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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.

We wish to gratefully acknowledge the Journal 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!

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

In the second quarter of 2006, the United States economy faced a familiar predicament: slower growth and accelerating inflation. The Gross Domestic Product grew at an annual rate of 2.5 percent, which was 3.1 percent lower than that of the previous quarter. The rate of unemployment fell slightly from 4.7 to 4.6 percent. While consumers acquired more credit to finance their purchases, the cost of living increased at a rapid rate of 4.8 percent. In the meantime, the cost of production soared at a sharp rate of 5.8 percent and the cost of employment climbed 3.2 percent. The Index of Leading Economic Indicators lost nearly one percentage point, signaling slower growth in the near future.

In California, the rate of unemployment remained unchanged at 4.9 percent. The state economy added 47,400 members to its workforce, while creating 31,900 new jobs. The farm sector lost 17,370 jobs, but non-farm industries created 10,600 positions.

The employment outlook brightened in Kern County as the economy added 7,600 more jobs, while placing 3,100 unemployed workers back to work. As a result, the rate of unemployment fell one percent from 8.8 to 7.8. The unemployment rate stayed below the county average in Bakersfield (5.4 percent), Ridgecrest (4.3 percent), and California City (6.0 percent). The farm labor market added 7,600 full-time equivalent jobs and non-farm industries created 3,300 paid positions. In contrast, the informal labor market - including self-employed labor and those working outside the county - lost 4,200 jobs. Government agencies added 5 jobs and private companies created 3,270 positions.

In the meantime, local households conveyed greater confidence in their employment and financial conditions as the Index of Consumer Sentiment gained 3 percentage points to reach 124. However, the Index of Business Outlook dropped 6 percentage points to arrive at 131. This decline indicates that local businesses - still optimistic about economic conditions - felt less confident than the previous quarter.

Kern's economy expanded at an annual rate of 3.2 percent, adding $100 million of personal income. As a result of personal income growing more rapidly than the labor force, personal income per worker increased to $48,860.

The housing market improved across the county. The median sales price for all residential units rose 3.4 percent to reach $278,800. In Bakersfield, the median housing price appreciated 2.9 percent to arrive at $297,300. The housing affordability index – measured as the average labor income divided by the median housing price - descended from 13.7 to 13.3 percent. While the interest rate on 30-year conventional mortgage loans climbed from 6.24 to 6.60 percent, the number of new housing permits increased from 1,579 to 1,975. The total number of residential units sold in the county increased from 3,698 to 3,985. However, failure to make mortgage payments led homeowners to file 206 additional notices of loan default.

In commodity markets, the average price of San Joaquin crude oil climbed $8.50 per barrel to reach $58.71 and the average price of regular gasoline in the Bakersfield metropolitan area jumped $0.64 per gallon to arrive at $3.12. However, the unit price of California's Class III milk edged $1.21 lower to attain $11.02. The index of prices that farmers received for their outputs climbed 2 percentage points, whereas the index of prices that farmers paid for their inputs rose 1 percentage point. As a result, the disparity between output prices farmers received and input prices farmers paid narrowed slightly.

In the second quarter of 2006, the composite price index of stocks for the top 5 *market-movers* in Kern County dropped 5 percentage points from 126.2 to 121.2. While stocks of San Joaquin Bank and Occidental Petroleum gained value, the price per share declined for Berry Petroleum, Granite Construction, and Tejon Ranch Company. Compared with one year ago, the composite price index of stocks for these top 5 *market-movers* ascended 21.2 percent.

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

The *Business Outlook Index* is constructed from data collected in a random telephone survey to businesses across the county. The intent of the survey is to provide business leaders and managers with primary data that would help them make more informed decisions. Survey data also help assess local economic conditions and identify factors that affect the business outlook. Valuable insight may be gained by comparing the index with the recent employment and financial trends of individual organizations.

Kern County's businesses are still confident about local economic conditions. However, for the second consecutive quarter, their optimism has weakened. The *Business Outlook Index* decreased from 137 in the first quarter to 131 in the second quarter of 2006. Relative to the second quarter of last year, business managers were slightly less optimistic, as the index was 3 percentage points lower.

In addition to the overall index, we calculated two sub-index values. The *Index of Current Conditions* fell 5 percentage points to arrive at 130. Similarly, the *Index of Future Conditions* lost 7 percentage points to reach 133. Results from these sub-index values confirm our overall finding that although businesses are still optimistic about local economic conditions, they feel less confident than the previous quarter.

Employment Outlook – Fifty percent of interviewees reported that the number of jobs in their companies stayed constant, but 35 percent said more jobs were available in their companies this quarter. Looking ahead, 65 percent perceived that the number of jobs would stay constant, whereas 28 percent expected their companies to hire more workers next quarter.

Financial Outlook – Thirty percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 61 percent indicated increased profits and sales. Looking ahead, 31 percent expected financial conditions of their companies to remain constant, but 63 percent anticipated increased sales and profits next quarter.

Industry Outlook – Fifty-five percent perceived that employment and general business conditions of their industries remained the same as the previous quarter, and 34 felt these conditions improved this quarter. Thinking one quarter ahead, 59 percent anticipated that employment and general business conditions of their industries would be unchanged, but 27 percent expected progress.

Economic Outlook – When asked about Kern County's economy, 45 percent of interviewees perceived no im-

(Continued on page 5

	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	**131**	**137**	**134**
Index of Current Conditions	130	135	138
Index of Future Conditions	133	140	131

Bakersfield Consumer Sentiment Survey

Mark Evans
Associate Dean and Economics Professor, CSUB

The Bakersfield Index of Consumer Sentiment increased for the third consecutive quarter, moving to 124 from 121 in the previous quarter. At the national level, the University of Michigan's measure of consumer sentiment declined from 89 in the first quarter to 84 in the second quarter.

The absolute levels of the national and local indexes cannot be directly compared since they are tabulated differently and have different base years. An index value of 124 exceeds readings in two-thirds of the previous quarters since CSUB began tabulating the local index in 1999. The University of Michigan's national index of 84 is "in the tank," exceeding only one-tenth of the quarterly readings since 1999.

We compile consumer sentiment data from telephone surveys administered to a random sample of households listed in the Bakersfield phone book. The index is constructed and reported to help local business leaders compare national and local trends in expectations. The index also can help local businesses determine if their recent sales trends reflect movements in the local economy or shifts in relative competitiveness.

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 increased sharply from 120 in the first quarter to 143 in second quarter. The 143 reading is not far from the all-time high of 147 occurring one year ago in the second quarter of 2005. While one-in-four respondents in the first quarter indicated they had retrenched, virtually no one reported spending less than usual on discretionary items in the second quarter. In the previous quarter, one-half of the households reported their families were better off financially than one year ago; seven-in-ten now report being better off. No one reported being worse off than a year ago.

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 decreased from 122 in the first quarter to 105 in the second quarter, a "lowest quintile" reading. The decline was caused by a significant shift from households expecting their financial situations to improve to expecting them to remain about the same. The percentage who thinks this is a safe time to draw down savings or incur debt collapsed from one-in-four during the previous quarter to one-in-100.

In summary, the Bakersfield Index of Consumer Sentiment is constructed from responses to two sets of questions: those relating to the current situation and those relating to future expectations. Its modest improvement in the second quarter masks an undercurrent of two entirely different stories. The sub-index focusing on the present financial situation of households is close to its all-time high, while the sub-index reflecting future expectations is near its all-time low. This no doubt reflects the same

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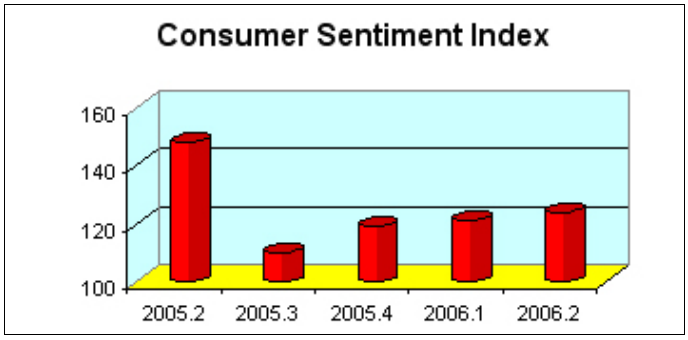

Index Values			
	Current Quarter	Previous Quarter	4 Quarters Ago
Bakersfield Consumer Sentiment Index	124	121	148
Sub-index: Current Conditions	143	120	147
Sub-index: Future Expectations	105	122	149

Consumer Sentiment *(Continued from page 4)*

concerns that have caused the stock market's summer swoon. Growth supposedly is slowing, yet previous increases in energy prices are working their way into the core inflation rate and unemployment remains below the rate at which economists estimate inflation will accelerate.

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).	39%	60%	1%
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	71%	29%	0%
How your acquaintances in Kern County are doing financially compared to one year ago.	80%	20%	0%

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.	22%	77%	1%
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	37%	59%	4%
	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?	38%	61%	1%

Business Outlook *(Continued from page 3)*

provement this quarter, but 40 percent felt conditions improved. Likewise, 48 percent felt that economic conditions would be unchanged next quarter and 46 percent anticipated that the economy would get better.

