

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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# KERN ECONOMIC JOURNAL

2011 Third Quarter

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for Local Economic Development*



*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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# INSIDE THIS ISSUE:

*Cover photo: Commemorating the 10th anniversary of 9/11 on CSUB campus*

**Economy at a Glance!** .....2

## **Opinion Surveys**

*Kern Businesses Turning Pessimistic* .....3

*Both Local and National Consumer Sentiment Plunge in Third Quarter*.....4

## **Tracking Kern's Economy**

*Economy* .....6

*Labor Market*.....6

*Housing Market*.....8

*Stock Market*.....10

*Inflation* .....11

*Commodity Prices* .....11

## **Econ Briefs**

*Personal Bankruptcy on the Rise in California* .....1

*Boom and Bust in Kern County's Housing Market*.....13

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### **Econ Brief!**

#### **Personal Bankruptcy on the Rise in California**

In the United States, bankruptcy cases filed in federal courts increased 13.8 percent to reach 1,596,355 in 2010 from 1,402,816 in 2009. While, business filings dropped 0.7 percent to arrive at 58,322 from 58,721, personal filings increased 14.4 percent to attain 1,538,033 from 1,344,095. Personal bankruptcy in 2010 is the highest number of filings for a fiscal year since 2005, immediately prior to the implementation of the Bankruptcy Abuse Prevention and Consumer Protection Act in October 2006.

Some states fared better than others. Personal filings declined in 11 states. Tennessee (-7.2 percent), West Virginia (-7.1 percent), and South Carolina (-4.1 percent) posted the largest declines in the number of personal bankruptcies recorded last year. The number of filings remained unchanged in Arkansas. Meanwhile, personal filings rose in 38 states. Hawaii (28.9 percent), California (25.0 percent), and Utah (24.4 percent) posted the largest increases in the number of personal bankruptcies recorded last year.

California had the largest filings and the second largest rate of increase in the nation. In particular, personal bankruptcy climbed to 251,008 from 200,806 one year earlier. Several factors contributed to such a large number of filings in the state, including rising unemployment rates, falling housing prices, and high personal and property tax rates.

David Lyman, City of Bakersfield

Source:

United States Courts, [http://www.uscourts.gov/News/NewsView/10-11-08/Bankruptcy\\_Filings\\_Up\\_Nearly\\_14\\_Percent\\_over\\_Last\\_Fiscal\\_Year.aspx?CntPageID=1](http://www.uscourts.gov/News/NewsView/10-11-08/Bankruptcy_Filings_Up_Nearly_14_Percent_over_Last_Fiscal_Year.aspx?CntPageID=1)



# ECONOMY AT A GLANCE!

2011 THIRD QUARTER

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB

## National Economy

Real Gross Domestic Product (GDP) increased at an annual rate of 2.5 percent in the third quarter from 1.3 percent in the second quarter of 2011, according to the "advance" estimate released by the Bureau of Economic Analysis. The increase in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, and federal government spending. These positive effects were partly offset by negative contributions from private inventory investment, state and local government spending, and imports.

The Index of Leading Economic Indicators – a measure of future economic activity – ascended 1.3 points to reach 115.8. This modest increase in the composite indicator points to a slow economic recovery. Likewise, the University of Michigan's Consumer Sentiment Index lost 12 points to arrive at 60. This loss was due to depressed employment markets and sluggish economic recovery.

## State Economy

In California, the unemployment rate rose from 11.8 to 12.0 percent. Among the counties, San Francisco (8.3 percent), Orange (8.6 percent), San Luis Obispo (9.3 percent), San Diego (9.7 percent), Santa Clara (9.6 percent), and Sacramento (11.9 percent) had unemployment rates below the state average. However, Los Angeles (12.2 percent), Riverside (14.0 percent), and Fresno (14.9 percent) had unemployment rates above the state average.

The state's civilian labor force shrunk by 33,000 and total employment declined by 67,300. Meanwhile, 34,700 more workers were unemployed. Nonfarm industries were responsible for 26,600 more jobs, but farming enterprises cut 3,900 jobs. A wide range of industries added jobs: manufacturing, wholesale trade, information, finance and insurance, professional and business services, health-care and social assistance, leisure and hospitality, and federal and local governments. Meanwhile, several industries reduced employment: construction, retail trade, transportation, warehousing and utilities, real estate and rental and leasing, arts, entertainment and recreation, educational services, and state government.

## Local Economy

In Kern County, households became more pessimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* fell

from 88 to 75. Likewise, businesses perception about employment and economic conditions turned pessimistic as the *Business Outlook Index* dropped from 119 to 97.

In the meantime, the county's economy expanded at an annual rate of 2.4 percent. Kern's economy generated \$15.45 billion in real personal income, \$92 million more than the previous quarter. Increased total personal income was largely offset by rapid labor force growth. As a result, personal income per worker decreased \$550 to reach \$40,150.

Labor market conditions improved in the third quarter of this year. Total employment increased by 9,600, which consisted of 12,470 more farm jobs and 260 informal jobs, but 3,130 fewer nonfarm jobs. Private enterprises added 1,170 jobs, but government agencies cut 4,100 paid positions

The rate of unemployment dropped from 14.9 to 14.0 percent. While below the county average, the rate of unemployment averaged 10.2 percent in Bakersfield, 11.5 percent in California City, 8.4 percent in Ridgecrest, and 9.2 percent in Tehachapi.

Housing market conditions showed modest improvement. The county's median sales price for all residential units appreciated \$1,900 (or 1.5 percent) from \$124,600 to \$126,500. In Bakersfield, the median housing price appreciated \$1,300 (or 1.0 percent) from \$132,200 to \$133,500. In Kern County, only 6 more homes were sold as total sales increased from 3,054 to 3,060. In Bakersfield, 12 fewer homes were sold as sales of residential units declined from 2,244 to 2,232. The number of building permits issued for the construction of new privately-owned dwelling units increased from 206 to 304. The housing affordability indicator declined from 30.2 to 30.0 percent.

The county's foreclosure activity accelerated from 1,485 to 1,989. As a result, 504 more homeowners received notices of loan default from their mortgage bankers. However, the number of homes lost to foreclosure decreased from 1,555 to 1,264. Hence, 291 fewer homes were lost to foreclosure.

In commodity markets, the average price of San Joaquin Valley heavy crude decreased \$16.75 (or 15.6 percent)

*(Continued on page 12)*

# KERN BUSINESSES TURNING PESSIMISTIC

**ABBAS P. GRAMMY**

PROFESSOR OF ECONOMICS, CSUB



Results of the Business Outlook Survey indicate that Kern County business managers have turned pessimistic about local employment and business conditions. In the third quarter (July through September) of 2011, the *Business Outlook Index* plunged 22 points from 119 to 97. Relative to four quarters ago, the index was down 23 points. This perceived pessimism becomes evident when we compared the survey data of this quarter with those of the previous quarter. We observed that the percentage of positive responses declined from 33 to 24, while the percentage of negative responses increased from 13 to 27.

Kern County's *Business Outlook Index* is compiled from telephone surveys administered to a random sample of local business managers listed in various telephone directories. Index values above 100 indicate optimism, while values below 100 suggest pessimism. The intent of the survey is to help business managers make more informed decisions given local economic trends. Survey results also enable investors to assess the potential for local economic growth based on the degree of business confidence.

To make an in-depth analysis of business confidence, we disaggregated the *Business Outlook Index* into two indices relating to recent and future business perceptions. The *Current Conditions Index* plummeted from 118 to 96, and the *Future Conditions Index* dropped from 120 to 98.

