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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!

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PROFESSOR OF ECONOMICS, CSUB

In the fourth quarter of 2006, the United States economy grew at a faster pace. The Gross Domestic Product growth rate accelerated from a revised 1.9 to 3.5 percent. Several factors contributed to this improvement including low interest rates on mortgage loans, growing stock market wealth offsetting the housing market slowdown, falling energy prices, weaker dollar against other major currencies boosting exports, and steady job growth outside the weakening automobile and housing markets. The Index of Leading Economic Indicators, rebounding from two consecutive quarters of decline, increased six-tenth of one percent to reach 138.0. In the meantime, the rate of unemployment fell from 4.7 to 4.5 percent. Meanwhile, a considerable decline in the general level of prices signaled deflation. As a consequence, the cost of living inflation dropped 2.2 percent and the cost of producing inflation plummeted 5.5 percent.

California followed the national growth trend as its unemployment rate fell from 4.8 to 4.6 percent. The state's labor market conditions improved as 140,600 more workers were employed and 34,600 less workers were unemployed. While the farm labor markets added 1,200 jobs, nonfarm industries created 52,300 paid positions.

Likewise, labor market conditions improved in Kern County as total employment increased for 304,200 to 310,900. The rate of unemployment increased slightly from 6.8 to 6.9 percent. Bakersfield, California City, Ridgecrest, and Tehachapi had unemployment rates below the county average. The farm labor market gained 2,800 full-time equivalent jobs and non-farm industries added 5,100 paid positions. However, the informal labor market - including self-employed labor and those working outside the county - eliminated 1,200 jobs. Government agencies added 4,200 jobs and private companies created 900 paid positions.

Kern's economy grew at a rapid rate of 3.6 percent. Its total personal income increased $140 million to reach $15.27 billion. Labor productivity, measured as personal income per worker, increased $140 to arrive at $49,150. Kern County's consumers became slightly more optimistic about their financial conditions as the *Index of Consumer Sentiment* rose from 123 to 125. However, business optimism did not improve as the *Index of Business Outlook* remained constant at 124.

Kern County's housing market continued to soften. The total number of all residential units sold in the county dropped from 3,821 to 3,287. In the meantime, the median sales price for all residential units depreciated $1,800 (or 0.6 percent) from $278,000 to $276,200. In Bakersfield, the number of all residential units sold fell from 2,804 to 2,478 and the median housing price depreciated $7,400 (or 2.5 percent) from $301,600 to $294,200. While the interest rate on thirty-year conventional mortgage loans declined from 6.56 to 6.25 percent, the total number of permits issued for the construction of new privately-owned dwelling units plunged from 1,511 to 1,022. Meanwhile, the number of homeowners filing notices of foreclosure jumped from 741 to 1,044. The housing affordability index – measured as the average labor income divided by the median housing price – improved from 13.4 to 13.6 percent.

In commodity markets, the average price of San Joaquin crude oil declined from $59.03 to $49.26 and the average price of regular gasoline sold in Bakersfield metropolitan area dropped from $2.95 to $2.41. However, the unit price of California's Class III milk edged $1.46 higher to attain $12.88. The index of prices that farmers received for their outputs climbed 2 percentage points, but the index of prices that farmers paid for their inputs fell 1 percentage point. As a result, the disparity between output prices farmers received and input prices farmers paid narrowed 2 percentage points.

In the fourth quarter of 2006, the composite price index of stocks for the top five *market-movers* in Kern County (2005.4 = 100) inclined 7.2 percentage points from 118.7 to 125.9. The index has climbed 25.9 percentage points since the fourth quarter of 2005. While stocks of Chevron Corporation, San Joaquin Bank, Granite Construction, and Tejon Ranch Company gained value, the price per share declined for Occidental Petroleum Corporation.

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Kern County businesses still feel confident about local economic conditions. However, their degree of optimism has not changed since the previous quarter. In the fourth quarter of 2006, the *Index of Business Outlook* remained constant at 124. Since the fourth quarter of last year, business managers felt less optimistic as the Index has gradually lost 16 percentage points.

The Index is constructed from responses of managers to a randomized telephone survey. Index values greater than 100 indicate optimistic perceptions, whereas values less than 100 imply pessimism. The intent of the survey is to provide private-sector managers and public-sector administrators with primary data that would help them make more informed decisions. The other purpose of the survey is to identify factors that have helped brighten or darken the local business outlook. Valuable insight may be gained by comparing the index with recent employment and financial trends of individual organizations.

In addition to the overall index, we calculated two sub-index values. The *Index of Current Conditions* fell 7 percentage points to arrive at 116. However, the *Index of Future Conditions* gained 6 percentage points to reach 131. These results are rather interesting! Although local business managers are less optimistic about current outlook, they fell future conditions are going to get better. Nevertheless, business managers have become considerably less optimistic over the previous four quarters.

Employment Outlook – Fifty-three percent of interviewees reported that the number of jobs in their companies stayed constant, but 33 percent said more jobs were available in their companies this quarter. Looking ahead, 59 percent perceived that the number of jobs would stay constant, whereas 31 percent expected their companies to hire more workers next quarter.

Financial Outlook – Thirty-seven percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 43 percent indicated increased profits and sales this quarter. Looking ahead, 32 percent expected financial conditions of their companies to remain constant, but 57 percent anticipated increased sales and profits next quarter.

Industry Outlook – Fifty percent perceived that employment and general business conditions of their industries remained the same as the previous quarter, and 31 percent felt these conditions improved this quarter. Thinking one quarter ahead, 50 percent anticipated that employment and general business conditions of their in-

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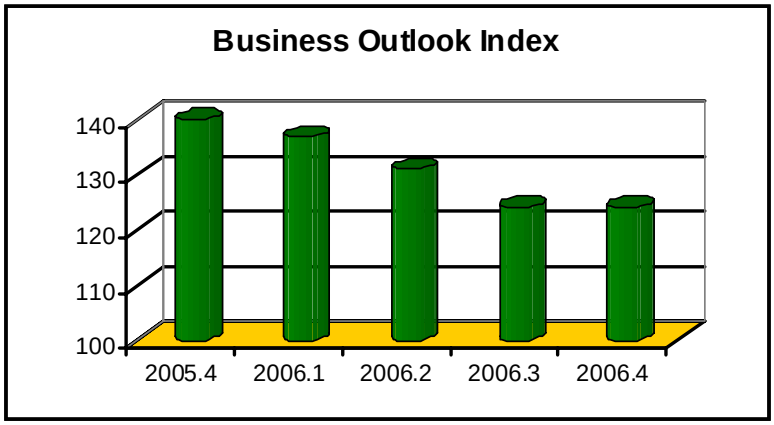


	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	**124**	**124**	**140**
Index of Current Conditions	116	123	135
Index of Future Conditions	131	125	145

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS
ASSOCIATE DEAN AND ECONOMICS PROFESSOR, CSUB

The Bakersfield Index of Consumer Sentiment has remained steady at a solid level since the second quarter of 2006. In fourth quarter, the index increased slightly from 123 to 125. At the national level, the University of Michigan's index of consumer sentiment dug out in the fourth quarter from very low readings in the second and third quarters. The national index increased to 92.5 in the final quarter of 2006 from 84.0 in the previous quarter.

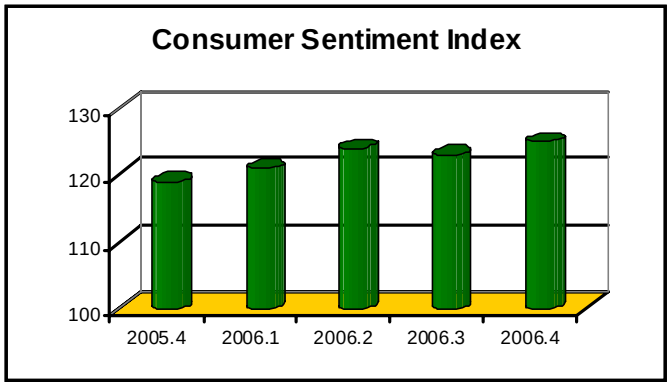
The absolute levels of the national and local indexes cannot be directly compared since they are differently tabulated ordinal scales with differing base years. However the distribution functions of the two indexes can be compared. A reading of 125 for the Bakersfield index exceeds two-thirds of the readings since we began tabulating it in 1999. The University of Michigan's national index remains below average, exceeding just 44 percent of readings over the same period. Although little to write about (sorry!), this was much better than the previous two quarters when national sentiment was mired at a level exceeded 85 percent of the time since early 1999.

CSUB's Kern Economic Journal compiles the Bakersfield Consumer Sentiment Index from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed and reported to help local business leaders compare national and local trends in expectations. The index also may provide insight into whether a local company's sales over the previous quarter reflect overall trends in the local economy or shifts in its relative competitiveness.

