

# **The State of the Economy: Kern County, California**

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## **Introduction**

For this year's *Kern County Economic Summit*, I have prepared a three-part report: (1) Tracking Kern County's Economy; (2) Job Creation in Kern County; and (3) Housing Affordability in Kern County. My research results, summarized below, indicate that Kern County's economy has improved between 2000 and 2005 and its outlook looks bright in 2006.

Kern's \$15 billion-plus economy is expected to grow 3.3 percent, creating greater income for workers and households. The labor market will create more jobs to accommodate the growing workforce and to reduce the unemployment rate. Kern County is no longer an "oil & ag" economy. Although both oil and agriculture are major local industries, the economy has created a sizable number of jobs in construction, retail and wholesale trade, leisure and hospitality, health-care and social services, manufacturing, finance, insurance and real estate, and public education. As a result, we expect the county's unemployment rate to fall to 7.6 from 8.1 percent

In 2005, housing prices appreciated at the feverish rate of 39.7 percent, causing the median sales price of all residential units to climb to \$233,500 from \$167,100. As a result of a recent slow-down in the local market, housing prices appreciated at a slower rate. For example, in the fourth quarter of 2005, the county's median sales price appreciated 8.9 percent to arrive at \$268,200. However, data from January 2006 indicate a 3.2 percent decline in the county's median housing price. With a modest price appreciation rate of 1.5 percent in the first quarter of 2006 and 2.5 percent per quarter afterward, we anticipate the median price to rise to \$282,600 in 2006. We expect the median housing price to appreciate 9.3 percent between the fourth quarter of 2005 and the fourth quarter of 2006. Our expectation for this price increase is based on a high residential demand, rising land value, increased construction cost, and greater square footage of new homes.

In the meantime, the median household income will rise 2 percent to arrive at \$38,100. With housing prices rising more rapidly than household incomes, the housing affordability indicator will increase to 7.4. Holding the affordability indicator constant at its 10-year average of 3.2, \$88,300 of household income would be required to afford a median-priced home. As a result, construction of affordable housing is needed as low- and middle-income households are priced-out of the housing market.

In 2005, the quality of life index - measured by 20 social, economic, and environmental indicators - improved 2 percentage points to arrive at 137. We expect the index value to rise to 140 in 2006. Better quality of life would require improvement in workforce

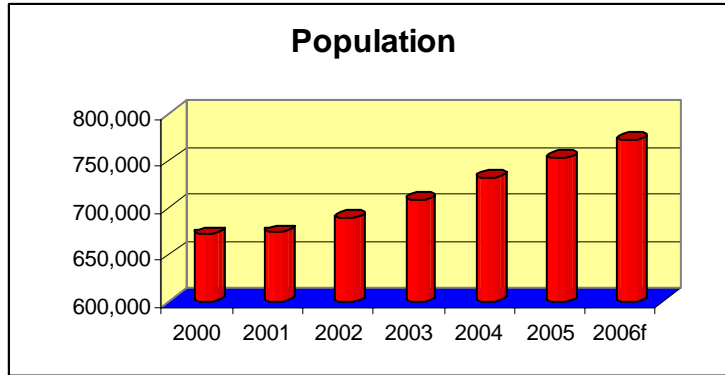
preparation, affordable housing, educational attainment, health-care services, crime prevention, and air quality.

For this report, I have used various sources of data including the Bureau of Economic Analysis; California Association of Realtors; California Employment Development Department; Data Quick; Economagic; Rand California; and the U.S. Census Bureau. I have used the Forecast Pro statistical software to make projections for 2006. Obviously, I am responsible for any error that you may find in this report.

