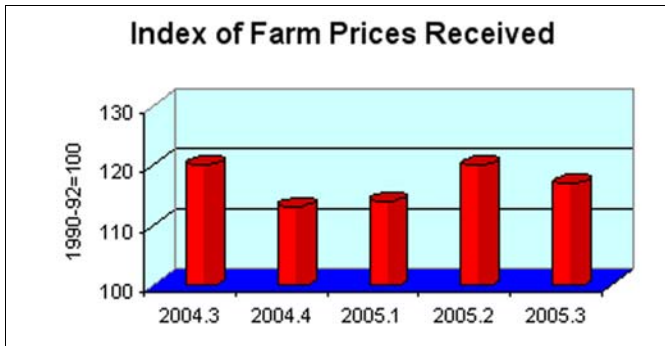
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon soared 31 cents from \$2.42 in the second quarter of 2005 to \$2.73 in the third quarter of 2005. Compared with the third quarter of 2004, the price of gasoline soared 66 cents.



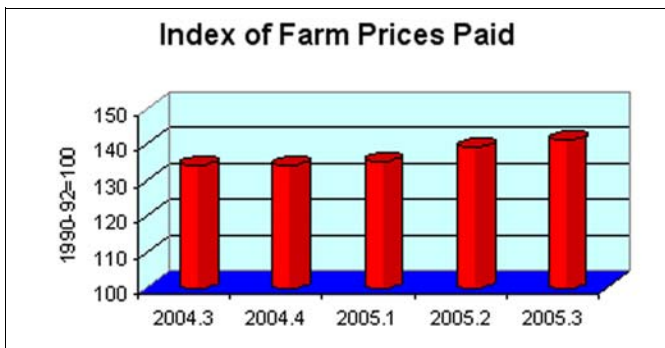
Farm Prices - The national Index of Prices Received by Farmers for all farm products (1990-92 = 100) plunged 3 percentage points from 120 in the second quarter of 2005 to 117 in the third quarter of 2005. This index was 3 percentage points lower relative to the third quarter of last year.

(Continued on page 21)

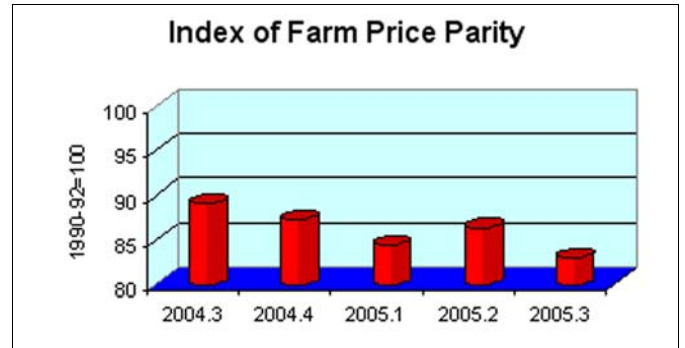
(Continued from page 20)



In contrast, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents jumped 2 percentage points from 139 in the second quarter of 2005 to 141 in the third quarter of 2005. Relative to four quarters ago, this Index has gained 7 percentage points.



Here, we measure the Index of Price Parity as the ratio of the Index of Prices Received to the Index of Prices Paid. Values of this index less than 100 illustrate the imbalance between prices farmers pay for their inputs and prices farmers receive for their outputs.