The Bakersfield index is disaggregated into sub-indexes relating to current conditions and future expectations. For the third consecutive quarter, there was a sharp contrast between household assessments of current conditions and future expectations. The sub-index measuring recent trends attained a value of 142, which is in the "top three percent" of readings. However, the sub-index measuring future expectations attained a value of only 107, which is in the bottom 20 percent of historical values.

The sub-index measuring current conditions is constructed from questions relating to recent discretionary spending and financial well-being compared to one year ago. Roughly one-third of the households reported spending more than usual on discretionary items, while one-in-five reported spending less than usual. Two-thirds said their household was better off than one year ago, while only seven percent said they were worse off.

The sub-index measuring expectations for the coming year is constructed from projected changes in financial well-being and assessments of whether this is a safe or risky time to draw down savings or incur debt. Four-in-ten households expect their financial situation to improve over the coming year, up from an optimistic response rate of one-in-four during the previous quarter. The number of pessimists expecting their financial condition to deteriorate fell from about one-in-six in the third quarter to just one-in-ten in the fourth quarter. However, more households are starting to monitor their balance sheets. The frequency of responses indicating this was a risky time to draw down assets or incur liabilities increased to 23 percent from 14 percent in the previous quarter. The number of households who feel this is a safe time to tap into their net worth remained steady at about one-in-three.



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Consumer Sentiment *(Continued from page 4)*

Table 1: Index Values			
	Most Recent Quarter	**Previous Quarter**	**One Year Ago**
Bakersfield Consumer Sentiment Index	**125**	**123**	**119**
Subindex: Current Conditions	142	136	118
Subindex: Future Expectations	107	110	120

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).	31 %	48 %	21 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	66 %	27 %	7 %
How your acquaintances in Kern County are doing financially compared to one year ago.	62 %	33 %	5 %

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.	42 %	48 %	10 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	27 %	26 %	47 %
	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?	33 %	44 %	23 %

Business Outlook *(Continued from page 3)*

dustries would be unchanged, but 41 percent expected progress.

Economic Outlook – When asked about Kern County's economy, 49 percent of interviewees perceived no improvement this quarter, but 31 percent felt conditions improved. Likewise, 53 percent felt that economic conditions would be unchanged next quarter and 35 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:

- Still low interest rates on mortgage loans
- Increased commercial construction in Bakersfield
- More people moving to Kern County, hence creating business

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

- Still slow housing market
- High fuel prices
- Rising imports from China, adding to the U.S. trade deficit

Business Education

Leadership for the Common Good

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The Functions of Leadership

This article examines the functions of leadership and two situations in which traditional leadership fails. Martin Chemers suggests that leadership is a group activity requiring social influence to achieve a goal. The definition seems simple, but organizational leadership is complex:

- Groups and organizations are by nature inefficient and require coordination
- The time and energy spent in coordination cannot be used to produce results
- Since individuals cannot accomplish most of the productive activities in society, organizations are essential to achieve results
- Leaders are essential to organizational coordination

Most organizations need both internal maintenance and external adaptability. Internally, the organization must create reliable, predictable, and accountable standard operating procedures to provide a stable base for productive operation. Externally, organizations must be sensitive, flexible, and responsive to changes in the environment. Unfortunately, maintenance and adaptability are contradictory. Procedures that ensure reliability and predictability reduce flexibility and responsiveness, and vice versa. Effective leadership finds the balance between the two functions.

Structured Problems

Balancing internal maintenance and external adaptability seems easiest when the problem is at least moderately-structured; that is, when the number of decision-makers is small, the alternatives few, and preferences clear. Unfortunately, most of the critical problems confronting American society are ill-structured:

- Many different decision-makers
- Unlimited alternatives
- Conflict among competing goals
- Unknown outcomes

Ill-structured problems cross traditional boundaries, reflect competing definitions, and have no quick fixes or solutions. Under these conditions, Jeffrey Luke suggests that public (or catalytic) leadership has four critical functions:

- Focus: Elevate the issue to the public and policy agendas
- Engage: Convene the diverse set of people, agencies, and interests needed to address the issue
- Stimulate: Identify multiple strategies for action
- Sustain: Maintain momentum by formalizing networks and sharing information

Predictable Surprises

Neither traditional nor catalytic leadership will be effective unless the leaders can anticipate predictable surprises. A predictable surprise arises when leaders unquestionably had all the data and insight they needed to recognize a crisis, but failed to respond with effective preventative action. Predictable surprises have several characteristics:

- A problem exists and that the problem will not solve itself
- A problem is getting worse over time
- Fixing the problem will cost significantly in the present, but will delay benefits
- Predictable surprises incur a certain cost, but may avoid a much larger cost

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Leadership *(Continued from page 6)*

- Decision-makers, organizations, and nations are caught by surprise because people prefer to maintain the status quo

- A small vocal minority benefits from inaction and is motivated to prevent change

According to Bazerman and Watkins, effective response requires leaders to remove the cognitive, organizational, and political barriers to action:

- Recognition: Should the threat have been recognized?
- Prioritization: If recognized, was the emerging threat prioritized appropriately?

- Mobilization: If prioritized, did the organization mobilize effectively to deal with the problem?

Under these conditions, effective leaders provide focus, energize the organization, exercise judgment, and have the courage to take unpopular stands. However, the organization itself must be responsive and resilient.

Conclusion

Effective leadership, then, is more than command and control:

- It requires balancing internal maintenance and external adaptability.

- If the problem is ill-structured, it requires leaders to focus, engage, stimulate, and sustain collective action

- Most important, it requires the recognition that many problems are predictable, but require energizing leaders and flexible organizations

Econ Brief!

What to Expect in 2007

Economists predict sluggish growth (2.5 to 3.5 percent) for 2007. Variations in the growth forecast depend largely on the recovery of housing and automobile markets from their recessions. They anticipate growth to be more sluggish in the first half than the second half of the year.

Forecasters identify several factors contributing to economic growth this year:

- Low interest rates on mortgage loans
- Growing stock market wealth offsetting the housing slowdown
- Relative stability of energy prices
- Weaker dollar against other major currencies boosting exports
- Steady job growth outside the weakening housing and automobile markets

However, they point to several factors hindering economic growth in 2007:

- Rising cost of the war in Iraq and Afghanistan
- Higher minimum wage putting pressures on labor costs
- Stronger immigration laws complicating prospects for industries relying on migrant labor
- Overpricing of oil in relation to other commodities
- Loss in consumer confidence and spending if automobile and housing markets remain depressed

Smart Growth Planning Principles

Craig W. Kelsey
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Smart growth planning is a philosophy based on a set of principles designed to guide local communities in their efforts to promote and ensure development activities that yield improved quality of life, environmental sensitivity, economic revitalization and sense of community. Smart growth is an effort to avoid future growth patterns that operate independent of a total community vision and result in inconsistent and incompatible neighborhoods, business and industrial corridors, transportation options and quality of life resources.

Ten principles represent the basis of smart growth planning with each of these concepts speaking directly to the economic vitality of the community.

Principle 1: Mixed Land Uses

Historically many communities have created land zones that are exclusive to one type of use only; such as business, industry, residential and the like. Suggested within the smart growth philosophy is an approach where these various aspects of community life are intermixed creating varied uses in close proximity. This allows for greater use of public land, increased number of citizens intermixing in business sectors and a revitalized sense of community. Citizens live closer to work sites making these intermixed areas attractive to residential living.

Principle 2: Compact Building Design

Compact design, that is building vertically rather than horizontally and not consuming critical land space, suggests that structures and their associated amenities such as parking terraces be encouraged. This philosophy supports the preservation of green space, open space and allows for undeveloped lands, streams, rivers and lakes to remain undisturbed. This type of design advances increased public transit, reduced traffic congestion, and maintenance and support costs are more efficiently utilized.

Principle 3: Range of Housing Opportunities

It is not uncommon to find housing options defined by cost, neighborhood style and single focus design. By creating choices that are diverse and intermixed; transportation, education, and access to a variety of services is opened and available to a more diverse population set. When intermixing housing choices in new developments, as well as existing zones, a greater housing balance is achieved with a variety of single family, multi-family, suburb and in-city options.

Principle 4: Walkable Neighborhoods

One principle of smart growth that resonates with a new vision is the concept of walkable neighborhoods. This approach is one where the community is designed in such a way that residents can walk to those elements of the community that are important to them; such a schools, churches, public services, play sites, shopping and work. The commitment that the city design makes is to locate these services within an appropriate walking range of the mixed uses and housing options. Then the design of the community is such that walking is safe, accessible, interesting and possible.

