

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

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## **Summary**

**K**ern County households follow national trends. They turned less optimistic during the recession of 2001 when the Consumer Sentiment Index lost 13 percentage points to reach 105. Local households gained confidence during the recent housing market boom, when their confidence level climbed to 131 in 2005. However, they expressed concerns about the financial conditions of their families and relatives as the index value fell gradually to 120 in 2007. With sluggish economic growth, rising inflation, and housing market recession, we expect household confidence to continue to erode in 2008.

**K**ern County's business outlook slowly darkened as the Business Outlook Index fell from 125 in 2000 to 106 in 2003. The outlook brightened as business confidence rebounded gradually to 135 in 2005. Although still optimistic, local businesses expressed concerns about the employment and financial conditions of their companies and industries. As a result, the index value dropped to 129 in 2006 and 115 in 2007. The main reasons given for reduced confidence were increased fuel prices and transportation costs, the slumping residential real estate market, and subsequent increase in the minimum wage. While confident, we anticipate businesses to stay less upbeat in 2008.

**K**ern County's population grew at a rapid rate of 2.6 percent by adding 20,300 new residents in 2007. The ethnic structure of the population has altered to 45.3 percent Hispanic, 41.7 percent White, 6.6 percent African-American, 4.5 percent Asian and Pacific Islander, and 1.9 percent American-Indian. About two-thirds of the population is considered "economically active," hence supporting the entire population. These demographic trends are expected to continue in 2008 as Kern County will host a larger and more diversified population.

**K**ern County's economy is approaching \$16 billion. Its total personal income grew 2.6 percent in 2007 and is expected to increase 2.2 percent in 2008. Personal income per worker reached \$45,000 in 2007 and is likely to remain about the same in 2008.

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<sup>1</sup> I used various sources of data including Bakersfield Bubble; Bureau of Economic Analysis; California Association of Realtors; California Labor Market Information; Data Quick; economagic.com; KernData.com; Rand California; and the U.S. Census Bureau. I used the Forecast Pro statistical software to make projections for 2008. Obviously, I am responsible for any error that you may find in this report.

**K**ern County is creating jobs to accommodate its growing workforce. In 2007, the county's workforce grew 2.4 percent to reach 348,900. Total employment grew 2.5 percent to arrive at 320,300. Both private and public sectors contributed to this job growth. In the meantime, the unemployment rate rose to 8.2 percent. In 2008, we expect the labor force to increase to 357,400 and total employment to grow to 328,300. The county's unemployment rate is likely to stay constant since the rise in the number of unemployed workers will be offset by the increase in the labor force.

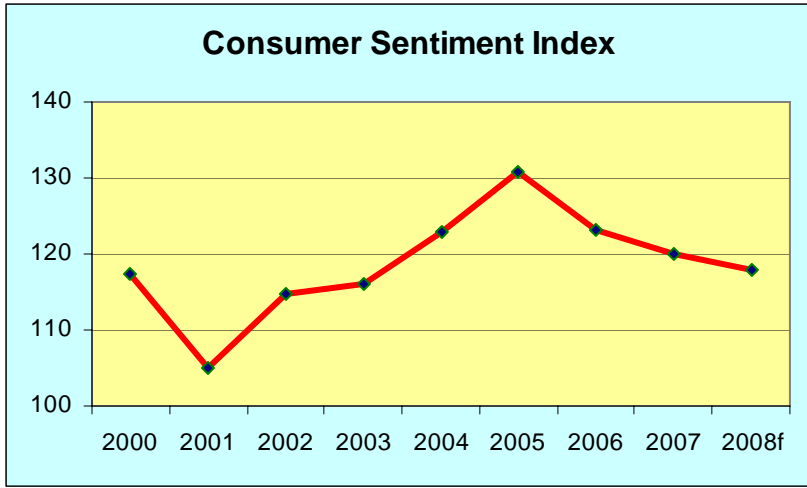
**K**ern County's housing market, following national trends, fell into a recession. The symptoms of this recession were falling prices, reduced sales, increased inventory, fewer new building permits, and skyrocketing foreclosure activity. This recession followed the prolonged boom period of 2000-2006, when the median housing price in the county rose at an average annual rate of about 23 percent. In 2007, the median price plunged 7.3 percent, price per square foot dropped \$23, sales fell 49 percent, and foreclosure activity climbed 164 percent. There are signs of a slow recovery beginning mid-2008 and continuing into 2009, when prices and sales would slowly creep up. These signs include: (1) increased housing demand due to projected employment growth; (2) investors taking advantage of large inventories, greater affordability; and lower mortgage interest rates; (3) the credit market returning to normal conditions as mortgage lenders avoid making risky loans; and (4) lenders and government programs helping homeowners with delinquent mortgage payments to avoid foreclosure.