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

- Pro-growth activities, especially in residential and commercial construction
- Global market expansion for locally-produced goods
- Greater demand for agricultural services
- Strong government leadership and increased public spending

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

- Higher prices for oil and gasoline
- Real estate downturn
- Shortage of qualified professionals in nursing
- Rising health-care costs

THE CEO PROFILE!

Introduction

Robert A. Stine has been president and CEO of Tejon Ranch Company since 1996.

Prior to joining Tejon Ranch Company, Stine served for 17 years with the Collins Companies in San Diego, a privately held, diversified real estate development, construction, and asset management company. Joining Collins in 1979 as vice president and regional partner in Orange County, he became CFO in 1981, COO in 1984 and was elected CEO in 1986. Previously, he was a vice president with Coldwell Banker (now known as CB Richard Ellis) and the top producer nationwide in 1978.

Stine currently serves as a director of Tejon Ranch Company; First Community Bancorp, a bank holding company based in San Diego County; *The Bakersfield Californian*, a privately held newspaper publishing company; and as a director of the California Chamber of Commerce. He is also a member of the Urban Land Institute and is active with its Recreational Development Council.

Stine graduated from the Wharton School in Pennsylvania with an MBA. He earned his bachelor's degree in government and economics from St. Lawrence University in New York. From 1969 to 1975, Stine was in the United States Army Reserves, Corp of Engineers.

Interview

What is the mission of Tejon Ranch Company?

The best way to answer this question is to share with you our corporate mission statement:

Tejon Ranch Company is a diversified real estate development and agribusiness company committed to responsibly using its land and resources to meet the housing, employment and lifestyle needs of Californians and to create value for its shareholders. The Company's vision is guided by the Ranch's historic core values of conservation and good stewardship.

We describe this mission as "Preserving California's Legacy" and "Providing for California's Future," something Tejon Ranch has been doing throughout its 163-year history. Given its location and size, Tejon Ranch has always played a significant role in the progress of California. For example, in 1854 the Ranch became the home of the U.S. Army 1st dragoons stationed at Fort Tejon, which not only provided security to the area, but also served as a trading post and a way station for the Butterfield stage line. At the time of the first Butterfield trip, Fort Tejon was the third largest settlement in the southern half of the state.

There are many other examples I could point to of Tejon Ranch's involvement in California's progress. From communications to transportation to water to power, Tejon Ranch has been providing for California's future. The statewide telegraph service was routed through the Ranch in 1858 and now hundreds of miles of vital telecommunication and fiber optic lines cross the Ranch. Where wagon trains and stagecoaches once traveled, cars and trucks now speed along California's principal transportation corridor, Interstate 5, which cuts a path through the western portion of the Ranch. The 1960s saw construction of the California Aqueduct, which cuts a 23 miles path through Tejon. In fact, the largest pumping facility on the 444-mile aqueduct is located on the Ranch. It's capable of lifting two million gallons of water a day up and over the Tehachapi mountains, so it can be delivered to Southern California. In 2005, the Calpine Energy Facility, located on the Ranch at the base of Tehachapi mountains, went on line providing much needed power to California. Without that new plant, the state's electrical grid would not have been able to weather the energy demands prompted by July's extreme heat.

What are the plans for land and environmental preservation of Tejon Ranch?

Given the fact that conservation and good stewardship are the historic core values of the Company, it is no surprise that conservation is the cornerstone of Tejon Ranch's master plan for the future of the Ranch. More acreage is designated for conservation purposes than for any other use. In fact, more than half of all of Tejon Ranch is intended to be preserved as natural open space.

(Continued on page 7)

CEO Profile *(Continued from page 6)*

The centerpiece of Tejon Ranch's conservation efforts is the 100,000-acre Tejon Ranch Preserve. Following several years of independent scientific and environmental analysis of the Ranch – led by The Trust for Public Land -- the proposed boundaries of the Preserve were unveiled last year. The proposed Preserve, which is larger in size than the Yosemite Valley, will preserve and protect pristine wilderness areas and sensitive habitats, provide a connecting link to the adjacent Wind Wolves Preserve and Los Padres National Forest, and provide for public access through the re-routing of the Pacific Crest National Scenic Trail from the Mojave Desert floor to the ridge lines of Tejon Ranch. It is the most significant conservation effort in the state of California in many decades.

What are the plans for real estate development of Tejon Ranch?

As part of our master plan, key locations on Tejon Ranch have been identified as appropriate for real estate development in various asset classes, including commercial, residential and hospitality uses. Over the next 25 years, Tejon Ranch will be concentrating its efforts on three separate communities – Tejon Industrial Complex, Tejon Mountain Village and Centennial. When viewed as a whole, these planned communities provide a balance of possible uses; from the commercial/industrial emphasis of Tejon Industrial Complex, to the low-density natural resort flavor of Tejon Mountain Village, to the wide variety of housing and business options planned at Centennial. While these communities differ in size, purpose and market, they all share Tejon's commitment to quality and are being planned and built with an emphasis on the Ranch's core values of conservation and good stewardship.

How does Tejon Ranch Company contribute to the economy and community of Kern County?

Tejon Ranch and Kern County are inexorably tied together. Both share a common history. The Ranch was established by historic Kern County figure General Edward Fitzgerald Beale, whose name adorns the Beale Memorial Library in downtown Bakersfield. The library sits on the street named for Beale's son, Truxtun Beale. In 1904, Truxtun Beale presented the City of Bakersfield with a 64-foot clock tower as a memorial to his mother. The Beale Memorial Clock Tower, which stood at the corner of Chester and 17th Streets until it was toppled in the 1952 earthquake, now graces the entrance to the Kern County Museum. As it carries out its vision, Tejon Ranch is and certainly will continue to play a major role in both the economy and community fabric of Kern County. Tejon Ranch helps provide for California's future through its support of local community and educational organizations. And though it's difficult to put an exact number on the potential economic impact of our developments, I can safely say the economic benefit of these communities to Kern County will be substantial. For example, at build-out, the Tejon Industrial Complex (TIC) is expected to generate 6,000 new local jobs and produce nearly $6 million in local tax revenue. The total investment in TIC to date, in terms of buildings and infrastructure, exceeds $100 million. In terms of economic investment, job creation and tax revenue generation, Tejon Mountain Village is expected to greatly surpass that of Tejon Industrial Complex.

Econ Brief!

Poverty in the San Joaquin Valley

To measure poverty, the U.S. Census Bureau provides estimates of poverty thresholds for states and counties in order to determine the number of families living in poverty. These estimates are based on statistical models that use decennial census data, household survey data, administrative records data, and population estimates. The estimates are based on cash and non-cash income families receive and vary with age and family size. The enclosed table provides summary data on poverty thresholds in 2003.

In California, 13.8 percent of the population lives below these federally determined poverty income thresholds. In the San Joaquin Valley, 17.3 percent of the population lives in poverty. Tulare County

Size of family unit	Poverty Thresholds ($)
One person	9,393
Two persons	12,015
Three persons	14,680
Four persons	18,810
Five persons	22,245
Six persons	25,122
Seven persons	28,544
Eight persons	31,589
Nine persons and more	37,656

Source: U.S. Census Bureau, Current Population Survey 2004 Annual Social and Economic Supplement

(Continued on page 18)

Transportation Impacts and Local Economic Activity

Ronald E. Brummett
Kern Council of Governments
Adjunct Professor of Public Administration, CSUB

Transportation activities have both costs and benefits to a local economy. Within urban areas, traffic congestion can add significant cost by reducing productivity to businesses that are heavily dependent on surface transportation (NCHRP 2005, Report 463). Transportation improvements to major corridors can improve system efficiency and access, and thereby encouraging local economic expansion.

In most metropolitan areas, there is growing concern with increases in traffic congestion and associated adverse impacts on the local economy. Traffic congestion can be defined as traffic delays caused when vehicles move below a reasonable speed because the number of vehicles using a road exceeds its capacity thus reducing throughput.

The *2005 Urban Mobility Report* found that congestion continues to grow in all urban areas in the country. The report noted that congestion during morning and evening peak periods increased from 12% of the total peak time to 40%. The Bakersfield Metropolitan Area ranked 80th of 85 urban areas with the worst congestion. The Kern Council of Governments in the *Destination 2030 Regional Transportation Plan* estimates that congestion in Kern County will increase 140% by 2030. This congestion is not limited to the Bakersfield Metropolitan Area. Several corridors in now rural areas are projected to show congestion increases during peak commute times.

Traffic congestion has a wide range of impacts on business activity such as increasing air pollution, delaying worker commute time, and delaying delivery to suppliers and customer markets. Increased congestion means longer travel times and increased travel cost. The Urban Mobility Report noted that congestion costs $13.75 per hour in California. This added expense for both commuters and deliveries increases local business costs.

