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2022 Third Quarter

Featured Articles:



Inflation: A Primer
and Update



Making Better Decisions:
Using the Power –
Interest Grid

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KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) 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. Sources of funding for this journal include university contributions and sponsorship and subscription fees.

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 electronic copy. Individual authors are responsible for the views and research results.

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Kern Economic Journal



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Economy at a Glance!

2022 THIRD QUARTER
BY DR. NYAKUNDI MICHIEKA
& DR. RICHARD S. GEARHART III

National Economy¹

U.S. GDP decreased at an annual rate of 3.2 percent in the third quarter of 2022. In the second quarter of 2022, real GDP decreased by 0.6 percent. The larger increase in third quarter GDP (compared to the second quarter) reflected an upturn in exports and increased consumer spending. Profits increased by 0.1 percent at a quarterly rate in the third quarter after increasing by 4.6 percent in the second quarter. Private goods-producing industries decreased 4.9 percent, private services producing industries increased 1.3 percent, and government increased 0.6 percent. A total of 16 of 22 industry groups contributed to the third quarter increase in real GDP.

The increase in **real GDP** reflected increases in exports, consumer spending, nonresidential fixed investment, state, local and government spending that were partly offset by decreases in residential fixed investment and private inventory investment. Imports decreased this quarter.

Current-dollar GDP increased by 7.7 percent (annual), or \$475.5 billion, in the third quarter to a level of 25.72 trillion.

Current-dollar personal income increased \$283.1 billion in the third quarter. This increase reflected increases in compensation (salaries and wages), personal income and nonfarm proprietors' income.

Real disposable personal income which is adjusted for inflation and taxes, decreased by 1.0 percent.

Personal saving was \$507.7 billion in the third quarter. The BEA derives the personal saving rate by calculating personal saving as a percentage of disposable personal income.

Personal saving rate – personal saving as a percentage of disposable personal income – was 2.7 percent in the third quarter.

The Conference Board's Index of Leading Economic

¹U.S. economic numbers were obtained from the Bureau of Economic Analysis "U.S. Economy at a Glance". This is found at <http://www.bea.gov/newsreleases/glance.htm>.

The information for the Index of Leading Economic Indicators is found at <https://conference-board.org/data/bcicountry.cfm?cid=1>.

The University of Michigan Consumer Sentiment Index is found at <http://www.sca.isr.umich.edu/tables.html>

Indicators – a measure of future economic activity – decreased by 1.0 percent in November 2022 to 113.5 (2016=100), following a 0.9 percent decline in October.

The University of Michigan's Consumer Sentiment Index decreased from 57.8 in the second quarter of 2022 to 56.1 in the third quarter of 2022. The value for the index in the third quarter of 2021 was 74.8, and 75.6 in the third quarter of 2020.

State Economy²

In California, the unemployment rate rose by 0.1 percent to 3.9 percent in the third quarter of 2022 compared to 3.8 percent in the second quarter of 2022. At the county level, Alpine (5.1), Colusa (7.5), Fresno (5.7), Imperial (15.6), Kern (6.5), Kings (6.1), Los Angeles (4.8), Madera (5.5), Merced (6.5), Plumas (4.7), San Joaquin (5.0), Stanislaus (5.0), Tulare (7.7) and Yuba (5.1) had unemployment rates above the state average (of 3.9).

Counties with the lowest unemployment rates include Marin (2.3), Placer (2.6), San Francisco (2.2), San Mateo (2.0) and Santa Clara (2.2).

California's labor force increased by 27,067 in the third quarter of 2022. During this period, civilian employment increased by 104,467 from 18.45 million to 18.56 million. Nonfarming enterprises hired 153,433 more workers while farm employment decreased by 3,467. The mining and logging sector hired 67 more workers while the construction and manufacturing sectors hired 11,700 and 3,667 more workers, respectively. Service sector employment increased from 15.3 million to 15.4 million between the second and third quarter of 2022. The state and local government added 4,633 and 17,300 workers, respectively.

Local Economy

The local economy witnessed an increase in the labor force from 383,900 in the second quarter of 2022 to 389,900 in the third quarter of 2022. Civilian employment increased by 5,900 from 358,700 in the

² The California economic numbers were obtained from the Bureau of Labor Statistics "Local Area Unemployment Statistics Map". This is found at <https://data.bls.gov/map/MapToolServlet?survey=la&map=county&seasonal=u>.



second quarter of 2022 to 364,600 in the third quarter of 2022. Nonfarm employment decreased by 1,667 while farm employment rose by 9,800.

In Bakersfield, nonfarm employment changed in the following manner: mining and logging added 333 workers; construction added 233 workers; manufacturing added 33 workers while service lost 2,033 workers. Within the service sector, trade, transportation and utilities added 633 workers; financial activities employment remained at 7,733 workers, professional and business services lost 200 workers; education and health services lost 200 workers while leisure and hospitality added 367 workers. Within the government, the federal government added 200 workers; state government lost 167 workers and local government added 67 workers.

Total salaries and wages in Kern County increased from \$339,067 in the second quarter of 2022 to \$346,967 (2.3 percent rise) in the third quarter of 2022. Compared to four quarters ago, salaries were higher by \$8,667 or 3 percent.

The rate of unemployment varied considerably across cities, ranging from 1.98 percent in Ridgecrest to 11.88 percent in Delano. All cities in Kern County showed a mild decrease in the unemployment rate compared to last quarter. The biggest quarter to quarter drop in the unemployment rate occurred in Delano City where it dropped from 23.83 percent to 11.88 percent. In Bakersfield, the unemployment rate was 3.28 percent in the third quarter of 2022 compared to 3.90 percent in the second quarter. In Kern County, unemployment

was 6.50 percent in the third quarter of 2022 compared to 6.57 percent in the second.

In the third quarter of 2022, the median home price in Bakersfield was \$378,333 compared to \$345,000 in the third quarter of 2021. Home prices are \$33,333 higher than they were four quarters ago. Within the region, median home prices in Taft were the lowest at \$211,500 compared to \$410,379 in Tehachapi.

The weighted price index for the five publicly traded companies doing business in Kern County (Sierra Bancorp, Tejon Ranch Company, Chevron Corporation U.S., Granite Construction, and Wells Fargo Company) decreased by 7 percentage points from \$97.8 to \$91 (quarter to quarter). The index is 8.1 percentage points less than it was four quarters ago. All companies gained/lost as follows: Chevron (decreased 1.9 percent quarter-over-quarter), Tejon Ranch (decreased 14.9 percent quarter-over-quarter), Granite Construction (increased 0.1 percent quarter-over-quarter), Wells Fargo (decreased 10.3 percent quarter-over-quarter) and Sierra Bancorp (decreased 10.8 percent quarter-over-quarter).

The average retail price of gasoline increased by \$0.05 to \$5.89 a gallon (quarter to quarter). Gas prices are 38.8 percent higher than they were four quarters ago when they averaged \$4.24 a gallon. The unit price of California's Class III milk was \$20.81 in the third quarter of 2022 compared to \$24.65 in the second quarter of 2022. The Index of Farm Price Parity in the third quarter of 2022 (0.97) was higher than that of the second quarter of 2022 (0.97).