**K**ern County's quality of life index (QLI) stumbled from 100 in 2000 to 98 in 2001. It then ascended gradually to 110 in 2005. The QLI dropped to 109 in 2006 and 106 in 2007. We expect the QLI to increase slightly reaching 107 in 2008. Better quality of life will require greater investment in workforce preparation, employment, family education, health-care, crime prevention, road conditions, and air quality.

## **Opinion Surveys**

**Bakersfield Consumer Sentiment Index** - The Bakersfield Consumer Sentiment Index (CSI) is compiled from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed and reported to help decision makers compare national and local trends in expectations. The index also provides insight into whether a local company's sales over the previous quarter reflect broad regional trends or shifts in market share. Index values above 100 indicate optimism, while values below 100 suggest pessimism.

In the recession of 2001, the CSI plunged from 118 to 105. Local households became increasingly optimistic about financial conditions of their families and relatives as the CSI rebounded to 115 in 2002 and 131 in 2005. However, their confidence level eroded as the index value declined to 123 in 2006 and 120 in 2007. While remaining optimistic, we expect local households to be less confident about their financial conditions in 2008.



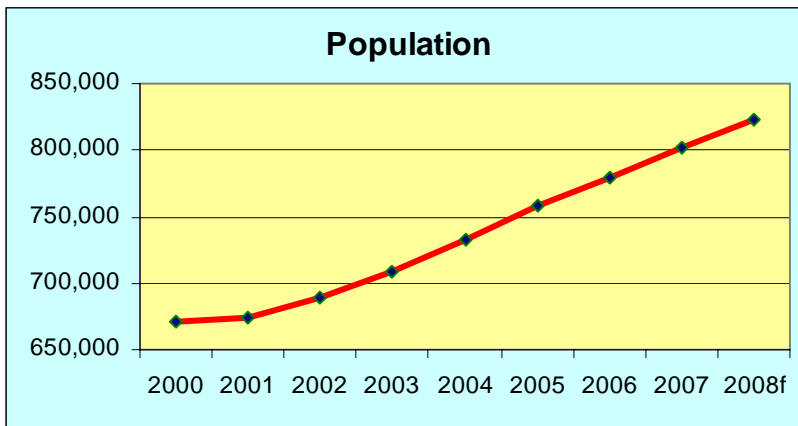
**Kern County Business Outlook Index** – The Kern County Business Outlook Index (BOI) is compiled from telephone surveys administered to a random sample of business managers listed in various occupational directories. The purpose of the survey is to provide private-sector managers and public-sector administrators with primary data that will help them make more informed decisions. Index values above 100 indicate optimism, while values below 100 suggest pessimism.

In the recession of 2001, the BOI plunged from 126 to 114. Still optimistic, businesses continued to express less confidence about local economic conditions, causing the BOI to drop from 115 in 2002 to 106 in 2003. However, the BOI rebounded to 132 in 2004 and 135 in 2005. With business confidence eroding, the BOI fell to 129 in 2006 and 115 in 2007. The main reasons for reduced confidence were said to be: (1) rising fuel prices and transportation costs; (2) slumping residential real estate market; and (3) successive increases in the minimum wage. While confident, we anticipate businesses to be less upbeat in 2008.

