

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



# KERN ECONOMIC JOURNAL

2014 Third Quarter

Volume 16 Issue 3

*Winner of the Award of Merit from the California  
Association 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: *Kern River* Source: *Google Images*

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

## *Opinion Surveys*

*Kern Business Outlook Remains Bright in Third Quarter* ..... 3

*Bakersfield Consumer Sentiment Slips in Third Quarter* ..... 4

## *Tracking Kern's Economy*

*Economy* ..... 6

*Labor Market* ..... 6

*Housing Market* ..... 8

*Stock Market* ..... 10

*Inflation* ..... 11

*Commodity Prices* ..... 11

## *Featured Article*

*Marketing's Autumn Aura: Seasonal Colors Give Brand Strategy Clues* ..... 13

## *Econ Brief*

*Kern Remains King of California Oil Production* ..... 1

### ***Econ Brief!***

#### **Kern Remains King of California Oil Production**

David Lyman

Manager, Convention and Visitor Bureau

When it comes to pumping oil out of the ground in California, Kern County continues to reign supreme. Kern County's oil history traces back to the 1860s with asphalt and tar mining. The original Kern Oil Field was actually dug by hand, touching off the county's first oil boom in 1899.

According to the latest report from the state Division of Oil, Gas and Geothermal Resources, last year producers pumped 141,585,620 barrels of oil from Kern's vast oil fields, nearly six times as much as Los Angeles County, number two to Kern, with total production of 24,662,715 barrels of oil.

Kern's production accounts for 71 percent of statewide total output of 199,772,433 barrels. Other Central Valley counties and their 2013 oil production are:

- Fresno - 5,941,962 barrels
- Kings - 117,315
- Tulare - 49,021
- Sacramento - 22,283
- Yolo - 297
- San Joaquin - 181

Kern County has 43,568 active oil wells and 15,863 inactive wells. The number of inactive wells in the county is greater than the total of all of the state's active wells in other counties.

Source: *Central Valley Business Times*, October 9, 2014



# ECONOMY AT A GLANCE!

2014 THIRD QUARTER

ABBAS P. GRAMMY

## National Economy

The United States - the largest world's economy of \$16.2 trillion – grew at a rapid rate with low inflation. The real Gross Domestic Product (GDP) increased at an annual rate of 3.5 percent in the third quarter from 4.6 percent rise in the second quarter. The increase in the GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, federal government spending, and state and local government spending. They were partly offset by negative contributions from private inventory investment and imports.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity – improved from 101.4 to 103.8, indicating continued economic growth over the next six to nine months. Likewise, the University of Michigan's Consumer Sentiment Index increased from 83 to 84 due to broad-based improvement in the labor market including wage increases. The rate of unemployment declined from 6.2 to 6.1 percent. In the meantime, the cost of living increased at an annual rate of 1.1 percent; the cost of producing climbed 5.3 percent; and the cost of employment rose 2.2 percent.

## State Economy

In California, the unemployment rate went up to 7.4 from 7.3 percent. Among counties, San Francisco (4.5 percent), Orange (5.4 percent), Santa Clara (5.6 percent), San Luis Obispo (5.8 percent), San Diego (6.2 percent), Sacramento (7.0 percent), and Humboldt (7.2 percent) had unemployment rates below the state average. In contrast, Los Angeles (8.3 percent), Riverside (8.7 percent), Fresno (10.1 percent), and Kern (10.4 percent) had unemployment rates above the state average.

The state's civilian labor force added 178,000 members, which consisted of 134,700 more workers gaining jobs and 43,200 fewer workers losing jobs. While farming enterprises employed 22,200 more workers, nonfarm industries hired 35,900 fewer workers. A wide range of industries added jobs: mining, logging, construction, manufacturing, wholesale trade, retail trade, transportation and warehousing, information, finance, real estate, professional and business services, health-care and social assistance, and leisure and hospitality. Jobs were lost in educational services and state and local governments.

## Local Economy

Household perceptions remained pessimistic about employment and financial conditions of their families and relatives as the *Bakersfield Consumer Sentiment Index* reverted to its first quarter value of 95 in the third quarter after attaining 98 in the second quarter. Meanwhile, local businesses remained confident about local employment and financial conditions as the *Kern County Business Outlook Index* remained in the optimistic range with a value of 122. Nevertheless, local businesses are concerned about severe and prolonged drought in the Central Valley, stiff business regulations, and the adverse effects of Affordable Healthcare Act.

In the meantime, the county's economy expanded at an annual rate of 3.4 percent. Kern's economy generated nearly \$16.3 billion in real personal income, \$140 million more than the previous quarter. However, much of the gain in personal income was offset by a rapid growth of the labor force, thus lowering personal income per worker to \$42,500, \$600 less than the previous quarter.

Labor market conditions improved in the third quarter of 2014. Farm employment was the main source of labor market improvement. The county hired 11,760 more workers. While the farming industry hired 13,500 more workers, nonfarm enterprises employed 1,000 fewer workers. Private enterprises employed 1,470 more workers, but local government agencies offered jobs to 2,830 fewer laborers. Meanwhile, 3,130 fewer workers were unemployed, dropping the rate of unemployment from 11.4 to 10.4 percent. While below the county average, the rate of unemployment was 5.4 percent in Ridgecrest, 6.0 percent in Tehachapi, 6.6 percent in Bakersfield, and 7.5 percent in California City.

Likewise, housing market conditions improved in the third quarter of 2014. The county's median sales price for all residential units appreciated \$8,650 (or 4.7 percent) from \$183,350 to \$192,000. In Bakersfield, the median housing price increased \$4,300 (or 2.1 percent) from \$204,700 to \$209,000. In Kern County, 34 more homes were sold as total sales increased from 2,956 to 2,990. In Bakersfield, 70 more homes were sold as sales of residential units rose from 2,072 to 2,142. The County of Kern issued 302 permits for construction of new privately-owned dwelling units, 43 fewer than previous quarter. Housing became less affordable as the afforda-

(Continued on page 12)

# BUSINESSE OUTLOOK REMAINS BRIGHT IN THIRD QUARTER



ABBAS P. GRAMMY  
PROFESSOR OF ECONOMICS, CSUB

Results of the Business Outlook Survey indicate that Kern County business managers are still confident about local employment and business conditions. In the third quarter (July through September) of 2014, the *Business Outlook Index* (BOI) stayed in the optimistic range with a value of 122. Relative to last quarter, BOI lost three points. Compared with four quarters ago, BOI remained constant.

Comparing with the previous quarter survey, we can see signs of cautious optimism. The percentage of positive responses decreased from 35 to 33; the percentage of neutral responses increased from 52 to 57; and the percentage of negative responses inclined from 9 to 11.

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. Compared with the previous quarter, the *Current Conditions Index* dropped to 117 from 122, and the *Future Conditions Index* stayed at 126. These results indicate business managers are cautiously optimistic about current and future economic conditions of Kern County.