Principle 5: Sense of Place

Smart growth promotes the idea that a citizen needs to feel a sense of place, of community, identity and pride. Elements of a sense of place may be different for each community. It may be found in distinctive community architecture, or intermixed green spaces, cultural identity, historical preservation or some combination of many components. Sense of place

(Continued on page 9)

starts with a community accepted vision of what makes that particular community unique, special and attractive. Many communities look to the already existing natural beauty that serves as a draw to community life. Other communities invest in the green and open spaces of the parks and recreation system to create that unique sense of place.

Principle 6: Preserve Open Space and Natural Beauty

Open space serves many purposes such as green space, animal habitats, plant growth zones, production lands, recreation experiences and wetlands. Additionally, open space may be part of the natural beauty of the community that supports quality of life experiences. Open space should be viewed as land that is worthy of protection, preservation or appropriate use and not just unused land. The parks and recreation system is usually the land guardian for community open space and the responsible party for identification, purchasing, protection and maintenance of that community's natural beauty.

Principle 7: Community Involvement

For these planning principles to be effectively used citizen participation, understanding, involvement and support is important. Citizens will find different components of smart growth particularly appealing and other principles of less interest. Each community will find the integration or combination of a mixture of these principles helpful. However, citizen involvement and commitment is necessary to garner the long-term support necessary. The use of charettes, public hearings, focus groups, citizen based visionary workshops and the like represent a list of tasks that the planning system should use on a regular basis.

Principle 8: Direction of Development

This principle encourages new growth in the direction of already existing infrastructure, neighborhoods, and public services and to focus on in-fill rather than consumption and expansion into open space, green zones and areas of natural beauty. Rather than abandon older areas, development is focused inward creating a stronger revitalization and perhaps new energy into already established community areas. The tendency is to expand outward, but this principle recommends a focus inward.

Principle 9: Multiple Transportation Options

An important aspect of smart growth is to create multiple systems of transportation, connectivity and public service that is easy, effective and equitable. For many communities this would mean transportation planning, coordination of land purposes and public transit. The planning system assists by encouraging the design, placement, use and maintenance of alternative transportation paths, such as walking and biking trails that serve not only recreation purposes but may serve as an option for travel to work sites and use for other citizen needs.

Principle 10: Cost Effectiveness

In order for smart growth principles to work, the various components must be cost effective. Much of the success of smart growth relies on private developers finding ways to integrate these principles and still generate financial vitality. The government entity assists by reducing barriers to permit applications, regulations and procedures. At times code adjustments will be necessary but not at the expense of safety and prudence. The planning system assists with an attitude of being a part of the success of proposed ventures that may require the government system to adjust or perhaps vary from standard procedures. It is a time for creativity and vision rather than restriction to traditional methods of thinking and planning.

Smart growth is an exciting and vital way to look to the future and create communities that are healthy, interesting and citizen friendly. Not all of the ten smart growth principles need to be applied in all settings. At times only one principle will be appropriate and possible. Perhaps a combination of principles will be most effective for that community.

Job Creation Through Transportation Investment

Ronald E. Brummett
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Since the 1960s, the Federal Highway Administration has researched the economic potential of transportation investments on national, regional and local economies. Traditionally this research focused on existing local business expansion, and new economic growth adjacent to expanded transportation corridors. This research was typically conducted on a single distinct project. Since the mid 1990s, however, transportation investment research has broadened to include job creation impacts on regional and local economies.

Typically employment associated with a transportation investment has been categorized as direct, indirect and induced employment impacts. Direct impacts include the on-site highway construction jobs at the construction site. Indirect impacts include companies that process orders, supply and deliver construction materials. The induced impacts are those arising from expenditures of workers wages on various goods and services (FHWA Vol. 59, No. 4).

Generally, job creation associated with transportation investments translates into 42,100 jobs for each $1 billion invested during a five year period; direct jobs account for 7,900, indirect jobs total 19,700 and induced jobs are 14,500 (FHWA, Highway Investment). The induced jobs are drawn from many segments of the local and regional economy including housing, manufacturing and service sectors.

The number of indirect jobs per $1 billion of highway construction investment is greater than the number of direct jobs because more of each highway construction dollar goes to purchase materials than goes to labor, meaning more jobs are supported in the supply industry than in the highway construction sector.

Recent studies have identified strong linkages between the highway network and regional economic performance (FHWA, Highway Investment). A strong geographically and demographically diverse workforce representing all skill levels is supported by investments in highway construction activities in industries that supply materials to the highway construction industry, and to other industries throughout the regional economy (FHWA, Highway Investment).

It has long been recognized that commercial and industrial employment outlook is closely related to the quality of the transportation system serving it. A dependable transportation system allows local business to receive materials and transport finished goods to market. System improvements that decrease transportation cost, increase safety, and improve reliability, will stimulate additional economic development (Trans Link 21).

In *Destination 2030 Regional Transportation Plan*, Kern Council of Governments identified the need for transportation investments totaling $3.5 billion. Of that, $3 billion is needed to maintain a dependable roadway network by reducing congestion, improving safety, and maintaining the existing roadway system. 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.

In Kern County, the investment of $1.73 billion in federal demonstration funds received through the efforts of former Congressman William Thomas and voter approval of a local transportation measure would increase the number of jobs in Kern County by about 11%. Total job creation from these investments is estimated to be 35,900 over the 10 to 20 years required to construct the projects. This lower number of jobs results from the extended delivery schedule of the transportation projects. Both direct and indirect jobs would be lower because workers would be able to work on multiple projects during the delivery time frame, therefore reducing the number of workers required.

(Continued on page 11)

Job Creation *(Continued from page 10)*

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Econ Brief!

United States – Mexico Tourism in California

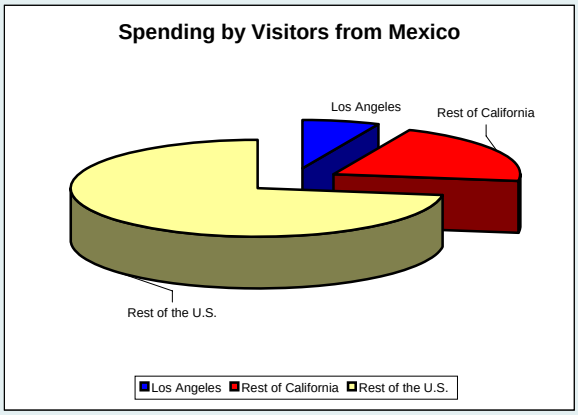
In 2002, nearly 9.8 million Mexican residents visited the United States. They spent $5.5 billion in traveling expenses. Of these visitors, 2.8 million traveled to California and spent $1.5 billion. Los Angles was the destination of 1.4 million Mexican travelers and the beneficiary of $365 million of tourist spending. The remaining 7 million Mexicans who traveled to other states accounted for $4 billion of the tourist income from Mexico.

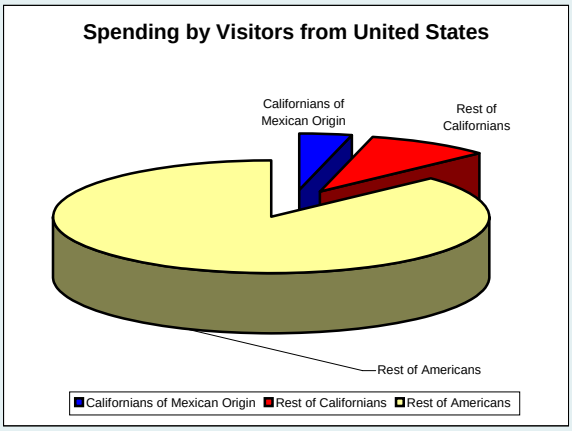
On average, a Mexican traveler spent $571 in the United States. A Mexican visiting Los Angeles paid out $261 for his/her traveling expenses and one who visited the rest of California used up $811 of his/her traveling budget.

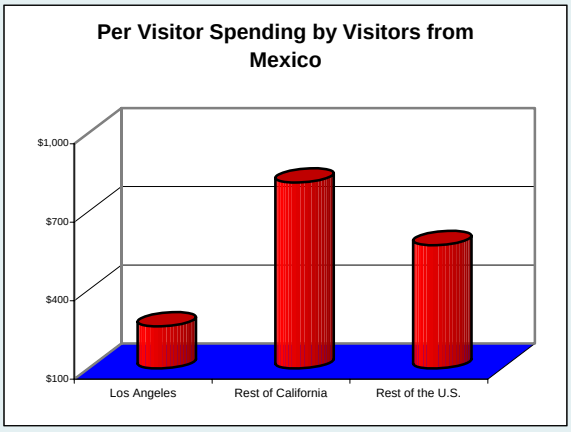
Likewise, 8.5 million visitors from the United States traveled to Mexico. They spent $4.6 billion. Nearly 13 percent of American visitors to Mexico came from California. They spent $596 million in Mexico in traveling expenses. Californians of Mexican origin were responsible for $173 million of the state's tourist spending in Mexico.