Congestion also impacts business productivity by reducing the size of the accessible labor market area, customer delivery area, and shopper market area. Potential worker access to jobs and customer access to goods and services may also affect the "market reach" of local businesses. The commercial cost per hour of congestion is $72.65. In 2005, congestion cost Kern County $30 million (Urban Mobility Report, 2005).

Over the past twenty-five years, the Federal Highway Administration has studied the economic activity of highway corridors both before and after major highway improvements. These studies have generally examined trends and changes in population, employment, personal income, property value, and business mix. Generally these studies identified increases in business activity in the corridor after the improvements were completed. In 2003, the North Country in New York case study used a new approach in examining access to markets. The study found that highway improvements not only benefited existing firms but also improved access, making the area more attractive for economic development.

Highway improvements will not only benefit existing firms but also improve access to strategic markets and make the region more attractive as a place to do business. This direct impact is primarily a benefit for businesses relocating to the region, and those existing businesses interested in expanding activity at an existing location (Hodge, 2003).

Economic development benefits of a major transportation improvement are generally not immediate. Significant business attraction activity may be phased in a five- to ten-year period once the transportation improvement is completed. Existing businesses will increase activity and may expand facilities due to improved access. These expansions, however, are dependent on the type and extent of the local economic development strategy.

Job creation based on completion of a major transportation improvement can vary widely depending on the existing local economy. Improved access to labor markets, shopping, and delivery service areas may expand tourism opportunities or improve goods movement facilities. In California, for every dollar invested in transportation infrastructure, there is $2.60 in benefits from reduced congestion.

The projected increase in congestion in Kern County will reduce the economic attractiveness of the area, hindering its economic development potential. Firms requiring time-sensitive transportation may not locate where congestion is increasing. Expansion of existing businesses

(Continued on page 9)

Future *(Continued from page 8)*

may be delayed or canceled due to the reduction in customer access and market area.

Destination 2030 identifies the needed transportation facilities and funding to construct the necessary projects, thereby reducing congestion throughout Kern County. While congestion will continue to increase annually, becoming significant by 2030, the funding required to construct the needed facilities will not be available until 2050.

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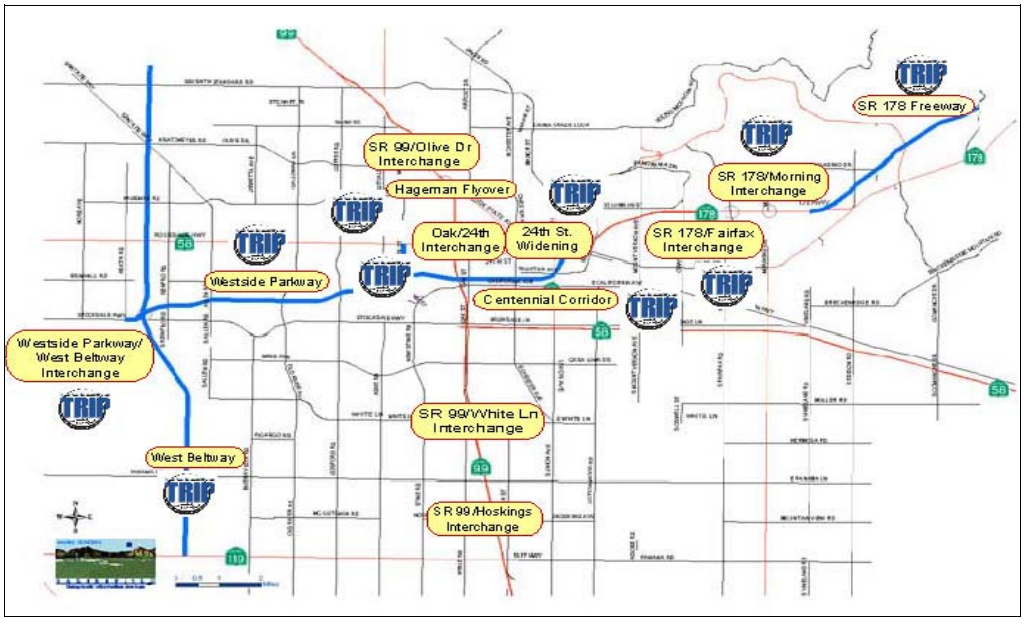
A Cool Website!

BakersfieldFreeways.us is a high-tech website with simulations, maps, and project descriptions addressing the growing transportation concerns of the Bakersfield metropolitan area, which has been experiencing unprecedented population growth over the past decade. This sizeable growth, coupled with the region's increasing role as a central hub for interregional commerce and travel, has generated considerable strain on the area's transportation systems. With the completion of Bakersfield Systems Study in 2001, the City created a Division to deal with several major transportation projects under the Thomas Road Improvement Program (TRIP). The goal of this Division is to improve mobility of residents through the completion of these projects.

The City is using the website to seek proposals from qualified engineering firms to provide engineering and environmental services for TRIP's medium-size projects (e.g., Oak Street at 24th Street Interchange**)** and large-size projects (e.g. West Beltway Project). The City stipulates that while the approval and funding process takes many years from project inception to completion, and so many of this Division's projects will not be built "tomorrow," it is prudent to begin planning for them today so that future costs and impacts will be minimized.



JOB CREATION IN KERN COUNTY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

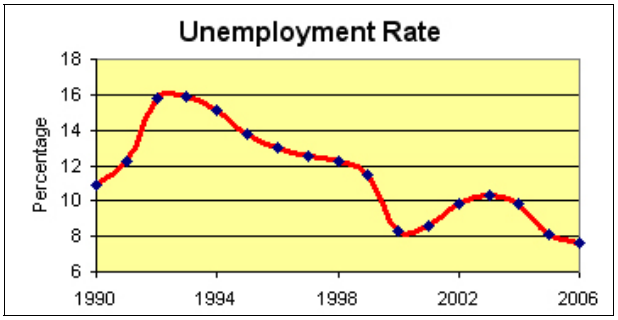
Historically, the economy of Kern County was heavily engaged in production of natural resources including oil and agriculture. Over the years, there were incidents of transitional unemployment, where workers had to wait between jobs, and structural unemployment, where workers were displaced by machines. As a consequence, the county's unemployment rate was in double digits. It exceeded 16 percent in the recession of 1992-94 and remained in double digits throughout the decade.

However, Kern's unemployment rate fell below 10 percent in 2000 and remained until 2003, where it climbed slightly above 10 percent. The unemployment rate dropped in the pursing years: 9.8 percent in 2004 and 8.1 percent in 2005. It is expected for the county's unemployment to fall to 7.6 percent in 2006.

The fall of the county's unemployment rate is indicative of industrialization, where our resource-based agrarian economy is transformed into a service-oriented industrial economy. In this process of transformation, the employment share of agriculture has declined in favor of industry and services. As a result, the nature and duration of employment have evolved from temporary and seasonal to permanent and year-round, requiring greater levels of education and skills for higher wages and salaries.

Labor market data point in the direction of structural transformation as a reason for reduced unemployment rates. Between 2000 and 2005, Kern County's workforce grew by 28,250 persons of whom 25,350 were employed and 2,900 unemployed. The nonfarm market added 22,550 jobs and the informal market (i.e., self-employed workers and those who work outside the county) created 11,900 positions, whereas the farm market lost 9,100 jobs. Of the new nonfarm jobs, the private sector accounted for 19,000 and the public sector for 3,550.

Public education was responsible for nearly 80 percent of job creation in the public sector. In the private sector, construction and trade (wholesale and retail) lead the county's job creation effort with 4,800 and 4,130 new full-time equivalent jobs, respectively. Leisure and hospitality added 2,750 new positions while health care and social services increased employment by 2,500. Manufacturing created 1,900 jobs, while finance, insurance, and real estate offered 1,220 new paid positions.

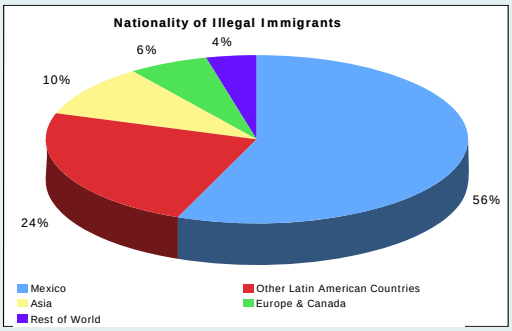


Labor Market	Gain or Loss - Average 2000-2005
Labor Force:	28,250
Employment	25,350
Unemployment	2,900
Employment:	
Farm	-9,100
Nonfarm	22,550
Informal	11,900
Nonfarm:	
Private-sector	19,000
Public-sector	3,550
Private-sector:	
Construction	4,800
Trade	4,130
Leisure & Hospitality	2,750
Health Care & Social Services	2,500
Manufacturing	1,900
Finance, Insurance, & Real Estate	1,220
Transportation & Utilities	710
Educational Services	470
Other Services	350
Information	150
Mining	140
Professional & Business Services	-120
Public-sector:	
Federal Government	-350
State Government	800
Local Government	2,900
Local Government:	
Public Education	2,300
County	300
City	200
Others	100

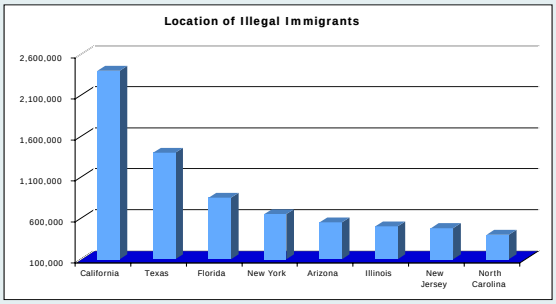
Econ Brief!