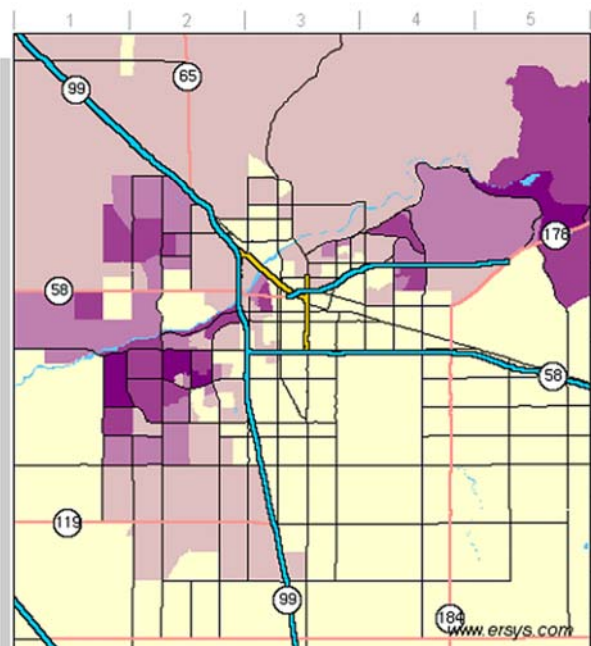
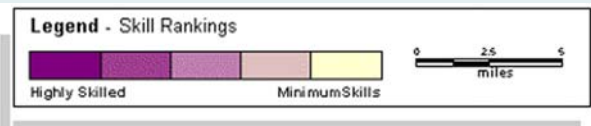
In the third quarter of 2005, the Index of Price Parity lost 3 percentage points from 86 to 83. Since four quarters ago, the disparity between output prices farmers received and input prices farmers paid widened as the index value dropped from 89 to 83.

Econ Brief!

Location of Work Skills in Bakersfield

The map shows the location and level of skills adult workers (i.e., workers older than 25 years of age) possess in the Bakersfield metropolitan area. The skill level provides a broader picture of work capabilities than formal education. It is a combination of education, vocational training, apprenticeship, and work experience. The dark purple areas indicate the location of skilled workers; generally speaking this group includes doctors, lawyers, and engineers. These highly-skilled workers, supported by semi-skilled labor, are clustered in central, southwest, and northeast Bakersfield. In contrast, workers with minimal skills are clustered south, east, and south-east of the metropolitan area.

Sources: US Census Bureau and Synergos Technologies, Inc.



BUSINESS EDUCATION:

IT'S THE VALUES, STUPID!

JOHN B. STARK

ASSISTANT PROFESSOR OF MANAGEMENT, CSUB



After the events of September 11, 2001, the airline industry was devastated. Several of the majors laid off employees in lots of 10,000, and routes were cut drastically. However, despite the cost cutting, the industry required a multi-billion dollar bailout from the Federal government just to survive. That is, all of the national carriers needed assistance save one: Southwest. Interestingly, Southwest not only did not need assistance, but they actually made a profit in the fourth quarter of 2001! How did they do this? Was it through massive layoffs? The answer is surprisingly “no!” In fact, Southwest did not lay-off a single employee, nor did they cut back on their routes. So, how did they do it? They succeeded where the others failed through a unique culture of management and employee partnership that creatively controlled costs, while rebuilding ridership. Yet, even this answer does not get to the real root of their strength, which lies deep in the shared “values” of this remarkable organization.

So, what exactly are these values that make such a difference? Values are deeply held convictions about which processes are acceptable and what goals are worthy. In the case of Southwest, one of their key values is the importance of the people in the organization. Simply put, this company realizes that nothing gets done without the employees and that employees are much more than simply factors of production. Instead, they ARE the company!

OK, you may be saying, I’ve heard this before, but why all the talk about values? The reason is the role of values in behavior. Research shows us that values are an important basis for attitudes, and that attitudes are linked to employee behaviors. In a positive sense, a match between an employee’s values/attitudes and the workplace leads to commitment and effort. On the other hand, a mismatch leads to dissonance. This dissonance, i.e. the incompatibility between values/attitudes and work behavior, leads to efforts to reduce the incompatibility. These efforts can range from benign frustration to reduction of effort, exit, or even workplace deviance. The bottom line is that there is a very real need for workers to feel good about what they are doing and why.

If you are still with me, the next question is likely: “OK, so how do I go about aligning values in my organization?” The answer here is that several steps are required. First, the owner and top management must be clear on what is truly important to them. This is not a case of trying to select a set of catchy slogans or buzzwords to impress people. It is

more a matter of a very honest soul searching effort. Few is much better than many, but the point is that you must identify the values that you are willing to actually live by. And, when I say “live by”, I mean in both the good times (when it is easy) and in the bad times (remember the example of Southwest!).

The next step may come as a bit of a surprise. When it comes to getting these values to your employees, you won’t be able to “train them in.” You have to HIRE people with the right values. In fact, psychologists have learned that as much as forty percent of our values are hard-wired into us, meaning that they are genetic. The balance of our individual value sets are developed through our early, intimate associations, i.e. family, schools, and friends. As a consequence, when workers come to us, their values are generally set. Given this reality, the only recourse is to find workers with the values that we want, just as we currently look for the skill sets that we need.