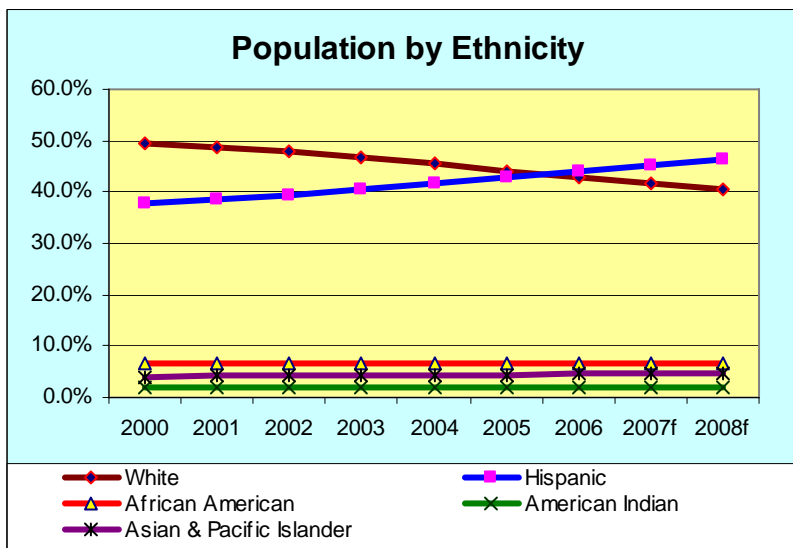


## Demographic Trends

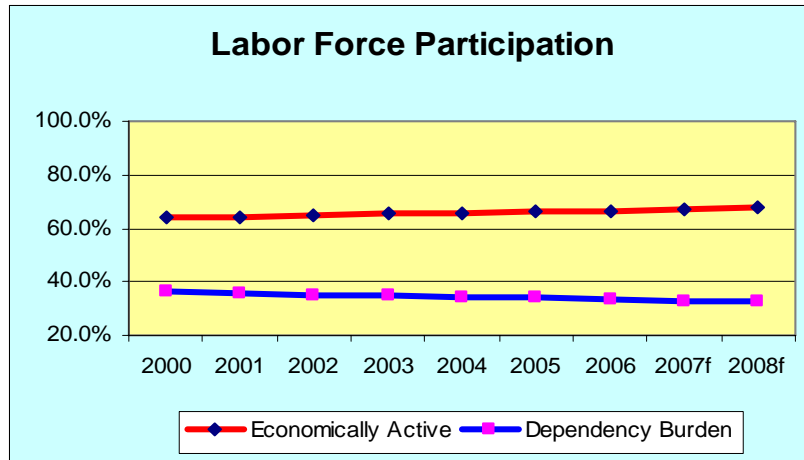
**Population** - Kern County's population has grown from 671,300 in 2000 to 801,600 in 2007. These additional 130,300 persons translated into an average annual growth rate of 2.6 percent. At this growth rate, the county will add 20,600 new residents to reach a total population of 822,200 in 2008. If this trend continues, the county's population will exceed 1.0 million in 2016.



**Population Ethnicity** – The latest demographic data indicate that the share of the Hispanic population exceeded that of the White population. The White population share declined gradually from 49.6 percent in 2000 to 42.8 percent in 2006. In the meantime, the Hispanic population share climbed steadily from 37.8 to 44.2 percent. Given the dynamics of the local population, we expect the 2007 trend to evolve to 45.3 percent Hispanic, 41.7 White, 6.6 percent African American, 4.5 percent Asian and Pacific Islander, and 1.9 percent American Indian. We anticipate the Hispanic population share to continue to exceed that of the White population in 2008.



**Population Dependency** – Economically active individuals make up the proportion of the population between the ages of 15 and 64. To put it differently, the dependency burden of a population takes into account the proportion of population aged 0 to 15 and 65 and older. In Kern County, the share of the economically active population increased from 63.9 percent in 2000 to 66.1 percent in 2007. In contrast, the dependency burden fell from 36.1 to 33.9 percent. Given this trend, we anticipate 67.1 percent of Kern’s economically active population to support its entire population in 2008.



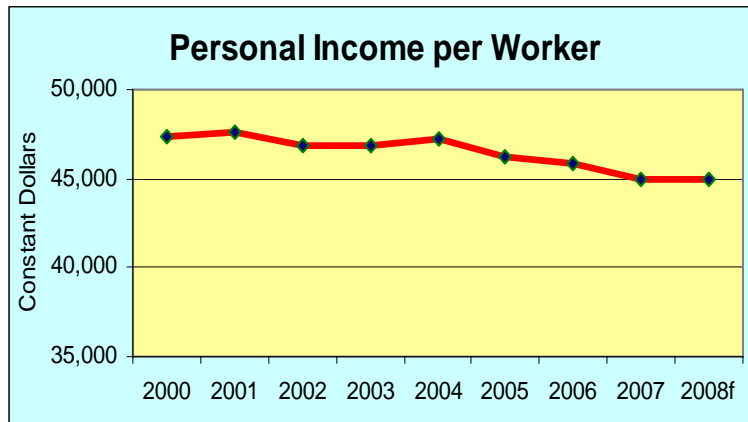
**Economic Trends**

**Personal Income** – At the county level, the size of the economy is measured by total personal income. Adjusted for price inflation, Kern County’s economy grew 2.6 percent to rise to \$15.7 billion in 2007. Since 2000, the county has added nearly \$2 billion of income. For the year 2008, we expect total personal income to rise at the slower pace of 2.2 percent to arrive at \$16.1 billion.