## Employment Outlook:

Fifty-two percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 15 percent said more jobs were available

in their companies and 33 percent reported reduced employment.

Likewise, 53 percent perceived that the number of jobs would stay constant next quarter, whereas 13 percent expected their companies to hire more workers. The remaining 34 percent anticipated a smaller workforce.

## Financial Outlook:

Forty-two of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 28 percent indicated increased sales and profits and 30 percent stated reduced sales and profits.

Similarly, 40 percent expected financial conditions of their companies would remain constant next quarter. However, 30 percent anticipated increased sales and profits and 30 percent predicted reduced sales and profits.

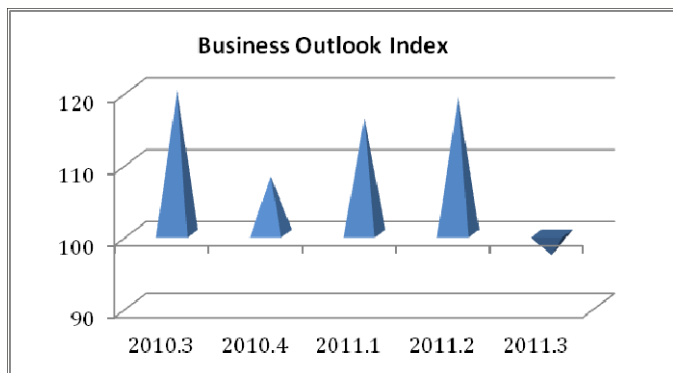
## Industry Outlook:

Sixty percent of survey respondents perceived that the employment and general business conditions of their industries remained the same as the previous quarter, while 25 percent felt these conditions improved and 15 percent indicated crumbling business conditions.

Fifty-four percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 25 percent expected progress and 21 percent felt otherwise.

## Economic Outlook:

When asked about Kern County's economy, 52 percent of interviewees perceived no change this quarter. Nevertheless, 23 percent felt conditions improved and 25 percent said conditions worsened.



	Current Quarter	Previous Quarter	Four Quarters Ago
<b>Business Outlook Index</b>	<b>97</b>	<b>119</b>	<b>120</b>
Current Conditions Index	96	118	102
Future Conditions Index	98	120	116

(Continued on page 5)

# BOTH LOCAL AND NATIONAL CONSUMER SENTIMENT PLUNGE IN THIRD QUARTER

**MARK EVANS**

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



Renewed concern about a double dip recession took its toll on consumer confidence in the most recent quarter. After reaching 88 in the second quarter - its highest reading in three years - Bakersfield's Index of Consumer Sentiment sank to 75 in the third quarter of 2011. This parallels the University of Michigan's national Consumer Sentiment Index, which plunged to 60 from 72 in the second quarter. The Bakersfield index peaked at 125 in the first quarter of 2007, reached an all-time low of 66 in the first quarter of 2010, and had been inching forward in recent quarters.

While the magnitudes of these two indexes cannot be directly compared, both have paralleled the financial collapse, slow recovery, and pauses in the recovery. With fears of a double dip recession prevalent in the third quarter, both indexes sank to a level that is exceeded roughly 95 percent of the time.

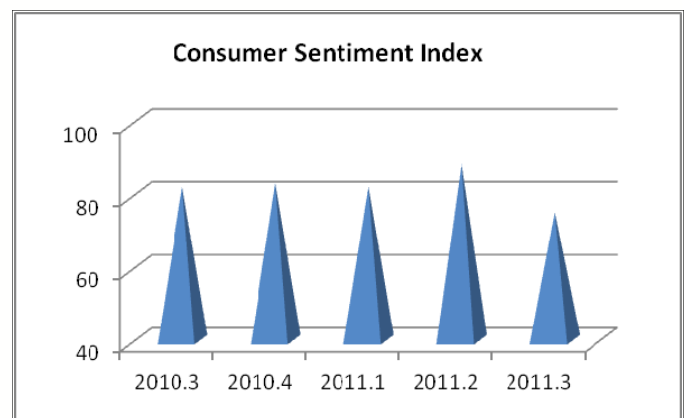
CSUB compiles the Bakersfield index from telephone interviews of a random sample of households in order to help local decision makers compare national and local trends. The Bakersfield index is disaggregated into sub-indexes measuring recent conditions and future expectations. The third quarter collapse in the overall index resulted from a significant decrease in both sub-indexes.

The sub-index measuring recent financial conditions decreased from 90 to 76. The percent of households reporting that their financial condition had improved over the past year decreased from 20 to 16 percent, while 38 percent reported being worse off, compared to 21 percent in the previous quarter. This deterioration in financial well-being caused many households to clamp down on spending. Forty-four (44) percent reported spending less than the usual amount on discretionary items such dining out, en-

tertainment, and weekend outings, compared to 23 percent who retrenched in the second quarter.

The sub-index measuring expectations for the coming year decreased from 86 to 73. While the percent of respondents expecting their financial situation to improve in the coming year did not change significantly from the prior quarter (roughly one-in-four), those expecting their situation to worsen or become more risky increased from roughly one-in-five to one-in-three. Respondents also reported a decrease in their Kern County acquaintances' expectations compared to the previous quarter. While 45 percent of the sample thought the second quarter was a risky time for most people to use savings or incur debt to buy expensive goods, 55 percent were bearish in the third quarter.

Fears of a double dip recession have receded in recent weeks. If these fears can remain suppressed, both indexes should rebound smartly in the fourth quarter.



(Continued on page 5)

<b>Table 1: Index Values</b>			
	<b>Most Recent Quarter</b>	<b>Previous Quarter</b>	<b>One Year Ago</b>
<b>Bakersfield Consumer Sentiment Index</b>	<b>75</b>	<b>88</b>	<b>82</b>
Sub-index: Current Conditions	76	90	78
Sub-index: Future Expectations	73	86	86

<b>Table 2: Recent Buying and Financial Trends</b>			
	<b>More than usual</b>	<b>Same as usual</b>	<b>Less than usual</b>
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	15 %	41 %	44 %
	<b>Better off</b>	<b>Same</b>	<b>Worse off</b>
How your family is doing financially compared to one year ago.	16 %	46 %	38 %
How your acquaintances in Kern County are doing financially compared to one year ago.	17 %	44 %	39 %

<b>Table 3: Future Expectations</b>			
	<b>Better or more stable</b>	<b>About the same</b>	<b>Worse or more risky</b>
The most likely financial situation of your family one year from now	24 %	42 %	34 %
	<b>Optimistic</b>	<b>Neutral</b>	<b>Fearful</b>
How your acquaintances in Kern County view the coming year.	15 %	39 %	46 %
	<b>Safe time to buy</b>	<b>Neutral response</b>	<b>Risky time to buy</b>
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	16 %	29 %	55 %

**Businesses More Confident** (Continued from page 3)

Likewise, 43 percent felt that economic conditions would remain unchanged next quarter. However, 30 percent anticipated the economy would get better and 27 percent said conditions are likely to get worse.