## Employment Outlook:

Sixty-four percent of interviewees reported that the number of jobs in their companies stayed constant this quarter. However, 23 percent said more jobs were available in their companies and 13 percent reported reduced employment.

Likewise, 70 percent perceived that the number of jobs would stay constant next quarter, whereas 26 percent expected their companies to hire more workers. The remaining 4 percent anticipated a smaller workforce.

## Financial Outlook:

Fifty-four percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 34 percent indicated increased sales and profits and 12 percent stated reduced sales and profits.

Similarly, 43 percent expected financial conditions of their companies would remain constant next quarter. However, 50 percent anticipated increased sales and profits and 7 percent predicted reduced sales and profits.

## Industry Outlook:

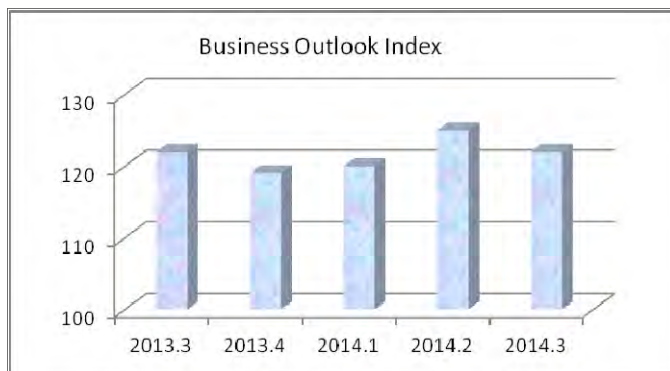
Forty-nine percent of survey respondents perceived that employment and general business conditions of their industries remained the same as the previous quarter, while 36 percent felt these conditions improved and 15 percent indicated crumbling business conditions.

Fifty-five percent anticipated that the employment and general business conditions of their industries would stay unchanged next quarter. Yet, 39 percent expected progress and 6 percent felt otherwise.

## Economic Outlook:

When asked about Kern County's economy, 60 percent of interviewees perceived no change this quarter. Nevertheless, 28 percent felt conditions improved and 12 percent said conditions worsened.

Likewise, 51 percent felt that local economic conditions would remain unchanged next quarter. However, 31 per-



Kern County Business Outlook			
	Current Quarter	Previous Quarter	Four Quarters Ago
<b>Business Outlook Index</b>	<b>122</b>	<b>125</b>	<b>122</b>
Current Conditions Index	117	122	117
Future Conditions Index	126	126	126

(Continued on page 5)

# BAKERSFIELD CONSUMER SENTIMENT SLIPS IN THIRD QUARTER

MARK EVANS

ECONOMICS PROFESSOR AND CHAIR, CSUB



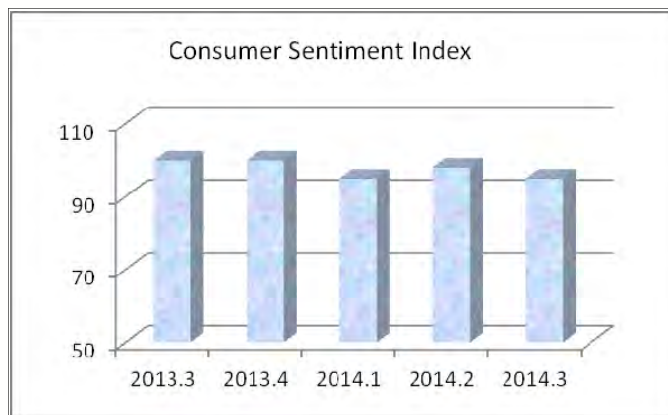
The Bakersfield Consumer Sentiment Index reverted to its first quarter value of 95 in the third quarter after attaining 98 in the second quarter. The Thomson Reuters/University of Michigan index measuring consumer sentiment at the national level increased from 83 to 84. Although the two indexes typically follow similar trends, the national index has achieved small increases in each quarter of 2014, while the Bakersfield index is five points lower than when 2013 ended. Both the local and national indexes are based on random telephone surveys. However, their magnitudes cannot be directly compared since they are constructed differently.

The Bakersfield index is disaggregated into sub-indexes measuring recent conditions and future expectations. The current conditions sub-index was 105 in the third quarter, while the expectations index was 86. This positive gap between recent conditions and future expectations is near the all-time high since CSUB's Economics Department began publishing its index in 1999. The only time the sub-indexes diverged more was from mid-2006 to mid-2007, shortly before the "Great Recession." This bearish view of the future despite recent economic improvement undoubtedly is being caused by the double whammy of soft oil prices combined with drought. Historically, positive deviations of current sentiment from future expectations in the Bakersfield Index have preceded unemployment rate increases, while negative deviations (a larger future expectations sub-index) have been a leading indicator of unemployment rate decreases in the county.

The third quarter's one-point increase from 104 to 105 in the sub-index measuring current conditions of households followed a significant eight-point increase in the second quarter. Roughly one-half of the respondents reported spending the usual amount on discretionary items such as dining out, weekend outings, and entertainment. The remaining half were evenly split between those spending more than usual and those spending less than usual. Slightly more households reported being better off than a year ago (22 percent) compared to being worse off (19 percent). Also, 21 percent reported friends and acquaintances in Kern County were better off, while just 16 percent reported they were worse off. The percentage

of households reporting they recently made a "big ticket purchase" (furniture, appliances, computing and electronics, car, home improvement) held steady at six percent from the previous quarter. One percent of the households reported purchasing furniture, two percent purchased an appliance, one percent purchased electronic products, one percent purchased a car, and one percent invested in home improvements.

The sub-index measuring expectations for the coming year decreased from 93 in the second quarter to 86 in the third quarter, a restrained level of optimism that is exceeded 85 percent of the time. The expectations sub-index is constructed from queries regarding the most likely financial situation of one's family one year from now, how acquaintances in Kern County are viewing the coming year, and whether this is a safe or risky time to draw down savings or incur extra debt to buy a big-ticket item. There was almost no change over the previous quarter in responses to questions relating to likely changes in the financial situation of one's family and acquaintances. However, there was a significant shift in sentiment toward precautionary saving. Just nineteen percent thought this was a safe time to draw down savings or incur debt compared to 23 percent in the second quarter. The percent who responded this was a risky time to incur debt or reduce savings increased from 39 to 52 percent.