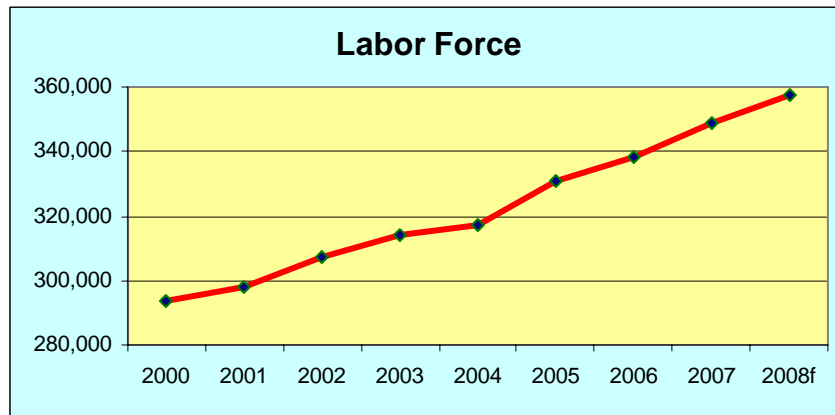
**Personal Income per Worker** - Personal income per worker, a measure of labor productivity, is calculated as total personal income divided by labor force. With the labor force growing as fast as personal income, personal income per worker has remained flat

at an inflation-adjusted level of \$45,000 in 2007 and is expected to stay at that level in 2008.

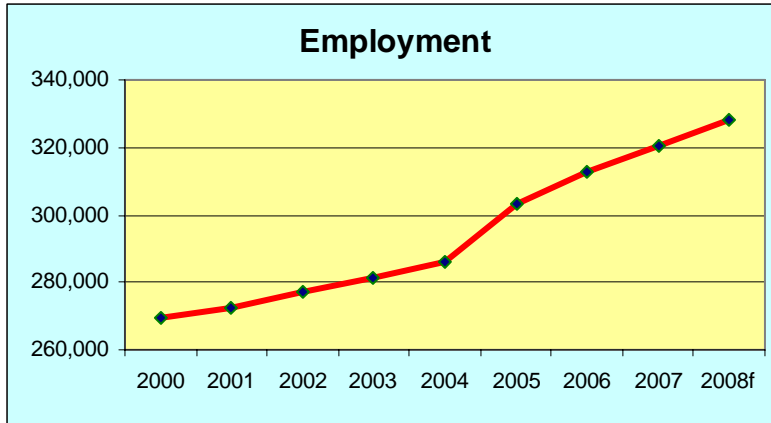


## Labor Market Trends

**Labor Force** – Kern County’s labor force grew at an average annual rate of 2.4 percent in 2000-07. During this time period, the county added 50,500 workers to its workforce, growing from 293,500 to 348,900. We expect Kern County’s labor force to reach 357,300 in 2008.



**Employment** – Kern County created 51,000 jobs to accommodate its growing labor force. Expanding at an average annual rate of 2.5 percent, the county’s total employment climbed from 269,300 in 2000 to 320,300 in 2007. We expect the county’s total employment to rise to 328,300 in 2008. Of these new jobs, nonfarm industries will account for 4,400 and self-employed workers and small-businesses for 2,600. However, farm employment is expected to decline by 1,000.



**Unemployment** – The number of unemployed workers in Kern County increased from 24,200 in 2000 to 32,500 in 2003. It then declined gradually to 25,600 in 2006. However, total unemployment climbed to 28,600 in 2007 and is likely to increase to 29,400 in 2008.