**Factors Affecting Business Outlook:**

We asked interviewees to identify factors that have affected employment and financial conditions of their companies. They felt several factors brightened the business outlook:

- Public spending on infrastructure
- Farm prices are still high
- Increased tourism

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

- Households are not spending as much on discretionary items
- State economy is not recovering from its recession
- Unemployment is still high

<b>Question</b>	<b>Response</b>		
	<b>Better</b>	<b>Same</b>	<b>Worse</b>
Employment in your company this quarter was	15%	52%	33%
Employment in your company next quarter will be	13%	53%	34%
Financial condition (sales or profits) of your company this quarter was	28%	42%	30%
Financial condition (sales or profits) of your company next quarter will be	30%	40%	30%
Employment and general business conditions in your industry this quarter were	25%	60%	15%
Employment and general business conditions in your industry next quarter will be	25%	54%	21%
Employment and general business conditions in Kern County this quarter were	23%	52%	25%
Employment and general business conditions in Kern County next quarter will be	30%	43%	27%

# TRACKING KERN'S ECONOMY<sup>1</sup>

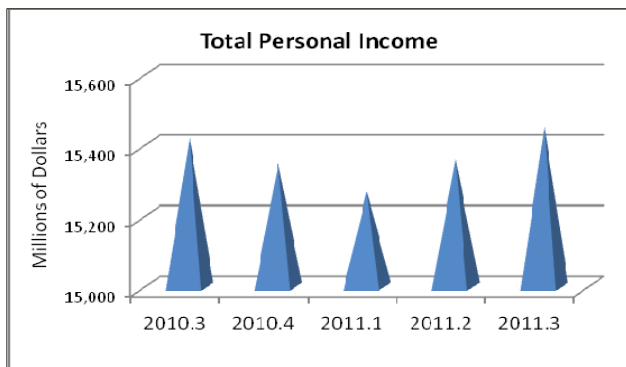
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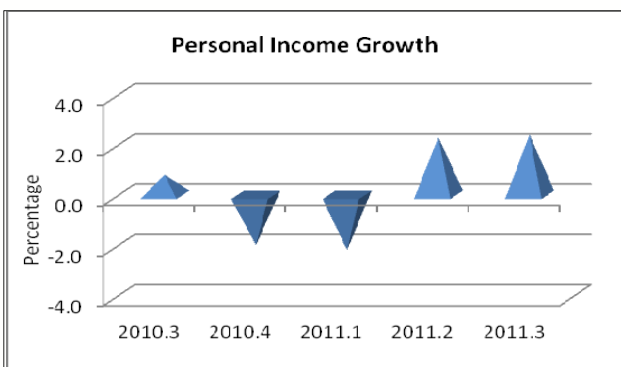
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## Economy

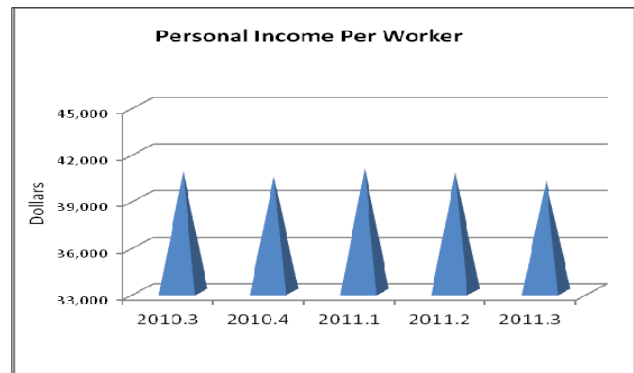
**Personal Income** - Kern County's total personal income (in constant 1996 dollars and adjusted for seasonal variations) increased \$92 million from \$15.36 billion in the second quarter to \$15.45 billion in the third quarter. Rising employment, appreciating housing prices, reduced unemployment benefits, and greater non-labor income contributed to the growth in personal income. Likewise, this quarter's total personal income was \$32 million more that of four quarters ago.



**Growth of Personal Income** - The gain of \$92 million of personal income translated into an annualized growth rate of 2.4 percent in the third quarter of 2011. Kern's economy grew 2.3 percent in the previous quarter and 0.8 percent four quarters ago.



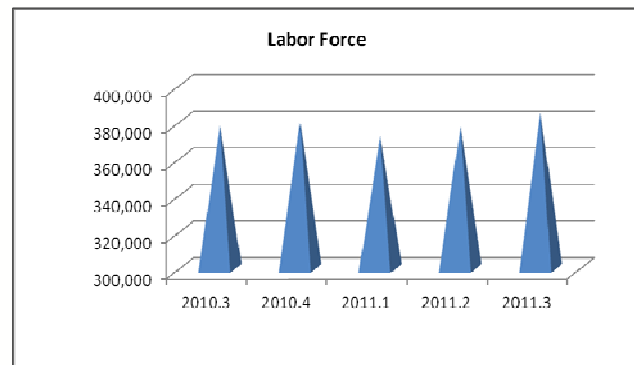
**Personal Income Per Worker** - Such a modest increase in total personal income was offset by a sharp increase in the labor force. As a result, personal income per worker decreased \$550 from \$40,700 in the second quarter to \$40,150 in the third quarter. Similarly, personal income per worker was down \$620 relative to four quarters ago.



## Labor Market

We adjust published data in three ways. Firstly, we averaged monthly data to calculate quarterly data. Secondly, we recalculated quarterly data to take into account workers employed in the "informal" market (i.e., self-employed labor and those who work outside their county of residence). Finally, we adjusted quarterly data for the effects of seasonal variations.

**Labor Force** - The civilian labor force increased by 7,400 members from 377,510 in the second quarter to 384,910 in the third quarter. Likewise, 6,700 more workers were available for work relative to the third quarter of 2010.

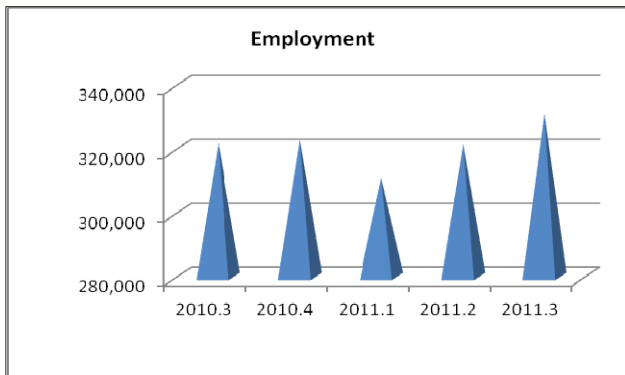


**Employment** - In the third quarter of 2011, Kern County's economy added 9,600 jobs as total employment increased from 321,410 to 331,010. Similarly, the county employed 9,200 more workers this quarter relative to the third quarter of last year.

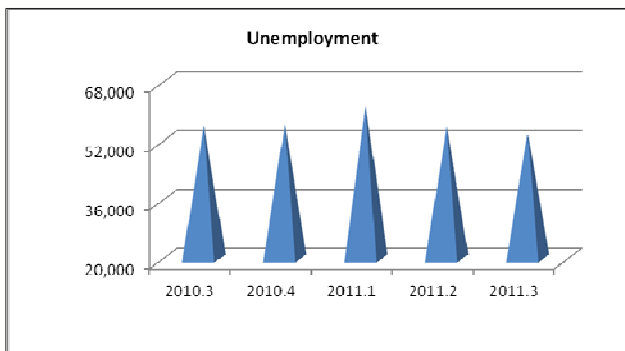
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<sup>1</sup>Source - Online databases: [labormarketinfo.edd.ca.gov](http://labormarketinfo.edd.ca.gov), [bakersfieldgasprices.com](http://bakersfieldgasprices.com), [dqnews.com](http://dqnews.com), [economagic.com](http://economagic.com), [bea.gov](http://bea.gov), [bls.com](http://bls.com), [gpoaccess.gov](http://gpoaccess.gov), [dairy.nu](http://dairy.nu), [msn.com](http://msn.com), [census.gov](http://census.gov), [kerndata.com](http://kerndata.com), and [bry.com](http://bry.com)

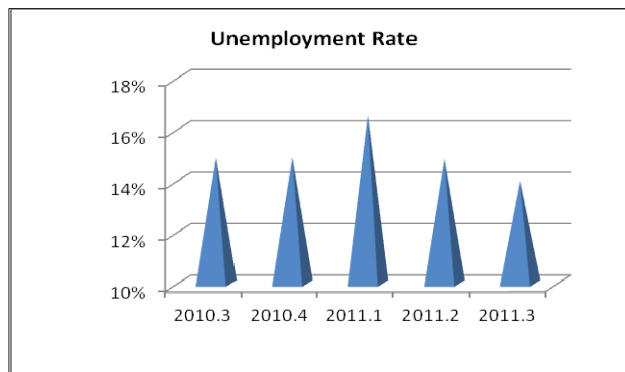




**Unemployment** - The number of jobless workers decreased by 2,200 as unemployment declined from 56,100 in the second quarter to 53,900 in the third quarter. Likewise, 2,500 fewer workers were unemployed this quarter than four quarters ago.