On average, an American traveler spent $542 in Mexico. A visitor from California paid out $541 for his/her traveling expenses and a Californian of Mexican origin used up $540 of his/her traveling budget.

The economic impacts of $1.4 billion direct expenditures by Mexican visitors on California are estimated at nearly 17,000 new jobs, more than $650 million in local tax revenues, and over $370 million in sales tax revenues.







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TRACKING KERN'S ECONOMY

FOURTH QUARTER OF 2006

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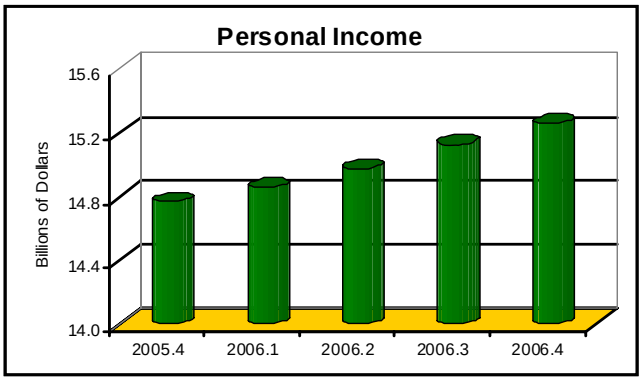
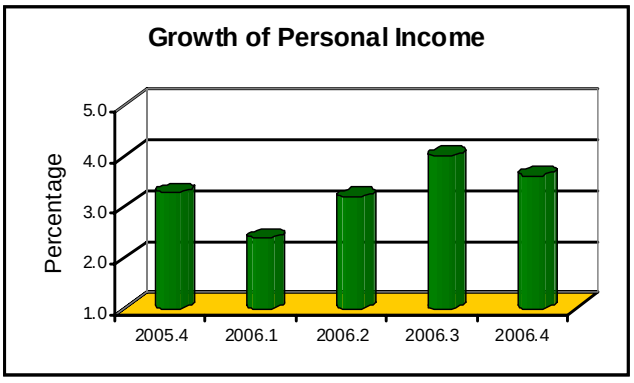
Economy

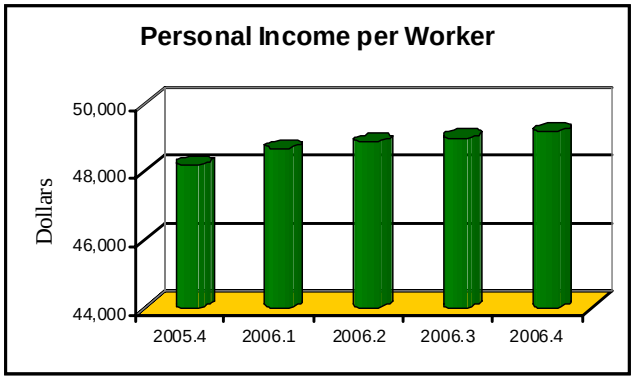
Personal Income - Kern County's personal income (in constant 1996 dollars) increased from $15.13 billion in the third quarter to $15.27 billion in the fourth quarter of 2006. The county's economy expanded $140 million this quarter. Over the previous four quarters, Kern County's economy has added $500 million of personal income.



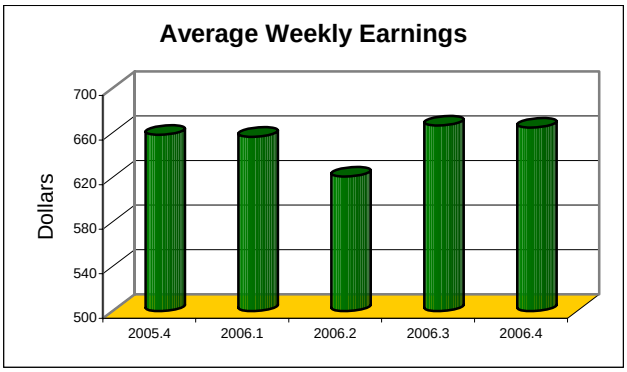
Growth of Personal Income - In the fourth quarter of 2006, personal income grew at an annual rate of 3.6 percent, which was 0.4 percent slower than that of the previous quarter. Compared with the fourth quarter of last year, economic growth accelerated 0.3 percent.



Personal Income Per Worker - Labor productivity is measured by personal income per worker. In the fourth quarter of 2006, personal income per worker increased $140 from $48,980 to $49,150. Labor productivity has increased $970 since the fourth quarter of last year.



Manufacturing Wages - In the fourth quarter of 2006, weekly wages paid to local manufacturing workers decreased slightly from $666.51 to $664.67. On average, they worked 41.3 hours per week at $16.09 per hour. Relative to the fourth quarter of last year, local manufacturing workers earned $6.43 more per week.



Labor Market

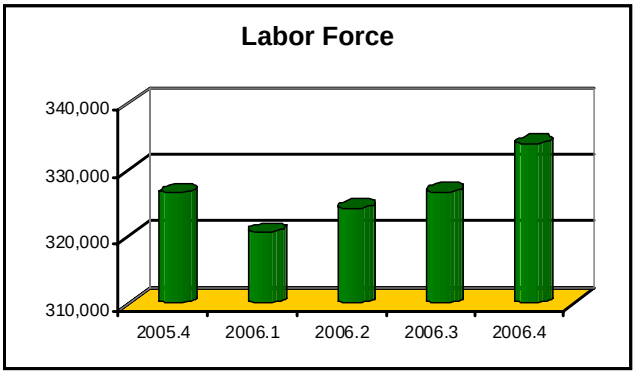
To analyze labor market conditions in Kern County, a time-series dataset was established (January 2000 – December 2006). Monthly employment data were adjusted in three ways: (1) to calculate informal employment (i.e., the difference between total employment and industry employment), accounting for members 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
7,120	6,700	420	2,800	5,100	900	4,200

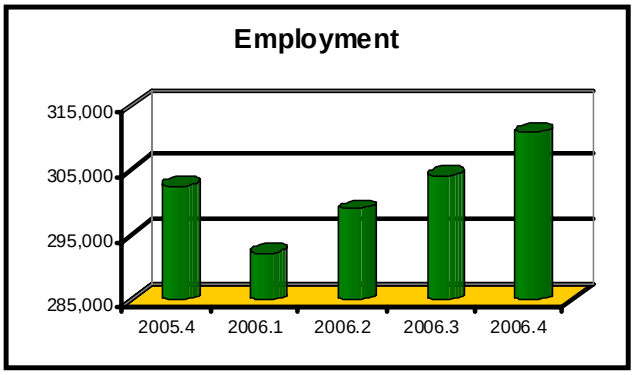
(Continued on page 13)

Tracking *(Continued from page 12)*

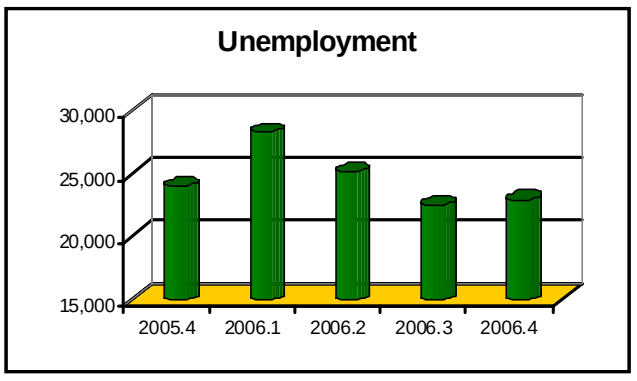
Labor Force - The civilian labor force increased by 7,120 workers from 326,780 in the third quarter to 333,900 in the fourth quarter of 2006. Compared with four quarters ago, the labor force increased by 7,300 workers.



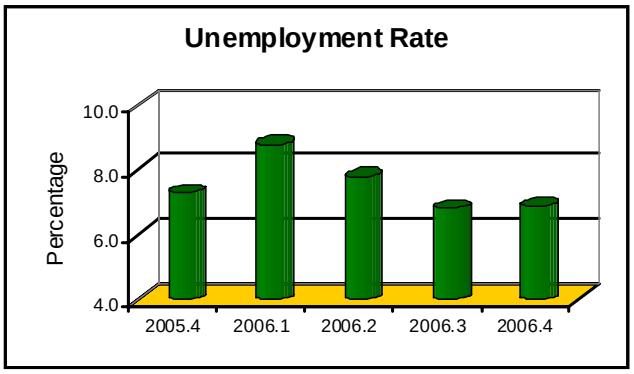
Employment - Total employment climbed by 6,700 from 304,200 in the third quarter to 310,900 in the fourth quarter of 2006. Likewise, 8,300 more workers were employed this quarter relative to the fourth quarter of last year.



Unemployment - In the meantime, the number of jobless workers inclined by 420 as unemployment decreased from 22,500 in the third quarter to 22,920 the fourth quarter of 2006. However, 1,080 less workers were unemployed relative to four quarters ago.