(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>95</b>	<b>98</b>	<b>100</b>
Sub-index: Current Conditions	105	104	99
Sub-index: Future Expectations	86	93	100

<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)	24 %	58 %	18 %
	<b>Better off</b>	<b>Same</b>	<b>Worse off</b>
How your family is doing financially compared to one year ago.	22 %	59 %	19 %
How your acquaintances in Kern County are doing financially compared to one year ago.	21 %	63%	16 %

<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	20%	60 %	20 %
	<b>Optimistic</b>	<b>Neutral</b>	<b>Fearful</b>
How your acquaintances in Kern County view the coming year.	19 %	52 %	29 %
	<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?	19 %	29 %	52 %

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

cent anticipated the economy would get better and 18 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:

- Increased construction activity
- Improved real estate market
- Improving local economy with greater consumer spending

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

- Prolonged and severe drought
- Restrictive government regulations for business
- Affordable Healthcare Act (The Obama Care)



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

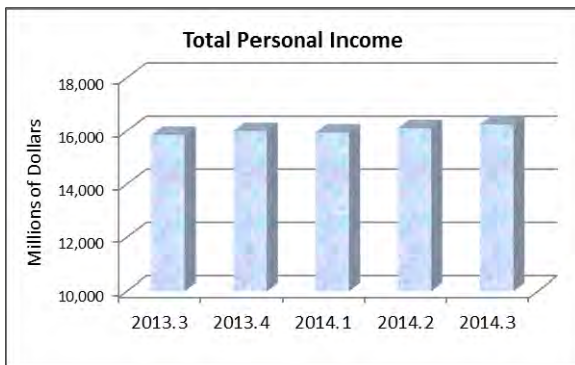
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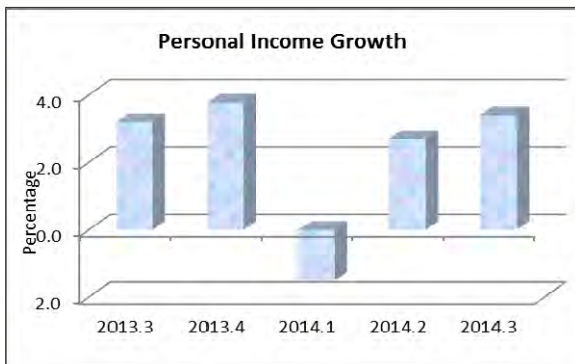
PROFESSOR OF ECONOMICS, CSUB

## Economy

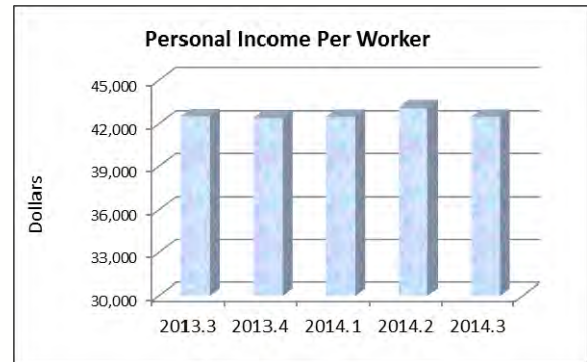
**Personal Income** - Kern County's total personal income (in constant 1996 dollars) increased \$140 million from \$16.10 billion to \$16.24 billion. The main factors contributing to this expansion were more jobs and incomes, falling unemployment, rising property values, and increasing business activity. Relative to four quarters ago, Kern County's economy generated \$390 million more income



**Growth of Personal Income** - The gain of \$140 million in personal income translated to an annual growth rate of 3.4 percent. Kern's economy expanded 2.7 percent in the previous quarter and 3.2 percent four quarters ago.



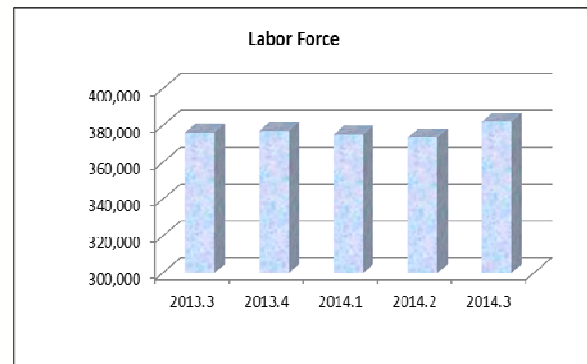
**Personal Income Per Worker** - The gain in total personal income was offset by a sizable increase in the labor force. As a result, personal income per worker lost \$600 to reach \$42,500. Likewise, personal income per worker was down \$20 this quarter relative to four quarters ago.



## 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 8,630 members from 373,530 in the second quarter to 382,160 in the third quarter of 2014. Relative to the third quarter of 2013, 5,860 more workers were available for work this quarter.

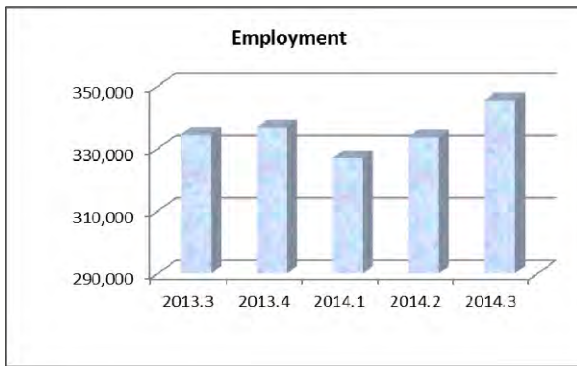


**Employment** - In the third quarter of 2014, Kern County hired 11,760 more workers as total employment inclined from 333,720 to 345,480. Compared with four quarters ago, the county employed 11,030 more workers.

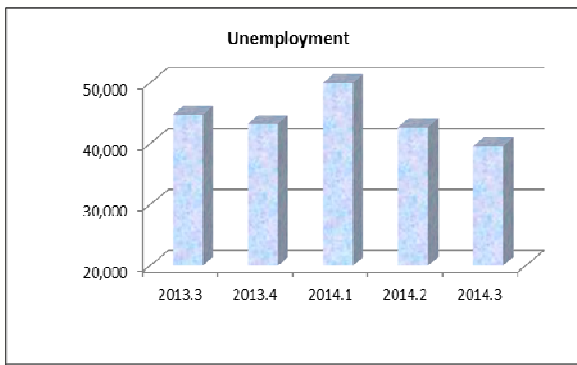
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<sup>1</sup>Source - Online databases: [labormarketinfo.edd.ca.gov](http://labormarketinfo.edd.ca.gov), [bakersfieldgasprices.com](http://bakersfieldgasprices.com), [dqnews.com](http://dqnews.com), [economagic.com](http://economagic.com), [bea.gov](http://bea.gov), [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)

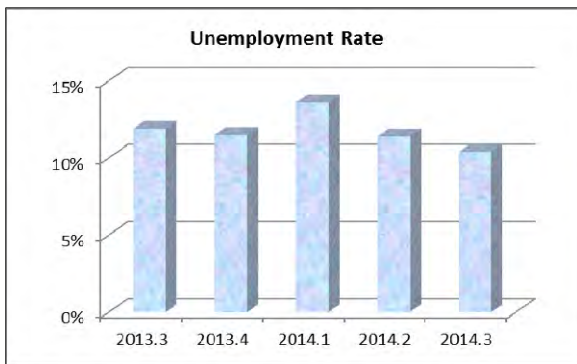




**Unemployment** - In the meantime, 3,130 fewer workers were unemployed as the number of jobless workers decreased from 42,720 to 39,590. Likewise, 5,170 fewer workers were unemployed this quarter than four quarters ago.



**Unemployment Rate** - Kern County's unemployment rate dropped from 11.4 percent in the second quarter to 10.4 percent in the third quarter of 2014. The county's unemployment rate was 11.9 percent four quarters ago.