**Unemployment Rate** - In the meantime, the rate of unemployment dropped from 14.9 percent to 14.0 percent. This quarter's unemployment rate was also 0.9 percent lower than that of four quarters ago.

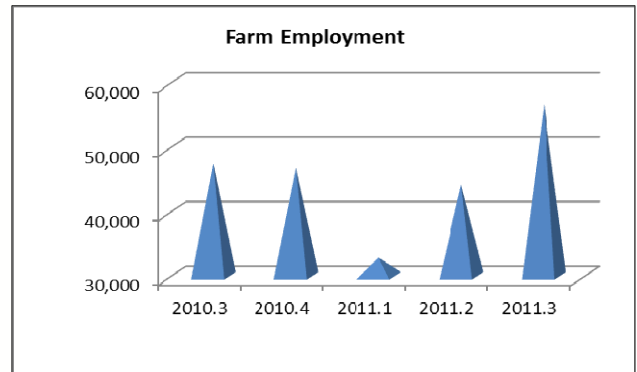


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate ranged between 8.4 percent in Ridgecrest and 36.5 percent in Arvin. In Bakersfield, the rate of unemployment was 10.2 percent.

**Farm Employment** - In the third quarter of 2011, Kern County employed 12,470 more farm workers. Farm employment increased from 44,170 to 56,640. Likewise, the farming industry hired 9,140 more workers this quarter than four quarters ago.

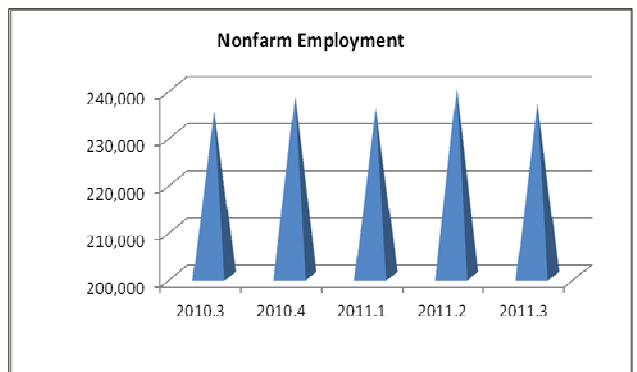
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	8.4	Mojave	16.2
Tehachapi	9.2	Lake Isabella	17.1
Bakersfield	10.2	Shafter	25.3
California City	11.5	Lamont	25.4
Rosamond	12.0	Wasco	26.3
Frazier Park	12.8	McFarland	29.3
Taft	14.2	Delano	35.2
Oildale	15.3	Arvin	36.5

Note: City-level data are not adjusted for seasonality and "informal" market workers.

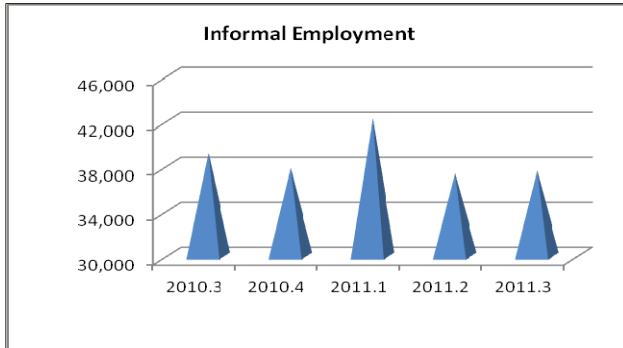


**Nonfarm Employment** - Local nonfarm industries employed 3,130 fewer workers this quarter. The number of nonfarm jobs decreased from 239,870 in the second quarter to 236,740 in the third quarter. Nevertheless, nonfarm industries employed 1,640 more workers this quarter than four quarters ago.

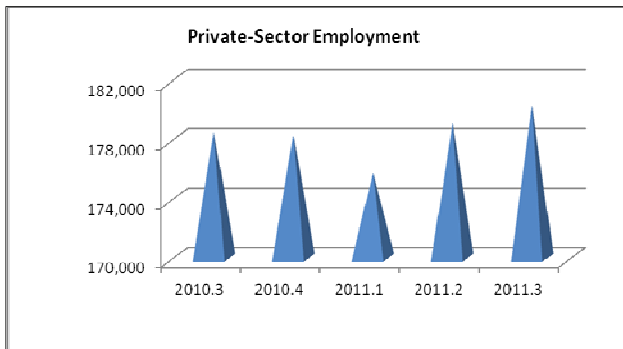
Several nonfarm industries added job: oil and gas extraction, construction, manufacturing, wholesale trade, transportation, warehousing and utilities, finance and insurance, health-care and social assistance, accommodation and food services, federal government, and county and city governments. However, jobs were lost in retail trade, real estate and rental and leasing, educational services, arts, entertainment and recreation, state government, and local public education.



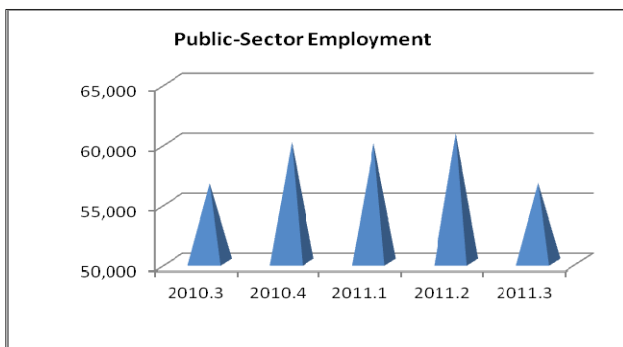
**Informal Employment** - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the third quarter of 2011, the number of informal workers increased by 260 from 37,370 to 37,630. However, the informal labor market offered 1,580 fewer jobs this quarter relative to the third quarter of last year.



**Private-sector Employment** - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the third quarter of 2011, private companies added 1,170 jobs as their employment increased from 179,140 to 180,310. Relative to four quarters ago, the private sector offered 1,810 more jobs.

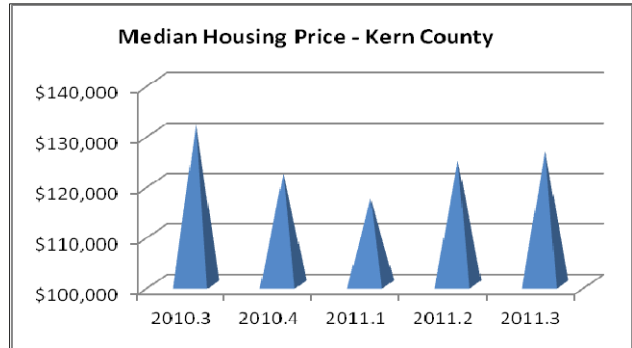


**Public-sector Employment** - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the third quarter of 2011, government agencies cut 4,100 jobs as their employment declined from 60,730 to 56,630. However, the public sector employed 30 more workers this quarter relative to four quarters ago.