Unemployment Rate - The rate of unemployment climbed one-tenth of one percent from 6.8 percent in the third quarter to 6.9 percent in the fourth quarter of 2006. Compared to the fourth quarter of 2005, the county's unemployment rate edged 0.4 percent lower.



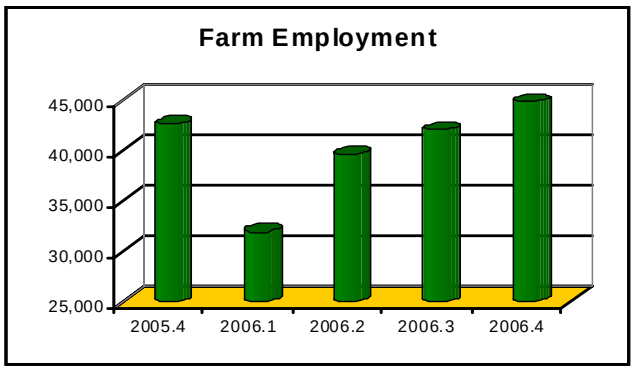
The rate of unemployment varied considerably across the county. It ranged from 2.9 percent in Kernville to 20.1 percent in Arvin. The rate of unemployment was below the county's average of 6.9 percent in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, Rosamond, Frazier 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	2.9	Oildale	7.4
Lebec	3.0	Lake Isabella	8.5
Ridgecrest	3.9	Mojave	8.8
Tehachapi	4.6	Shafter	12.9
Inyokern	4.6	Lamont	13.0
Bakersfield	4.9	Wasco	13.5
California City	5.4	McFarland	15.4
Rosamond	5.6	Delano	19.4
Frazier Park	6.1	Arvin	20.1
Taft	6.8		

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

Farm Employment - In the fourth quarter of 2006, farm employment increased by 2,800 paid positions from

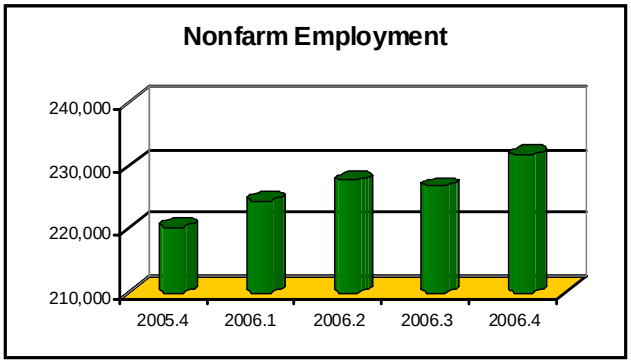


(Continued on page 14)

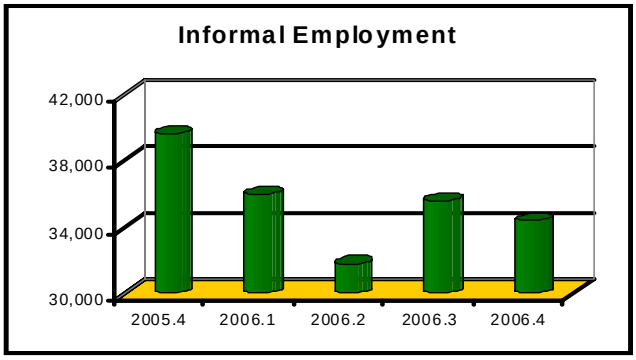
Tracking *(Continued from page 13)*

41,900 to 44,700. Relative to the third quarter of 2005, the farm market added 2,160 jobs.

Nonfarm Employment - In the fourth quarter of 2006, the number of nonfarm workers increased from 226,700 to 231,800 for a gain of 5,100 jobs. Nonfarm industries have added 11,390 new jobs since the fourth quarter of 2005.

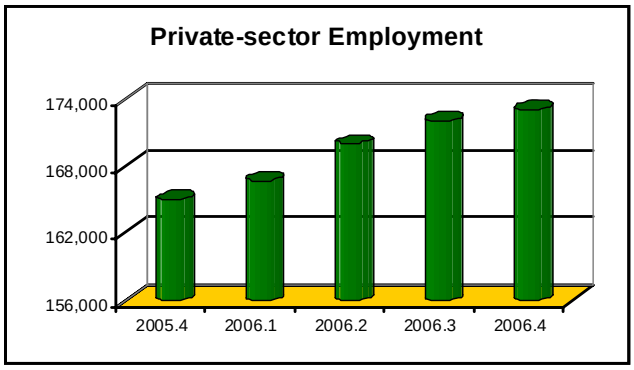


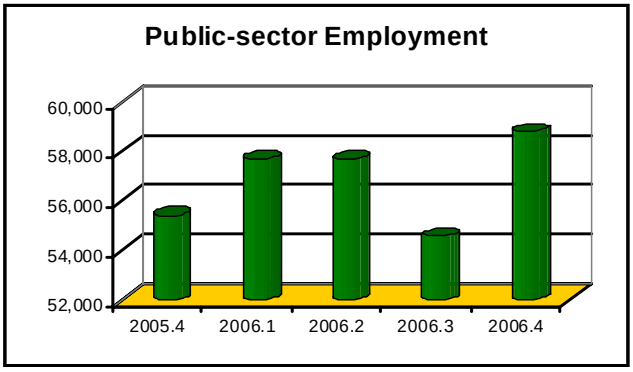
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the fourth quarter of 2006, the number of workers engaged in this market decreased by 1,200 from 35,600 to 34,400. Likewise, the informal labor market has lost 5,250 jobs since the fourth quarter of last year.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the fourth quarter of 2006, private-sector employment increased by 900 from 172,100 to 173,000. The private sector has added 8,000 jobs since the fourth quarter of last year.

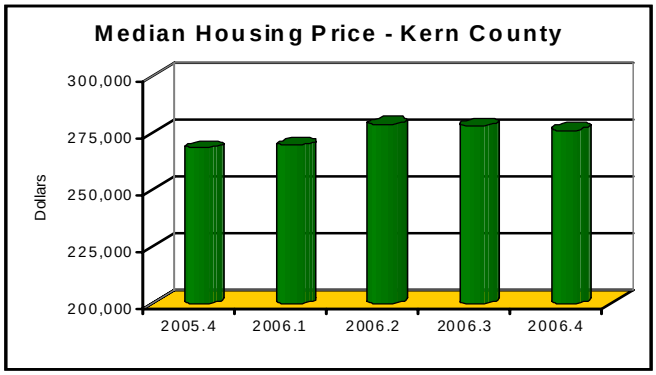
Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the fourth quarter of 2006, public-sector employment declined from 57,570 to 58,770 for a gain of 4,200 jobs. Similarly, public-sector employment added 3,360 jobs since the fourth quarter of last year.





Housing Market

Housing Price - In the fourth quarter of 2006, Kern County's housing market continued to soften. The total number of all residential units sold in the county dropped from 3,821 to 3,287. In the meantime, the median sales price for all residential units depreciated $1,800 (or 0.6 percent) from $278,000 to $276,200. However, the county's median housing price was $7,900 (or 2.9 percent) higher than that of four quarters ago.

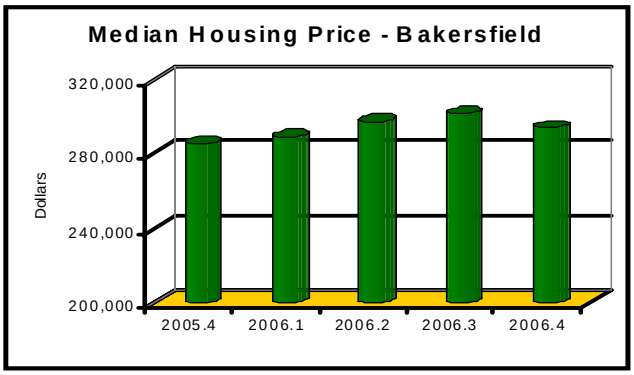


In Bakersfield, the number of all residential units sold fell from 2,804 in the third quarter to 2,478 in the fourth quarter of 2006. Meanwhile, the median housing price depreciated $7,400 (or 2.5 percent) from $301,600 to

(Continued on page 15)

Tracking *(Continued from page 14)*

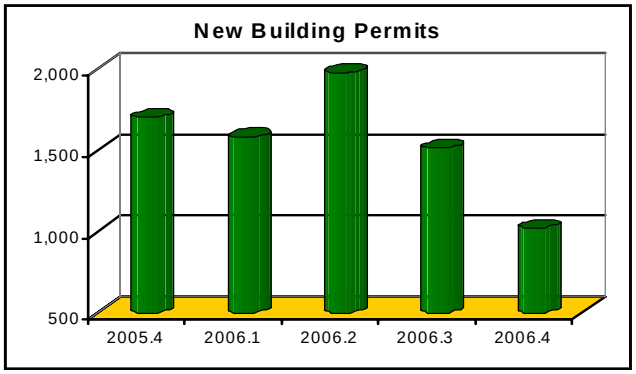
$294,200. Since the fourth quarter of 2005, the city's median price has appreciated $8,900 (or 3.1 percent).