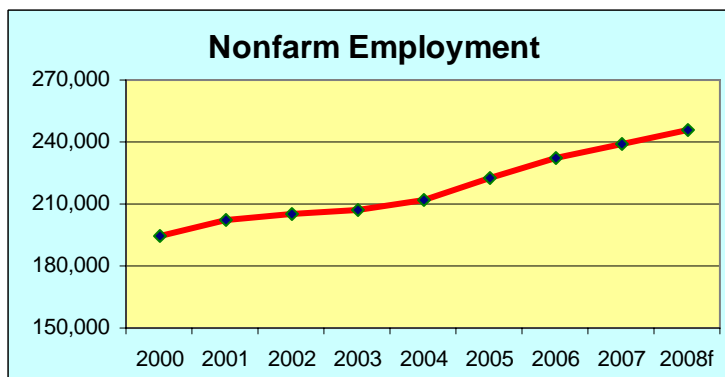
**Unemployment Rate** – Since 2000 the county unemployment rate has stayed in single digits, except for 2003. It went up from 8.3 percent in 2000 to 10.3 percent in 2003. The rate of unemployment fell steadily to 7.6 percent in 2006. However, it rose to 8.2 in 2007 and is projected to stay at that rate in 2008.



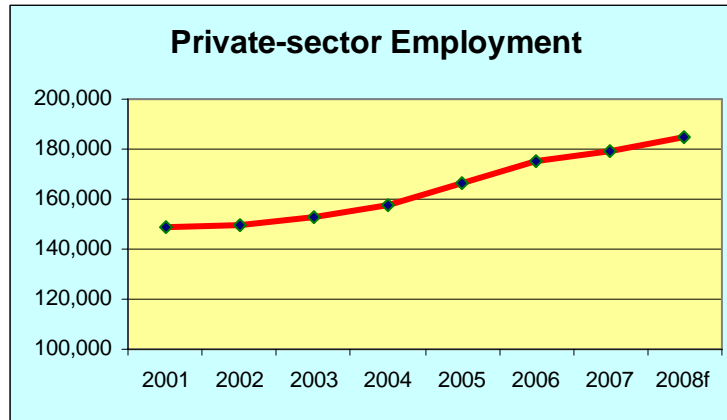
**Farm Employment** – Agriculture, one of Kern County’s major industries, has operated with a shrinking workforce. Farm employment fluctuated widely with a general declining trend. It fell from 48,300 in 2000 to 39,500 in 2004, but rose to 45,300 in 2007. Overall, the county has lost 3,000 farm jobs since 2000. For the year 2008, we expect farm employment to total 45,000, which is 300 less than that of the previous year.



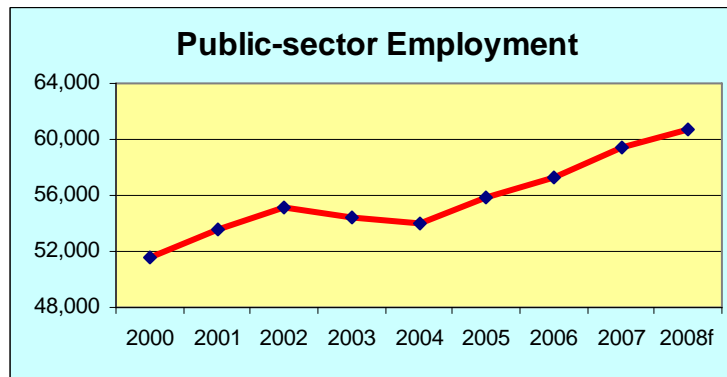
**Nonfarm Employment** – By and large, nonfarm industries have contributed to job growth in Kern County. Between 2000 and 2007, nonfarm industries added 44,500 jobs as their total employment climbed gradually from 194,100 to 238,600. With an average annual growth rate of 3.0 percent, we expect nonfarm employment to rise to 245,700 in 2008.



**Private-sector Employment** – Nonfarm employment consists of private-sector employment and public-sector employment. Privately-owned companies are the driving force of job creation in Kern County. Between 2000 and 2007, the private sector added 36,600 jobs, increasing employment from 142,500 to 179,100. The leading job-creating industries are: retail trade; wholesale trade; transportation, warehousing, and utilities; professional and business services; leisure and hospitality; educational and health-care services; construction; and manufacturing. For the year 2008, we expect private-sector employment to increase to 185,100.



**Public-sector Employment** – Jobs in government agencies (federal, state, and local) increased from 52,600 in 2000 to 59,500 in 2007. During this period, government agencies added 7,900 jobs in Kern County. For the year 2008, we expect public-sector employment to increase to 60,700. While local governments account for 85 percent of new public-sector jobs, public education is responsible for 80 percent of local government employment.