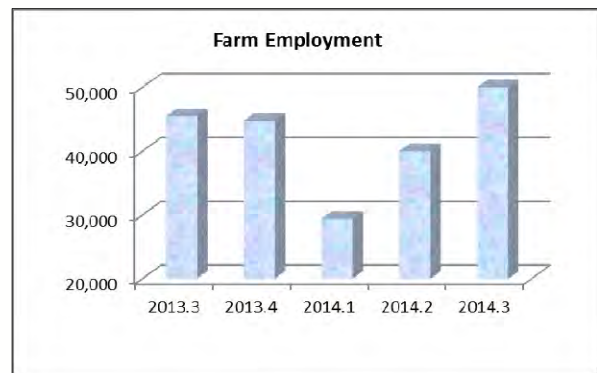


The rate of unemployment varied considerably across cities. Among cities shown below, the unemployment rate varied between 5.4 percent in Ridgecrest and 26.4 percent in Arvin. In Bakersfield, the rate of unemployment was 6.6 percent.

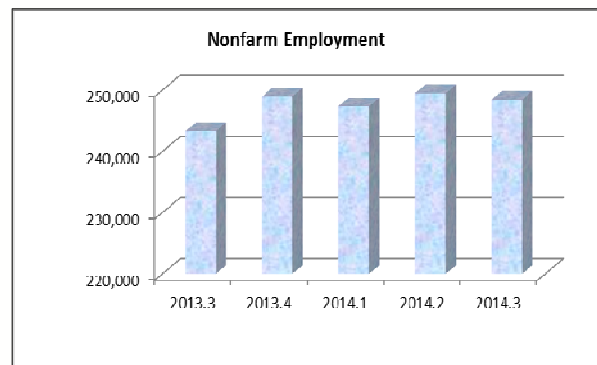
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Ridgecrest	5.4	Oildale	10.1
Inyokern	5.7	Mojave	10.8
Tehachapi	6.0	Lake Isabella	11.4
Bakersfield	6.6	Shafter	17.5
California City	7.5	Lamont	17.5
Rosamond	7.9	Wasco	18.2
Edwards	7.9	McFarland	20.6
Frazier Park	8.3	Delano	25.4
Taft	9.4	Arvin	26.4

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

**Farm Employment** - In the third quarter of 2014, Kern County hired 13,500 more farm workers. As a result, farm employment increased from 39,980 to 53,480. This quarter's farm employment was the largest in four years. Similarly, the farming industry hired 8,030 more workers this quarter than four quarters ago.



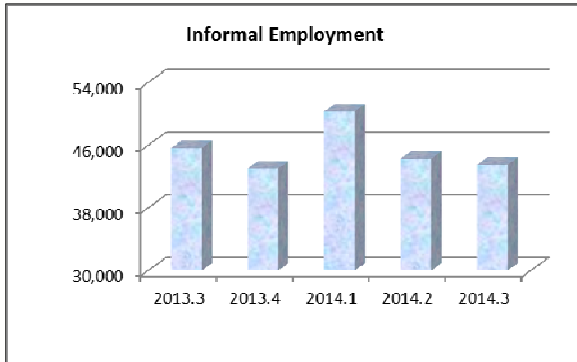
**Nonfarm Employment** - Local nonfarm industries employed 1,000 fewer workers this quarter. Hence, the number of nonfarm workers decreased from 249,470 to 248,470. Relative to the third quarter of 2013, nonfarm industries hired 5,130 more workers.



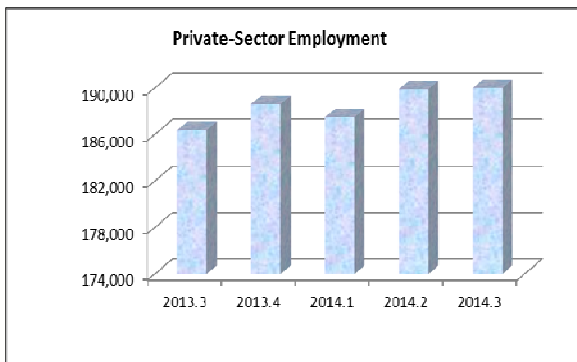
Many nonfarm industries added jobs: oil and gas, construction, manufacturing, transportation and warehousing, information, professional and business services, federal government, and city government. However, jobs

were cut in retail trade, healthcare and social assistance, educational services, state government, local public education, and county government.

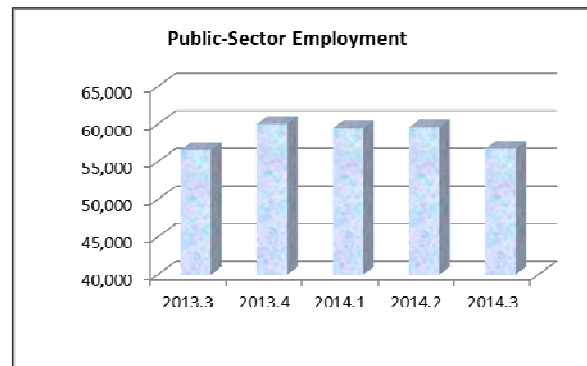
**Informal Employment** - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those working outside their county of residence. In the third quarter of 2014, the number of informal workers decreased by 740 from 44,270 to 43,530. Likewise, the informal labor sector hired 2,130 fewer workers 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 2014, private companies hired 1,470 more workers as their employment increased from 189,900 to 191,370. Likewise, the private sector employed 5,000 more workers this quarter than four quarters ago.



**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 2014, government agencies hired 2,830 fewer workers as their employment decreased from 59,570 to 56,740. However, the public sector employed 140 more workers this quarter than four quarters ago.



## Housing Market

**Housing Price** - In the third quarter of 2014, Kern County's housing market grew at a healthy rate of 4.7 percent. The median sales price for all residential units appreciated \$8,650 from \$183,350 to \$192,000. Likewise, the county's median housing price has appreciated \$12,500 (or 7.0 percent) since the third quarter of 2013.



In Bakersfield, the median housing price appreciated \$4,300 (or 2.1 percent) from \$204,700 to \$209,000. The city's median housing price has appreciated \$15,000 (or 7.7 percent) since the third quarter of last year.

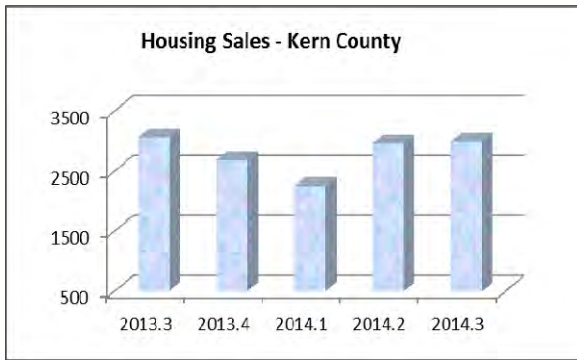


Housing price varied across the county. The median sales price appreciated in all major cities of Kern County. Bakersfield recorded a modest appreciation rate of 2.1 percent as its median price increased \$4,300. In contrast, California City had the highest appreciation rate of 43.8 percent with a price hike of \$28,500.