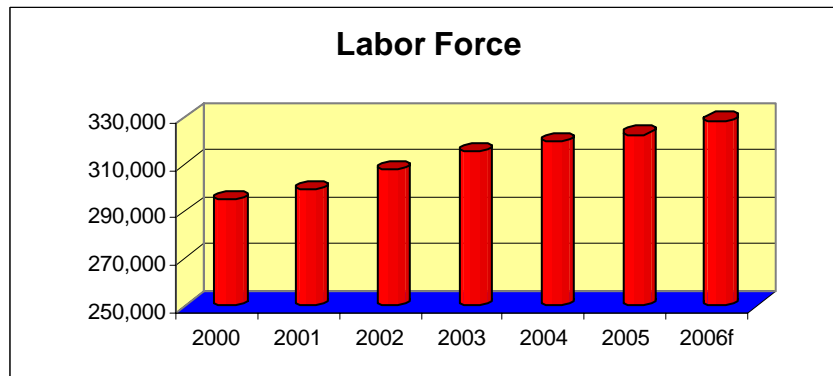
<b>Indicator</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006<sup>f</sup></b>
<b>Economy:</b>							
Personal Income (billion \$)	13.9	14.2	14.4	14.7	15.0	15.3	15.8
Personal Income Growth (%)	2.2	2.3	1.4	2.1	2.0	2.1	3.3
Personal Income per Capita (\$)	20,540	20,520	20,650	20,700	20,500	20,300	20,500
Personal Income per Worker (\$)	47,150	47,450	46,750	46,600	46,900	47,400	48,100
Personal Income per Household (\$)	35,900	36,000	36,100	36,200	36,600	37,400	38,100
<b>Labor Market:</b>							
Population	671,300	673,600	688,900	708,400	732,400	753,100	772,600
Labor Force	294,900	299,300	308,000	315,400	319,800	322,600	328,500
Employment	270,600	273,600	277,800	282,800	288,500	296,500	303,500
Unemployment	24,300	25,700	30,200	32,600	31,300	26,100	25,000
Unemployment Rate (%)	8.2	8.6	9.8	10.3	9.8	8.1	7.6
Nonfarm Employment	194,100	202,300	205,100	207,100	210,700	216,400	221,800
Farm Employment	48,600	41,700	40,300	41,900	40,000	41,300	41,000
Informal Employment	27,900	29,600	32,400	33,800	37,800	38,800	40,700
Private-sector Employment	142,500	148,600	149,900	152,600	156,700	161,700	165,900
Public-sector Employment	51,600	53,700	55,200	54,500	54,000	54,700	55,900
<b>Housing Market:</b>							
Median Price (\$)	81,800	93,400	108,600	132,500	167,100	233,500	284,900
New Building Permits	2,913	3,280	3,751	5,595	6,641	7,630	9,000
Affordability Indicator	2.3	2.6	3.0	3.7	4.6	6.2	7.5
<b>Quality of Life Index</b>							
	121	133	129	134	135	137	140

## **Tracking Kern County's Economy**

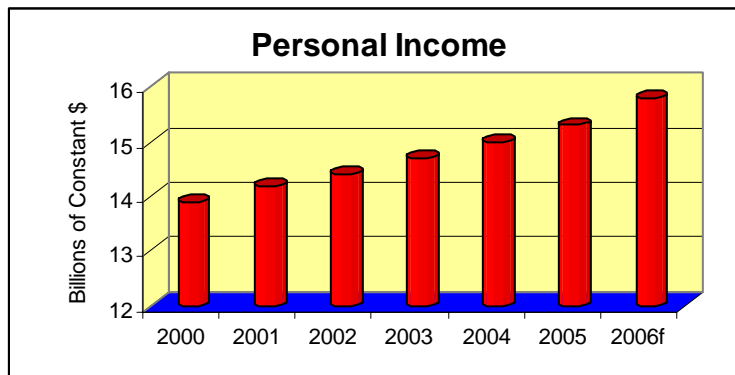
**Population** - Kern County's population exceeded 750,000 in 2005. At a projected growth rate of 2.5 percent, the county will add 19,000 new residents to reach 769,000 in 2006. If the trend continues, the county's population will reach 1.0 million by 2020.



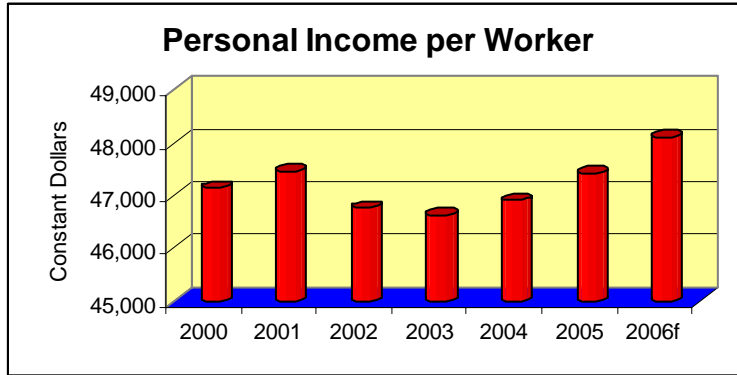
**Labor Force** – Kern County’s workforce makes up 43 percent of its population. The remaining 53 percent are those who do not participate in civilian labor market activities (e.g., children, retired, members of armed forces, and prisoners). The county’s labor force is expected to grow 1.8 percent, adding 5,900 members. As a result, the local workforce will rise from 322,600 in 2005 to 328,500 in 2006.