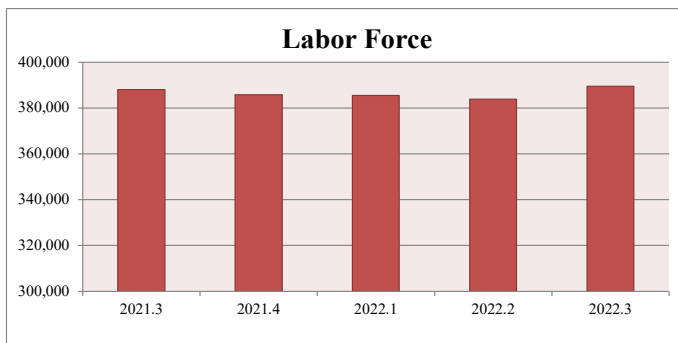
Tracking Kern’s Economy¹

DR. NYAKUNDI MICHIEKA &
DR. RICHARD S. GEARHART III

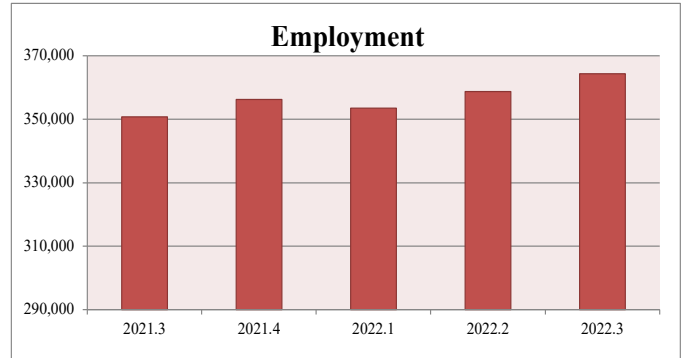
Labor Market

We adjust published data in three ways. First, we average monthly data to calculate quarterly data. Second, we recalculate 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 adjust quarterly data for the effects of seasonal variations.

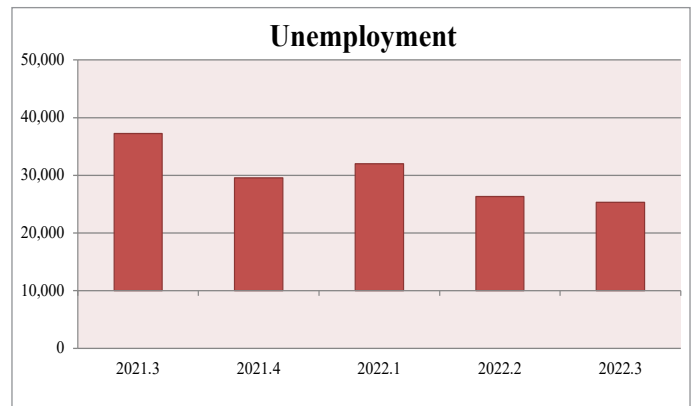
Labor Force - The civilian labor force increased by 5,667 members, from 383,900 in the second quarter of 2022 to 389,567 in the third quarter of 2022. The labor force estimates were similar to the pre-pandemic levels (third quarter of 2019) recorded where they averaged 392,000. The labor force numbers continue to grow over the last four quarters. The Bureau of Labor Statistics defines the labor force participation rate as the proportion of the working-age population that is either working or actively looking for work. Recessions tend to push labor force participation down.



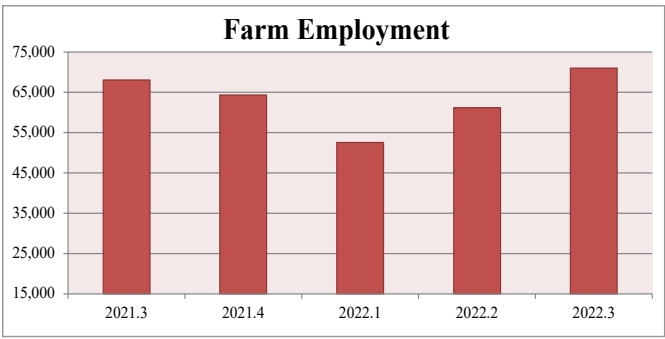
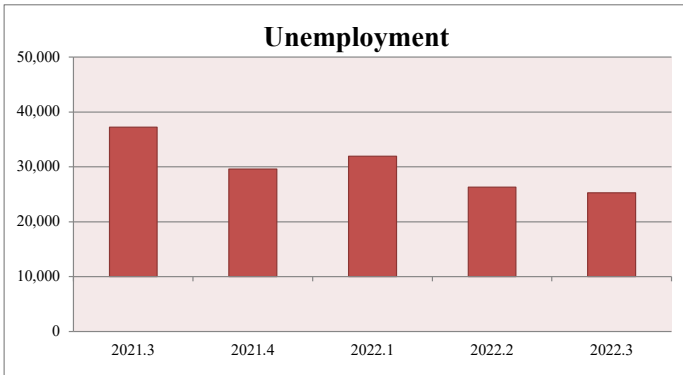
Employment - In the third quarter of 2022, Kern County hired 5,567 more workers as total employment increased from 358,700 to 364,267. This is a 3.84 percent increase in employment compared to the third quarter of 2021, when 350,800 persons were employed. Last year (2021), second to third quarter employment increased by 5,400.



Unemployment - In the meantime, quarter to quarter unemployment decreased by 1,000 as the number of jobless workers dropped from 26,300 to 25,300. The number of unemployed workers is 32 percent lower than it were four quarters ago. In the third quarter of last year (2021), there were 37,233 unemployed workers compared to 25,300 this quarter.



Unemployment Rate - Kern County’s year-to-year unemployment rate dropped by 32 percentage points from 9.6 percent in the third quarter of 2021 to 6.50 percent in the third quarter of 2022. The unemployment rate in the third quarter of 2022 was 1 percent lower than that of the second quarter of 2022. Kern County’s unemployment rate was 6.57 percent in the second quarter of 2022 compared to 6.50 percent in the third quarter of 2022. Kern’s unemployment rate is higher than that of California which is 4.1 percent.

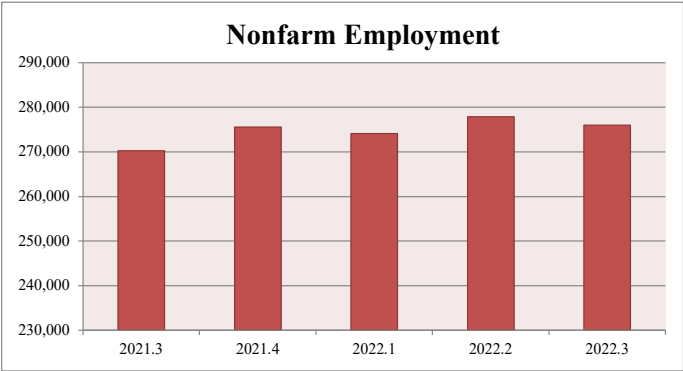


The unemployment rate varied considerably across cities, ranging from 1.98 percent in Ridgecrest to 11.88 percent in Delano. Most cities in Kern County showed a mild decrease in the unemployment rate compared to last quarter. The biggest quarter to quarter drop in the unemployment rate occurred in Delano, where it dropped from 23.83 percent to 11.88 percent. In Bakersfield, the unemployment rate is 3.28 percent (third quarter of 2022) compared to 3.99 percent in the second quarter.