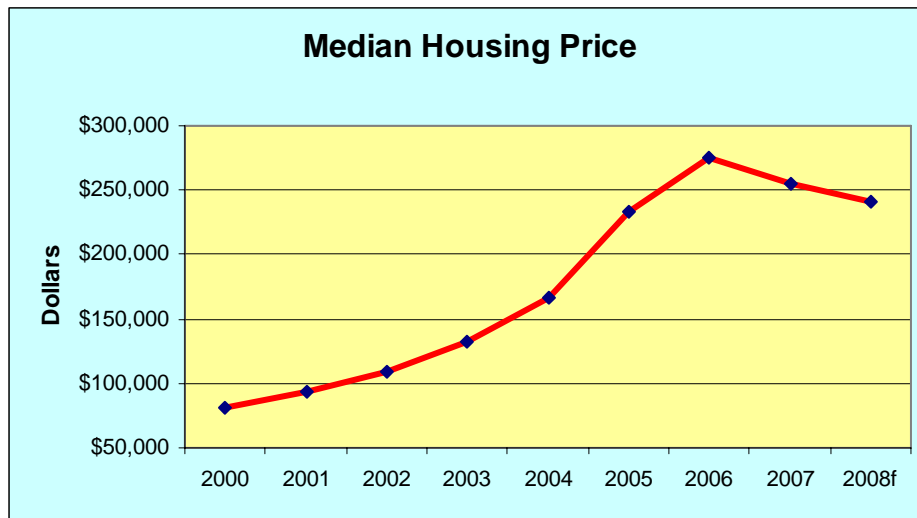


## Housing Market Trends

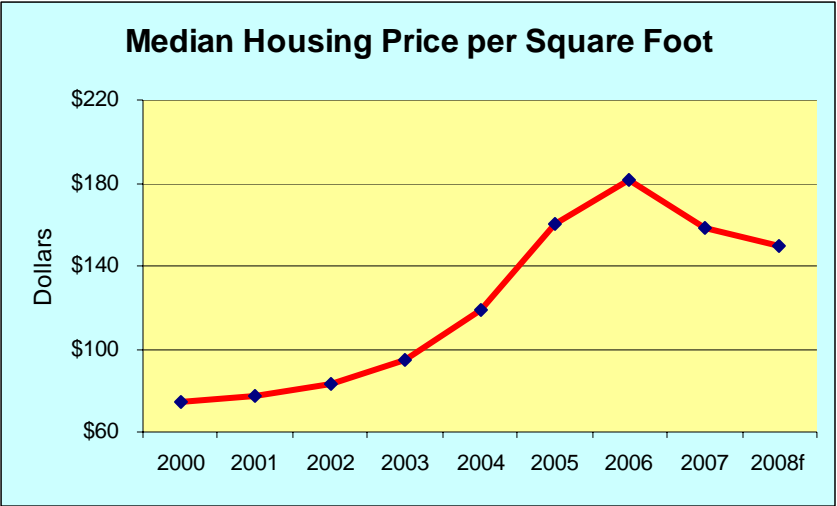
**Median Housing Price** – Between 2000 and 2006, the median sales price for all residential units sold in Kern County appreciated at an average rate of 22.7 percent per year. As a result, the median price climbed from \$81,800 to \$275,700. In 2007, when

the housing market fell into a recession, the median price in depreciated \$20,000 (or 7.3 percent).

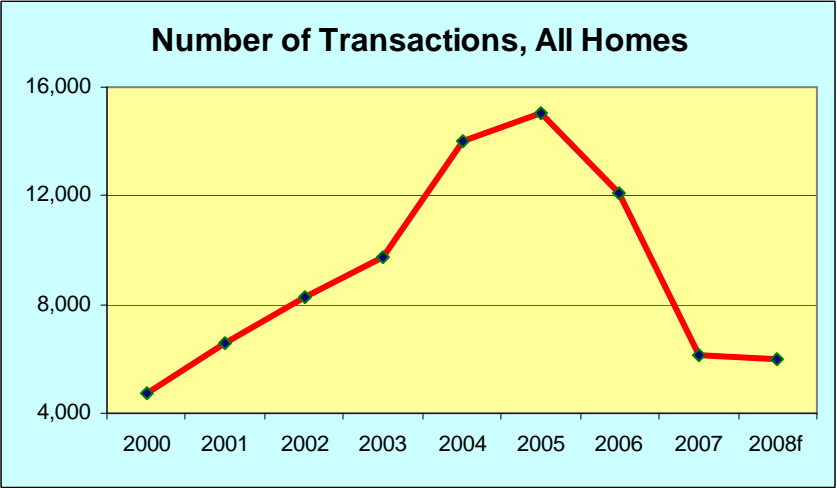
There are signs of a slow recovery beginning mid-2008, when prices and sales are expected to gradually creep up. These signs include: (1) increased housing demand due to projected employment growth; (2) investors taking advantage of large inventories, greater affordability; and lower mortgage interest rates; (3) the credit market returning to normal conditions as mortgage lenders avoid making risky loans; and (4) lenders and government programs helping homeowners with delinquent mortgage payments to avoid foreclosure.