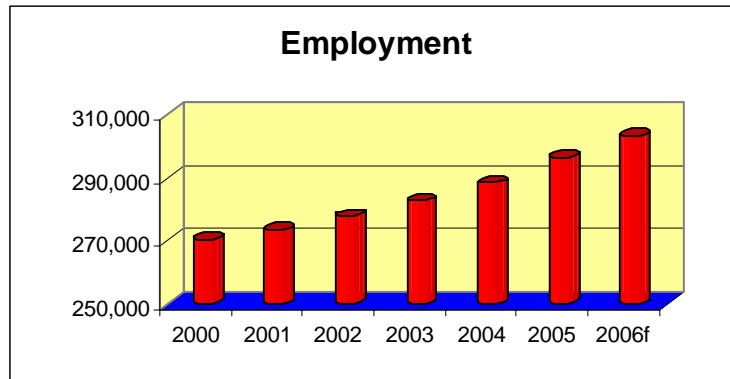
**Personal Income** - Growing at a rate of 2.1 percent, Kern County added \$300 million of personal income to reach \$15.3 billion in 2005. We anticipate that a stronger growth rate of 3.3 percent would increase personal income to \$15.8 billion in 2006.



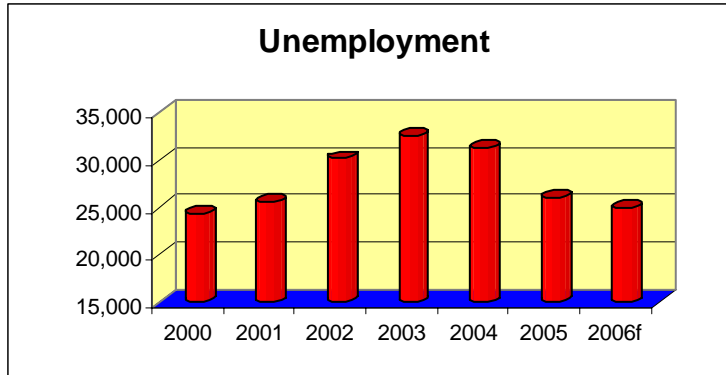
**Household Income** - With rapid population growth, *personal income per capita* has remained fairly stable at less than \$21,000. *Personal income per worker* has regained a rising trend and is expected to climb from \$47,400 in 2005 to \$48,100 in 2006. Likewise, we project *personal income per household* to increase from \$37,400 in 2005 to \$38,100 in 2006.



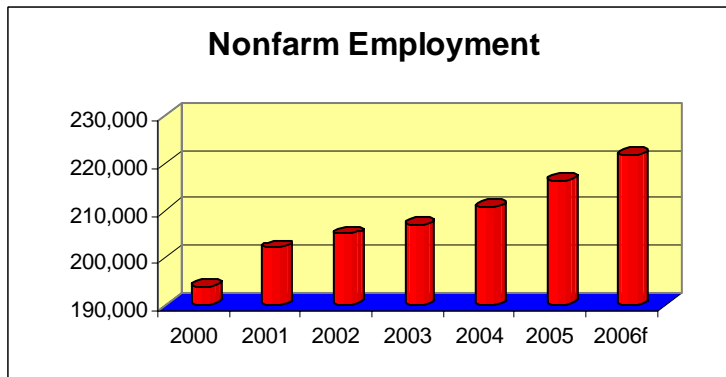
**Employment** – Kern County is expected to create 7,000 new jobs to accommodate its growing labor force. We forecast that total employment will rise from 296,500 in 2005 to 303,500 in 2006. Of these jobs, nonfarm industries will account for 5,400 and self-employed workers and small-businesses for 1,900. However, farm employment is expected to decline by 300.