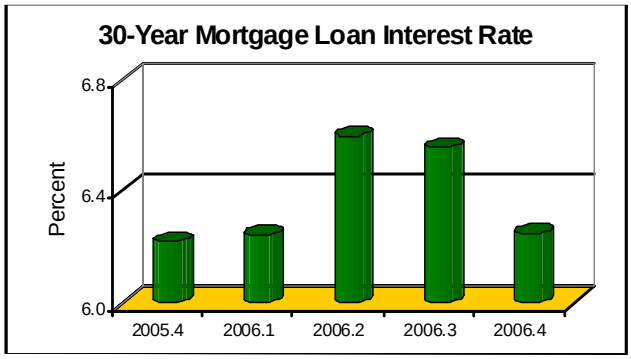
Between the fourth quarter of 2005 and the fourth quarter of 2006, the median housing appreciation rates varied across the county. Among selected locations shown below, Taft and California City recorded one-year double-digit appreciation rates of 18.4 and 17.5 percent, respectively. However, Ridgecrest and Bakersfield recorded small price increases of 2.6 and 3.1 percent each.

Location	Median Price 2006.4	Median Price 2005.4	Median Price Appreciation	Median Price Appreciation Rate (%)
Kern County	$276,200	$268,300	$7,900	2.9
Bakersfield	$294,200	$285,300	$8,900	3.1
California City	$232,900	$198,250	$34,650	17.5
Delano	$206,800	$198,750	$8,050	4.1
Ridgecrest	$193,800	$188,900	$4,900	2.6
Rosamond	$275,200	$260,000	$15,200	5.8
Taft	$154,800	$130,700	$24,100	18.4
Tehachapi	$301,400	$285,300	$16,100	5.6

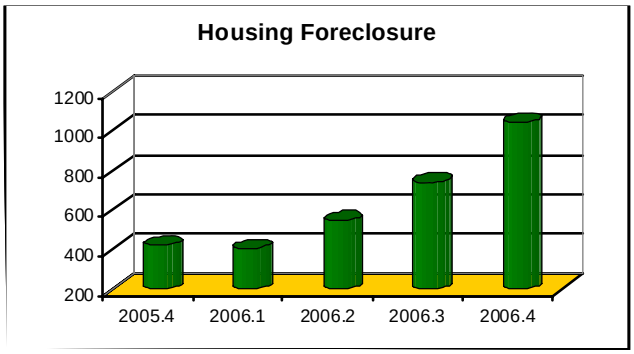
Building Permits - The total number of building permits issued for the construction of new privately-owned dwelling units declined for the second consecutive quarter. In he fourth quarter of 2006, the number of building permits plunged by 489 from 1,511 to 1,022. Compared with the fourth quarter of 2005, 678 less building permits were issued.



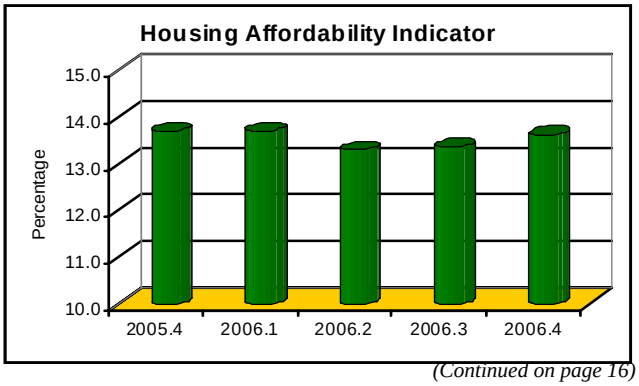
Mortgage Interest Rate - Mortgage loan interest rates remained low. In the fourth quarter of 2006, the interest rate of thirty-year conventional mortgage loans decreased slightly from 6.56 to 6.25 percent. Since the fourth quarter of last year, the mortgage loan interest rate has risen 0.03 percent.



Housing Foreclosure Activity - Foreclosure activity in Kern County increased from 741 in the third quarter to 1,044 in the fourth quarter of 2006. As a result, 303 more homeowners received notices of loan default. Also, the number of default notices was up 620 from the fourth quarter of 2005.



Housing Affordability - Here we define housing affordability as the average household income divided by the median housing price. In the fourth quarter of 2006, the housing affordability indicator increased slightly from 13.4 to 13.6 percent. Compared to four quarters ago, housing was slightly less affordable.



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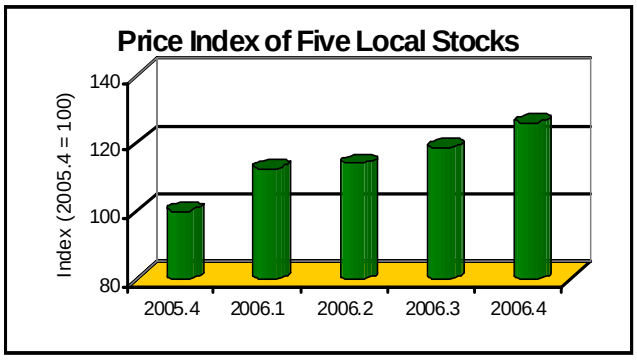
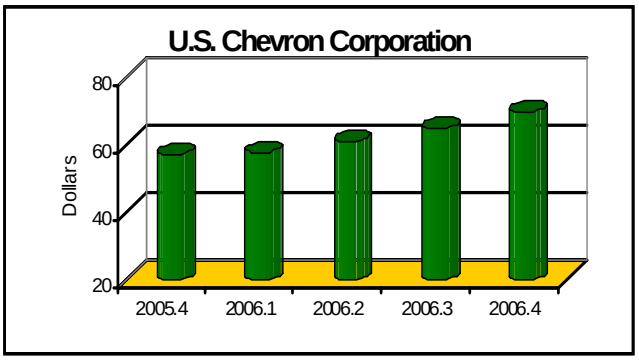
Stock Market

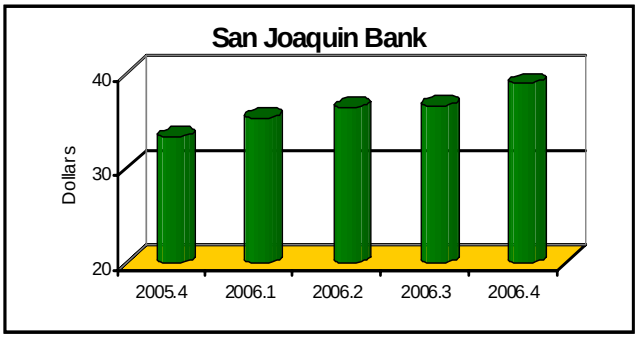
In the fourth quarter of 2006, the composite price index (2005.4 = 100) of top five locally traded stocks inclined 7.2 percentage points from 118.7 to 125.9. The index has climbed 25.9 percentage points since the fourth quarter of 2005. These top five local *market-movers* are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



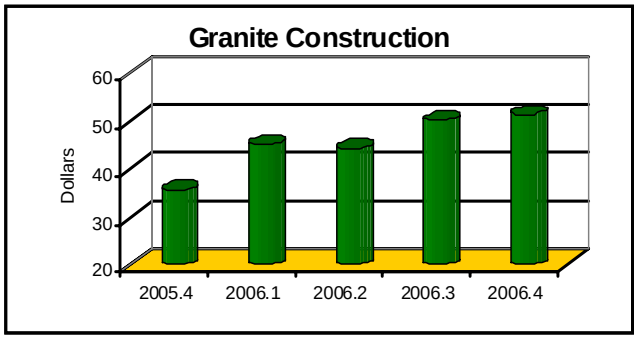
Chevron Corporation: US: CVX gained 7.2 percentage-points as its share value increased from $65.00 in the third quarter to $70.00 in the fourth quarter of 2006. CVX has gained 22.6 percent in value since the fourth quarter of 2005.



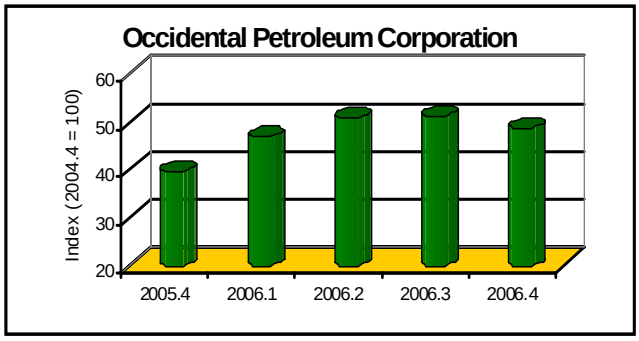
San Joaquin Bank: SJQU gained $2.33 per share as its price climbed from $36.67 in the third quarter to $39.00 in the fourth quarter of 2006. Since the fourth quarter of 2005, SJQU has gone up $5.67 or 17.1 percent.