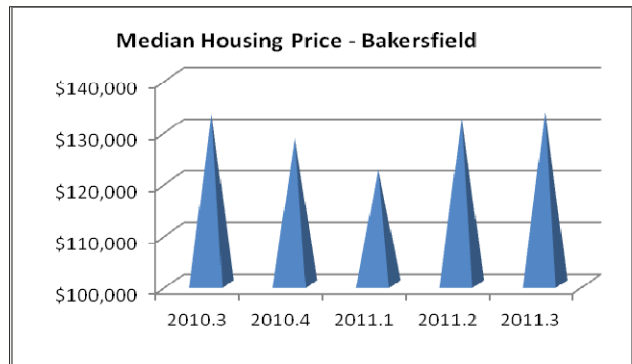


**Housing Market**

**Housing Price** - In the third quarter of 2011, Kern County's housing market conditions improved slightly. The median sales price for all residential units appreciated \$1,900 (or 1.5 percent) from \$124,600 to \$126,500. Still, the county's median housing price was \$5,200 (or 3.9 percent) lower than that of four quarters ago.



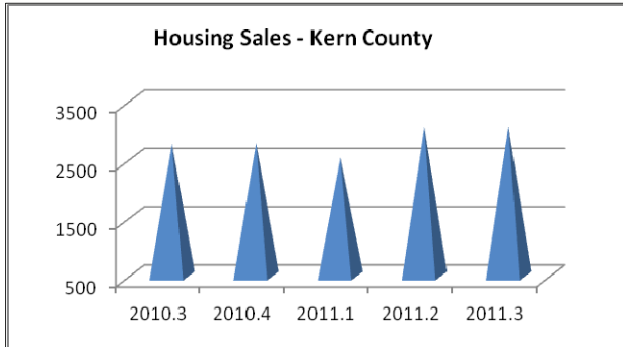
In Bakersfield, the median housing price appreciated \$1,300 (or 1.0 percent) from \$132,200 to \$133,500. Likewise, the city's median housing price was \$500 (or 0.4 percent) lower than that of four quarters ago.



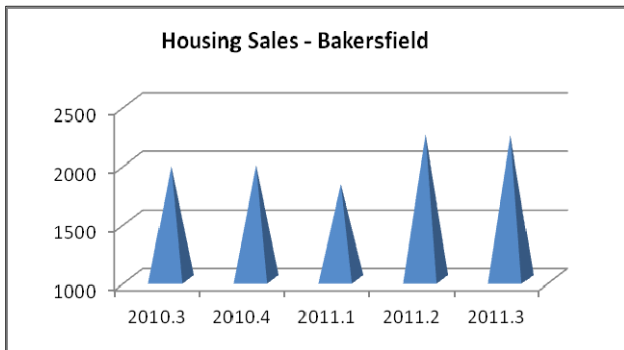
Housing price changes varied across the county. Among selected locations shown below, the median sales price appreciated in Bakersfield, Delano, Taft, and Tehachapi. The median housing price depreciated in California City, Ridgecrest, and Rosamond.

Location	Median Price 2011.2	Median Price 2011.3	Price Change 2011.2 to 2011.3	Price Change 2011.2-2011.3
Kern County	\$124,600	\$126,500	\$1,900	1.5%
Bakersfield	\$132,200	\$133,500	\$1,300	1.0%
California City	\$62,100	\$56,900	-\$5,200	-8.4%
Delano	\$116,000	\$122,750	\$6,750	5.8%
Ridgecrest	\$167,400	\$137,500	-\$29,900	-17.9%
Rosamond	\$114,000	\$108,800	-\$5,200	-4.6%
Taft	\$66,800	\$67,500	\$700	1.0%
Tehachapi	\$135,700	\$143,750	\$8,050	5.9%

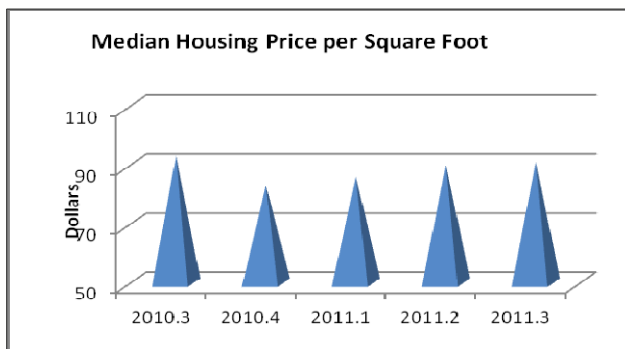
**Housing Sales** - In Kern County, only 6 more homes were sold as total sales increased from 3,054 in the second quarter to 3,060 in the third quarter. However, 290 more units were sold this quarter relative to the second quarter of last year.



In Bakersfield, 12 fewer homes were sold as sales of residential units declined from 2,244 in the second quarter to 2,232 in the third quarter. Nevertheless, sales were up by 262 units this quarter relative to the third quarter of last year.

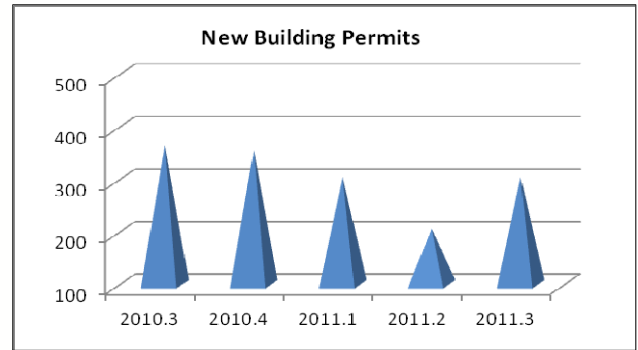


**Median Housing Price per Square Foot** - The median sales price per square foot of housing area inclined \$1 from \$90 in the second quarter to \$91 in the third quarter. Nevertheless, the median housing price per square foot has gone down \$2 since the third quarter of last year.

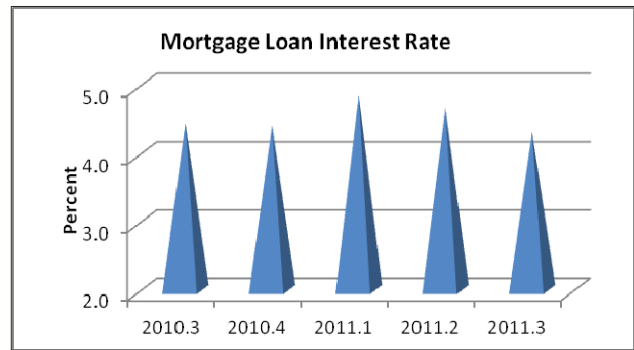


**New Building Permits** - In the third quarter of 2011, Kern County issued 98 more building permits for construction of new privately-owned dwelling units. The number of permits increased from 206 to 304. However,

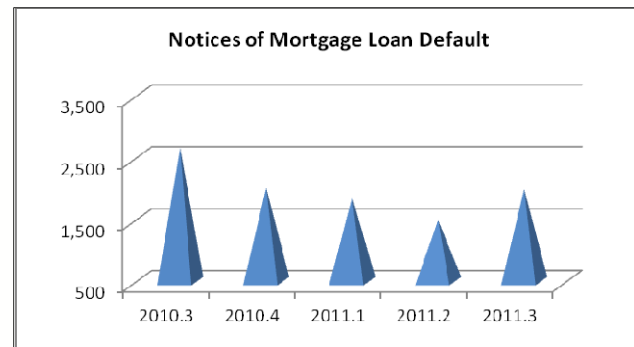
61 fewer building permits were issued this quarter relative to four quarters ago.