Nonfarm Employment – Local nonfarm industries employed 1,900 less workers in the third quarter of 2022 as the number decreased from 277,900 to 276,000. The industries hired 5,733 more workers compared to four quarters ago (2 percent more). The third quarter estimates of the number of nonfarm workers were similar to the 2019 third quarter numbers.

Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
KERN COUNTY	6.50	McFarland	7.54
Arvin	4.66	Mojave	5.69
Bakersfield	3.28	Oildale	7.00
California City	8.74	Ridgecrest	1.98
Delano	11.88	Rosamond	6.40
Edwards	6.60	Shafter	4.39
Frazier Park	4.22	Taft	2.68
Lake Isabella	6.46	Tehachapi	5.26
Lamont	3.92	Wasco	8.74

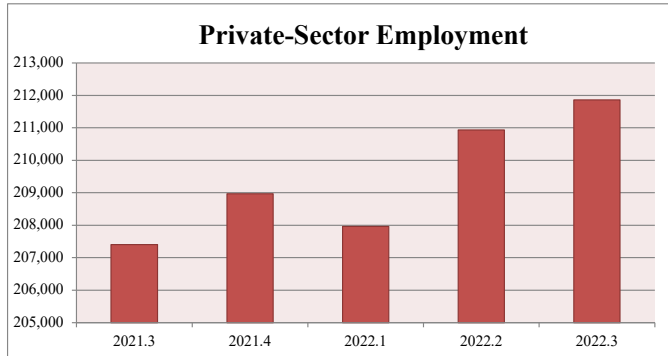
Note: City-level data are not adjusted for seasonality and “informal” market workers.



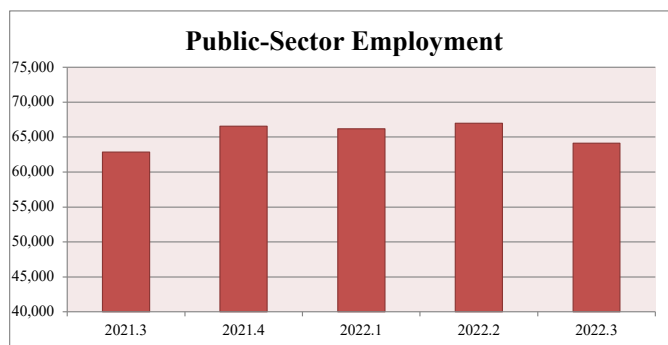
Farm Employment – In the third quarter of 2022, Kern County hired 9,800 more farm workers. As a result, farm employment increased from 61,167 in the second quarter of 2022 to 70,967 in the third quarter of 2022. The year-over-year number of farm workers increased by 2,933 to 70,967 (compared to 68,033 last year).

In Bakersfield, nonfarm employment changed in the following manner: mining and logging employment did not change; construction added 233 workers; manufacturing employment added 33 workers while the service sector lost 2,033 workers. Within the service sector: trade, transportation, and utilities added 633 workers; financial activities workers remained unchanged; professional and business services lost 200 workers; health services lost 200 workers while leisure and hospitality added 367 workers. The federal government added 200 workers while the state government lost 167 workers and local government lost 2,600 workers.

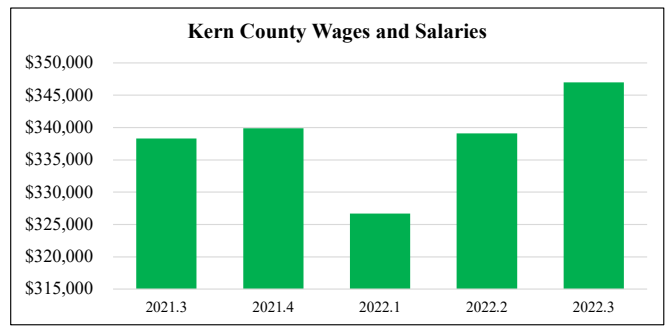
Private-Sector Employment - Nonfarm employment is comprised of private- and public-sector employment. In the third quarter of 2022, private companies hired an additional 933 workers compared to the second quarter of 2022. They also hired 2.15 percent more workers this quarter than they did four quarters ago. This quarter’s estimates are similar to those recorded in the third quarter of 2019. Today, the private sector employs 211,867 individuals.



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 2022, government agencies hired 2,833 less workers, as employment decreased from 66,967 to 64,133 – a 4.23 percent decrease. Compared to last year, 2 percent more workers were hired in the public sector.

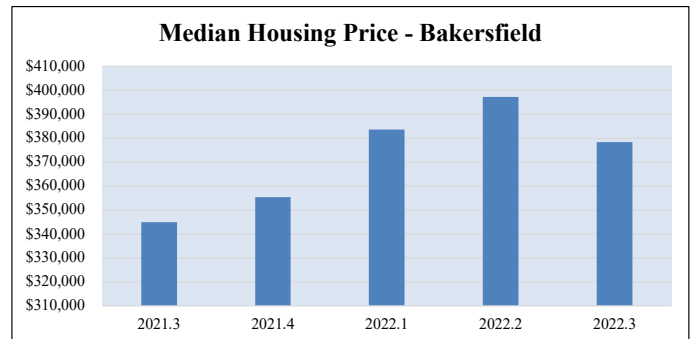


Salaries and Wages - Total salaries and wages in Kern County increased from \$339,067 in the second quarter of 2022 to \$346,967 in the third quarter of 2022 – a 2.3 percent increase. Compared to four quarters ago, salaries were \$8,667 (or 3 percent) higher.

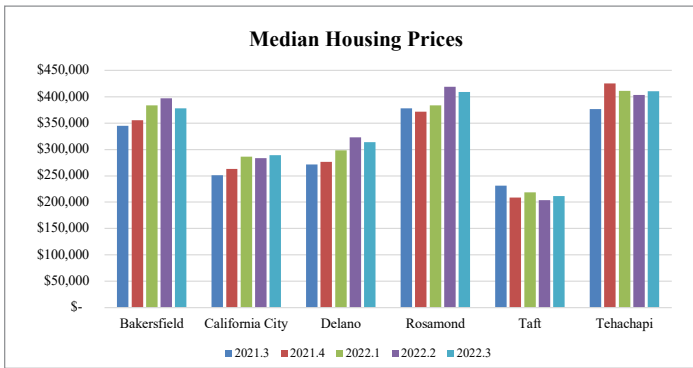


Housing Market

Housing Price - – In the third quarter of 2022, Bakersfield’s housing prices were down by \$18,798 (4.73 percent) compared to the prices in the second quarter of 2022. The median home price averaged \$378,333 in the third quarter of 2022 compared to \$345,500 in the third quarter of 2021. Prices were \$33,333 higher than they were four quarters ago.