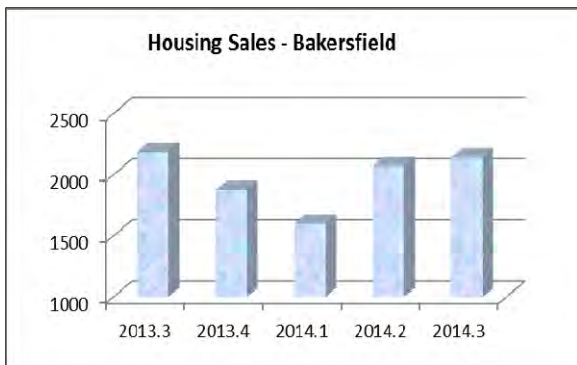
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Location	Median Price 2014.3	Median Price 2014.2	Price Change 2014.3 to 2014.2	Price Change 2014.3-2014.2
Kern County	\$192,000	\$183,350	\$8,650	4.7
Bakersfield	\$209,000	\$204,700	\$4,300	2.1
California City	\$93,500	\$65,000	\$28,500	43.8
Delano	\$160,000	\$138,200	\$21,800	15.8
Ridgecrest	\$153,000	\$139,700	\$13,300	9.5
Rosamond	\$178,800	\$161,250	\$17,550	10.9
Taft	\$113,100	\$91,300	\$21,800	23.9
Tehachapi	\$219,500	\$197,300	\$22,200	11.3

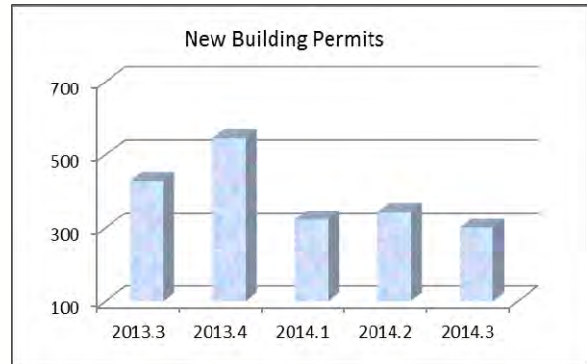
**Housing Sales** - In Kern County during the third quarter of this year, 34 more homes were sold as total sales increased from 2,956 to 2,990. However, 70 fewer units were sold this quarter relative to the third quarter of last year.



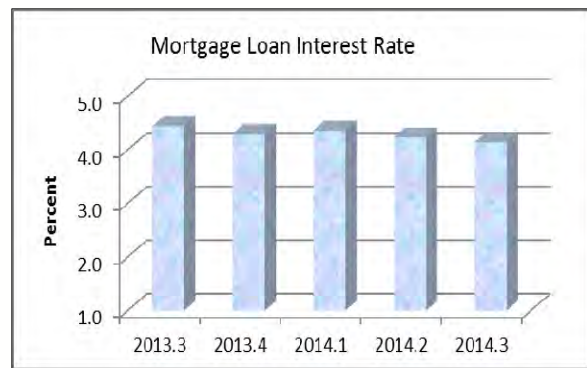
In Bakersfield, 70 more homes were sold as sales of residential units increased from 2,072 to 2,142. Nevertheless, sales were down by 44 units this quarter relative to the third quarter of last year.



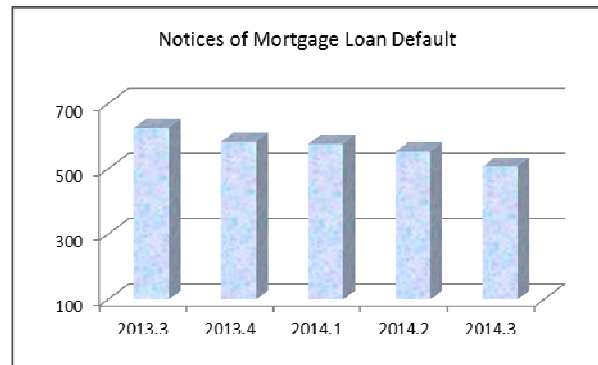
**New Building Permits** - In the third quarter of 2014, Kern County issued 302 permits for construction of new privately-owned dwelling units. The county issued 345 new building permits last quarter and 430 four quarters ago.



**Mortgage Interest Rate** - In the third quarter of 2014, the interest rate on thirty-year conventional mortgage loans dropped from 4.23 to 4.14 percent. Four quarters ago, the mortgage loan interest rate was 4.44 percent.



**Housing Foreclosure Activity** - In the third quarter of 2014, the county's foreclosure activity declined from 553 to 508. As a result, 45 fewer homeowners received notices of loan default from their mortgage bankers.

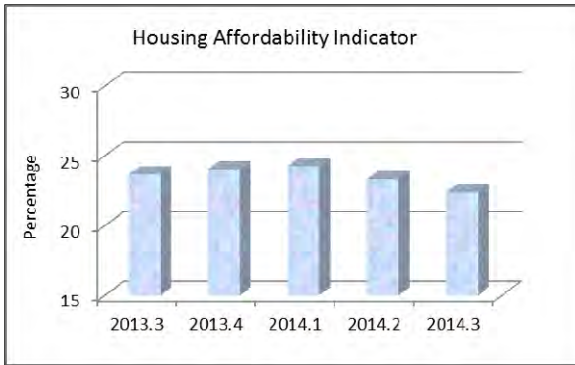


Meanwhile, the number of homes lost to foreclosure decreased from 299 to 261. As a result, 38 fewer homes were lost to foreclosure. Likewise, 59 fewer homes were lost to foreclosure this quarter relative to four quarters ago.





**Housing Affordability** - Median housing prices divided by median household income is a measure of housing affordability. With appreciation of housing prices and growth of household income, the affordability indicator dropped to 22.4 percent this quarter from 23.3 percent last quarter. The housing affordability indicator was 23.7 percent four quarters ago.