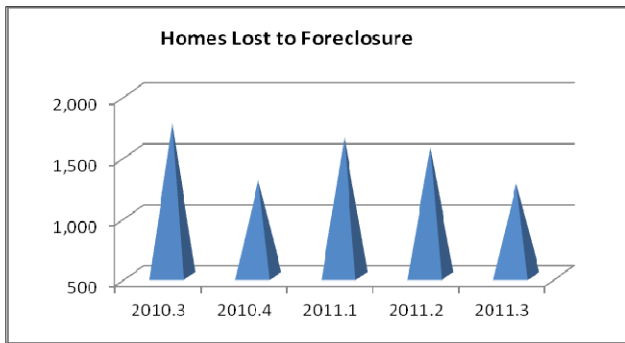
**Mortgage Interest Rate** - In the third quarter of 2011, the interest rate of thirty-year conventional mortgage loans decreased from 4.66 to 4.31 percent. Four quarters ago, mortgage loan interest rate was 4.44 percent



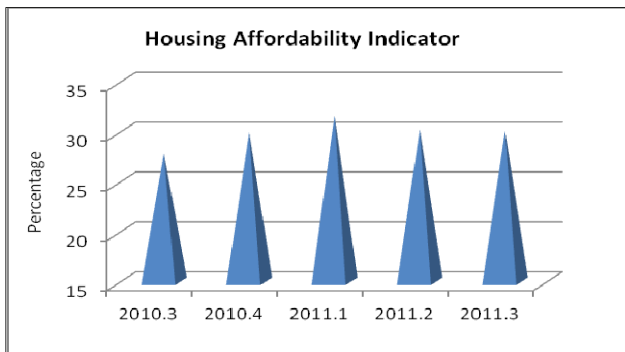
**Housing Foreclosure Activity** - In the third quarter of 2011, the county's foreclosure activity increased from 1,485 to 1,989. As a result, 504 (or 33.9 percent) more homeowners received notices of loan default from their mortgage bankers. However, the number of default notices has gone down by 665 (or 25.1 percent) since the third quarter of last year.



The number of homes lost to foreclosure decreased from 1,555 in the second quarter to 1,264 in the third quarter. As a result, 291 (or 18.7 percent) fewer homes were lost to foreclosure. Similarly, 488 (or 27.9 percent) fewer homes were lost to foreclosure relative the third quarter of 2010.



**Housing Affordability** - Median housing prices divided by median household income is a measure of housing affordability. With small appreciation of housing prices and slow growth of household income, the affordability indicator declined from 30.2 percent in the second quarter to 30.0 percent in the third quarter. The housing affordability indicator was 27.8 percent four quarters ago.

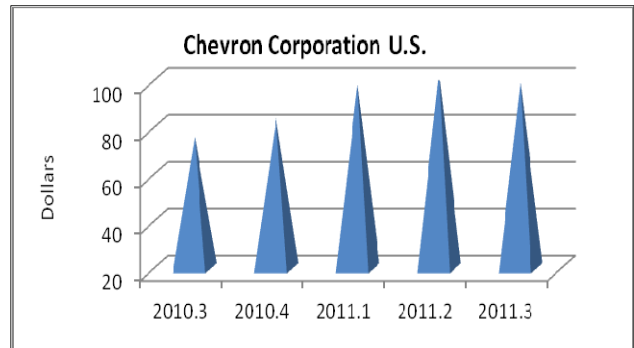


**Stock Market**

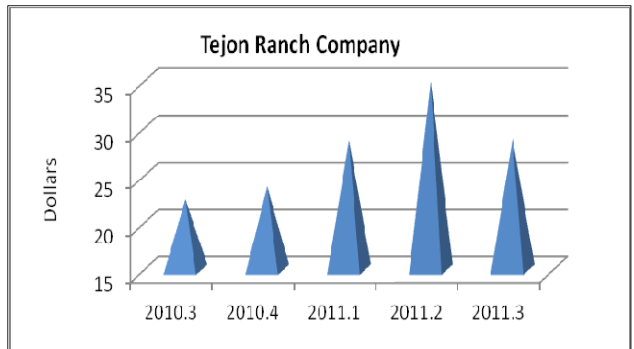
In the third quarter of 2011, the composite price index (2010.3 = 100) of the five publically traded companies doing business in Kern County decreased 14.1 points from 121.7 to 107.6. However, the index was 7.6 points higher than that of four quarters ago. Average “close” prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



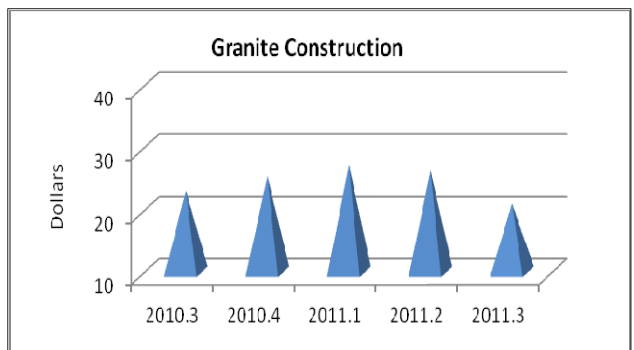
**Chevron Corporation US** - CVX lost \$4.24 (or 4.1 percent) per share as its price rose from \$103.55 in the second quarter to \$99.31 in the third quarter. Nevertheless, CVX has gained \$23.32 (or 30.7 percent) since the third quarter of 2010.



**Tejon Ranch Company** - TRC lost \$6.07 (or 17.3 percent) per share as its stock price fell from \$34.99 in the second quarter to \$28.92 in the third quarter. Yet, TRC was up \$6.44 (or 28.6 percent) relative to the third quarter of 2010.



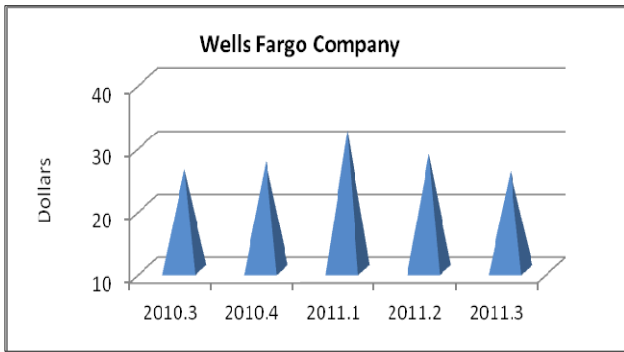
**Granite Construction** - GVA lost \$5.25 (or 20.0 percent) per share in the third quarter of 2011 as its stock price decreased from \$26.29 to \$21.04 per share. Similarly, GVA has gone down \$2.07 (or 9.0 percent) since the third quarter of 2010.