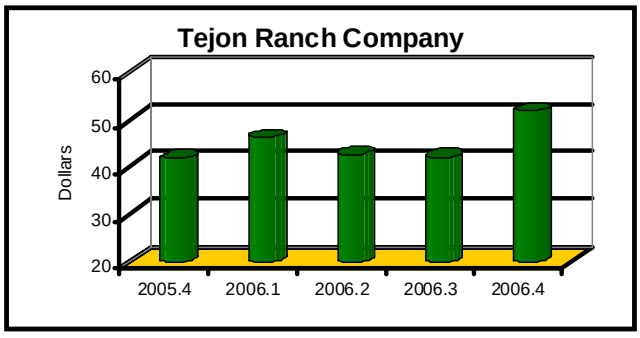
Granite Construction Inc.: GVA gained $1.18 per share in the fourth quarter of 2006 as its stock price climbed from $50.16 to $51.34 per share. GVA has climbed $15.63 or 43.8 percent since the fourth quarter of 2005.



Occidental Petroleum Corporation: OXY lost $2.29 per share as its stock price fell from $50.99 in the third quarter to $48.70 in the fourth quarter of 2006. However, OXY has jumped $9.02 or 22.7 percent the fourth quarter of 2005.



Tejon Ranch Company: TRC gained $9.59 per share as its stock value climbed from $42.21 in the third quarter to $51.80 in the fourth quarter of 2006. Since the fourth quarter of 2005, TRC has gained $9.91 per share.



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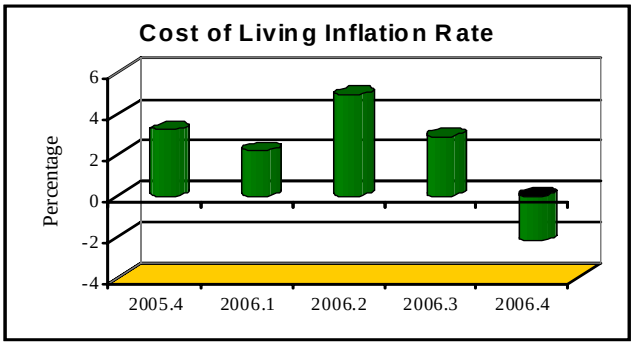
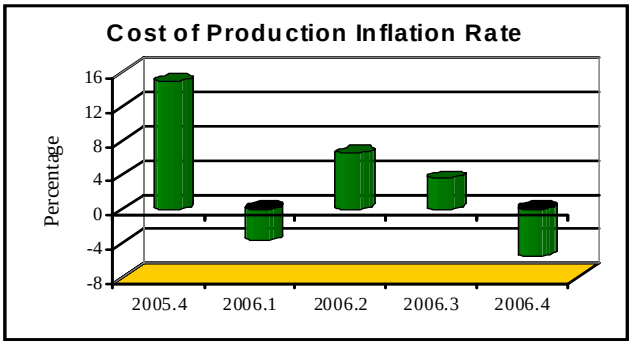
Tracking *(Continued from page 16)*

Commodity Prices

Cost of Living - The Consumer Price Index (CPI) for all urban areas (1982-84 = 100) declined from 203.2 in the third quarter to 202.1 in the fourth quarter of 2006. In annual rate, CPI inflation decelerated from 2.9 percent to -2.2 percent. Relative to the fourth quarter of 2005, the CPI inflation rate edged 5.4 percent lower.

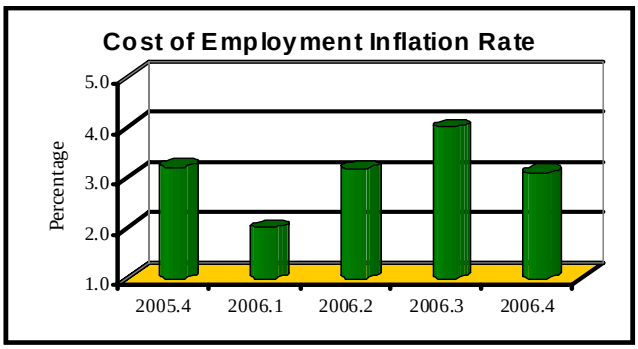


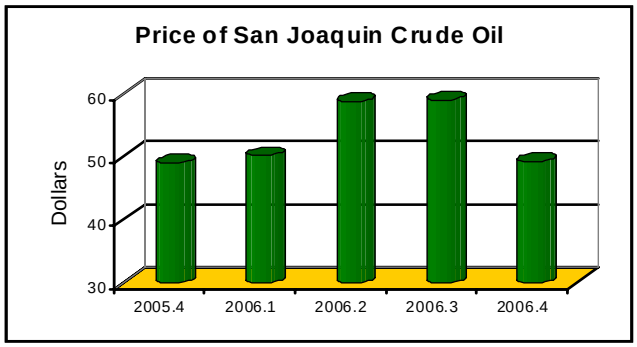
Cost of Production - The Producer Price Index (PPI) for all commodities (1996 =100) rose from 166.8 in the third quarter to 164.4 in the fourth quarter of 2006. In annual rate, PPI inflation decelerated from 6.5 percent in the third quarter to -5.5 percent in the fourth quarter. Relative to the fourth quarter of last year, the PPI inflation rate edged 20.4 percent lower.



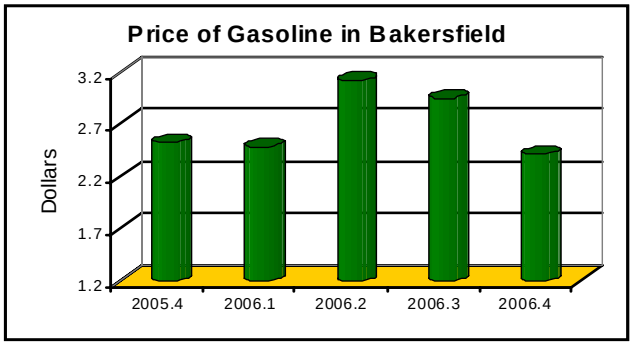
Cost of Employment - In the fourth quarter of 2006, the index of employment cost (December 2005 = 100) increased at an annual rate of 3.1 percent from 102.6 to 103.4. Over the previous four quarters, the index value remained constant.

Price of Oil - The average price of San Joaquin Valley heavy crude plunged $9.77 per barrel from $59.03 in the third quarter to $49.26 in the fourth quarter of 2006. However, the average price of crude oil has edged $0.35 per barrel higher since the fourth quarter of 2005.





Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon dropped 54 cents from $2.95 in the third quarter to $2.41 in the fourth quarter of 2006. The average gasoline price was 11 cents lower relative to the fourth quarter of last year.



Price of Milk - The average price of Class III milk increased $1.46 per cwt from $11.42 in the third quarter to $12.88 in the fourth quarter of 2006. However, the unit price of milk was $0.97 lower relative to the fourth quarter of 2005.

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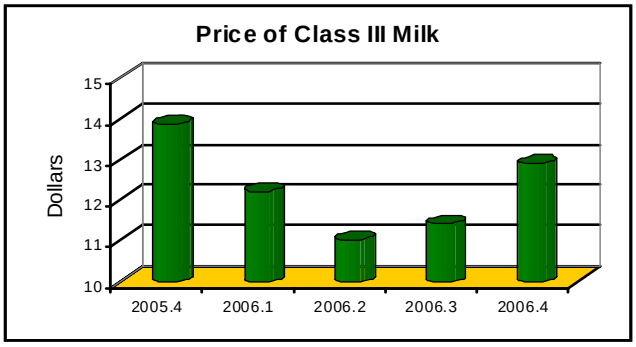
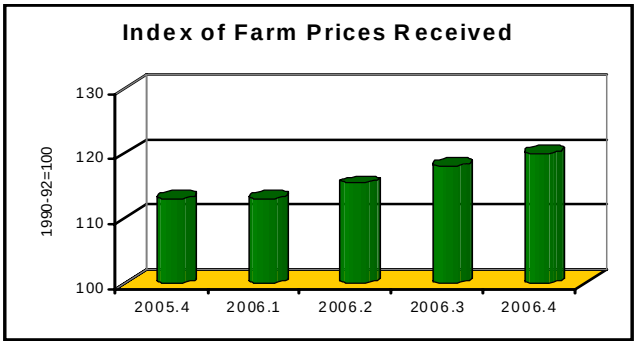
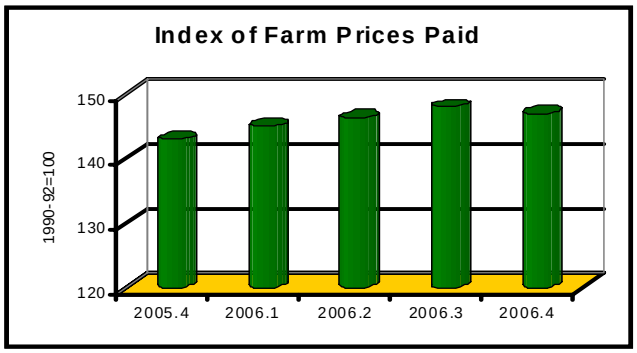
Tracking *(Continued from page 17)*