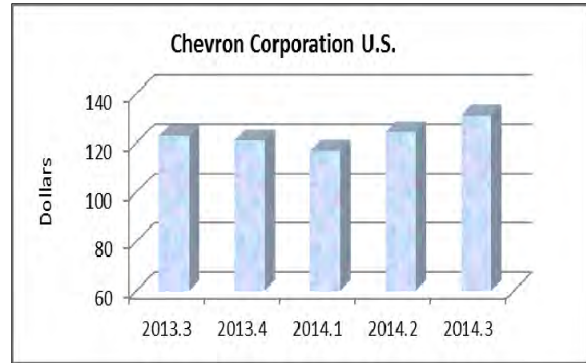


**Stock Market**

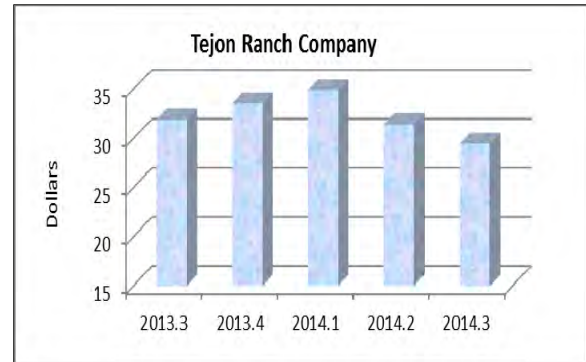
In the third quarter of 2014, the composite price index (2013.3 = 100) of the five publically traded companies doing business in Kern County decreased 0.1 percentage points from 107.9 to 107.8. The index was 7.8 points higher than that of four quarters ago. Average “close” prices were measured for five local *market-movers*: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



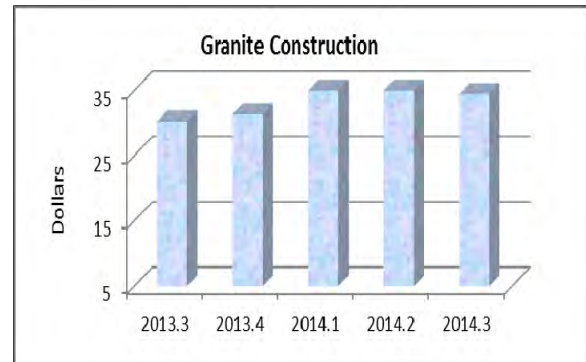
**Chevron Corporation US** - CVX gained \$6.83 (or 5.5 percent) per share as its price increased from \$124.36 to \$131.19. Relative to the third quarter of 2013, CVX has made \$8.33 (or 6.8 percent).



**Tejon Ranch Company** - TRC lost \$1.94 (or 6.2 percent) per share as its stock price dropped from \$31.39 to \$29.45. Likewise, TRC was down \$2.43 (or 7.6 percent) relative to the third quarter of 2013.



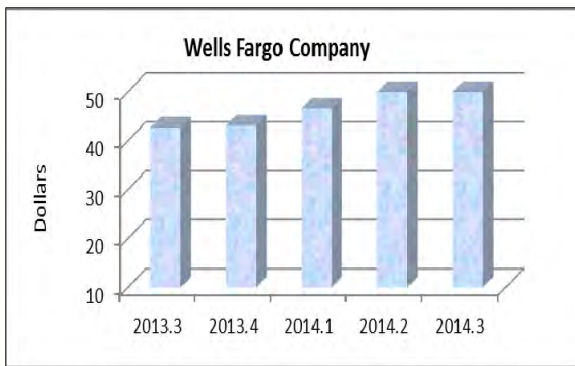
**Granite Construction** - GVA lost \$2.09 (or 5.7 percent) per share as its stock price dropped from \$36.56 to \$34.47. However, GVA has gone up \$4.22 (or 14.0 percent) since the third quarter of 2013.



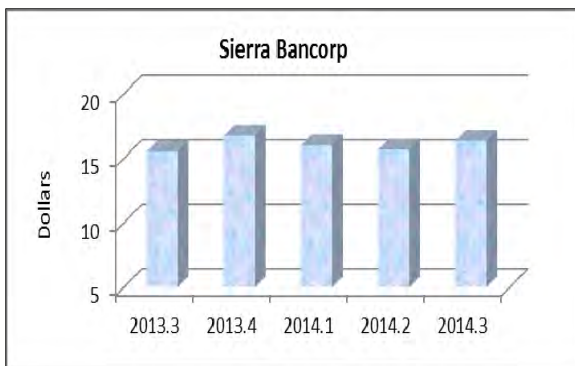
**Wells Fargo Company** - WFC made \$1.13 (or 2.2 percent) per share as its stock price ascended from \$50.31 to \$51.44. Relative to one year ago, WFC was up \$8.75 (or 20.5 percent).

(Continued on page 11)



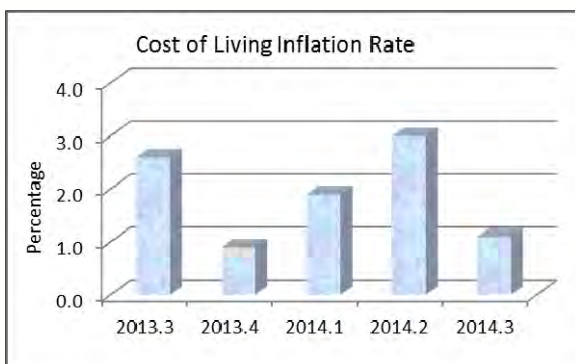


**Sierra Bancorp** - BSRR gained 69¢ (or 4.4 percent) per share as its price inclined from \$15.71 to \$16.40. Nevertheless, BSRR has gone up 85¢ (or 5.5 percent) since the third quarter of 2013.

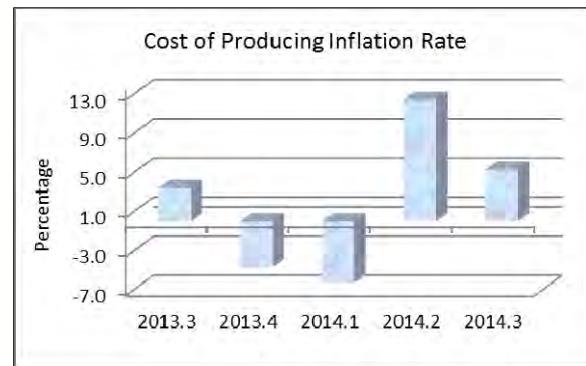


**Inflation**

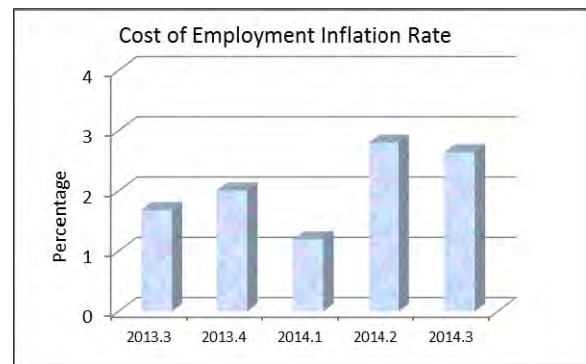
**Cost of Living** In the third quarter of 2014, the Consumer Price Index for all urban areas (1982-84 = 100) inclined from 237.0 to 237.7. As a result, inflation for the cost of living accelerated at an annual rate of 1.1 percent. The cost of living inflation rate was 3.0 percent last quarter and 2.6 percent four quarters ago.



**Cost of Producing** - The Producer Price Index for finished consumer goods (2009 =100) increased from 212.4 to 215.2. As a result, the cost of production soared at an annual rate of 5.3 percent. The cost of producing inflation rate was 12.4 percent last quarter and 3.4 percent four quarters ago.