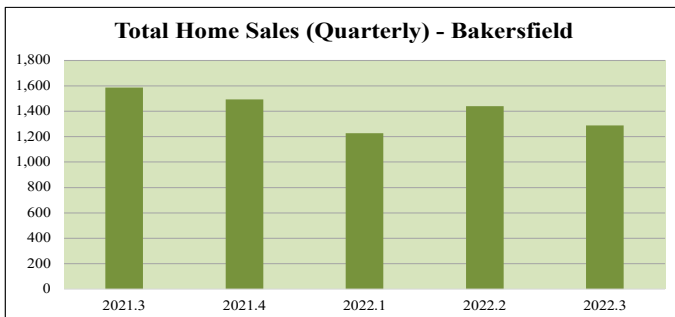
Regional Housing Prices – Changes in housing demand in Bakersfield are likely to spillover to surrounding cities as individuals who are on the margin of buying or selling are likely not located in the Bakersfield Metropolitan Statistical Area (MSA) directly. An assessment of second to third quarter (2022) changes in median sales price indicates that home prices dropped in Bakersfield, Delano and Rosamond while prices increased in California City, Taft and Tehachapi. Bakersfield recorded the largest drop in prices (-\$18,798) while Taft recorded the greatest rise in prices (+\$7,500). The average price change was 0 percent across all regions in the county (i.e. some regions witnessed price increases while others witnessed a decrease in prices). The median home price across all regions averaged \$335,383 in the third quarter of 2022 compared to \$338,355 in the second quarter.



The year-to-year home prices changed as follows: Bakersfield (+9.66 percent), California City (+15.02 percent), Delano (+15.72 percent), Rosamond (+8.18 percent), Taft (-8.71 percent) and Tehachapi (+8.95 percent).

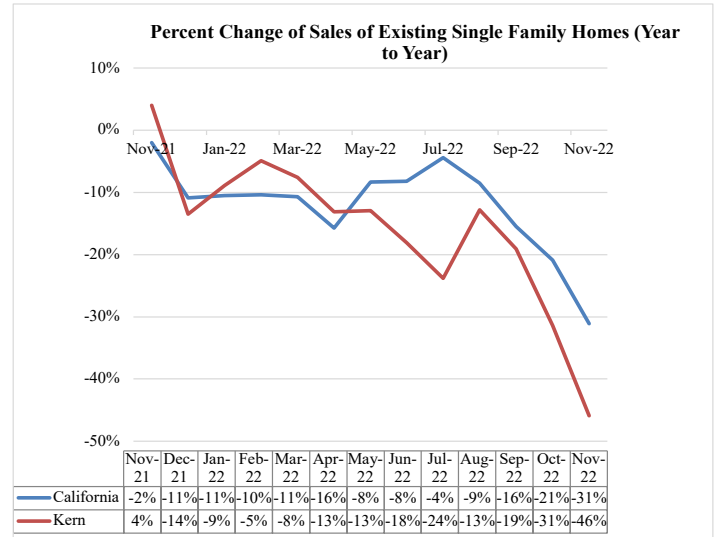
Location	Median Price	Median Price	Price Change (\$) (Annual Change)	% Price Change (Annual Change)
	2021.3	2022.3	2021.3 to 2022.3	2021.3 to 2022.3
Bakersfield	345,000	378,333	33,333	9.66%
California City	251,250	289,000	37,750	15.02%
Delano	271,500	314,167	42,667	15.72%
Rosamond	378,000	408,917	30,917	8.18%
Taft	231,667	211,500	-20,167	-8.71%
Tehachapi	376,667	410,379	33,713	8.95%
Averages	309,014	309,014	26,369	8.14%

Home Sales – In Bakersfield, quarter to quarter sales of residential units decreased by 151 units, from 1,440 in the second quarter of 2022 to 1,289 in the third quarter of 2022. An average of 297 less homes were sold in the third quarter (of 2022) compared to the third quarter last year (2021).

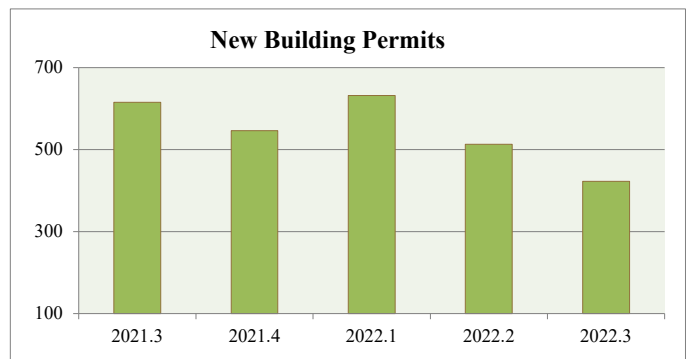


Growth in Housing Sales – We compare growth in sales of existing single-family homes in Kern County with growth in sales in California. Positive values indicate that more homes were purchased this year compared

to last year. In November 2022, 46 percent less homes were sold in Kern County compared to November 2021. In California, sales were 48 percent lower. The average growth in home sales in California between November 2021 and November 2022 were -20 percent while the number was -16 percent in Kern County.

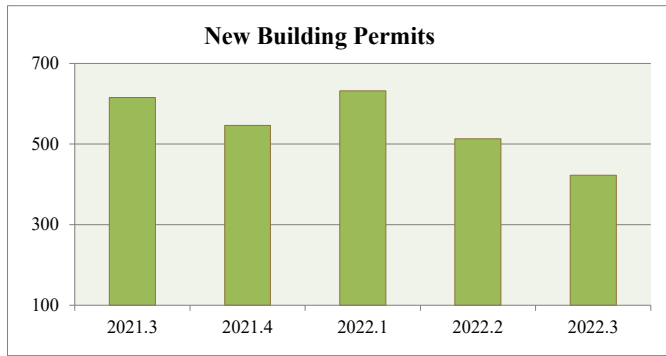


New Building Permits – In the third quarter of 2022, Kern County issued 90 less permits for construction of new privately-owned dwelling units compared to the second quarter of 2022. A total of 423 permits were issued this (third) quarter compared to 615 in the third quarter of last year (2021). This decrease indicates a drop in construction plans in Kern County. Over the last five years, and average number of permits issued in the third quarter of every year is 504.