Illegal Immigrants! Who? Why?

A research document published by Public Policy Institute of California estimates that there are over 10 million illegal immigrants living in the United States, of whom 8 million are Latinos. Mexico, which sends 400,000 workers annually to the United States, accounts for 5.6 million illegal immigrants. Other Latin American countries with sizable movements of illegal immigrants to the United States are El Salvador, Guatemala, Honduras, Colombia, Ecuador, and the Dominican Republic.



The majority of Latino immigrants enter the United States from southern borders. Their traditional destinations are California, Texas, Florida, and Arizona. California is the host to 2.4 million illegal immigrants. They add 73,000 people to California's population every year, and account for 1 out to every 15 resident of the state.



Generally speaking, a potential Latino immigrant is a male, 25 years of age or younger, poorly educated, unskilled, unemployed, and not a head of household. Most likely, he has friends or relatives who have immigrated already and who help him with room and board and information about job markets. He might be able to find a temporary, low-paying job in such industries like farming, manufacturing, and household services.

There are several factors a potential immigrant would take into account. A deciding factor is the difference in the standard of living between the host and home countries. This difference is rather sizable between Mexico and the United States. Mexico generates $10,100 of income per person per year, which is only one-fourth of that in the United States. In addition, Mexico has a higher degree of inequality in the distribution of family income and a much greater percentage of people living in poverty than the United States. These economic disparities are even more pronounced between other Latin American countries and the United States.

A potential immigrant must also consider the costs of immigration, including transportation and traveling expenses, risks associated with traveling and illegal entry, and possibilities of detention and deportation. Once passage is successful, he must adjust his expectation of earning a greater income by the cost of living differential, the probability of finding a job, and the uncertainty of keeping that job without legal documentation.

While staying with friends or relatives alleviates his psychic cost of living in an unfamiliar environment, he would gain more enjoyment from entertainment and excitement of city life in the United States. After settling down, he would seek ways toward permanent residency and eventual citizenship. He would also hope for his future children to be able to take advantage of opportunities that the United States, a free and affluent society, would offer them.

Country	Income Level	Income Inequality	Poverty Rate
United States	$42,000	0.450	12.0%
Mexico	$10,100	0.546	47.0%
Colombia	$7,100	0.538	49.2%
Dominican Republic	$6,600	0.475	25.0%
Ecuador	$3,900	0.420	52.0%
El Salvador	$5,100	0.346	34.6%
Guatemala	$5,200	0.483	75.0%
Honduras	$2,800	0.550	53.0%

Notes: Income Level is GDP Per Capita in Purchasing Power Parity. Income Inequality is the Gini Index. Poverty Rate is the percentage of people living below the international poverty line.

The key to curbing illegal immigration is for Latin America to achieve broad-based development including the enhancement of public education and workforce preparation, creation of well-paying jobs, establishment of a social safety net, and eradication of poverty. Unfortunately, recent history shows that most Latin American countries have not been able to meet these challenges. For some countries, the mass departure of uneducated youth is a way to lower the economy's unemployment rate. In the United States, more stringent regulations to limit illegal immigration could help reduce the flow of undocumented workers. However, this would not eliminate the incentives for economically deprived Latinos to cross the border even at higher risks and greater uncertainties.

Sources:
Hans P. Johnson, *Illegal Immigration*, Public Policy Institute of California, April 2006.
World Factbook 2006 website at www.cia.gov/cia/publications/factbook

TRACKING KERN'S ECONOMY

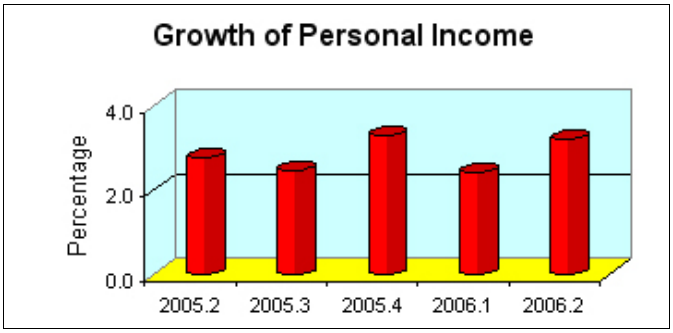
SECOND QUARTER OF 2006

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

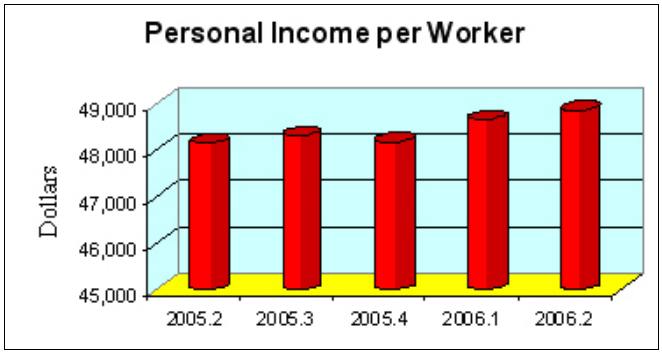
Economy

Personal Income - Kern County's personal income (in constant 1996 dollars) increased from $14.86 billion in the first quarter to $14.98 billion in the second quarter of 2006. The county's economy expanded $100 million this quarter. Since the second quarter of 2005, Kern County's economy has added $420 million of personal income.

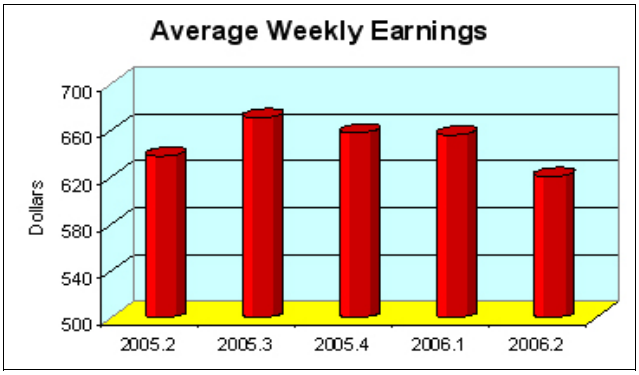
Growth - In the second quarter of 2006, personal income grew at an annual rate of 3.2 percent, which was 0.8 percent faster than that of the previous quarter. Compared with the second quarter of last year, economic growth accelerated 0.4 percent.



Personal Income Per Worker - Labor productivity is measured by personal income per worker. In the second quarter of 2006, personal income per worker increased $200 from $48,660 to $48,860. Labor productivity has increased $710 since the second quarter of last year.



Manufacturing Wages - In the second quarter of 2006, weekly wages paid to local manufacturing workers decreased from $656.41 to $620.73. Local manufacturing workers earned $17.49 less per week than four quarters ago.



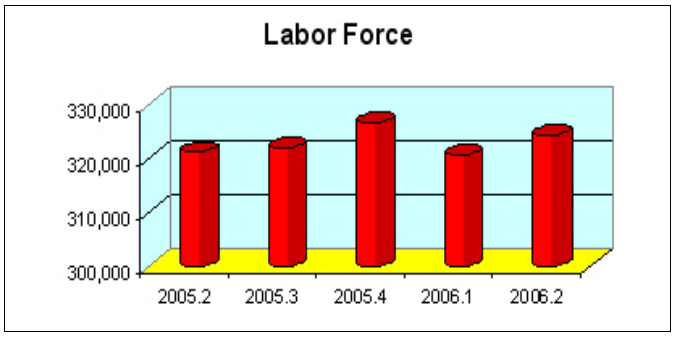
Labor Market

To analyze labor market conditions in Kern County, a time-series dataset was established (January 2000 –June 2006). 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
3,600	6,700	-3,100	7,600	3,300	3,270	5

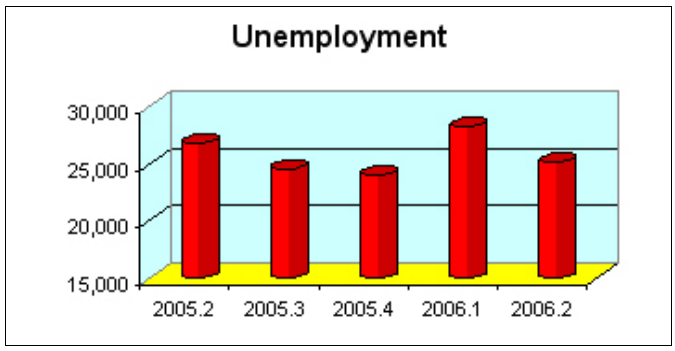
(Continued on page 13)

Labor Force - The civilian labor force increased by 3,600 workers from 320,680 in the first quarter to 324,280 in the second quarter. Compared with four quarters ago, the labor force increased by 3,080 workers.