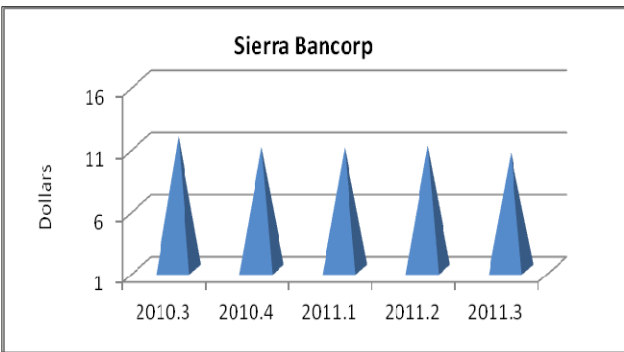
**Wells Fargo Company** - WFC dropped \$2.73 (or 9.6 percent) per share as its stock price fell from \$28.48 in the second quarter to \$25.75 in the third quarter. Relative to one year ago, WFC was down 33¢ (or 1.3 percent).

(Continued on page 11)



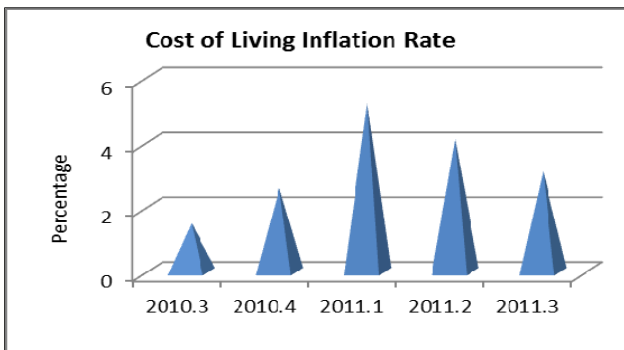


**Sierra Bancorp** - BSRR lost 56¢ (or 5.1 percent) per share as its price fell from \$11.02 in the second quarter to \$10.46 in the third quarter. Likewise, BSRR has gone down \$1.30 (or 11.1 percent) since the third quarter of 2010.

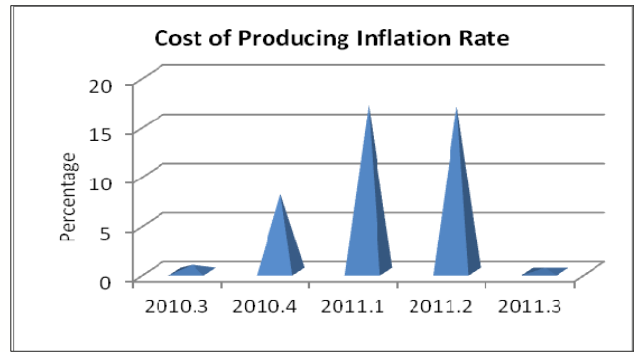


**Inflation**

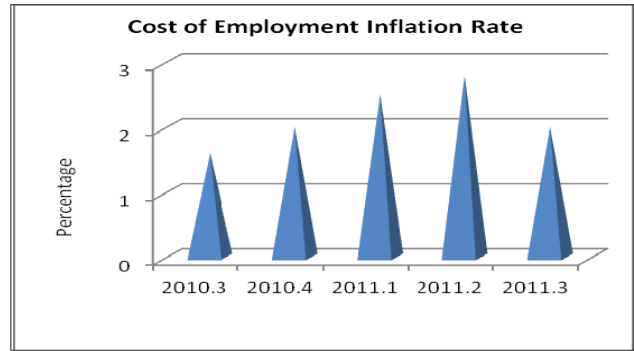
**Cost of Living** - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 224.5 in the second quarter to 226.2 in the third quarter. As a result, inflation for the cost of living accelerated at an annual rate of 3.1 percent. The cost of living inflation rate was 4.1 percent last quarter and 1.5 percent four quarters ago.



**Cost of Producing** - The Producer Price Index for all commodities (1996 = 100) climbed from 203.7 in the second quarter to 203.9 in the third quarter. The inflation rate for the cost of producing accelerated at an annual rate of 0.4 percent. The cost of producing inflation rate was 16.9 percent last quarter and 0.7 percent four quarters ago.

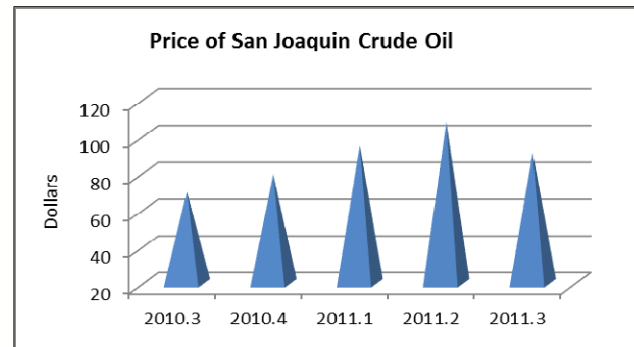


**Cost of Employment** - The Cost of Employment Index (December 2005 = 100) increased from 114.8 in the second quarter to 115.4 in the third quarter. The cost of employment inclined at an annual rate of 2.0 percent. The cost of employment inflation rate was 2.8 percent last quarter and 1.6 percent four quarters ago.



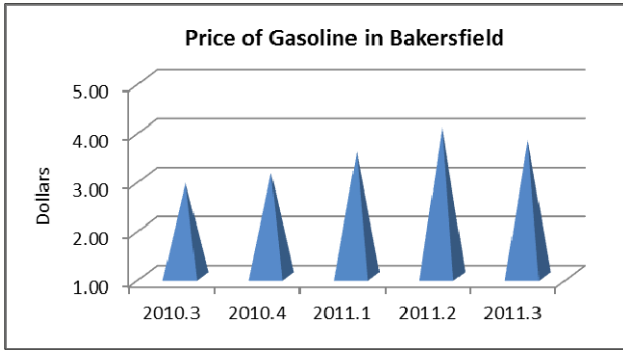
**Commodity Prices**

**Price of Oil** - The average price of San Joaquin Valley heavy crude decreased \$16.75 (or 15.6 percent) per barrel from \$107.66 in the second quarter to \$99.91 in the third quarter. However, the average price of crude oil was up \$21.12 (or 30.3 percent) per barrel relative to the third quarter of 2010.

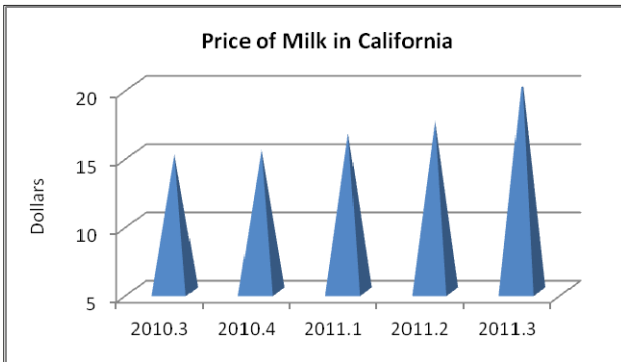


**Price of Gasoline** - In the Bakersfield metropolitan area, the average retail price of regular gasoline decreased 26¢ (or 6.4 percent) per gallon from \$4.05 in the second quarter to \$3.79 in the third quarter. Compared with the third quarter of last year, the average gasoline price was up 88¢ (or 30.2 percent) per gallon.