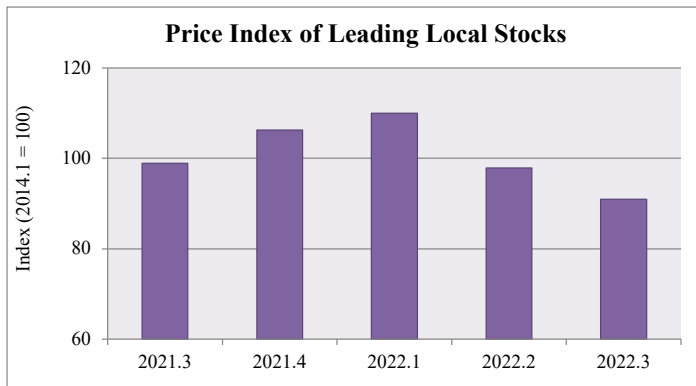
Mortgage Interest Rate – In the third quarter of 2022, the interest rate on thirty-year conventional mortgage loans increased to 5.58 percent from 5.24 percent in the second quarter. The thirty-year mortgage interest rates

continue to rise over the last four quarters. The interest rate in the third quarter of 2021 was 2.87 percent.

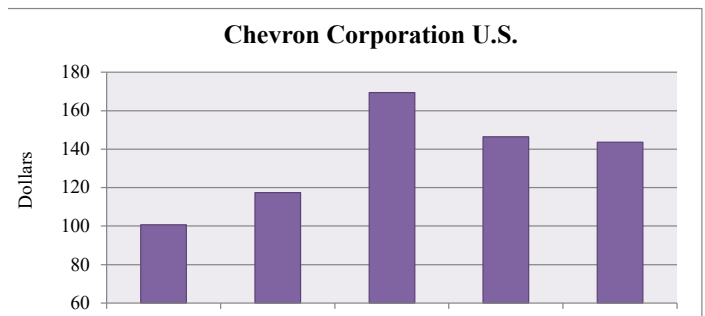


Stock Market

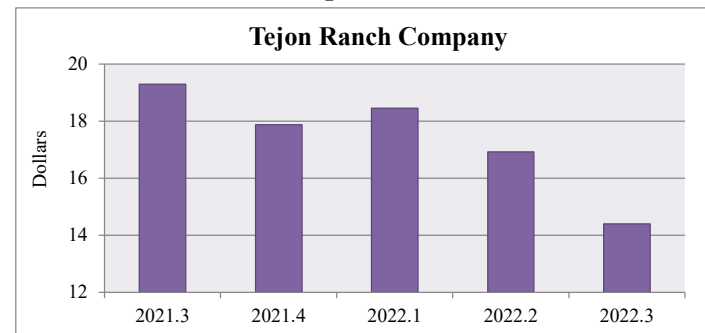
In the third quarter of 2022, the composite price index (2014.1=100) of the five publicly traded companies doing business in Kern County decreased by \$6.85, from \$97.8 to \$91 (quarter to quarter change). The index is 8.1 percentage points lower than it was four quarters ago. Average “close” prices were measured for five local market-movers: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.



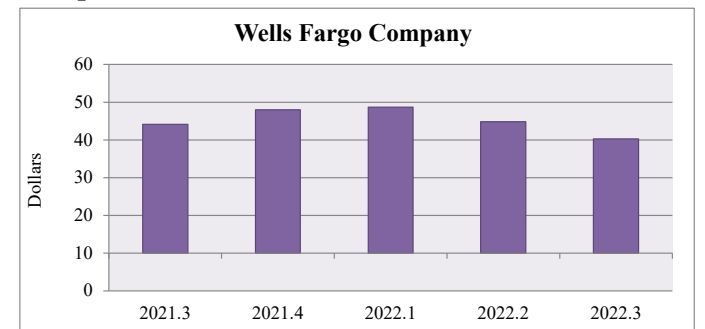
Chevron Corporation U.S.: Compared to last quarter, CVX lost \$2.84 (or 1.9 percent) per share as its price decreased from \$146.51 to \$143.67. Relative to the third quarter of 2021, CVX was up \$43.07 (or 42.8 percent).



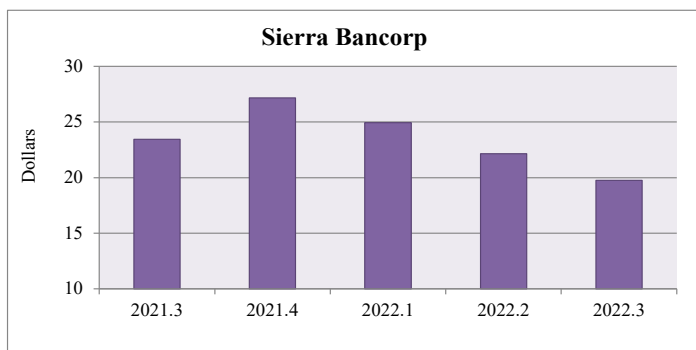
Tejon Ranch Company: TRC lost \$2.52 (or 14.9 percent) per share as its stock price decreased from \$16.92 to \$14.40, between the second and third quarter of 2022. Compared to last year, the TRC stock price was down \$4.89 (or 25.3 percent).



Granite Construction: GVA gained \$0.03 (or 0.1 percent) per share as its stock price increased from \$29.18 to \$29.21 between the second and third quarter of 2022. GVA lost \$11.24 (or 27.8 percent) over the last four quarters.



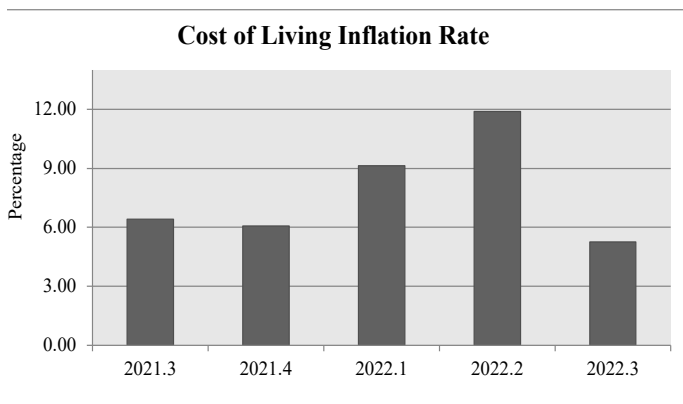
Wells Fargo Company: WFC lost \$4.60 (or 10.3 percent) per share as its stock price decreased from \$44.82 to \$40.22 between the second and third quarter of 2022. Relative to one year ago, WFC was down \$3.95 (or 8.9 percent).



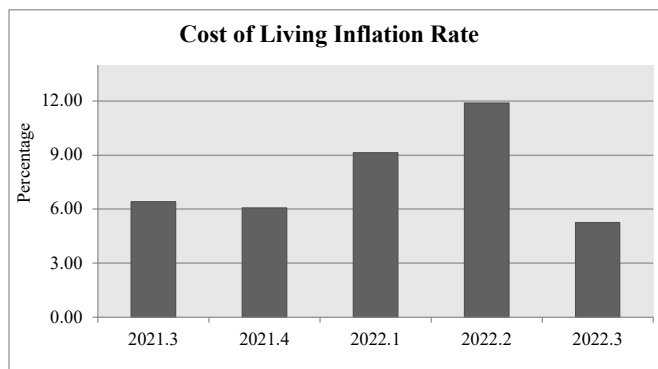
Sierra Bancorp: BSRR lost \$2.38 (or 10.8 percent) per share as its price decreased from \$22.13 to \$19.75. Similar to CVX, WFC and TRC, BSRR lost \$3.69 (or 15.7 percent) this quarter compared to the third quarter of 2021.