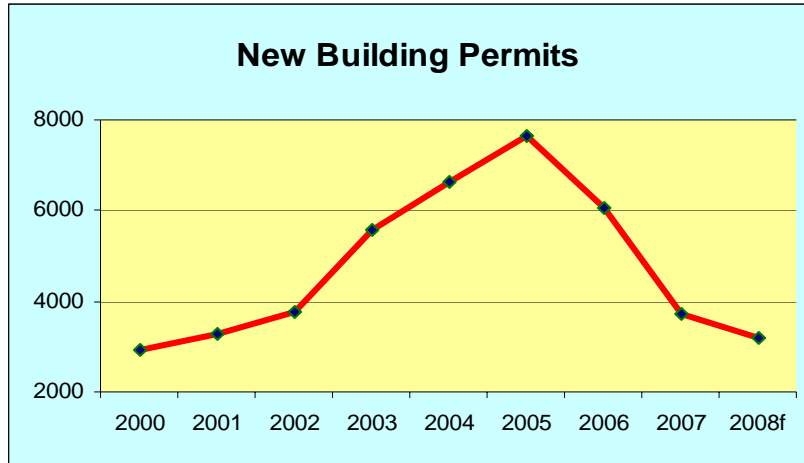
**Housing Price per Square Foot** – A better way to look at the state of the housing market is to track the price per square foot. During the housing boom, the median sales price per square foot more than doubled from \$75 in 2000 to \$181 in 2006. In 2007, however, the median sales price per square foot plunged \$23 to reach \$158. We expect the price per square foot to decline to about \$150 in 2008. In real terms, this projected price per square foot would be lower when adjusted for inflation and homebuilder incentives.



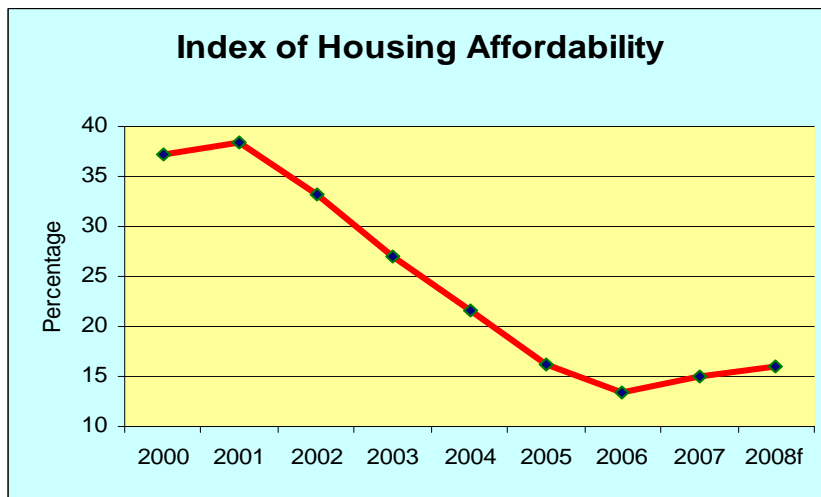
**Housing Transactions** – The number of residential units sold in the Bakersfield metropolitan area increased gradually from 4,743 in 2000 to 15,040 in 2005. However, in the ensuing market slump, sales plunged to 12,068 in 2006 and 6,132 in 2007. Sales are likely to show signs of slow growth beginning mid-2008. We expect the demand for housing to begin to rebound due to projected employment growth, the market could begin a modest recovery as investors take advantage of large inventories, increased affordability, and low mortgage interest rates.