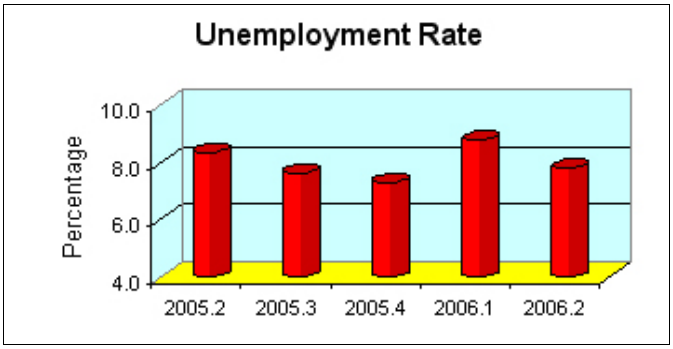


Employment - Total employment climbed by 6,700 from 292,300 in the first quarter to 299,000 in the second quarter. Likewise, 5,630 more workers were employed this quarter relative to the second quarter of last year.

Unemployment - In the meantime, the number of jobless workers declined by 3,100 as unemployment decreased from 28,300 in the first quarter to 25,200 in the second quarter. Relative to the second quarter of last year, 1,620 less workers were unemployed.



Unemployment Rate - The rate of unemployment fell one percentage point to 7.8 percent in the second quarter from 8.8 percent in the first quarter. Compared to the second quarter of last year, the county's unemployment rate edged 0.6 percent lower.



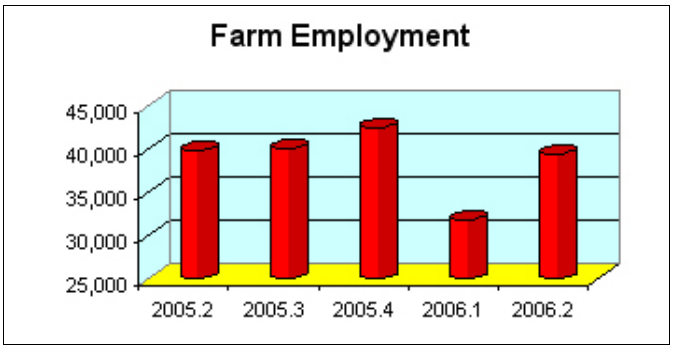
The rate of unemployment varied considerably across the county. It ranged from 3.1 percent in Kernville to 21.8 percent in Arvin. The rate of unemployment was below the county's average of 7.8 percent in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, Rosamond, Frazier Park, and Taft. In contrast, the rate of unemployment was above the county average in Oildale, Lake Isabella, Mojave, Shafter, Lamont, Wasco, McFarland, Delano, and Arvin.

Unemployment Rate of Cities

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	3.1	Oildale	8.1
Lebec	3.4	Lake Isabella	9.4
Ridgecrest	4.3	Mojave	9.7
Tehachapi	5.1	Shafter	14.1
Inyokern	5.1	Lamont	14.3
Bakersfield	5.4	Wasco	14.8
California City	6.0	McFarland	16.8
Rosamond	6.2	Delano	21.1
Frazier Park	6.7	Arvin	21.8
Taft	7.5		

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

Farm Employment - In the second quarter of 2006, farm employment increased by 7,600 paid positions from 31,900 to 39,500. However, 320 farm jobs were lost since the second quarter of last year.



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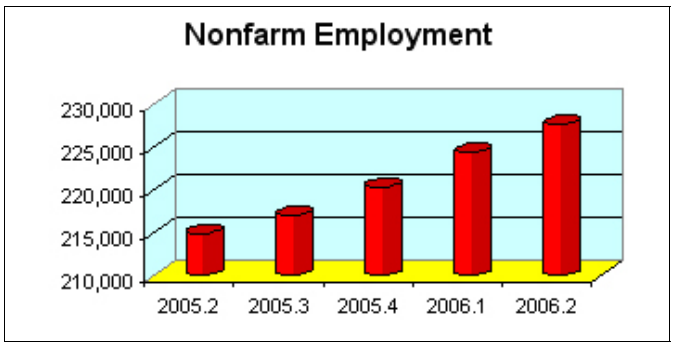
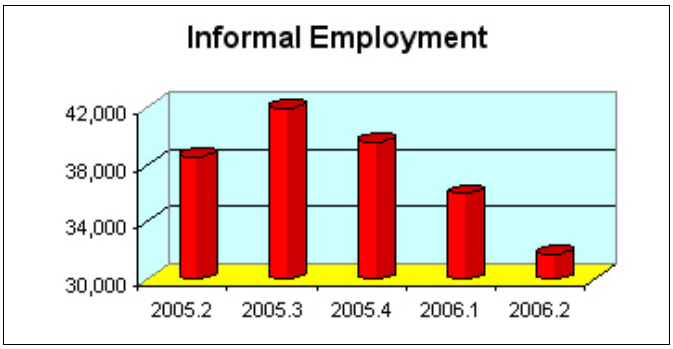
Nonfarm Employment - In the second quarter of 2006, the number of nonfarm workers climbed from 224,400 to 227,700 for a gain of 3,300 jobs. The nonfarm sector has added 12,740 new jobs since the second quarter of last year.

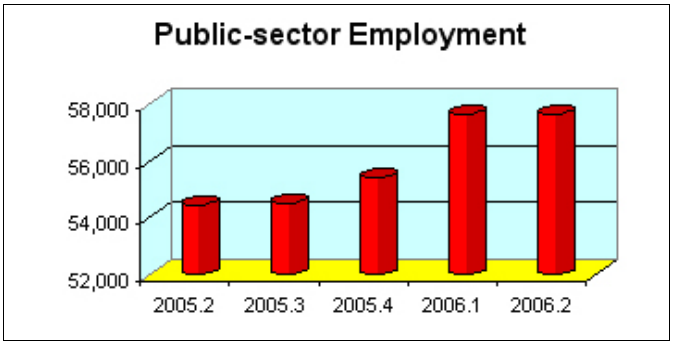


Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the second quarter of 2006, the number of workers engaged in this market declined by 4,200 from 36,000 to 31,800. The informal labor market has lost 6,800 jobs since the second quarter of last year.



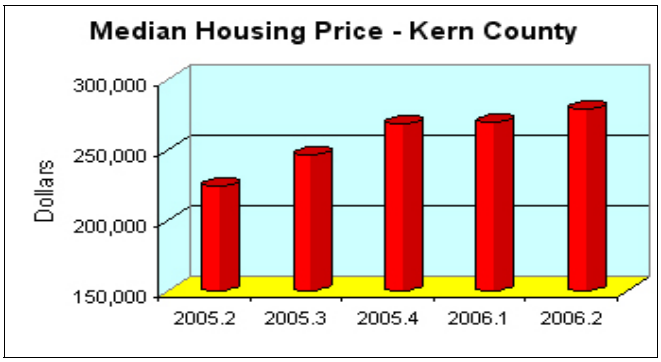
Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the second quarter of 2006, private-sector employment increased by 3,270 from 166,730 to 170,000. The private sector has added 9,300 jobs since the second quarter of last year.

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. In the second quarter of 2006, the public sector added only 5 new positions as employment increased from 57,665 to 57,670. Since the second quarter of last year, the public sector has added 3,200 jobs.



Housing Market

Housing Price - In the second quarter of 2006, Kern County's housing prices appreciated modestly. The total number of all residential units sold in the county climbed from 3,698 to 3,985. In the meantime, the median sales price for all residential units increased $9,100 (or 3.4 percent) from $269,700 to $278,800. The county's median housing price was $54,700 (or 22.4 percent) higher than that of four quarters ago.



In Bakersfield, the number of all residential units sold rose from 2,810 in the first quarter to 2,976 in the second quarter of 2006. The median housing price appreciated $8,300 (or 2.9 percent) from $289,000 to $297,300. Since the second quarter of 2005, the city's median price has appreciated $55,000 (or 22.7 percent).