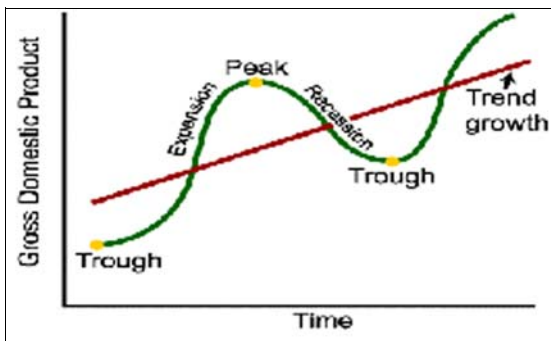
The third step in this process is to insure that your measurement and reward systems support the values that you espouse. For example, if you are going to value your employees (like Southwest), then you should consider tying management compensation not just to unit bottom line outcomes, but also to things like the type and amount of training that their subordinates got during the current period, or to the level of turnover in the unit, or even to employee perceptions of the level of fairness and support that the supervisor provided. The point is that, as noted in an earlier article in this publication, strategy should drive structure. If you truly are committed to a strategy of value alignment, then the structure of the management system ought to reflect it!

In conclusion, with the importance of employees in today’s marketplace, we have to realize that the values enacted by management (actions speak louder than words) have a very real impact on the ability of an organization to function. Therefore, it behooves managers to be proactive in the selection and enactment of values. Value management can be a critical tool in positioning any organization to be competitive. This is a lesson well understood by Southwest Airlines!

ECONOMIC EDUCATION:

WHAT IS A BUSINESS CYCLE?

A business cycle is an erratic short-term fluctuation in economic activity along the economy's trend of long-term growth. Each business cycle consists of four distinct phases: expansion, peak, recession, and trough. During *expansion*, the economy grows fast, creating jobs and incomes. An *expansion* culminates into a *peak* or *boom*, when the economy gets overheated with a high growth rate and rapidly rising prices. A *recession* will follow in which the level of economic activity begins to decline. Consequently, workers lose jobs and incomes and price increases slow down. The final phase of a cycle, *trough* or *depression*, occurs when economic activity hits an unusually low level. A new cycle begins when the economy moves out of the *trough* and enters into a new *expansion*.



Business cycles vary in duration and the magnitude of their swings around the trend of long-term growth. The Great Depression of 1929-33 was the deepest and most severe *recession* of the modern times, when the economy experienced four years of negative growth, with the jobless rate rising to more than 25 percent. Since 1960, the U.S. economy has recorded six complete business cycles. Recessions occurred in 1970, 1974-75, 1980, 1982, 1991, and 2001.

Measured from one *trough* to the next *trough*, a typical business cycle since World War II has averaged about 60

months. The average length of business cycles is increasing mainly because of longer *expansion* phases. The expansion of the 1960s lasted 117 months. In the 1980s, the economy expanded nearly 8 full years. The longest recent expansion lasted one full decade from March 1991 through March 2001.

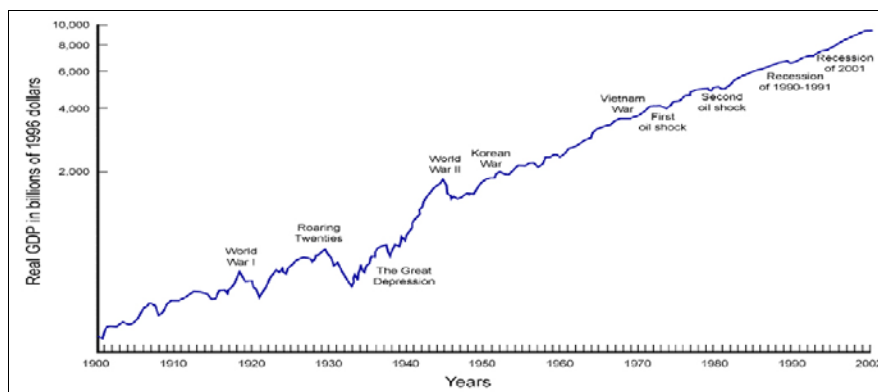
Economists track business cycle movements. They collect and analyze data of ten performance indicators to construct the composite Index of Leading Economic Indicators:

1. Stock market prices
2. Real money supply
3. An index of consumer expectations
4. Average workweek for production workers in manufacturing
5. Interest rate spread (10-year Treasury Bond Rate minus the Federal Funds Rate)
6. Initial claims for unemployment benefits
7. New building permits granted
8. New orders of consumer goods and materials
9. Contracts and orders for plant and equipment
10. Vendor's performance index for delivery of inputs

The Index of Leading Economic Indicators moves in the same direction as the economy, but it would do so *prior* to a change in the rate of economic growth. Specifically, the index leads the turning points in the cycle by six months. However, we may not exactly know when the cycle has turned into a new phase until it is already in that phase.

Summary: Abbas Grammy

Source: A. Sharp, C. Register, and P. Grimes, *Economics of Social Issues*, Irwin McGraw-Hill, New York, 2004.



BOOK REVIEW:

FREAKONOMICS: A ROGUE ECONOMIST EXPLORES THE HIDDEN SIDE OF EVERYTHING BY STEVEN D. LEVITT AND STEPHEN J. DUBNER, HARPER COLLINS PUBLISHERS, APRIL 2005



DAVID BERRI

ASSOCIATE PROFESSOR OF ECONOMICS, CSUB

Readers of the Kern Economic Journal are probably not aware of the dark side of economics. Occasionally, and I wish to emphasize the word occasionally, work in economics can be obscure and even uninteresting. Readers of *Freakonomics*, though, can be assured that the words obscure and uninteresting will not come to mind in this astonishingly quick read.

What is *Freakonomics*? Well, it is the title of a book written by Steven Levitt and Stephen Dubner. The word itself, though, has very little meaning. Allow me to explain.

Freakonomics is based on the academic work of Steven Levitt. Levitt is an economist at the University of Chicago whose work has appeared in the most prestigious journals in our field. Dubner, his co-author, is a writer for such publications as the New York Times and The New Yorker. Although Levitt and Dubner claim the book is co-authored, one suspects that it is Dubner who makes this work so easy to follow. In essence, Levitt is the star of the show, but Dubner's experience as a writer makes this book so accessible to non-economists.

The stories these authors tell have previously appeared in academic journals. Fortunately for most readers, the math and statistics that dominate academic storytelling in economics were removed as Levitt and Dubner re-told these tales. With the math and statistics extracted, what remain are 200 pages that walk the reader through the lessons one can learn from Levitt's research.

The list of lessons is, to say the least, quite eclectic. As Levitt and Dubner confess, the book does not have any particular theme. One could read the chapters in reverse order and nothing would be lost. This really is just a collection of short stories simply detailing the varied interests Levitt has taken in his career. Consequently coming up with a title was a bit of a challenge. In the end, as the authors explain, their title was simply designed to catch the attention of the reader. And this it does quite well.

Once the reader's attention is grabbed, the reader is in for quite a treat. Levitt is not a typical economist and this is not a typical book on economics. The following quote from the book illustrates this point:

As Levitt sees it, economics is a science with excellent tools for gaining answers but a serious shortage of interesting questions. His particular gift is the ability to ask such questions. For instance: If drug dealers make so much money, why do they still live with their mothers? Which is more dangerous, a gun or a swimming pool? What really caused crime rates to plunge during the past decade? Do real-estate agents have their clients' best interests at heart? Why do black parents give their children names that may hurt their career prospects? Do schoolteachers cheat to meet high-stakes testing standards? Is sumo wrestling corrupt?

If you think the questions are interesting, wait until you see the answers. Time and time again Levitt provides unexpected answers to the questions posed. I will not spoil the book by revealing these answers, but I will say that one cannot recommend this book too highly. It is truly one of the best books on economics you will read.

More Interesting Economics...

THE WAGES OF WINS
Taking Measure of the Many Myths in
Modern Sport

David J. Berri
Martin B. Schmidt
Stacey L. Brook

Forthcoming in May, 2006
Stanford University Press

Kern Economic Journal

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