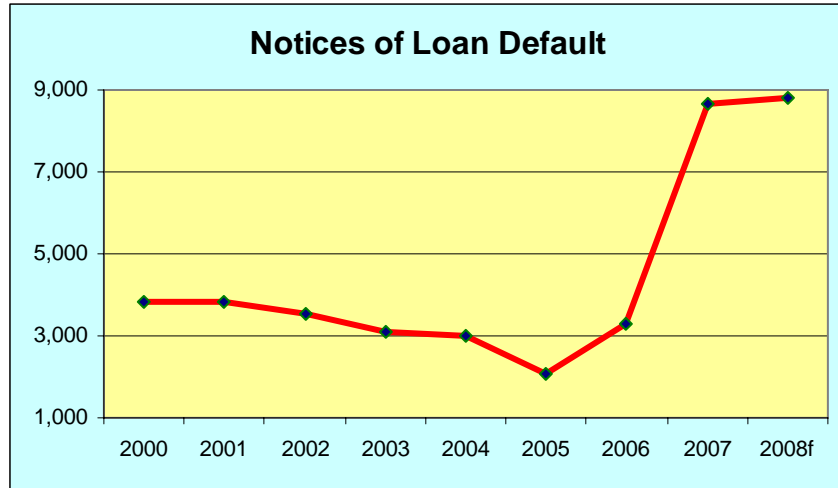
**New Building Permits** – The annual number of permits issued for the construction of new privately-owned dwelling units rose from 2,913 in 2000 to 7,630 in 2005. It then fell to 6,037 in 2006 and 3,699 in 2007. With the continued housing market slump, the number of permits is likely to fall to about 3,200 in 2008.



**Housing Affordability** – The housing affordability indicator is defined as the ratio of the median household income to the median housing price. Between 2000 and 2006, the affordability indicator was cut by more than one-half from 37.3 to 13.5 percent. In 2007, the affordability indicator improved to 15.1 percent and is expected to rise to 16.0 percent in 2008.



**Housing Foreclosure Activity** – The notices of loan default homeowners received from their mortgage bankers decreased gradually from 3,825 in 2000 to 2,058 in 2005. In 2006, it grew 59 percent to reach 3,275. In 2007, the number of default notices skyrocketed 164 percent to attain 8,651. As a result, 5,376 more homeowners received notices of loan default in just one year. This was by far the highest annual number since 1995, when Kern County started tracking filings, and nearly double the next closest year of 1997, when 4,367 loan defaults were recorded. Foreclosed properties also hit a record high in 2007, when 3,007 properties foreclosed compared with only 408 in 2006. With the tightening in the market for mortgage loans and attempts by lenders and the government to assist homeowners with delinquent mortgage payments, we expect the pace of issuing loan default notices to modify slightly in 2008.



## Quality of Life Measurement

In the field of development economics, the quality of human life is measured by a composite index of economic and social indicators. The quality of life in Kern County is measured as a composite index of twenty economic, social, and environmental indicators. They are:

1. **Per Capita Income:** Personal income per person in constant dollars
2. **Economic Growth:** Percentage growth rate of total personal income
3. **Housing Price:** Median sales price of all single-family homes in constant dollars
4. **Taxable Sales:** Total taxable transactions in constant dollars
5. **Labor Force Growth:** Percentage growth rate of the labor force
6. **Nonfarm Employment Growth:** Percentage growth rate of nonfarm employment
7. **Unemployment Rate:** Average annual rate of civilian unemployment
8. **Class Size:** The pupil-to-teacher ratio
9. **College Preparation:** Total score on the Scholastic Aptitude Test
10. **Family Environment:** Percentage of mothers with “some” college education
11. **Language Proficiency:** Enrollments with limited English proficiency per 10,000 students
12. **Medical Services:** Number of physicians per 10,000 persons
13. **Infant Survival:** Percentage of live births reaching first birthday
14. **Drug Use:** Number of admissions for drug and alcohol treatment per 10,000 persons
15. **Public Assistance:** Family assistance per capita in constant dollars
16. **Public Health:** Percentage of population eligible for Medi-Cal
17. **Crime Rate:** The FBI crime index
18. **Air quality:** Number of days that the ozone level exceeds the federal 8-hour standard
19. **Public Safety:** Expenditures on police and fire protection per capita in constant dollars
20. **Road conditions:** Average number of accidents per year divided by the segment length in miles

The year 2000 is selected as the *base-year*, when the index value equals 100. For the ensuing years, the base-year value was adjusted by the percentage *change* relative to 2000. The QLI stumbled from 100 in 2000 to 98 in 2001. It then ascended gradually to 110 in 2005. The QLI dropped to 109 in 2006 and 106 in 2007. The QLI is expected to increase slightly reaching 107 in 2008. Better quality of life will require greater investment in workforce preparation, employment, family education, health-care, crime prevention, road conditions, and air quality.