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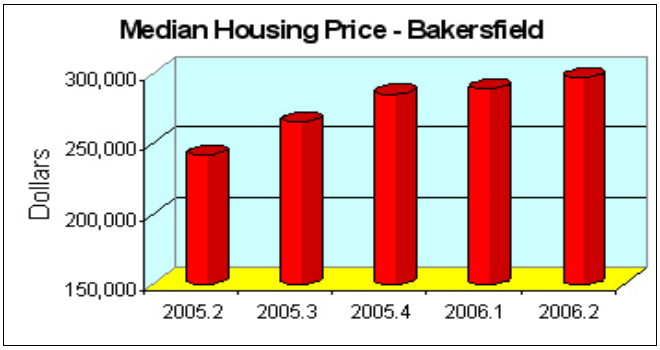
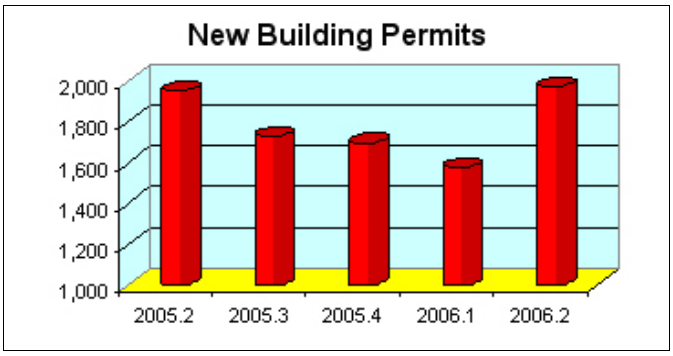
Tracking *(Continued from page 14)*



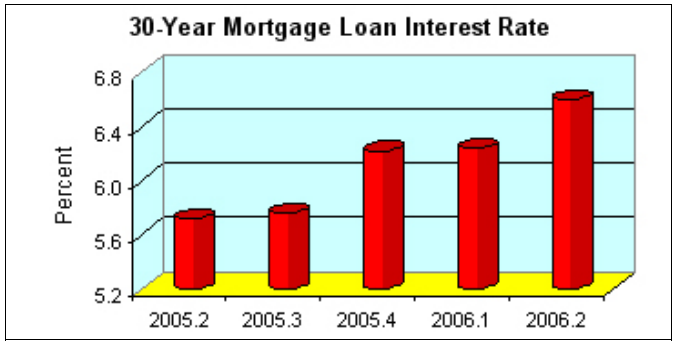
Between the second quarter of 2005 and the second quarter of 2006, housing price appreciation rates remained in double digits across the county. Delano recorded the largest one-year price appreciation of $82,800 (or 59.3 percent) and Tehachapi gained the smallest price increase of $47,000 (or 18.6 percent).

Location	Median Price 2006.2	Median Price 2005.2	Median Price Appreciation	Median Price Appreciation
California City	$226,800	$173,800	$53,000	30.5%
Delano	$222,500	$139,700	$82,800	59.3%
Ridgecrest	$234,900	$176,700	$58,200	32.9%
Rosamond	$243,750	$194,900	$48,850	25.1%
Taft	$205,300	$156,250	$49,050	31.4%
Tehachapi	$299,500	$252,500	$47,000	18.6%

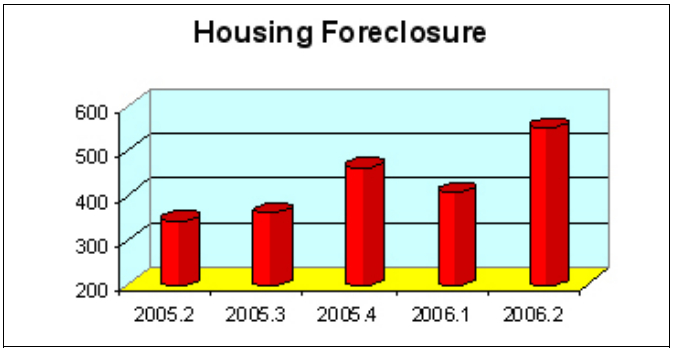
Building Permits – In the second quarter of 2006, the total number of building permits issued for the construction of new privately-owned dwelling units increased by 396 from 1,579 to 1,975. Compared with the second quarter of 2005, 19 more building permits were issued.



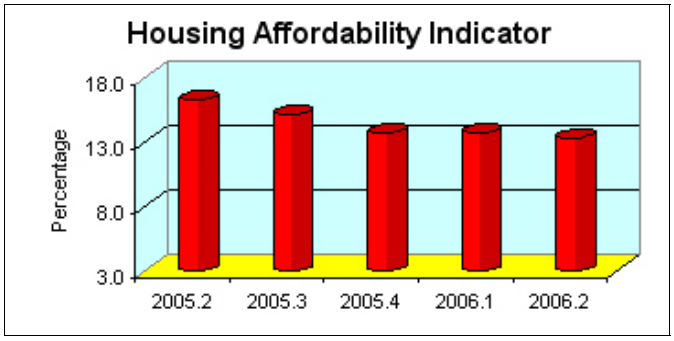
Mortgage Interest Rate – Mortgage loan interest rates remained low. In the second quarter of 2006, the interest rate of thirty-year conventional mortgage loans increased slightly from 6.24 to 6.60 percent. Since the second quarter of last year, the mortgage loan interest rate has risen 0.88 percent



Housing Foreclosure Activity – Foreclosure activity in Kern County edged 143 notices higher in the second quarter of 2006. Lending institutions sent 549 default notices to local homeowners during this quarter. The number of default notices was up 206 from that of four quarters ago.



Housing Affordability – Here we redefine housing affordability as the average household income divided by the median housing price. In the second quarter of 2006, the housing affordability indicator declined from 13.7 to 13.3 percent. Over the previous four quarters, housing has increasingly become less affordable as the indicator dropped from 16.2 to 13.3 percent.



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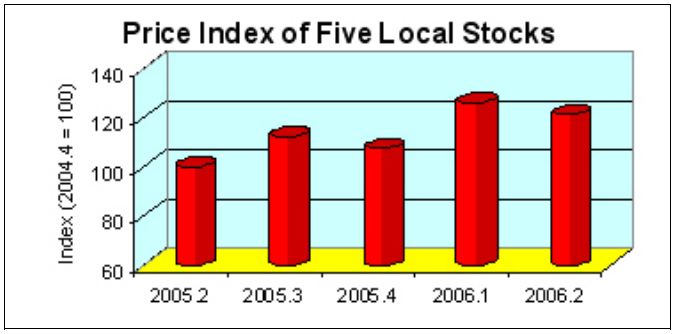
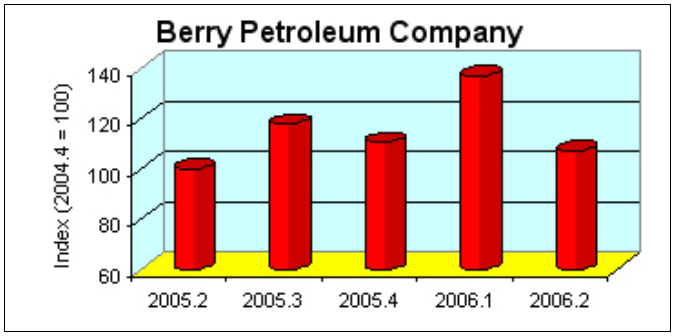
Tracking *(Continued from page 15)*

Stock Market

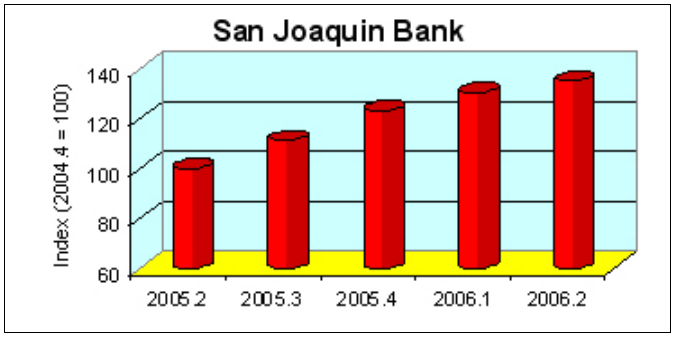
In the second quarter of 2006, the composite price index of five local *market-movers* declined 5 percentage points from 126.2 to 121.2. However, the index has climbed 21.2 percentage points since the second quarter of 2005. These top five local *market-movers* are Berry Petroleum, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



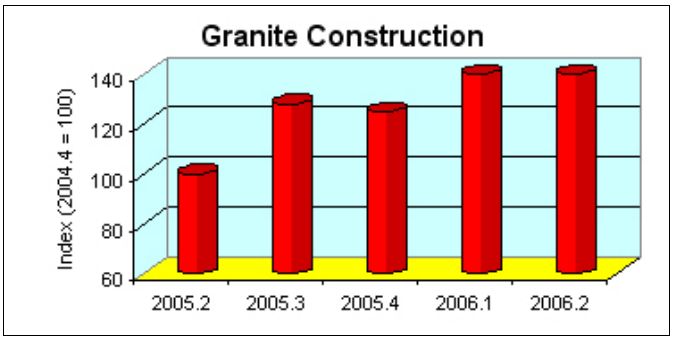
Berry Petroleum (BRY) lost 29.6 percentage-points as its share value decreased from $71.82 in the first quarter to $56.32 in the second quarter of 2006. However, BRY has gained 7.3 percent in value since the second quarter of last year.