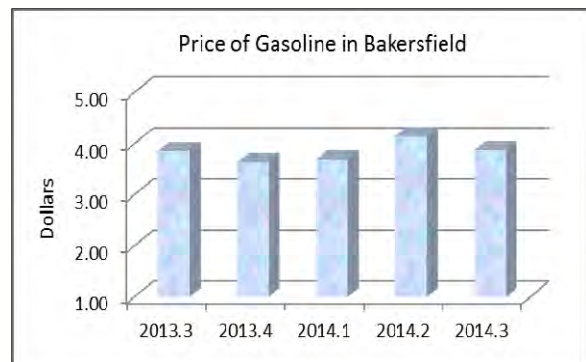


**Cost of Employment** - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 121.4 to 122.2. As a result, the cost of employment grew at an annual rate of 2.6 percent. The cost of employment inflation rate was 2.8 percent last quarter and 1.7 percent four quarters ago.

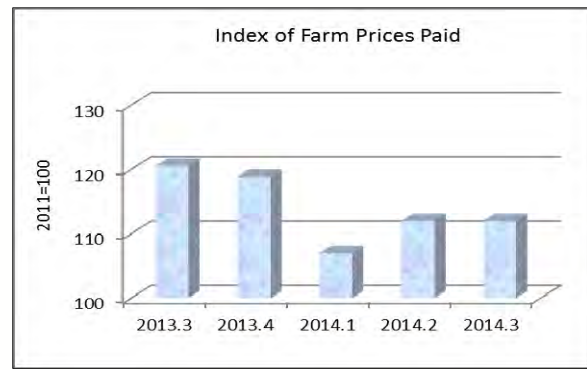
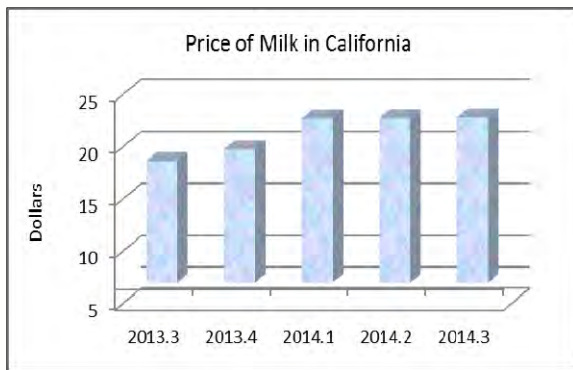


**Commodity Prices**

**Price of Gasoline** - In Bakersfield, the average retail price of regular gasoline dropped 27¢ per gallon from \$4.15 to \$3.88. Compared with the third quarter of last year, the average gasoline price was up 2¢.



**Price of Milk** - The unit price of California's Class III milk increased 7¢ (or 0.3 percent) from \$22.75 to \$22.82. Likewise, milk prices have gone up \$4.16 (or 22.3 percent) since the third quarter of last year.



**Farm Prices** - In the third quarter of 2014, the national Index of Prices Received by Farmers for all farm products (2011 = 100) dropped 5 points from 113 to 108. The index was 106 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 2014, the gap between prices paid and prices received widened as the Index of Farm Price Parity declined from 98 to 96 percent. Four quarters ago, the price ratio was 88 percent.



Meanwhile, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents remained constant at 112. The index was 121 four quarters ago.

*At a Glance (Continued from page 1)*

bility indicator dropped to 22.4 from 23.3 percent. The number of notices of loan default homeowners received from their mortgage bankers dropped from 533 to 508 and the number of homes lost to foreclosure decreased from 299 to 261.

In Bakersfield, the average retail price of regular unleaded gasoline dropped to \$3.88 from \$4.15 per gallon. The unit price of California's Class III milk increased 7¢ to reach \$22.82. The index of prices farmers received for their outputs dropped 5 points to reach 108, while the index of prices farmers paid for their inputs

remained constant at 112. As a result, the gap between output prices farmers received and input prices farmers paid widened from 98 to 96 percent. Of the top five locally traded stocks, the price per share improved for Chevron Corporation, Wells Fargo Company, and Sierra Bancorp. However, the price per share declined for Granite Construction and Tejon Ranch Company.

# MARKETING'S AUTUMN AURA: SEASONAL COLORS GIVE BRAND STRATEGY

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Wherever you reside -- in the valley, mountains, or coast – autumn brings an amazing aura. From sensational shades of yellow and burgundy leaves, to the fallen yield of fruit from trees, or the airy chill of a seaside breeze. Many take this time to pick harvest from the soil, and others clear their lawns of nature's foliage. However, like romantic poets, keen marketing strategists keep their heads to the sky on autumn's colorful aura, not looking down upon fallen flora. So, in a few paragraphs we'll see why the seasonal color hues can also give brand strategy clues.

Much has been studied, written, and practiced in the area of brand strategy. Our intent is not to teach those lessons. Instead, we want to think about brands as moving images on branches inside of the customer's mind -- like leaves changing colors on autumn trees.

**Observation 1:** All brands have AURAS in the customer's mind, whether they are name brands, unnamed offerings, or industrial products and services.

**Observation 2:** Customers color brands based on the VALUE of application (form/function) and the INTENSITY of appeal (liking/loyalty).

**Observation 3:** Conventional marketing/brand strategy can often overlook the color perceptions of brands on BRANCHES INSIDE OF THE CUSTOMER MIND.

**Proposition:** PERCEPTUAL MAPS clarify the auras of brand colors in the customer mind.

Now we can become acquainted with the subtle art called Perceptual Mapping, that is practiced as part of a broader Positioning Strategy. Here, we concentrate on Perceptual Mapping, and encourage you to access ample online content addressing Positioning. Perceptual Mapping is an artistic analytical technique for plotting the coordinates of brands in the customer's mind. Just like telescopes view objects in outer-space through the coordinates framed by a crosshair in the lens, Perceptual Maps allow marketers to visualize brands in the mind's inner-space through coordinates charted by attribute axes. Legend has it that the pioneers of Positioning Strategy, Al Reis and Jack Trout, conceived of Perceptual mapping while viewing an orbiting NASA vessel through a telescope mounted on the rooftop of a Manhattan high-rise.

## Mapping the 'Inner-Space' Coordinates in the Customer's Mind

For our purpose, those inner-space perceptual coordinates are charted as *tree branches in the customer's memory, that are divided by market category* (e.g., B2C auto styles, food types, smart phones/service, air travel, etc. & B2B commercial construction tiers, industrial materials/components, logistics services, etc.). Bottom branch brands give duller auras, while top branch brands glow with brighter auras. Yet, like trees, brand category branches constantly grow to the sky and extend to the ground. Also, Like autumn leaves, brands are endlessly changing their perceptual colors ... from high to low *customer value hues*, with low to high *brand intensity tints*. A diagram of the customer's mental trees is shown in Figure 1.