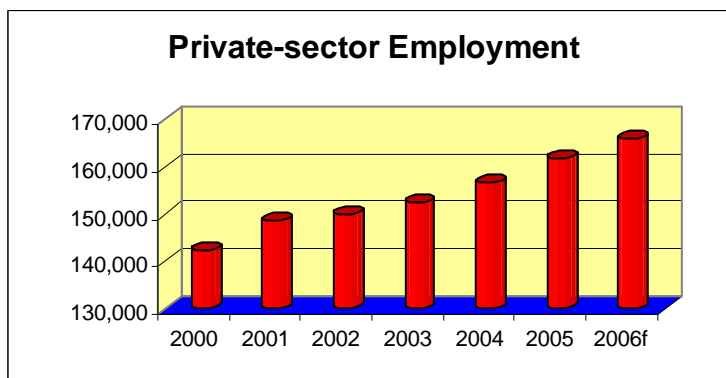
**Unemployment** – With job growth exceeding labor force growth, the number of unemployed workers is projected to decline from 26,100 in 2005 to 25,000 in 2006. As a result, we expect for the rate of unemployment to drop from 8.1 to 7.6 percent.



**Nonfarm Employment** – Employment in nonfarm industries is expected to increase by 5,400 from 216,400 in 2005 to 221,800 in 2006.

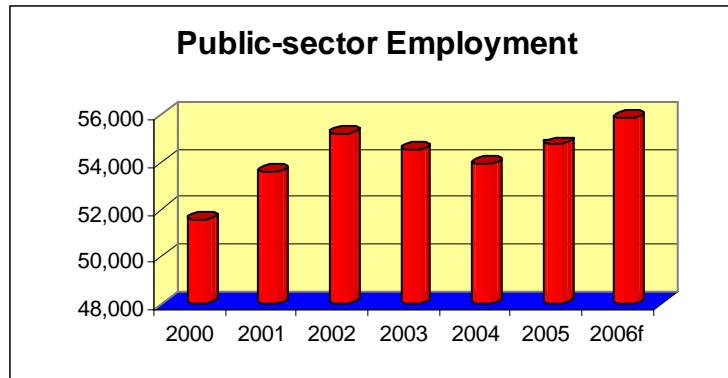


**Private-sector Employment** – The number of jobs in private-sector enterprises is projected to rise from 161,700 in 2005 to 165,900 in 2006. The private-sector employment accounts for 4,200 or 87 percent of new nonfarm jobs. The leading job-creating industries are construction, retail and wholesale trade, leisure and hospitality, health-care and social services, manufacturing, and finance, insurance, and real estate.

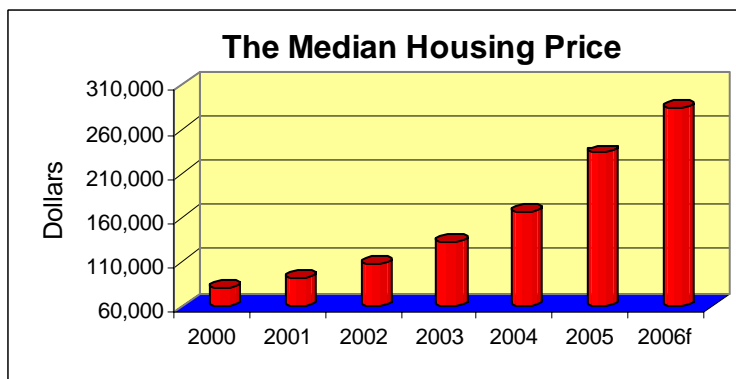


**Public-sector Employment** – Jobs in government agencies are projected to rise from 54,700 in 2005 to 55,900 in 2006. The public-sector employment accounts for the

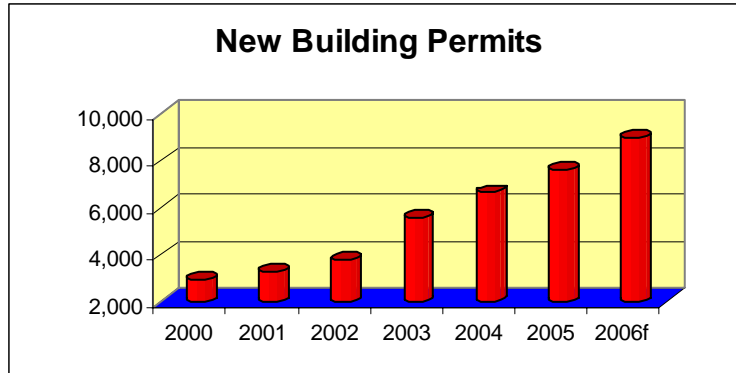
remaining 1,200 or 13 percent of new nonfarm jobs. While local governments account for 85 percent of new public-sector jobs, public education is responsible for 80 percent of new local government employment.