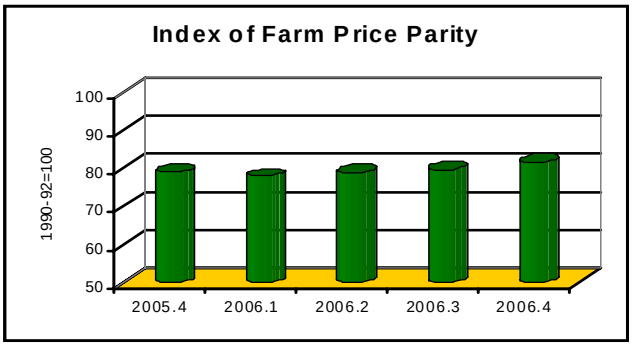


Farm Prices - In the third quarter of 2006, the national Index of Prices Paid by Farmers (1990-92 = 100) for commodities, services, interest, taxes, wages, and rents fell 1 percentage point to reach 147. However, this index has gained 4 percentage points since the fourth quarter of last year.



The national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose 2 percentage points from 118 in the third quarter to 120 in the fourth quarter of 2006. This index was 7 percentage points higher than that of the fourth quarter of last year.

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 fourth quarter of 2006, the Index of Farm Price Parity narrowed 2 percentage points from 80 to 82. Likewise, the disparity between output prices farmers received and input prices farmers paid narrowed as this quarter's disparity index value edged 3 percentage points lower than that of the fourth quarter of last year.



ECONOMIC DETERMINANTS OF IMMIGRATION

ANDREW KARNOWSKI
APPLIED ECONOMICS STUDENT, CSUB

The intent of this examination of legal immigration and domestic migration is to produce an understanding of the factors that determine the decision to relocate to and within the United States. Recently, the Census Bureau has confirmed the increased spread of foreign immigrants beyond the traditional gateway states. Immigrants are reportedly settling throughout the country rather than congregating in the regions where social networks have been established. The second purpose of this study is to determine the effect of immigration on domestic migration as many states have negative migration rates. The connection between immigration and domestic migration is the heart of this research.

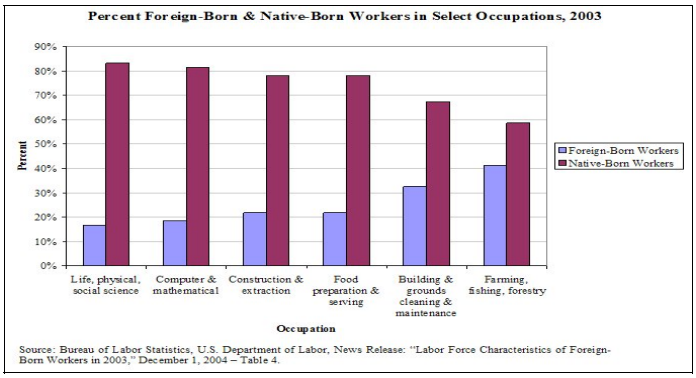
As of March 2005, the number of foreign born persons in the United States was 35.7 million. Seventy-eight percent of that population migrated from less developed countries (LDC) in Africa, Asia, and Latin America. The annual flow of legal immigrants to the United States has increased gradually from 8.6 million in 1996 to 11.2 million in 2004. Each new arrival offers an opportunity for economic expansion, but the actualization of growth depends upon the level of human capital the migrant carries and the availability of employment at that skill level. Thirty-eight percent of all scientists and engineers in the United States holding doctorate degrees are foreign-born. They make up nineteen percent of computer scientists and mathematicians. Also, the foreign-born is comprised of forty-one percent of the labor force in such occupations as construction, food preparation, farming, cleaning and maintenance, fishing, and forestry (Ewing, 2005).

The factors that influence the magnitude and direction of migration fall into two main categories: demand-pull and supply-push. Labor market conditions and existing social networks encourage migration across national and state borders. The decision to migrate is made if the expected value of the income differential is positive, taking into account the cost of moving, difference in the cost of living, and the probability of finding and keeping jobs. Migrant workers are pulled to markets that have greater demand for skilled and semi-skilled, thus paying higher wages. While leaving a region of high unemployment and low wages for a destination of promised prosperity is good sense, migration has traditionally taken place between locations with closer proximity. For example, Martin (1995) estimates that working wages in the United States are twelve times greater than those offered in Mexico, which has the largest outflow of labor to the United States.

Historically, supply-push factors such as religious and civil repression motivated settlers to leave their countries for the United States. In recent years, both skilled and unskilled workers have fled their countries for reasons of war, political repression, poverty, social insecurity, and religious persecution. In recent years, repressive regimes of LDCs fueled the international brain drain causing educated professionals to seek refuge in Western Countries, which offer individual freedom and protect civil liberty.

The similarity between the free movement of labor and the free movement of capital is rather remarkable. Just as a savvy investor places his capital wherever the maximum return on investment is offered, so does the worker sell his labor. It follows, that the free movement of labor is necessary to maximize production and profit. Free markets are characterized by the endless shifting of supply and demand until an equilibrium that maximizes net benefits to consumers and producers.

In an empirical examination of the decision to migrate, I found immigrant workers avoid states with high unemployment rates and are attracted to those of high income with affordable housing. Decisions to relocate are also affected by preferences for regions of the country. In particular, North Central, South Central, South Atlantic, and Western regions have exerted positive and significant effects on immigration. Likewise, the immigration decision is influenced by the proximity to Mexico and by countries that have closer trade relations with the United States.



Source: Bureau of Labor Statistics, U.S. Department of Labor, News Release: "Labor Force Characteristics of Foreign-Born Workers in 2003," December 1, 2004 – Table 4.

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Book Review

A Good Day's Work: Sustaining Ethical Behavior and Business Success

by Alice Lattal and Ralph Clark

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Can businesses pursue profit and still be ethical? The authors of this book, a new book on organizational ethics, argue that it is not only possible but necessary to reconcile profits and ethics. While most books in this area either offer somewhat simplistic dos and don'ts or are focused on ethical theory, this book, written by a management consultant and a philosophy professor, attempts to provide well grounded, contextualized, and sensible advice. It explores the meaning of ethics in concrete organizational situations and provides ideas for implementing ethical practices at work. These ideas would be useful not only to leaders in private corporations but also to those in public and nonprofit organizations. The authors argue that contemporary organizational leaders face enormous pressures which make the pursuit of unethical practices attractive. In this context, it is imperative that managers have tools to help them through the decision making processes which result in ethical behavior. They emphasize that ethical behavior is a process of 'becoming' and it is based on an understanding of the complexity and uniqueness of each situation, the identification of the values that are at play, and the tradeoffs between those values that necessarily have to be made. No single formula for ethical behavior is appropriate because no two situations will be the same. However, the framework used to make ethical decisions in one situation may be used as a template in another situation and such a template is what the authors want us to take from this book.

The book is divided into three sections. The first section, titled 'Defining Ethics', explores the meaning of ethics in an organizational context and asks the question, 'why be moral?'. It examines these issues at the individual and the organizational levels and sets the stage for the second section titled 'Ethical Conditions at Work'. This sections describes the various conditions within an organization which could make employees (and leaders) behave ethically or otherwise. The authors explore such issues as the level of openness of discussion tolerated by leaders, the way goals are used, the reward systems in place, and the way employees from different cultures are treated. The last section is titled 'Increasing Ethical Behavior' and it contains very specific strategies that leaders can use to increase ethical behavior from themselves and their employees. The strategies are predominantly of two kinds: improving communication within the organization, and using rewards and punishments judiciously. The authors also place a strong emphasis on the role of mentoring and training others in these practices within the organization. In that sense, leaders have a responsibility for slowly developing the culture of the place such that ethical behavior becomes fairly commonplace at all levels and under all circumstances.

Whether it is the back-dating of options in a private corporation, the misuse of donor money in a nonprofit, or the neglect of clients by a public agency, modern organizations face well deserved skepticism from the public. It is now even more clear that the rise to the top for organizations is fueled by credibility. Such credibility can not be earned by one person or in one day. This book has some practical ideas that could help organizational leaders take the first steps to building an ethical organization in the long run.

Immigration *(Continued from page 19)*

Selected References:

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