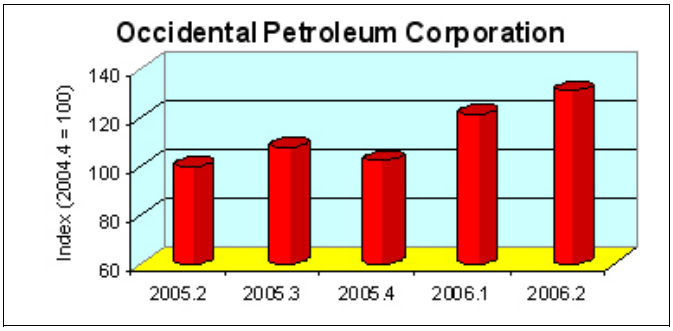
San Joaquin Bank (SJQU) gained $1.25 per share as its price climbed from $35.25 in the first quarter to $36.50 in the second quarter of 2006. Since the second quarter of 2005, SJQU has gone up $9.48 or 35.1 percent.



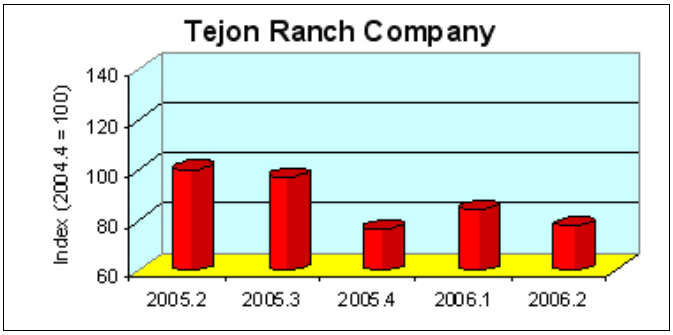
Granite Construction Inc. (GVA) lost $0.85 per share in the second quarter of 2006 as its stock price fell from $45.17 to $44.32 per share. However, GVA has climbed $15.73 or 55 percent since the second quarter of 2005.



Occidental Petroleum Corporation (OXY) gained $7.49 or 9.7 percent as its stock price rose from $93.97 in the first quarter to $101.46 in the second quarter of 2006. Since the second quarter of last year, OXY's price has jumped $24.02 or 31.1 percent.



Tejon Ranch Company (TRC) lost $3.57 per share as its stock value declined from $46.23 in the first quarter to $42.66 in the second quarter of 2006. Since the second quarter of 2005, TRC has lost $12.25 per share.



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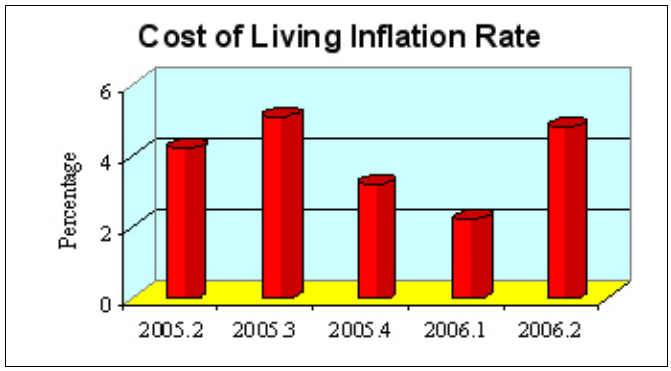
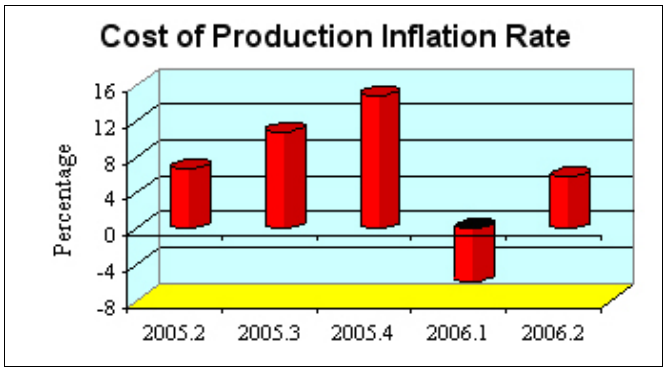
Tracking *(Continued from page 16)*

Commodity Prices

Cost of Living - The Consumer Price Index (CPI) for all urban areas (1982-84 = 100) climbed from 199.3 in the first quarter to 201.7 in the second quarter of 2006. In annual rate, CPI inflation accelerated from 2.2 to 4.8 percent. Relative to the second quarter of 2005, the CPI inflation rate was 0.6 percent higher.

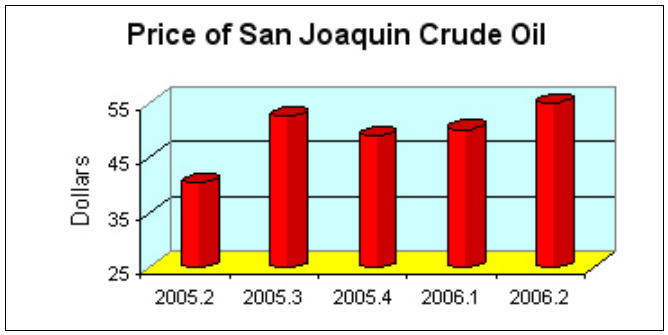


Cost of Production - The Producer Price Index (PPI) for all commodities (1996 =100) rose from 162.8 in the first quarter to 165.0 in the second quarter of 2006. In annual rate, PPI inflation accelerated from -5.9 percent in the first quarter to 5.8 percent in the second quarter. Relative to the second quarter of last year, the PPI inflation rate has fallen 0.8 percent.

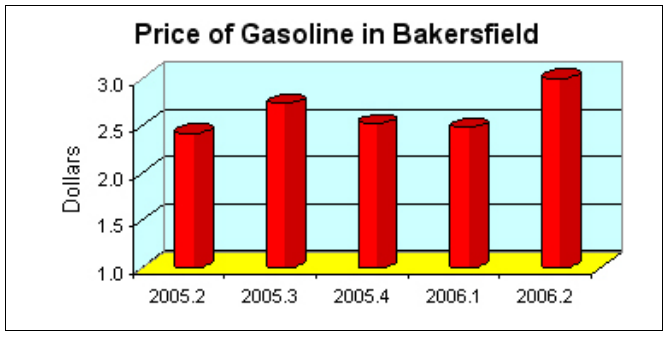


Cost of Employment - In the second quarter of 2006, the index of employment cost (December 2005 = 100) increased at an annual rate of 3.2 percent from 100.8 to 101.6. Over the previous four quarters, the index climbed 2.8 percentage points.

Price of Oil - The average price of San Joaquin Valley heavy crude rose $8.50 per barrel from $50.21 in the first quarter to $58.71 in the second quarter of 2006. Since the second quarter of 2005, the average price of crude oil has soared $18.35 per barrel.



Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon rose 64 cents from $2.48 in the first quarter to $3.12 in the second quarter of 2006. The average gasoline price was 70 cents higher relative to the second quarter of last year.



Price of Milk - The average price of Class III (instant nonfat dry) milk has had a declining trend. It fell $1.21 from $12.23 in the first quarter to $11.02 in the second quarter of 2006. The milk price was $3.08 lower relative to the second quarter of 2005.

Farm Prices - The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents rose 1 percentage point to reach 146. Since the second quarter of last year, this index has gained 7 percentage points.

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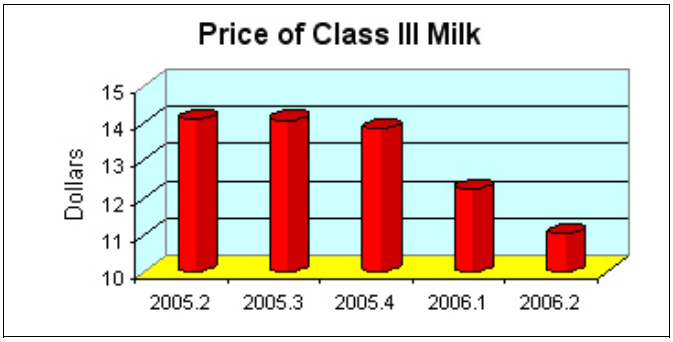
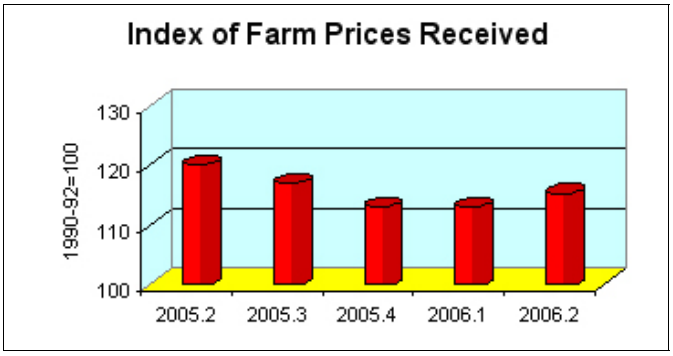
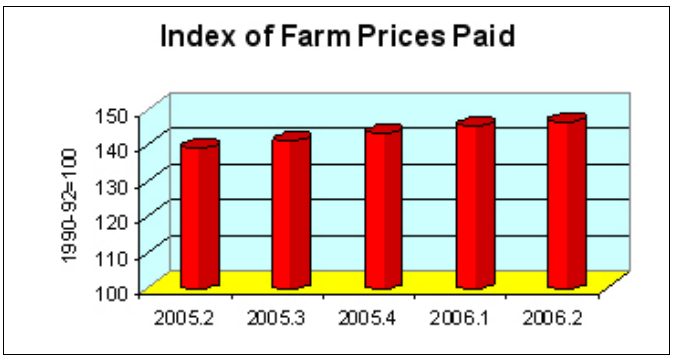
Tracking *(Continued from page 17)*