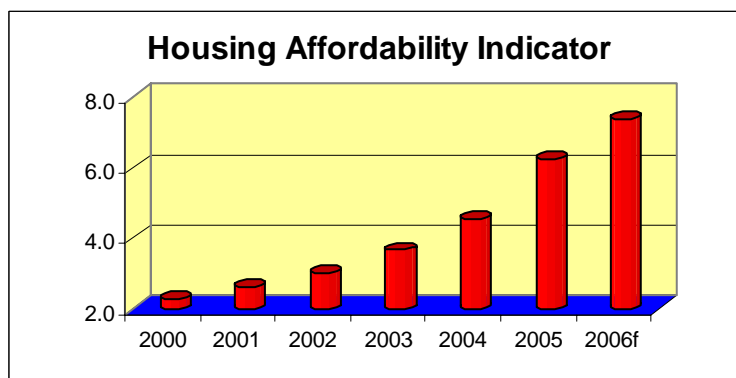
**Housing Price** – In 2005, housing prices appreciated at the feverish rate of 39.7 percent, causing the median sales price of all residential units to climb to \$233,500 from \$167,100. As a result of a recent slow-down in the local market, housing prices appreciated at a slower rate. In the fourth quarter of 2005, the county’s median sales price appreciated 8.9 percent to arrive at \$268,200. However, the county’s median price depreciated 3.2 percent in January of 2006 to reach \$266,000. With a modest price appreciation rate of 1.5 percent in the first quarter of 2006 and 2.5 percent per quarter afterward, we anticipate the median price to rise to \$282,600 in 2006. We expect the median housing price to appreciate 9.3 percent between the fourth quarter of 2005 and the fourth quarter of 2006. Our expectation for this price increase is based on a high residential demand, rising land value, increased construction cost, and greater square footage of new homes.



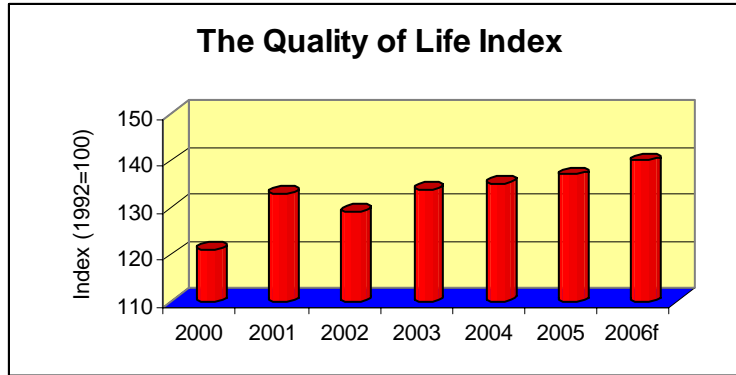
**New Building Permits** – The annual number of permits issued for the construction of new privately-owned dwelling units increased to 7,630 in 2005 from 6,641 in 2004. We expect 9,000 new building permits to be issued in 2006.



**Housing Affordability** – Relative to the state average of more than \$500,000, Kern County offers affordable housing. However, housing has become increasingly less affordable. The housing affordability indicator - defined as the median housing price divided by the median household income - is expected to rise to 7.4 in 2006 from 6.2 in 2005. Holding the affordability indicator constant at its 10-year average of 3.2, \$88,300 of household income would be required to afford a median-priced home.