Inflation

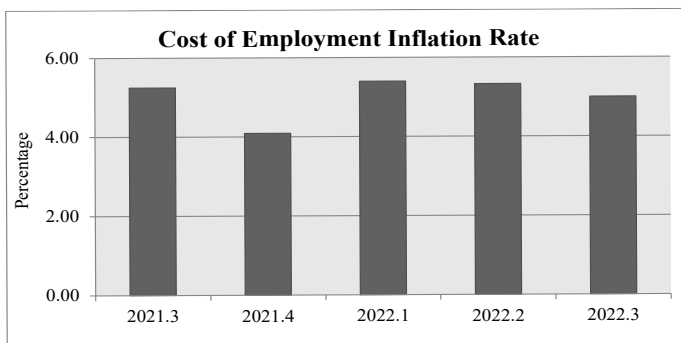
Cost of Living -- In the third quarter of 2022, the Consumer Price Index for all urban areas (1982-84 = 100) increased from 292.57 to 296.42. As a result, inflation for the cost of living accelerated at an annual rate of 5.26 percent. The index was 273.63 in the third quarter of 2021.



Cost of Production –The Producer Price Index for all commodities (1982 = 100) decreased between the second and third quarter of 2022 from 272.93 to 269.97 percent. The inflation rate for the cost of producing decelerated at an annualized rate of -4.33 percent. The cost of production inflation rate was 233.17 four quarters ago.

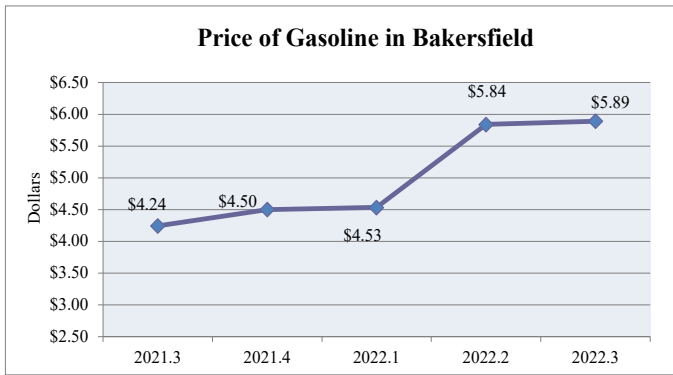


Cost of Employment - The Employment Cost Index (December 2005 = 100) for all civilian workers increased from 152.10 in the second quarter of 2022 to 154 in the third quarter, causing employment inflation to rise by 5 percent.

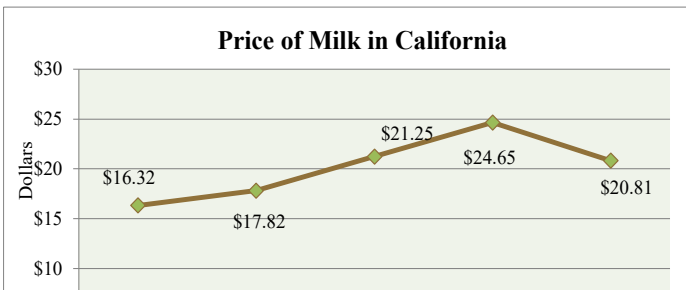


Commodity Prices

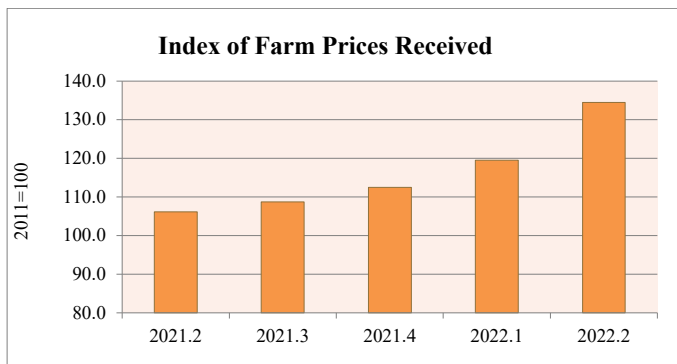
Price of Gasoline – In the Bakersfield MSA, the average retail price of gasoline increased by \$0.05 to \$5.89 from \$5.84 between the second and third quarter of 2022. Average prices were 38.8 percent higher than they were a year ago.



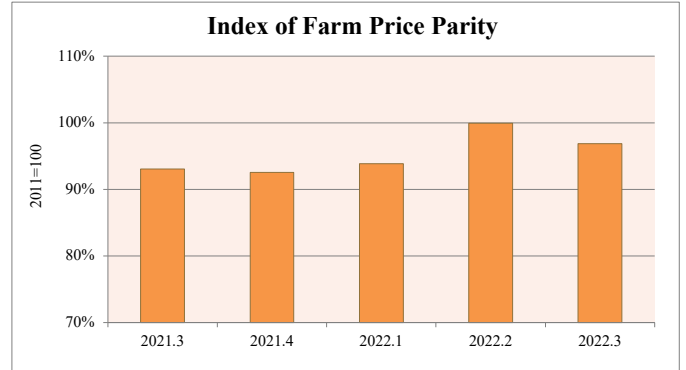
Price of Milk – The unit price of California’s Class III milk decreased in the third quarter of 2022 by \$3.84, to \$20.81 from \$24.65. Noticeably, milk prices dropped after rising consecutively since the third quarter of 2021 when prices were \$16.32. Prices are 27.5 percent or \$4.49 higher than they were four quarters ago.



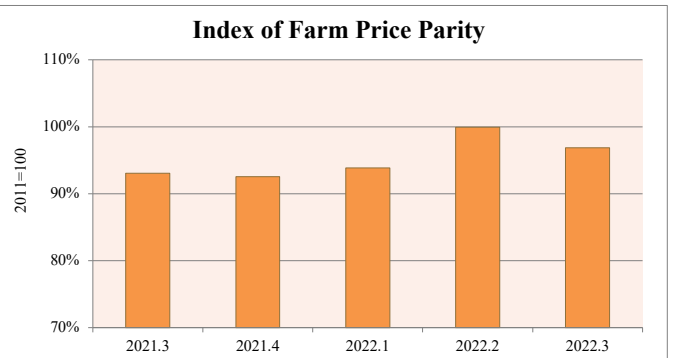
Farm Prices – In the third quarter of 2022, the National Index of Prices Received by Farmers for all farm products (2011 = 100) decreased by 2.53 points to 131.9 compared to the 134.4 in the second quarter of 2022. This is a 23.20 point increase from the 108.7 points recorded in the third quarter of 2021.