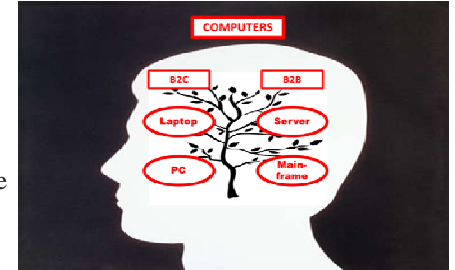


Figure 1 - Perceptual Maps as Mental Trees with Market Category Branches

## 'Science' of Perceptual Mapping

The '*science*' of Perceptual Mapping comes from the *reliable survey statistics used to generate "brand position" plots on the selected axes*. A basic version of this "science" approach towards Perceptual Mapping is shown for blue jean brands in Figure 2. Like the botany of leaves changing shades, the science of Perceptual Mapping logically charts "brand position" auras onto market category branches in the customer's mind. A simple 5-step process can be followed:

- 1<sup>st</sup>: Survey a target market customer sample on:
  - a) What are their most important brand attributes (features/functions) and rank them
  - b) How do the brands that they are aware of rate and rank on important brand attributes (Use both a Likert +/- "rating scale" to plot outcomes and a "rank-order scale" to force place standings)
- 2<sup>nd</sup>: Calculate mean "ratings" and "rankings" for the target market customer sample
- 3<sup>rd</sup>: Plot the mean brand ratings onto graphical chart axes representing 2 top attributes
- 4<sup>th</sup>: Label the mean rating "brand positions" with both the:
  - a) Size of data-point circles representing each brand's share of the market category
  - b) Color of data-point circle representing the "intensity" of each brand's appeal
  - c) (Percentage of customer sample ranking brand in 1<sup>st</sup> place on each of the two attribute-axes)
- 5<sup>th</sup>: Plot the "ideal" point on the chart, based on the two attribute-axes.

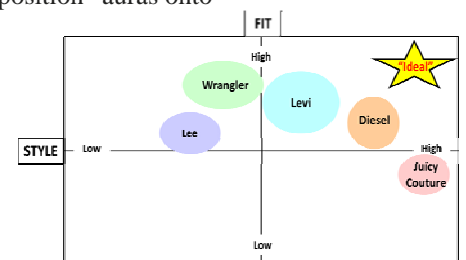


Figure 2 - The 'Science' of Perceptual Mapping for Blue Jeans Brand

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**‘Art’ of Perceptual Mapping**

The ‘art’ of Perceptual Mapping comes from *selecting the right crosshairs for viewing the customer’s mental inner-space*. Most marketing novices begin with obvious brand attribute axes for both B2C and B2B customers, like price/quality, taste/nutrition, prestige/practical, style/selection, and capacity/convenience. While these conventional axes chart meaningful patterns, the full array of brand auras is ripened by juxtaposing the two most vital perceptions for your brand, in the mind of target customers. The Perceptual Map “brand positions” literally turn on the axes chosen by marketing strategists. As we become more artistic in the choice of axes, a wider range of “brand position” colors with sharper strategic insights is revealed.

Obviously, we cannot cover the vast number of possible Perceptual Map axes combinations. However, we can illustrate with a few vivid examples, how to know when the right brand strategy axes are juxtaposed in an insightful way.

When selecting the Perceptual Map axes, attempt to discern the strategic market opportunities for brightening your brand’s aura in contrast to competitors. Instead of focusing narrowly on product/service attributes, explore how external marketing environment factors color brand perceptions in the minds of customers (B2C & B2B). This widened focus on macro market factors allows the Perceptual Map to both reveal future trends impacting customer preferences and revive strategic advantages associated with your brand.

The macro marketing environment factors can be itemized by the acronym DESEPT for:

- Demographic -- macro trend patterns not micro target profiles
- Economic -- fiscal measures & financial markets (includes macro competition aspects)
- Social -- cultural values and contemporary norms
- Ecological – weather/climate & nature conditions
- Political – public policy & market regulation
- Technological – scientific research, applied techniques, product/process innovation.

We can briefly highlight the B2C strategic advantage for Chick Filet of the *creative* “eco-friendly” Perceptual Map axis compared to the conventional “price” axis. An example of the art approach for B2C brands is shown in Figure 3. The “eco-friendly” axis, derived from ecological trends in the marketing environment, moves Chick Filet into a more strategically advantageous “brand position.” The resulting “brand position” is nearly identical to the customer’s ideal, in contrast to a strategically weaker “brand position” with the “price” axis. In reality, considerable strategic effort is required to assure “eco-friendly” promotion awareness and affirm “eco-friendly” product attributes. Still, this simple example portrays the brighter “brand position” aura and brighter customer choice colors that can result from a more creative approach towards selecting strategic Perceptual Map axes.

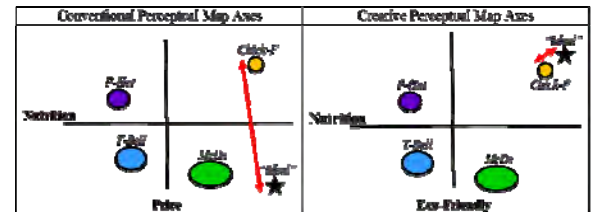


Figure 3 - B2C Example – Fast Food

If this scenario was played out further, we could envision McDonald’s attempting to make a brand strategy impression on target market customers with their “local sourcing” from family farms. If successful, the fast-food market Perceptual Map axes could be creatively changed to “nutrition” and “local sourcing,” which would reestablish McDonald’s “brand position” closer to the customers’ “ideal” than Chick Filet without having to rely on “price.” This type of scenario thinking regarding brand strategy is availed by the artistic selection of Perceptual Map axes.

The B2B example of food service for organizational or factory facilities demonstrates how the creative axis “ethics” provides strategic advantage for Sodexo’s “brand position” compared with the conventional axis “variety” of food menu options. Clearly, food service operations cannot sacrifice delivery “logistics” as a B2B customer attribute. However, with lower food menu “variety” than larger competitors, Sodexo draws upon the social marketing environment trend towards greater business ethics compliance and prioritizing vendors based on ethical practices. By substituting “ethics” for “variety” as a Perceptual map axis, Sodexo moves it’s “brand position” closer to the customer’s “ideal.” Once again, considerable strategic effort is necessary to achieve the “brand position” of strong “ethics” in trade promotions and operation compliance. Yet, the strategic advantage of artfully selecting Perceptual Map axes is vividly depicted. An example of the art approach to Perceptual Mapping for B2B brands is shown in Figure 4.

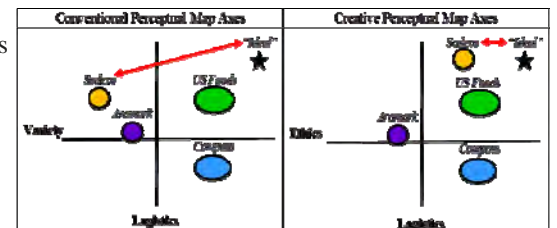


Figure 4 - B2B Example – Food Service

**Summary**

Certainly, this discussion of Positioning and Perceptual Maps merely offers a glimpse at the brand strategy opportunities that can be envisioned by opening our eyes to the full spectrum of “brand position” colors in the minds or target market customers. Additional online resources for improving your brand strategy are listed below. By developing an extensive knowledge of Positioning and exploring artistic approaches for composing Perceptual Maps, you will discover that marketing’s autumn aura enlightens colorful brand strategy clues.

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