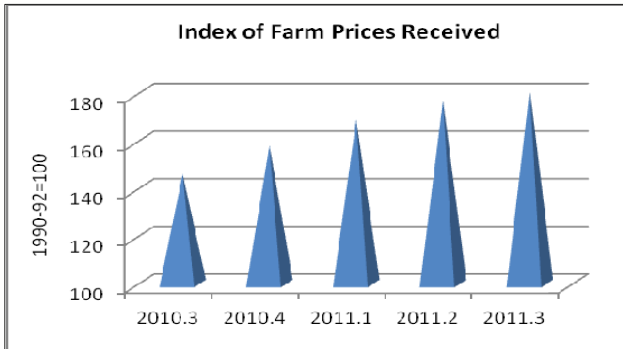
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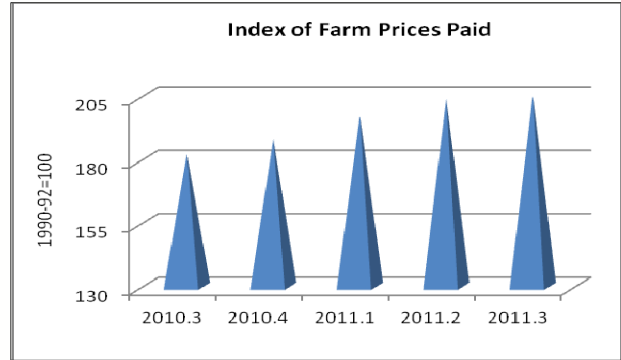
**Price of Milk** - The unit price of California’s Class III milk increased \$3.21 (or 18.3 percent) from \$17.50 in the second quarter to \$20.71 in the third quarter. Likewise, the unit price of milk has gone up \$5.65 (or 37.5 percent) since the third quarter of 2010.



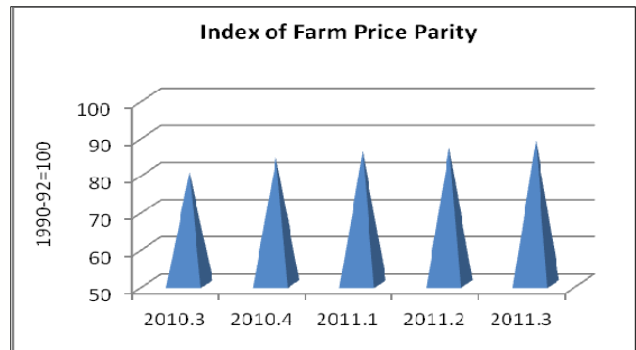
**Farm Prices** - In the third quarter of 2011, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) climbed 5 points to arrive at 182. Likewise, the index was 36 points higher than that of four quarters ago.



The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents climbed 1 point to reach 205. Similarly, the index value was 23 points higher than that of four quarters ago.



We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the third quarter of 2011, the gap between prices paid and prices received narrowed as Index of Farm Price Parity rose to 89 from 87. Likewise, the gap between prices farmers paid and prices farmers received narrowed 9 points since the third quarter of 2010.



At a Glance (Continued from page 2)

per barrel from \$107.66 to \$99.91. In the Bakersfield metropolitan area, the average retail price of regular gasoline decreased 26¢ (or 6.4 percent) from \$4.05 to \$3.79 per gallon. The unit price of California’s Class III milk increased \$3.21 from \$17.50 to \$20.71. The index of prices farmers received for their outputs rose 5 points to reach 182, while the index of prices farmers paid for their inputs inclined 1 point to arrive at 205. As a result,

the parity between output prices farmers received and input prices farmers paid narrowed 2 points to reach 89.

The composite price index (2010.3=100) of the top five locally traded stocks declined 14.1 points from 121.7 to 107.6. In the third quarter of this year, the average stock prices declined for Chevron Corporation, Tejon Ranch Company, Sierra Bancorp, Wells Fargo Company, and Granite Construction.

**Boom and Bust in Kern County’s Housing Market**

Kern County’s economy, following the national and state economies, has experienced periods of boom and bust over the past eleven years. In particular, the national economy fell into a short-lived recession in 2001 and a deep and prolonged recession in 2007-2009 with negative growth rates in five of six quarters. The state economy has had the weakest growth performance in decades partly due to its budgetary crisis and job losses. Kern County’s economy experienced a boom in 2000-2006 followed by a sharp contraction afterward. While the national economy is on a slow recovery path, the state and county economies are still lethargic. Kern County, severely affected by the state’s budgetary crisis of \$25.4 billion deficit for 2010-2011<sup>1</sup>, is expected to remain sluggish in the foreseeable future.

Kern County has been also affected by a severe and persistent real estate market recession and the near collapse of financial institutions and credit markets. The consequences of this recession are falling prices, reduced sales, and skyrocketing foreclosure activity. The on-going housing market recession followed an unprecedented expansion in 2000-2006, during which the median sales price of residential units tripled from \$91,500 to \$276,500. However, the median price of housing units sold in Kern County plunged 50 percent from \$260,000 in 2007 to \$130,000 in 2010. Sales of housing units followed a similar trend. The number of housing units sold climbed from 11,033 in 2000 to 18,397 in 2006. In the ensuing real estate market recession, the number of housing units sold in the county declined from 11,433 in 2007 to 11,323 in 2010. Likewise, notices of loan default homeowners received from their mortgage bankers decreased gradually from 1,617 in 2000 to 275 in 2006. In the ensuing recession, the foreclosure rate skyrocketed from 2,648 in 2007 to 9,004 in 2010.

Kern County’s housing market crisis is not over yet. In the first quarter of 2011, the median sales price has plunged to \$122,200 and is likely to drop further in the near future. Likewise, 247 fewer homes were sold in the local market and 354 more homes were lost to foreclosure in the first three months of this year.

**Table 1. Kern County Housing Prices**

Year	Price	Change	Growth
2000	\$91,500	\$2,800	3.2%
2001	\$102,000	\$10,500	11.5%
2002	\$114,000	\$12,000	11.8%
2003	\$134,500	\$20,500	18.0%
2004	\$170,000	\$35,500	26.4%
2005	\$244,000	\$74,000	43.5%
2006	\$276,500	\$32,500	13.3%
2007	\$260,000	\$-16,500	-6.0%
2008	\$190,000	\$-70,000	-26.9%
2009	\$130,200	\$-59,800	-31.5%
2010	\$130,000	\$-200	-0.2%
2000-2010		\$41,300	5.9%
2000-2006		\$187,800	18.2%
2007-2010		\$-146,500	-15.8%

**Table 2. Kern County Housing Sales**

Year	Sales	Change	Growth
2000	11,033	1,033	10.3%
2001	13,071	2,038	18.5%
2002	15,465	2,394	18.3%
2003	17,676	2,211	14.3%
2004	21,683	4,007	22.7%
2005	23,574	1,891	8.7%
2006	18,397	-5,177	-22.0%
2007	11,433	-6,964	-37.9%
2008	11,270	-163	-1.4%
2009	12,274	1,004	8.9%
2010	11,323	-951	1.10%
2000-2010		1,323	3.8%
2000-2006		8,397	10.1%
2007-2010		-7,074	-7.3%

**Table 3. Kern County Housing Foreclosure**

Year	Fore-closures	Change	Growth
2000	1,617	117	7.8%
2001	1,426	-191	-11.8%
2002	1,265	-161	-11.3%
2003	811	-454	-35.9%
2004	425	-386	-47.6%
2005	118	-307	-72.2%
2006	275	157	133.1%
2007	2,648	2,373	862.9%
2008	7,567	4,919	185.8%
2009	13,634	6,067	80.2%
2010	9,004	-4,630	1.10%
2000-2010		7,504	99.3%
2000-2006		-1,225	-5.4%
2007-2010		8,729	282.5%

<sup>1</sup>Christie, Jim, California’s Brown Proposes “Painful” Budget Cuts,” *Reuters*, January 10, 2010