Meanwhile, the National Index of Prices Paid by farmers for commodities, services, interest, taxes, wages, and rents increased by 1.24 percentage points compared to last quarter. This means that farmers are worse off this quarter compared to last quarter.



We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the second quarter of 2022, the Index of Farm Price Parity was 100 percent compared to 93 percent this quarter. Four quarters ago, the price ratio was 93 percent.



¹ Source – Online databases: <http://www.labormarketinfo.edd.ca.gov>; www.usda.com; www.bakersfieldgasprices.com; www.bea.gov; www.car.org; www.trulia.com; www.census.gov; <https://www.redfin.com>; <https://www.cafmmo.com>; www.bls.gov

Inflation: A Primer and Update

Mark Evans Ph.D.
Economics Professor Emeritus
California State University – Bakersfield

This article: (1) decomposes inflation into its components, (2) describes monetary policies for each component, (3) provides an early 2023 update, and (4) describes a soft-landing pathway to disinflation.

Inflation Components. Inflation has three components: expectations, demand pressure, and supply shocks.

Total Inflation = expected inflation +/- demand inflation +/- supply shock inflation.

Baseline inflation is determined by expectations. If labor expects inflation, it demands higher wages to compensate for lost purchasing power. Business applies its mark-up to the higher costs (and anticipated higher costs), making expected inflation self-fulfilling.

Demand shocks bump inflation up or down from its inertial baseline. There is an “unemployment-rate trigger” called the “noncyclical rate of unemployment.” Inflation increases when unemployment is sustained below the trigger, decreases when it is held above the trigger, and remains unchanged near the trigger. There is not a stable trade-off between inflation and unemployment because inflation increases to higher and higher levels if the unemployment rate is maintained below the trigger.

Supply shocks also jolt inflation up or down from the baseline by reducing capacity for major inputs, causing cost increases throughout the economy. Disruptions include earthquakes and other natural disasters, nuclear accidents and industrial fires, crop failures, wars, pandemics, and cartel actions. Supply shocks can decrease inflation (e.g., bumper crops from good weather, cartels members cheating on production quotas).

Demand and supply shocks can affect inflationary expectations to the extent they are perceived as permanent rather than transitory.

Fed Independence. At least since LBJ, politicians have treated spending decreases or tax increases to quell inflation as political suicide. Responsibility for disinflation falls on the Federal Reserve. Consider any country with sustained hyperinflation: it will have a central bank controlled by politicians. Fortunately, the Federal Reserve is politically independent, although it is a *de facto* rather than *de jure* independence relying on a norm that got traction when President Carter appointed Paul Volker as Fed Chair.

“Pure” Disinflation Strategies. To decrease a “pure” *expectations inflation*, the Fed can try to influence expectations. For example, it can announce forward-looking intentions to reduce inflation. If the communication is credible, decision makers build smaller increases into wage and price decisions. If lower inflation isn’t going to be expected until it’s experienced, the Fed will need to raise unemployment above the inflation trigger. Once disinflation commences, forward-looking communications hopefully become more credible, enabling expectations to contribute to disinflation.

To stifle a “pure” *demand inflation*, the Fed tightens credit to increase the unemployment rate above its inflation trigger. The slack created in product and labor markets breaks the wage-price cycle and ratchets down inflation.

There is little a central bank can do to suppress a “pure” *supply shock inflation*. Large price increases are needed in the disrupted sectors to let the price system work its magic by creating incentives to decrease demand and increase supply. Once relative prices increase and sufficient time has passed to restore balance, inflation in the dislocated

sectors converges to the baseline rate. Because many prices are rigid downward and administered via cost markup factors, monetary tightening to eliminate supply-shock inflation would increase unemployment without significantly reducing the inflation.

Supply shock inflation often is international in scope. The latest year-to-year inflation rates following the COVID pandemic and Ukrainian invasion are as follows: Britain 10.7%, Canada 6.9%, Euro area 10.1%, Sweden 10.9%, Norway 6.5%, Australia 7.3%, and U.S. 7.1%. Similarly, the 1970's Great Stagflation was driven by oil shocks and resulted in global inflation.

Monetary policy is challenging. First, outcomes such as “the” GDP growth rate, “the” inflation rate, and “the” noncyclical rate of unemployment are the outcome of billions of decisions by nonrobotic actors, making quantitative forecasts of these indicators suggestive at best due to inconsistent aggregation. Second, the economy evolves, limiting future reliability of yesterday's forecasting models. Third, lags between Fed policies and outcomes are long and variable. For example, the noncyclical rate of unemployment: (1) is an abstraction representing labor markets in all occupations and regions, (2) is stochastic with a central tendency that changes over time, and (3) triggers inflation changes with an unpredictable lag.

Inflation Update. Inflation was 5.5% in 2022 (PCE Index, All Commodities). All three components – supply, demand, expectations – are prevalent.

The Federal Reserve Bank of San Francisco estimates that 40% of current inflation remains supply-shock driven. Another 40% is estimated to be demand-driven. On the demand side, unemployment was 3.7% in November, below the Congressional Budget Office's 4.4% estimate of the inflation trigger.

Hourly compensation in the nonfarm sector increased 5.5% in the past year. Still, wage increases have not kept up with prices: inflation-adjusted hourly compensation fell by 3.4 percent over this period, since price increases had to cover rising input costs from supply shocks as well as labor costs.

A Soft-Landing Pathway. The Fed's long-term goal is to reduce inflation to 2%, as measured by the PCE Index excluding volatile food and energy components.

Okun's Law suggests holding GDP growth to 1.0 % or less for a year will push the unemployment rate above the inflation trigger (4.75-to-5.0 %). This is the pathway to a soft landing. Growth rates this close to zero can easily slip into a recession (negative growth), so skill and some luck will be required.

There are signs Fed tightening is curbing demand and possibly moving GDP growth into this soft-landing range. For example, while GDP increased at an annual rate of 2.9% in the third quarter, total domestic purchases were flat

¹It also is referred to as the “natural rate of unemployment” or the “NAIRU” (non-accelerating inflation rate of unemployment).

²This trigger is the unemployment rate where the real wage demanded by labor equals the real wage implicit in business' markup over unit labor costs.

³Monetary accommodation is required to maintain the unemployment rate below the trigger as inflation ratchets upward.

⁴While the Fed independently pursues monetary policy in addressing its dual mandate (high employment consistent with price stability), regulations and discretionary policies addressing financial instability are conducted in accordance with statute and in collaboration with the Treasury Department.

⁵A frequent estimate of the “sacrifice ratio” suggests that for each 1% of unemployment maintained for one year above the “trigger rate,” demand inflation decreases by 0.5%.

⁶Also, the increase in nonlabor costs will result in a larger markup over unit labor costs and cause demand inflation to be triggered at a higher unemployment rate than previously.

⁷Federal Reserve Bank of San Francisco, Economic Research Department Data Download. “Supply- and Demand-Driven PCE Inflation.” [https://www.frbsf.org/economic-research/indicators-data/supply-and-demand-driven-pce-inflation.](https://www.frbsf.org/economic-research/indicators-data/supply-and-demand-driven-pce-inflation) Accessed January 1, 2022.