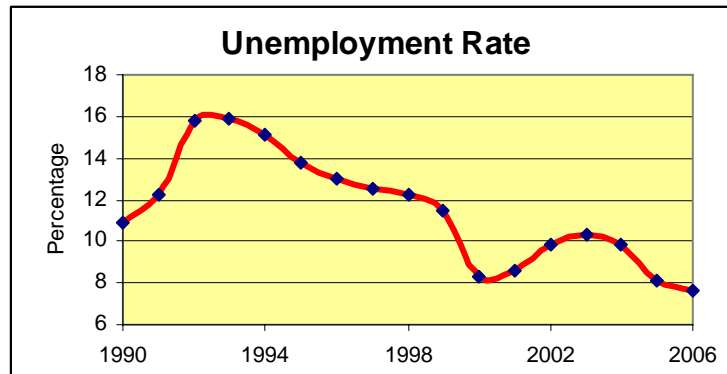
**Quality of Life Index** - Data indicate that the quality of life index - as measured by 20 social, economic, and environmental indicators - improved 37 percent in 2005 relative to 1992. The quality of life index, gaining 2 percentage points in 2005, is expected to rise to 140 in 2006. Better quality of life would require improvement in workforce preparation, affordable housing, educational attainment, health-care services, crime prevention, and air quality.



### Job Creation in Kern County

Historically, the economy of Kern County has been heavily engaged in production of natural resources including oil and agriculture. Over the years, there were incidents of *transitional unemployment*, where workers had to wait between jobs, and *structural unemployment*, where workers were displaced by machines. As a consequence, the county's unemployment rate was in double-digits. It exceeded 15 percent in the recession of 1992-94 and remained in double-digits throughout the 1990s.

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



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

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

In the private sector, construction and trade (wholesale and retail) led the county’s job creation effort with 4,800 and 4,130 new full-time equivalent positions, respectively. Leisure and hospitality added 2,750 new jobs, while health care and social services increased employment by 2,500. Manufacturing created 1,900 jobs, while finance, insurance, and real estate offered 1,220 new paid positions. Public education, being responsible for nearly 80 percent of job creation in the public-sector, added 2,300 full-time equivalent positions.

<b>Labor Market</b>	<b>Gain or Loss, 2000-2005</b>
Labor Force:	28,250
Employment	25,350
Unemployment	2,900
Employment:	
Farm	-9,100
<b>Nonfarm</b>	<b>22,550</b>
<b>Informal</b>	<b>11,900</b>
Nonfarm:	
<b>Private-sector</b>	<b>19,000</b>
<b>Public-sector</b>	<b>3,550</b>
Private-sector:	
<b>Construction</b>	<b>4,800</b>
<b>Trade (wholesale &amp; retail)</b>	<b>4,130</b>
<b>Leisure &amp; Hospitality</b>	<b>2,750</b>
<b>Health Care &amp; Social Services</b>	<b>2,500</b>
<b>Manufacturing</b>	<b>1,900</b>
<b>Finance, Insurance, &amp; Real Estate</b>	<b>1,220</b>
Transportation & Utilities	710
Educational Services	470
Other Services	350
Information	150
Mining	140
Professional & Business Services	-120
Public-sector:	
Federal Government	-350
State Government	800

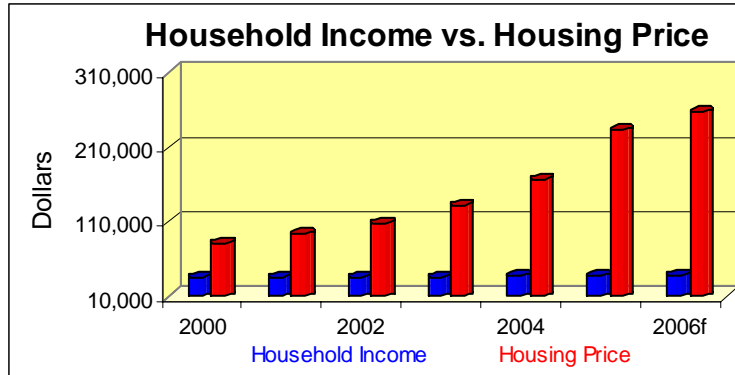
<b>Local Government</b>	<b>2,900</b>
Local Government:	
<b>Public Education</b>	<b>2,300</b>
County	300
City	200
Others	100