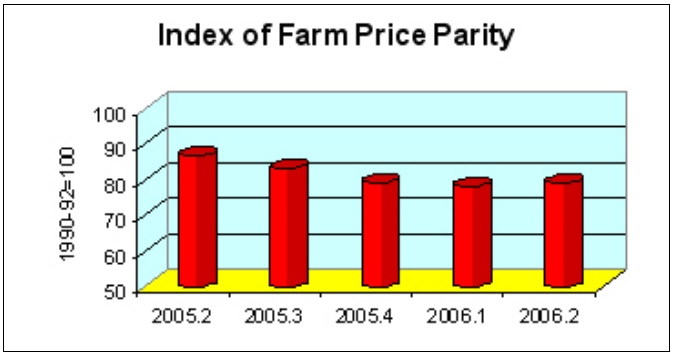






The Index of Farm Price Parity is measured by the ratio of the Index of Prices Received to the Index of Prices Paid. Values of this index less than 100 illustrate the imbalance between prices farmers pay for their inputs and prices farmers receive for their outputs. In the second quarter of 2006, the Index of Farm Price Parity narrowed 0.8 percentage points from 77.9 to 78.8. Since four quarters ago, the disparity between output prices farmers received and input prices farmers paid widened as the index value dropped 7.5 percentage points.

In contrast, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose 2 percentage points to arrive at 115. Nevertheless, this index was 5 percentage point lower than that of the second quarter of last year.

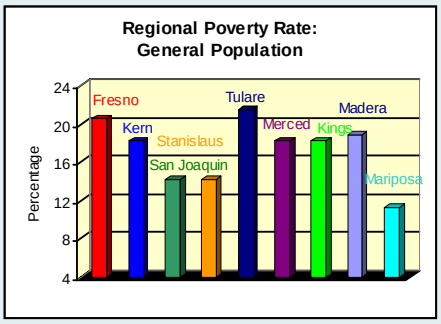


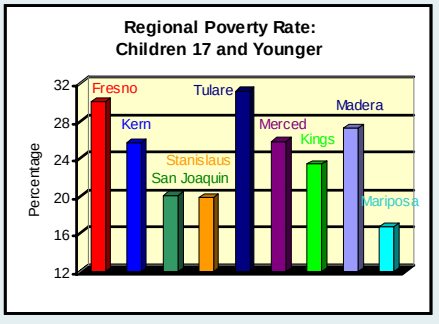
Econ Brief *(Continued from page 7)*

has the highest rate of poverty in the Valley at 21.5 percent, whereas Mariposa County has the lowest rate of 11.3 percent. All counties expect Mariposa County record poverty rates above the state average.

Poverty rates are higher among families with children. They are also higher in the San Joaquin Valley than California overall. In the Valley, 24.4 percent of families with children 17 years old and younger live in poverty compared with 19.8 percent in California. Once again, Tulare County has the highest poverty rate of 31.2 percent and Mariposa County the lowest rate of 16.7 percent. At least one in every four families with children is poor in Tulare, Fresno, Madera, Merced, and Kern Counties.

Sources: www.census.gov and www.ers.usda.gov/Data/PovertyRates





DATA DRIVEN DECISION MAKING IN HUMAN RESOURCE MANAGEMENT

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The development of a highly successful team of employees that can work together within an organization is absolutely necessary to sustain or expand an organization's competitive position. Quite simply, the organization needs to have a human capital mix (e.g., knowledge, skills, and abilities) that will facilitate goal achievement year after year. Organizations that fail to take a data driven approach to understanding, developing, and managing their human capital will be less competitive. As Pfeffer[1] (1998) notes, "Companies that manage people right will outperform companies that don't by 30% to 40%." There are a variety of industry leaders and researchers that agree with this comment.

Data driven decision making is already in use in many organizations – especially in the manufacturing, finance, and accounting functions. The HR function has used data to make some decisions, although it has largely been limited to individual employee measures such as performance appraisals and some payroll related measures. To continue to be competitive – and avoid being outsourced – the HR function must expand their data driven decision making processes beyond the few individual performance measures to include measurements of the various HR departments (e.g., recruiting, training) and overall HR function performance.

The simple concept of collecting data is a scary prospect to many. Many easy to capture HR metrics already exist and simply need to be examined. For example, recruiting has long measured a variety of things for their internal purposes – how many days does it take to hire a new employee? When we add the cost of labor for the recruiting staff, a snapshot of how much it costs to fill a position appears. Done periodically, this measurement becomes a tool to assess effectiveness and improvement. After enough time collecting recruiting data, it becomes possible to use this same data in computing the benefits of employee retention programs. In other words, is it less expensive to provide an employee with an unexpected raise instead of going through the process of hiring someone new?

As another example, the cost of training is another metric that might be adapted for more strategic purposes. For example, an organization might invest in safety training to reduce accidents. The return on investment in this case is not only the reduction in accident costs, but also the reduction in down time that enables additional product to be completed and shipped – and therefore sold.

The benefits of incorporating more data into decision making will have several benefits. First, by regularly using data, the entire HR function begins to speak the language of the organization – dollars – which has not always been the case. Second, HR processes that need improving will be identified through their significant cost and minimal contribution to the overall picture of HR activities. Third, in cases where the function systematically engages in improvement opportunities, it will be possible to quantify and argue that the HR activity in question should not be outsourced. Finally, the collection and use of data for decision making provides the HR function with the tools and information necessary be a full partner in the annual strategic decision making process and in deciding how the organization will achieve those goals.

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[1]Pfeffer, J., *The Human Equation: Building Profits by Putting People First*, Harvard Business School Press, 1998.

Book Review

Blink

by Malcolm Gladwell
New York: Little, Brown and Company, 2005

Reviewed by: Mark Evans
Associate Dean and Economics Professor, CSUB

Students must complete a general education course in critical thinking to earn a bachelor's degree. Surely, the algorithms taught in these courses result in better deliberation. However, decision-making often occurs in less time than it takes to blink; for example, "whenever we meet someone for the first time, whenever we interview someone for a job, whenever we react to a new idea, whenever we're faced with making a decision quickly and under stress."

All decision-making involves "thin slicing," i.e., selective information processing. Sound decisions result from effective thin-slicing. In one experiment, subjects were shown two seconds of muted videotape of professors and asked to evaluate their teaching. Their rank ordering was nearly identical to that of students sitting through entire courses. My colleagues say this proves nothing about ability to thin-slice; it proves today's students stop processing information a few seconds into a course! All kidding aside, thin-slicing can go terribly awry. In 1999, panicked NYPD officers thought Amadou Diallo was about to open fire on them and pumped 41 bullets into him and his surroundings. Diallo was unarmed, standing on the stoop of his Bronx apartment, taking in the evening.

The ultimate goal of Malcolm Gladwell's follow-up to The Tipping Point is to improve blink decisions. His summaries of emerging research dovetail into practical questions that he broaches through intriguing case studies. His answers cannot be definitive, as he is writing about a nascent area. Yet, this accessible book is delicious "food for thought" for any lifelong learner facing organizational challenges and opportunities. Consider the following:

- Top salesmen thin-slice conversations with customers differently than their run-of-the-mill counterparts. How do they do it?
- There is no relationship between a doctor's competence and whether she will be sued for malpractice. How do customers thin-slice in evaluating a service provider?
- Product testing and focus groups can lead you astray. When can't you trust these methods?
- Less can be more. Improved decision making can require better thin-slicing of already available information rather than costly collection of additional data. Is this reflected in your decision support systems?
- Effective thin-slicing can be learned and has been successfully embedded in training. Improvisational theater unfolds so effortlessly because the actors use a structured algorithm to advance the plot. Do key persons in your organization have algorithms for mastering their extemporaneous challenges? Do they practice applying these algorithms?
- Thin-slicing algorithms must be discovered before they can be taught. They can be discovered -- through statistical methods or the intuition of an expert. However, it may not be easy to extricate the algorithm from your expert's subconscious. Tennis guru Vic Braden has an uncanny ability to predict when a server will fault, yet can't articulate how he does it.
- Women did not perform in our best orchestras until recently. They were "not good enough." Their fortunes changed only when auditioners began sitting behind opaque screens, hiding their identity. "Interference" is pervasive in thin-slicing. What are your organization's significant environmental interferences?
- Emotions and character, so fundamental to all relationships, can be discerned by thin-slicing conversation and body language. An expert made the following observation of Bill Clinton while analyzing facial expressions during the 1992 Democratic primaries, well before we knew of Monica Lewinsky: "It's that hand-in-the-cookie-jar, love-me-Mommy-because-I'm-a-rascal-look."

If any of this seems interesting or potentially applicable, make a good blink decision and commit a couple evenings to reading Gladwell's book.

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