⁸Okun's Law is an ever-changing empirical relationship linking changes in the unemployment rate to GDP growth. The relationship is approximately $\Delta UR = 1.5\% - 0.5(\text{GDP growth}\%)$.



with all the GDP increase attributable to fewer imports as post-COVID spending shifted from goods to services.

Although year-to-year inflation was 5.5%, annualized inflation in the second half of 2022 was 2.4% compared to 8.0% in the first half. Similarly, annualized inflation as measured by the CPI decreased from 11.1% in the first half of 2022 to 2.4% in the second half.

Long-run inflationary expectations are not deeply entrenched as they were during the Great Stagflation, which was preceded by 15 years of gradually building inflationary momentum. So, there is a soft-landing path, although recession is possible, and many say likely. I do not see a deep recession if there is one.

Making Better Decisions: Using the Power – Interest Grid

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As leaders in our organization, it is important that we make the best decisions possible. Decisions that benefit our organization and what we call the stakeholders – or those who influence or are influenced by our organization. Decision making may become more complex as the key issues and interests of our empowered stakeholders vary. Is there a way to determine the power that each stakeholder has and the impact that power will have on the key issues that underlie high quality decisions? The solution to this type of quandary is the use of what is called the power – interest grid. There are four basic steps to effectively use this decision-making tool.

Step one: *Identify the empowered stakeholders within your organization*

Each organization will have a differing array of stakeholders – owners, executives, front line staff, customers, support vendors and perhaps the greater community. Stakeholders will have real or perceived power and it is essential that the decision maker know who the stakeholders are and their level of influence. It is helpful to list all the stakeholders that in some way directly or indirectly influence your organization. One list may be the primary stakeholders and another list the secondary stakeholders. The question of their real or perceived to be real power is also important to know. A stakeholder matrix might look as follows:

Stakeholder Influence	Stakeholder	Power [real or perceived]
Primary	board members executive staff	Substantial [R] Substantial [R]
Secondary	customers	Significant [R]
Tertiary	front line staff support vendors	Moderate [R] Minimal [P]

Of course, each organization will be different and even over time the stakeholder matrix may change. This exercise brings clarity to making well informed decisions. The question of real versus perceived influence is critical – some feel that they are empowered and act as such when in fact their influence is just cosmetic. It is important to be cautious and sensitive at this stage. Contract managers must use their best communication skills to successfully work through this exercise.

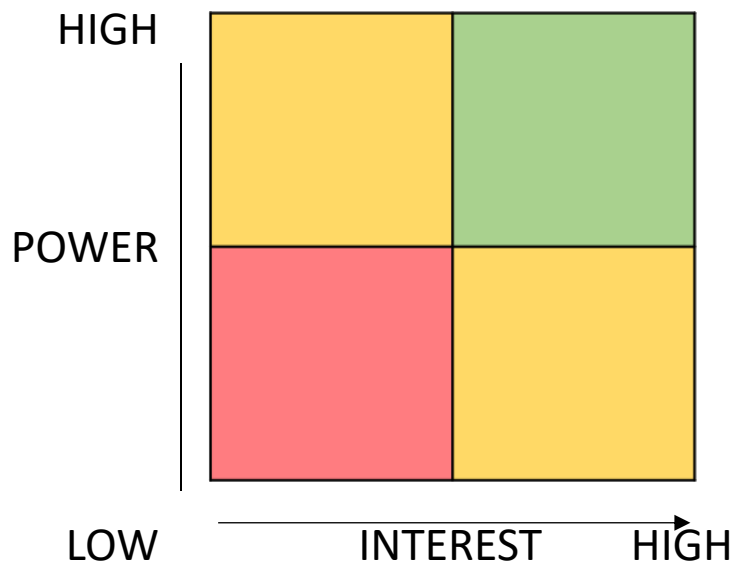
Step two: *Be clear on the key issues or interests that impact your organization*

Again, depending on the organization, its purpose and direction the key issues and driving interests may vary by the position of and view of the stakeholder. For example, an owner might hold net profits as their key interest, while customer satisfaction and return business is important to the front-line staff. An executive might desire a smooth-running contractual relationship as their constant mantra while support vendors desire more clear provisioning contracts. The task of the contract manager is to identify the key issues and driving interests that in a real way influence the contract management process.

This is accomplished mostly by perceptive listening on the part of the leader – what are others concerned about, what seems to be the pressure points, what is the source of anxiety felt by those in the organization? There are several techniques used to identify real or perceived interests – with the Q-SORT exercise being one of those tools. Here is how it works – the leader [or a small work group representative of the organization] lists what they perceive to be the key issues or interests influencing the organization. Each item is printed on a large card using the least words necessary to accurately describe that issue or interest. This card is known as the Q-SORT [Q for question, issue, or interest] and the leader asks a group of stakeholders to meet and to discuss the importance of the issues on the cards. The cards are sorted by these stakeholders after meaningful discussion into levels of importance [high, medium, low]. In this way the leader has a clearer sense of perceived importance of issues.

Step three: Build and analyze a power- interest grid

Our task here is to blend the known power and interest levels of our stakeholders into a comparison model or matrix. Here is an example:



Group one: [Top right box] High power - High interest: these are the stakeholders offering the most significant influence on the organization. They have power and interest concerning the key issues facing the organization. Our goal here is to keep this group well informed and involved.

Group two: [Top left box] High power - Low Interest: these are the stakeholders with power but little to no interest in the issues. Due to their power they need to be informed and satisfied that all is well but not bothered with unnecessary detail.

Group three: [Bottom right box] Low power – High interest: these stakeholders bring passion for the issues but yield little power to have influence. They need to be respected for their interest, generally informed, and positioned if their help is needed.

Group four: [Bottom left box] Low power - low interest: these stakeholders are valued but not of any real influence on the decision-making effort. As their power or interest level change, they may at another time be of help.

One technique to make this matrix more helpful is for the leader to place the names or positions of the stakeholders in each box that best matches their power and interest position.

Step four: Use this information to make an informed decision

The organizational leader is now in a better position to make high- quality decisions using the support of those with influence and interest. What if however, the grid shows imbalance and perhaps serious conflict – such as a mixture of power and interest stakeholders? This is one of the values of this type of exercise – it offers critical information before decisions are made. Here are some suggestions of dealing with serious power – interest imbalance: [1] use, engage and consult the high power-high interest stakeholders throughout the decision making process – they are your best support system [2] keep those high power – low interest stakeholders satisfied with how the decision making process is unfolding – make sure they are aware of your direction [3] the low power - high interest stakeholders need to be informed about the decision making process, their value may come into play as power positions shift, and [4] monitor the thinking of the low power – low interest group – their value is minimal but still to be respected.

High quality impactful decision making is key to organizational success. The power – interest grid is one tool available to help the leader in this important task.







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