### **Housing Affordability in Kern County**

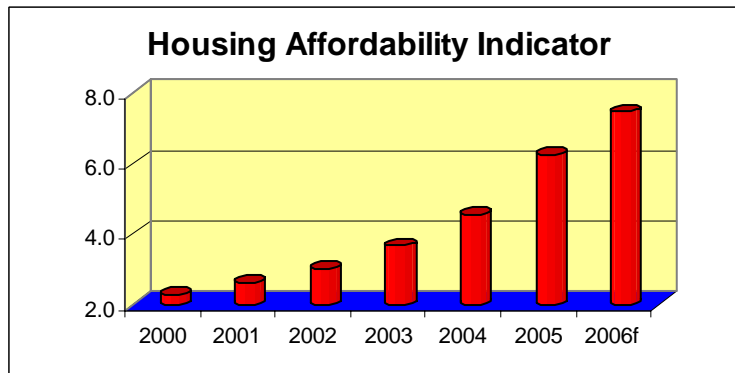
Kern County has experienced a housing boom with rising prices and greater construction activities. After several years of sluggish growth, the year 2001 marked a turning point in the local housing market, when the median price of all residential units appreciated 14.2 percent to reach \$93,400. During the following year, the feverish housing market gained momentum, when the median price appreciated 16.3 percent to arrive at \$108,600. In 2003, the rate of price increase accelerated to 22 percent, when the median price climbed to \$132,500. In 2004, the median price jumped an additional 26.1 percent to attain a record high of \$167,100. In 2005, the housing price appreciated at an astonishing 39.7 percent to arrive at \$233,500.

As a result of a recent correction in the local market, housing prices appreciated at a slower rate. In the fourth quarter of 2005, the county's median sales price appreciated 8.9 percent to arrive at \$268,200. However, the county's median price depreciated 3.2 percent in January of 2006 to reach \$266,000. With a modest price appreciation rate of 1.5 percent in the first quarter of 2006 and 2.5 percent per quarter afterward, we anticipate the median price to rise to \$282,600 in 2006. We expect the median housing price to appreciate 9.3 percent between the fourth quarter of 2005 and the fourth quarter of 2006. Our expectation for this price increase is based on a high residential demand, rising land value, increased construction cost, and greater square footage of new homes.

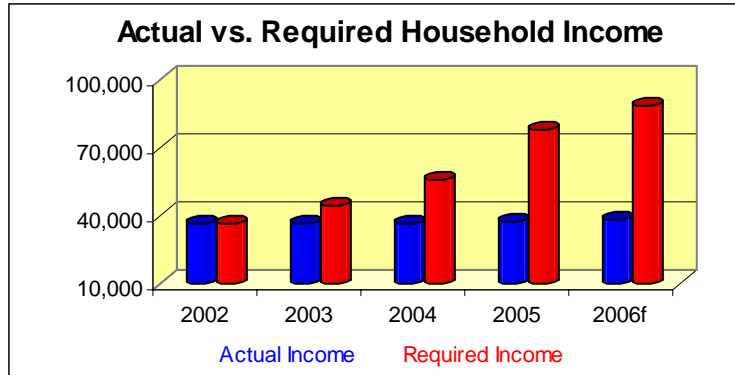
While the increased housing supply makes housing more available, higher interest rates and rising housing prices reduce affordability. In particular, housing becomes less affordable if household incomes do not keep pace with housing prices. The median household income in Kern County increased slowly from \$35,900 in 2000 to \$37,400 in 2005, and is expected to reach \$38,100 in 2006. While housing prices appreciated at an average annual rate of nearly 13 percent, household income grew only about 2 percent annually.



To measure housing affordability, we divide the median housing price by the median household income. As a result of such a rapid increase in the housing price relative to household income, the housing affordability indicator found a rising trend. It climbed from 2.3 in 2000 to 3.0 in 2002, 3.7 in 2003, 4.6 in 2004, and 6.2 in 2005. The indicator is projected to rise to 7.4 in 2006. This increase states that, on average, the county's housing price is 7.4 times greater than its household income. Relative to 2000, housing is 3 times less affordable.



The rise in the housing affordability indicator suggests that homebuyers would need greater income. Keeping the housing affordability indicator at its 10-year average of 3.2, a household would need \$88,300 of income to afford a median-priced home. This *required* household income is 2.3 times greater than the \$38,100 of *actual* household income of 2006.



Reduced housing affordability has several implications. Housing is less affordable for renters and first-time buyers whose incomes fall short of the *required* household income. As results, they are priced-out of the local housing market. Some may forego the dream of homeownership. Others may move to other states, where housing is more affordable than Kern County. Still, some households may take advantage of *interest-only adjustable* mortgage loans, hoping that housing prices will continue to appreciate at a rate which would compensate for the addition to their loan principals. Reduced housing affordability would also convey to government decision-makers and business leaders the urgent need for increased construction of affordable residential units to fulfill the dream of homeownership for a large segment of our population.